UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001

OR

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

For the transition period from _____ to _____

Commission file number 1-3187

RELIANT ENERGY, INCORPORATED
(Exact name of registrant as specified in its charter)

Texas	74-0694415
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1111 Louisiana Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 207-3000
(Registrant's telephone number, including area code)

Commission file number 1-13265

RELIANT ENERGY RESOURCES CORP.
(Exact name of registrant as specified in its charter)

Delaware	76-0511406
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1111 Louisiana Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

(713) 207-3000
(Registrant's telephone number, including area code)

RELIANT ENERGY RESOURCES CORP. MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM 10-Q WITH THE REDUCED DISCLOSURE FORMAT.

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

As of May 8, 2001, Reliant Energy, Incorporated had 297,464,776 shares of common stock outstanding, including 7,658,889 ESOP shares not deemed outstanding for financial statement purposes and excluding 4,511,691 shares held as treasury stock. As of May 8, 2001, all 1,000 shares of Reliant Energy Resources Corp. common stock were held by Reliant Energy, Incorporated.

THIS COMBINED QUARTERLY REPORT ON FORM 10-Q IS SEPARATELY FILED BY RELIANT ENERGY, INCORPORATED (RELIANT ENERGY) AND RELIANT ENERGY RESOURCES CORP. (RERC CORP). INFORMATION CONTAINED HEREIN RELATING TO RERC CORP. IS FILED BY RELIANT ENERGY AND SEPARATELY BY RERC CORP. ON ITS OWN BEHALF. RERC CORP. MAKES NO REPRESENTATION AS TO INFORMATION RELATING TO RELIANT ENERGY OR ANY OTHER AFFILIATE OR SUBSIDIARY OF RELIANT ENERGY (EXCEPT AS IT MAY RELATE TO RERC CORP. AND ITS SUBSIDIARIES).

RELIANT ENERGY, INCORPORATED
AND RELIANT ENERGY RESOURCES CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2001

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RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
REVENUES	$ 4,213,006	$ 13,284,321
EXPENSES:		
Fuel and cost of gas sold	2,332,589	7,667,139
Purchased power	784,934	4,107,623
Operation and maintenance	464,948	715,014
Taxes other than income taxes	110,565	139,688
Depreciation and amortization	178,616	195,054
Total	3,871,652	12,824,518
OPERATING INCOME	341,354	459,803
OTHER INCOME (EXPENSE):		
Unrealized gain on AOL Time Warner investment	1,523,683	137,082
Unrealized loss on indexed debt securities	(1,523,625)	(135,047)
Income from equity investment of unconsolidated subsidiaries	485	12,778
Other, net	20,401	35,608
Total	20,944	50,421
INTEREST AND OTHER CHARGES:		
Interest	160,054	177,952
Distribution on trust preferred securities	13,892	13,900
Total	173,946	191,852
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS	188,352	318,372
Income Tax Expense	54,536	110,150
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS	133,816	208,222
Loss from Discontinued Operations, net of tax of $(1,400)	(663)	--
Loss on Disposal of Discontinued Operations, net of tax of $(1,640)	--	(7,294)
Cumulative Effect of Accounting Change, net of tax of $33,205	--	61,666
INCOME BEFORE PREFERRED DIVIDENDS	133,153	262,594
Preferred Dividends	97	97
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 133,056	$ 262,497
BASIC EARNINGS PER SHARE:		
Income from Continuing Operations before Cumulative Effect of Accounting Change	$ 0.47	$ 0.72
Loss on Disposal of Discontinued Operations, net of tax	--	(0.03)
Cumulative Effect of Accounting Change, net of tax	--	0.22
Net Income Attributable to Common Stockholders	$ 0.47	$ 0.91
DILUTED EARNINGS PER SHARE:		
Income from Continuing Operations before Cumulative Effect of Accounting Change	$ 0.47	$ 0.72
Loss on Disposal of Discontinued Operations, net of tax	--	(0.03)
Cumulative Effect of Accounting Change, net of tax	--	0.21
Net Income Attributable to Common Stockholders	$ 0.47	$ 0.90

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	DECEMBER 31, 2000	MARCH 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 175,972	$ 63,572
Investment in AOL Time Warner common stock	896,824	1,033,906
Accounts receivable, net	2,623,492	2,653,633
Accrued unbilled revenues	592,618	405,381
Fuel stock and petroleum products	269,729	268,085
Materials and supplies	213,484	163,217
Price risk management assets	4,460,843	2,680,741
Non-trading derivative assets	--	1,211,827
Margin deposits on energy trading activities	521,004	370,144
Other	253,335	289,076
Total current assets	10,007,301	9,139,582
Property, plant and equipment	22,391,874	22,708,162
Less accumulated depreciation and amortization	(7,131,719)	(7,226,040)
Property, plant and equipment, net	15,260,155	15,482,122
OTHER ASSETS:		
Goodwill and other intangibles, net	3,080,707	2,998,033
Regulatory assets	1,926,103	2,049,026
Price risk management assets	752,186	846,793
Non-trading derivative assets	--	447,653
Equity investments in unconsolidated subsidiaries	108,727	107,133
Stranded costs indemnification receivable	--	544,182
Net assets of discontinued operations	194,858	120,591
Other	746,709	733,247
Total other assets	6,809,290	7,846,658
TOTAL ASSETS	$ 32,076,746	$ 32,468,362

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (CONTINUED)
(THOUSANDS OF DOLLARS)
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 2000	MARCH 31, 2001
CURRENT LIABILITIES:		
Short-term borrowings	$ 5,004,494	$ 4,737,242
Current portion of long-term debt	1,623,202	721,092
Indexed debt securities derivative	--	922,983
Accounts payable	3,077,926	2,299,913
Taxes accrued	172,449	266,373
Interest accrued	103,489	121,373
Dividends declared	110,893	111,592
Price risk management liabilities	4,442,811	2,622,656
Non-trading derivative liabilities	--	1,259,378
Margin deposits from customers on energy trading activities	284,603	339,900
Accumulated deferred income taxes	309,008	317,450
Other	610,379	537,465
Total current liabilities	15,739,254	14,257,417
OTHER LIABILITIES:		
Accumulated deferred income taxes	2,548,891	2,619,991
Unamortized investment tax credits	265,737	261,154
Price risk management liabilities	737,540	829,078
Non-trading derivative liabilities	--	817,380
Benefit obligations	491,964	512,871
Other	1,109,850	1,280,980
Total other liabilities	5,153,982	6,321,454
LONG-TERM DEBT	4,996,095	5,539,184
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 11)		
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	705,355	705,458
STOCKHOLDERS' EQUITY:		
Cumulative preferred stock	9,740	9,740
Common stock	3,257,190	3,309,571
Treasury stock	(120,856)	(113,336)
Unearned ESOP stock	(161,158)	(147,359)
Retained earnings	2,520,350	2,674,164
Accumulated other comprehensive loss	(23,206)	(87,931)
Total stockholders' equity	5,482,060	5,644,849
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 32,076,746	$ 32,468,362

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributable to common stockholders	$ 133,056	$ 262,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	178,616	195,054
Deferred income taxes	7,737	53,809
Investment tax credits	(763)	(4,583)
Cumulative effect of accounting change	--	(61,666)
Unrealized gain on AOL Time Warner investment	(1,523,683)	(137,082)
Unrealized loss on indexed debt securities	1,523,625	135,047
Undistributed earnings of unconsolidated subsidiaries	(485)	2,269
Impairment of marketable equity securities	22,185	--
Net cash provided by discontinued operations	4,065	77,102
Changes in other assets and liabilities:		
Accounts receivable, net	15,961	148,147
Inventory	54,581	61,264
Accounts payable	4,389	(775,167)
Federal tax refund	52,817	--
Fuel cost under-recovery	(23,229)	(164,602)
Margin deposits on energy trading activities, net	(20,570)	206,157
Other assets	(31,978)	63,922
Other liabilities	51,513	5,896
Other, net	27,985	40,347
Net cash provided by operating activities	475,822	108,411
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(400,893)	(491,558)
Business acquisitions, net of cash acquired	(4,750)	--
Payment of business purchase obligation	(981,789)	--
Investments in unconsolidated subsidiaries	(2,636)	(675)
Net cash used in discontinued operations	(2,443)	(2,802)
Other, net	18,886	5,330
Net cash used in investing activities	(1,373,625)	(489,705)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt, net	41,967	544,632
Increase (decrease) in short-term borrowing, net	1,146,848	(168,902)
Payments of long-term debt	(157,537)	(26,556)
Payment of common stock dividends	(105,890)	(107,597)
Proceeds from issuance of stock	10,431	36,895
Purchase of treasury stock	(27,306)	--
Net cash provided by discontinued operations	704	--
Other, net	309	(1,338)
Net cash provided by financing activities	909,526	277,134
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2,247	(8,240)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,970	(112,400)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	80,767	175,972
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 94,737	$ 63,572
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 111,309	$ 181,091
Income taxes	94	53,757

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Included in this combined Quarterly Report on Form 10-Q (Form 10-Q) for Reliant Energy, Incorporated (Reliant Energy), together with its subsidiaries (the Company), and for Reliant Energy Resources Corp. (RERC Corp.) and its subsidiaries (collectively, RERC) are Reliant Energy's and RERC's consolidated interim financial statements and notes (Interim Financial Statements) including these companies' wholly owned and majority owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the combined Annual Report on Form 10-K of Reliant Energy (Reliant Energy Form 10-K) and RERC Corp. (RERC Corp. Form 10-K) for the year ended December 31, 2000.

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

The Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in the Company's Statements of Consolidated Income are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (a) seasonal fluctuations in demand for energy and energy services, (b) changes in energy commodity prices, (c) timing of maintenance and other expenditures and (d) acquisitions and dispositions of businesses, assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to the Company's presentation of financial statements in the current year. These reclassifications do not affect the earnings of the Company.

The following notes to the consolidated financial statements in the Reliant Energy Form 10-K relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference:

Notes to Consolidated Financial Statements of Reliant Energy (Reliant Energy 10-K Notes): Note 2(f) (Regulatory Assets), Note 3 (Business Acquisitions), Note 4 (Regulatory Matters), Note 5 (Derivative Financial Instruments), Note 8 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities), Note 14 (Commitments and Contingencies) and Note 20 (Subsequent Events).

For information regarding certain legal, tax and regulatory proceedings and environmental matters, see Note 11.

(2) DERIVATIVE FINANCIAL INSTRUMENTS

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement requires that derivatives be recognized at fair value in the balance sheet and that changes in fair value be recognized either currently in earnings or deferred as a component of other comprehensive income, depending on the intended use of the derivative, its resulting designation and its effectiveness. If certain conditions are met, an entity may designate a derivative instrument as hedging (a) the exposure to changes in the fair value of an asset or liability (Fair Value Hedge), (b) the exposure to variability in expected future cash flows (Cash Flow Hedge) or (c) the foreign currency exposure of a net investment in a foreign operation. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs.

Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of $61 million and a cumulative after-tax increase in accumulated other comprehensive loss of $252 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by $703 million, $252 million, $805 million and $340 million, respectively, in the Company's Consolidated Balance Sheet. The Company also

reclassified $788 million related to the Company's Zero-Premium Exchangeable Subordinated Notes (ZENS) due to the adoption from the current portion of long-term debt to indexed debt securities derivative. During the three months ended March 31, 2001, less than $1 million of the initial transition adjustment recognized in other comprehensive income was realized in net income.

The application of SFAS No. 133 is still evolving and further guidance from the Financial Accounting Standards Board (FASB) is expected. The FASB released tentative guidance in April 2001 on three issues that impact our industry. The FASB concluded in its tentative guidance that contracts subject to "bookouts," a scheduling convenience used when two utilities have offsetting transactions, cannot qualify for the normal purchases and sales exception. The FASB also released tentative guidance that will prohibit option contracts on electricity to qualify for the normal purchases and normal sales exception. Lastly, the FASB issued tentative guidance that forward contracts containing optionality features which modify the quantity delivered cannot qualify for the normal purchases and sales exception. The tentative guidance issued by the FASB is subject to a comment period which ends on June 1, 2001. If the tentative guidance is unchanged, the Company is required to adopt this guidance as of July 1, 2001. The Company is in the process of determining the effect of adoption.

The Company is exposed to various market risks. These risks are inherent in the Company's financial statements and arise from transactions entered into in the normal course of business. The Company utilizes derivative financial instruments to mitigate the impact of changes in electricity, natural gas and fuel prices on its operating results and cash flows. The Company utilizes cross-currency swaps and options to hedge its net investments in foreign subsidiaries, interest rate swaps to mitigate the impact of changes in interest rates and other financial instruments to manage various other market risks.

Trading and marketing operations often involve market risks associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis. These risks fall into three different categories: price and volume volatility, credit risk of trading counterparties and adequacy of the control environment for trading. The Company routinely enters into futures, forward contracts, swaps and options to hedge purchase and sale commitments, fuel requirements and inventories of natural gas, coal, electricity, oil, emission allowances, weather derivatives and other commodities and to minimize the risk of market fluctuations in its trading, marketing, power origination and risk management operations.

(a) Energy Trading, Marketing and Price Risk Management Activities.

The Company offers energy price risk management services primarily related to natural gas, electric power and other energy related commodities. The Company provides these services by utilizing a variety of derivative financial instruments, including (a) fixed and variable-priced physical forward contracts, (b) fixed and variable-priced swap agreements, (c) options traded in the over-the-counter financial markets and (d) exchange-traded energy futures and option contracts (Trading Derivatives). Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between industry pricing publications or exchange quotations.

The Company applies mark-to-market accounting for all of its energy trading, marketing and price risk management operations. Accordingly, these Trading Derivatives are recorded at fair value with net realized and unrealized gains (losses) recorded as a component of revenues. The recognized, unrealized balances are included in price risk management assets/liabilities.

(b) Non-Trading Activities.

Cash Flow Hedges. To reduce the risk from market fluctuations in revenues and the resulting cash flows derived from the sale of electric power and natural gas and related transportation, the Company enters into futures transactions, forward contracts, swaps and options (Energy Derivatives) in order to hedge some expected purchases of electric power, natural gas and other commodities and sales of electric power and natural gas (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements and to protect natural gas distribution earnings and cash flows against unseasonably warm weather during peak gas heating months, although usage to date for this purpose

has not been material. The Energy Derivative portfolios are managed to complement the physical transaction portfolio, reducing overall risks within management-prescribed limits.

During the three months ended March 31, 2001, the Company entered into interest-rate swaps in order to adjust the interest rate on $375 million of its floating rate debt. In addition, as of March 31, 2001, the Company's European Energy segment has entered into financial instruments to purchase approximately $120 million to hedge future fuel purchases payable in U.S. dollars.

The Company applies hedge accounting for its derivative financial instruments utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being hedged. This correlation, a measure of hedge effectiveness, is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied. During the three months ended March 31, 2001, the amount of hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as cash flow hedges was immaterial. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, the Company realizes in net income the deferred gains and losses recognized in accumulated other comprehensive loss. During the three months ended March 31, 2001, there were no deferred gains or losses recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive loss is reclassified to net income and included in the Company's Statements of Consolidated Income under the captions (a) fuel expenses, in the case of natural gas transactions, (b) purchased power, in the case of electric power purchase transactions, (c) revenues, in the case of electric power sales transactions and (d) interest expense, in the case of interest rate swap transactions. Cash flows resulting from these transactions in Energy Derivatives are included in the Company's Statements of Consolidated Cash Flows in the same category as the item being hedged. As of March 31, 2001, current non-trading derivative assets and liabilities and corresponding amounts in accumulated other comprehensive loss are expected to be reclassified to net income during the next twelve months.

The maximum length of time the Company is hedging its exposure to the variability in future cash flows for forecasted transactions excluding the payment of variable interest on existing financial instruments is five years. The maximum length of time the Company is hedging its exposure to the payment of variable interest rates is approximately five years.

Hedge of Net Investment in Foreign Subsidiaries. The Company has substantially hedged its net investment in its European subsidiaries through a combination of Euro-denominated borrowings, foreign currency swaps and foreign currency forward contracts to reduce the Company's exposure to changes in foreign currency rates. During the normal course of business, the Company reviews its currency hedging strategies and determines the hedging approach deemed appropriate based upon the circumstances of each situation.

The Company records the changes in the value of the foreign currency hedging instruments and Euro-denominated borrowings as foreign currency translation adjustments as a component of stockholders' equity and accumulated other comprehensive loss. The effectiveness of the hedging instruments can be measured by the net change in foreign currency translation adjustments attributed to the Company's net investment in its European subsidiaries. These amounts generally offset amounts recorded in stockholders' equity as adjustments resulting from translation of the hedged investment into U.S. dollars. During the three months ended March 31, 2001, the derivative and nonderivative instruments designated as hedging the net investment in its European subsidiaries resulted in a gain of $155 million which is included in the balance of the cumulative translation adjustment.

Other Derivatives. Upon adoption of SFAS No. 133 effective January 1, 2001, the Company's indexed debt securities obligations related to its ZENS obligation was bifurcated into a debt component valued at $122 million and an embedded derivative component valued at $788 million. Changes in the fair value of the derivative component are recorded in the Company's Statements of Consolidated Income. Changes in the fair value of the Company's Investment in AOL Time Warner Inc. common stock should substantially offset changes in the fair value of the derivative component of the ZENS.

In December 2000, the Dutch parliament adopted legislation allocating to the Dutch generation sector, including a subsidiary of the Company, N.V. UNA (UNA), financial responsibility for various stranded costs contracts and other liabilities. The legislation became effective in all material respects on January 1, 2001. In particular, the legislation allocated to the four Dutch generation companies, including UNA, financial responsibility to purchase electricity and gas under an import gas supply contract and three electricity import contracts. The gas import contract expires in 2015 and provides for gas imports aggregating 2.283 billion cubic meters per year. These contracts are derivatives pursuant to SFAS No. 133 due to the pricing indices. As of March 31, 2001, the Company has recognized $326 million in long-term non-trading derivative liabilities for UNA's portion of these stranded costs contracts. For additional information regarding UNA's stranded costs and the related indemnification by former shareholders of these stranded costs, see Note 11(e).

Subsequent to March 31, 2001, the Company has entered into interest rate swaps to fix the rate on $1.3 billion of the Company's floating rate debt, which expire in 2002. The Company has not designated these derivative instruments as hedges. Changes in the fair value of the swaps will be recorded in the Company's Statements of Consolidated Income.

(3) ACQUISITION OF RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC

On May 12, 2000, a subsidiary of the Company purchased entities owning electric power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having an aggregate net generating capacity of approximately 4,262 megawatts (MW). With the exception of development entities that were sold to another subsidiary of the Company in July 2000, the assets of the entities acquired are held by Reliant Energy Mid-Atlantic Power Holdings, LLC (REMA) an indirect wholly owned subsidiary of Reliant Resources, Inc. (Reliant Resources). The purchase price for the May 2000 transaction was $2.1 billion, subject to post-closing adjustments which management does not believe will be material. The Company accounted for the acquisition as a purchase with assets and liabilities of REMA reflected at their estimated fair values. The Company's fair value adjustments related to the acquisition primarily included adjustments in property, plant and equipment, air emissions regulatory allowances, materials and supplies inventory, environmental reserves and related deferred taxes. The Company finalized these fair value adjustments in May 2001. There were no additional material modifications to the preliminary adjustments from December 31, 2000. For additional information regarding the acquisition of REMA, see Note 3(a) to Reliant Energy 10-K Notes.

The Company's results of operations include the results of REMA only for the period beginning May 12, 2000. The following table presents selected unaudited actual financial information and unaudited pro forma financial information for the three months ended March 31, 2000, as if the acquisition had occurred on January 1, 2000. Pro forma amounts also give effect to the sale and leaseback of interests in three of the REMA generating plants, consummated in August 2000. For additional information regarding the sale and leaseback transactions, see Note 14(c) to Reliant Energy 10-K Notes.

	THREE MONTHS ENDED MARCH 31, 2000	
	ACTUAL	PRO FORMA
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	
Revenues	$ 4,213	$ 4,320
Income from continuing operations	134	118
Net income attributable to common stockholders	133	117
Basic and diluted earnings per share	0.47	0.42

These unaudited pro forma results, based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the amounts that would have resulted if the acquisition of the REMA entities had occurred on January 1, 2000. Purchase-related adjustments to the results of operations include the effects on depreciation and amortization, interest expense and income taxes.

(4) DISCONTINUED OPERATIONS

Effective December 1, 2000, Reliant Energy's Board of Directors approved a plan to dispose of the Company's Latin American segment through sales of its assets. Accordingly, the Company is reporting the results of its Latin American segment as discontinued operations for all periods presented in the Interim Financial Statements in

accordance with Accounting Principles Board Opinion No. 30. During the three months ended March 31, 2001, the Company recorded an additional loss on disposal of $7 million (after-tax) related to its Latin American segment.

(5) DEPRECIATION AND AMORTIZATION

The Company's depreciation expense for the first quarter of 2000 was $89 million, compared to $101 million for the same period in 2001. Goodwill amortization related to acquisitions was $22 million for the first quarter of 2000, compared to $23 million for the same period in 2001. Other amortization expense, including amortization of regulatory assets, was $68 million for the first quarter of 2000 compared to $71 million for the same period in 2001.

In June 1998, the Public Utility Commission of Texas (Texas Utility Commission) issued an order approving a transition to competition plan (Transition Plan) filed by Reliant Energy HL&P in December 1997. For information regarding the additional depreciation of electric utility generating assets and the redirection of transmission and distribution (T&D) depreciation to generation assets under the Transition Plan, see Note 2(g) to Reliant Energy 10-K Notes. In June 1999, the Texas legislature adopted the Texas Electric Choice Plan (Legislation), which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition beginning on January 1, 2002. The Legislation provides that depreciation expense for T&D related assets may be redirected to generation assets from 1999 through 2001 for regulatory purposes. Because the electric generation operations portion of Reliant Energy HL&P discontinued application of SFAS No. 71 effective June 30, 1999, such operations can no longer record additional or redirected depreciation for financial reporting purposes. However, for regulatory purposes, the Company continues to redirect T&D depreciation to generation assets. As of December 31, 2000 and March 31, 2001, the cumulative amount of redirected depreciation for regulatory purposes was $611 million and $668 million, respectively.

In 1999, the Company determined that approximately $800 million of Reliant Energy HL&P's electric generation assets were impaired. The Legislation provides for recovery of this impairment through regulated cash flows. Therefore, a regulatory asset was recorded for an amount equal to the impairment in the Company's Consolidated Balance Sheets. The Company amortizes this regulatory asset as it is recovered from regulated cash flows. During the first quarter of 2000 and 2001, the Company recorded $52 million and $37 million, respectively, of amortization expense related to the recoverable impaired plant costs and other deferred debits created from discontinuing SFAS No. 71.

(6) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income:

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Net income attributable to common stockholders	$ 133	$ 262
Other comprehensive income (loss):		
Foreign currency translation adjustments from continuing operations	(10)	(1)
Additional minimum non-qualified pension liability adjustment	--	(2)
Cumulative effect of adoption of SFAS No. 133	--	(252)
Net deferred gains from cash flow hedges	--	183
Unrealized gain on available-for-sale securities	1	7
Plus: Reclassification adjustment for impairment loss on available-for-sale securities realized in net income	14	--
Comprehensive income	$ 138	$ 197

(7) LONG-TERM DEBT AND SHORT-TERM BORROWINGS

(a) Short-term Borrowings.

As of March 31, 2001, the Company had credit facilities, which included the facilities of various financing subsidiaries, Reliant Resources, UNA and RERC Corp., with financial institutions which provide for an aggregate of $9.1 billion in committed credit, of which $2.5 billion was unused. As of March 31, 2001, borrowings of $5.5 billion were outstanding or supported under these credit facilities of which $829 million were classified as long-term debt, based on availability of committed credit with expiration dates exceeding one year and management's intention to borrow these amounts in excess of one year. Various credit facilities aggregating $2.6 billion may be used for letters of credit of which $1.1 billion were outstanding as of March 31, 2001. In addition, one of the credit facilities includes a $65 million sub-facility under which letters of credit may be obtained. Letters of credit under this sub-facility aggregate $3 million as of March 31, 2001. Interest rates on borrowings are based on the London interbank offered rate (LIBOR) plus a margin, Euro interbank deposits plus a margin, a base rate or a rate determined through a bidding process. Credit facilities aggregating $3.8 billion are unsecured. The credit facilities contain covenants and requirements which must be met to borrow funds and obtain letters of credit, as applicable. Such covenants are not anticipated to materially restrict the borrowers from borrowing funds or obtaining letters of credit, as applicable, under such facilities. The borrowers are in compliance with the covenants under all of these credit agreements.

(b) Long-term Debt.

In February 2001, RERC Corp. issued $550 million aggregate principal amount of unsecured unsubordinated notes that bear interest at 7.75% per year and mature in February 2011. Net proceeds to RERC Corp. were $545 million. RERC Corp. used the net proceeds from the sale of the notes to pay a $400 million dividend to Reliant Energy, and for general corporate purposes. Reliant Energy used the $400 million proceeds from the dividend for general corporate purposes, including the repayment of short-term debt.

(8) EARNINGS PER SHARE

The following table presents Reliant Energy's basic and diluted earnings per share (EPS) calculation:

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)	
Basic EPS Calculation:		
Income from continuing operations before cumulative effect of accounting change	$ 134	$ 208
Loss from discontinued operations, net of tax	(1)	--
Loss on disposal of discontinued operations, net of tax	--	(7)
Cumulative effect of accounting change, net of tax	--	61
Net income attributable to common stockholders	$ 133	$ 262
Weighted average shares outstanding	283,078,000	287,336,000
Basic EPS:		
Income from continuing operations before cumulative effect of accounting change	$ 0.47	$ 0.72
Loss on disposal of discontinued operations, net of tax	--	(0.03)
Cumulative effect of accounting change, net of tax	--	0.22
Net income attributable to common stockholders	$ 0.47	$ 0.91
Diluted EPS Calculation:		
Net income attributable to common stockholders	$ 133	$ 262
Plus: Income impact of assumed conversions:		
Interest on 6 1/4% convertible trust preferred securities	--	--
Total earnings effect assuming dilution	$ 133	$ 262
Weighted average shares outstanding	283,078,000	287,336,000
Plus: Incremental shares from assumed conversions (1):		
Stock options	466,000	2,337,000
Restricted stock	684,000	486,000
6 1/4% convertible trust preferred securities	23,000	14,000
Weighted average shares assuming dilution	284,251,000	290,173,000
Diluted EPS:		
Income from continuing operations before cumulative effect of accounting change	$ 0.47	$ 0.72
Loss on disposal of discontinued operations, net of tax	--	(0.03)
Cumulative effect of accounting change, net of tax	--	0.21
Net income attributable to common stockholders	$ 0.47	$ 0.90

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(1) For the three months ended March 31, 2000 and 2001, the computation of diluted EPS excludes 5,920,622 and 191,266 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $22.28 to $32.22 per share and $41.69 to $47.22 per share for the first quarter 2000 and 2001, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

(9) CAPITAL STOCK

Common Stock. Reliant Energy has 700,000,000 authorized shares of common stock. At December 31, 2000, 299,914,791 shares of Reliant Energy common stock were issued and 286,464,709 shares of Reliant Energy common stock were outstanding. At March 31, 2001, 301,139,797 shares of Reliant Energy common stock were issued and 288,969,217 shares of Reliant Energy common stock were outstanding. Outstanding common shares exclude (a) shares pledged to secure a loan to Reliant Energy's Employee Stock Ownership Plan (8,638,889 and 7,658,889 at December 31, 2000 and March 31, 2001, respectively) and (b) treasury shares (4,811,193 and 4,511,691 at December 31, 2000 and March 31, 2001, respectively). Reliant Energy declared dividends of $0.375 per share in the first quarter of 2000 and 2001.

During the first three months of 2001, Reliant Energy issued 300,000 shares of Reliant Energy common stock out of its treasury stock. As of March 31, 2001, Reliant Energy was authorized to purchase up to $271 million of Reliant Energy common stock under its stock repurchase program.

(10) TRUST PREFERRED SECURITIES

(a) Reliant Energy.

Statutory business trusts created by Reliant Energy have issued trust preferred securities, the terms of which, and the related series of junior subordinated debentures, are described below (in millions):

TRUST	AGGREGATE LIQUIDATION AMOUNT DECEMBER 31, 2000	AGGREGATE LIQUIDATION AMOUNT MARCH 31, 2001	DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
REI Trust I	$ 375	$ 375	7.20%	March 2048	7.20% Junior Subordinated Debentures due 2048
HL&P Capital Trust I	$ 250	$ 250	8.125%	March 2048	8.125% Junior Subordinated Deferrable Interest Debentures Series A
HL&P Capital Trust II	$ 100	$ 100	8.257%	February 2037	8.257% Junior Subordinated Deferrable Interest Debentures Series B

For additional information regarding the $625 million of preferred securities and the $100 million of capital securities, see Note 11 to Reliant Energy 10-K Notes. The sole asset of each trust consists of junior subordinated debentures of Reliant Energy having interest rates and maturity dates corresponding to each issue of preferred or capital securities, and the principal amounts corresponding to the common and preferred or capital securities issued by that trust.

(b) RERC Corp.

A statutory business trust created by RERC Corp. has issued convertible trust preferred securities, the terms of which, and the related series of convertible junior subordinated debentures, are described below (in millions):

TRUST	AGGREGATE LIQUIDATION AMOUNT DECEMBER 31, 2000	AGGREGATE LIQUIDATION AMOUNT MARCH 31, 2001	DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
Resources Trust	$ 1	$ 1	6.25%	June 2026	6.25% Convertible Junior Subordinated Debentures due 2026

For additional information regarding the convertible preferred securities, see Note 11 to Reliant Energy 10-K Notes and Note 6 to RERC Corp. 10-K Notes. The sole asset of the trust consists of convertible junior subordinated debentures of RERC Corp. having an interest rate and maturity date corresponding to the convertible preferred securities, and the principal amount corresponding to the common and convertible preferred securities issued by the trust.

(11) COMMITMENTS AND CONTINGENCIES

(a) Legal Matters.

Reliant Energy HL&P Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy HL&P's

service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. Plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. Because the franchise ordinances at issue affecting Reliant Energy HL&P expressly impose fees only on its own receipts and only from sales of electricity for consumption within a city, the Company regards all of plaintiffs' allegations as spurious and is vigorously contesting the case. The plaintiffs' pleadings asserted that their damages exceeded $250 million. The 269th Judicial District Court for Harris County granted partial summary judgment in favor of Reliant Energy dismissing all claims for franchise fees based on sales tax collections. Other motions for partial summary judgment were denied. A six-week jury trial of the original claimant cities (but not the class of cities) ended on April 4, 2000 (three cities case). Although the jury found for Reliant Energy on many issues, they found in favor of the original claimant cities on three issues, and assessed a total of $4 million in actual and $30 million in punitive damages. However, the jury also found in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began.

The trial court in the three cities case granted most of Reliant Energy's motions to disregard the jury's findings. The trial court's rulings reduced the judgment to $1.7 million, including interest, plus an award of $13.7 million in legal fees. In addition, the trial court granted Reliant Energy's motion to decertify the class and vacated its prior orders certifying a class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

The extent to which issues in the three cities case may affect the claims of the other cities served by Reliant Energy HL&P cannot be assessed until judgments are final and no longer subject to appeal. However, the trial court's rulings disregarding most of the jury's findings are consistent with Texas Supreme Court opinions over the past decade. The Company estimates the range of possible outcomes for the plaintiffs to be between zero and $17 million inclusive of interest and attorneys' fees.

The three cities case has been appealed. The Company believes that the $1.7 million damage award resulted from serious errors of law and that it will be set aside by the Texas appellate courts. In addition, the Company believes that because of an agreement between the parties limiting fees to a percentage of the damages, reversal of the award of $13.7 million in attorneys' fees in the three cities case is probable.

California Wholesale Market. Reliant Energy, Reliant Energy Services, Inc., Reliant Energy Power Generation, Inc. and several other indirect subsidiaries have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. RERC Corp. has also been named as a defendant in one of the lawsuits. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(b) to Reliant Energy 10-K Notes), Reliant Resources has agreed to indemnify Reliant Energy and RERC Corp. for any damages arising under these lawsuits, and may elect to defend these lawsuits at its own expense. Three of these lawsuits were filed in the Superior Court of the State of California, San Diego County; two were filed in the Superior Court in San Francisco County; one was filed in the Superior Court in Los Angeles County. While the plaintiffs allege various violations by the defendants of state antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity, costs of suit and attorneys' fees. In one of the cases the plaintiffs allege aggregate damages of over $4 billion. Defendants have filed petitions to remove some of these cases to federal court. Furthermore, defendants have filed a motion with the Panel on Multidistrict Litigation seeking transfer and consolidation of some of these cases. Defendants seek consolidation and transfer of these cases to a jurisdiction outside California, noting that the federal judges in California are potentially disqualified because they are ratepayers. The judges assigned to the cases in San Diego and San Francisco have recused themselves on these grounds. These lawsuits have only recently been filed. Therefore, the ultimate outcome of the lawsuits cannot be predicted with any degree of certainty at this time. However, the Company believes, based on its analysis to date of the claims asserted in these lawsuits and the underlying facts, that resolution of these lawsuits will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(b) Environmental Matters.

Manufactured Gas Plant Sites. RERC and its predecessors operated a manufactured gas plant (MGP) adjacent to the Mississippi River in Minnesota, formerly known as Minneapolis Gas Works (MGW) until 1960. RERC has substantially completed remediation of the main site other than ongoing water monitoring and treatment. The manufactured gas was stored in separate holders. RERC is negotiating clean-up of one such holder. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, RERC believes that two were neither owned nor operated by RERC. RERC believes it has no liability with respect to the sites it neither owned nor operated.

At March 31, 2001, RERC had accrued $19 million for remediation of the Minnesota sites. At March 31, 2001, the estimated range of possible remediation costs was $8 million to $36 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. The Company has received notices from the United States Environmental Protection Agency and others regarding its status as a potentially responsible party (PRP) for other sites. Based on current information, the Company has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Other Minnesota Matters. At March 31, 2001, RERC had recorded accruals of $4 million (with a maximum estimated exposure of approximately $17 million at March 31, 2001) for other environmental matters in Minnesota for which remediation may be required.

Mercury Contamination. The Company's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by the Company at some sites in the past, and the Company has conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by the Company and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, the Company believes that the costs of any remediation of these sites will not be material to the Company's financial position, results of operations or cash flows.

REMA Ash Disposal Site Closures and Site Contaminations. Under the agreement to acquire REMA (see Note 3(a) to Reliant Energy 10-K Notes), the Company became responsible for liabilities associated with ash disposal site closures and site contamination at the acquired facilities in Pennsylvania and New Jersey prior to a plant closing, except for the first $6 million of remediation costs at the Seward Generating Station. A prior owner retained liabilities associated with the disposal of hazardous substances to off-site locations prior to November 24, 1999. As of March 31, 2001, REMA has liabilities associated with six ash disposal site closures and six site investigations and environmental remediations. The Company has recorded its estimate of these environmental liabilities in the amount of $36 million as of March 31, 2001. The Company expects approximately $13 million will be paid over the next five years.

UNA Asbestos Abatement and Soil Remediation. Prior to the Company's acquisition of UNA (see Note 3(b) to Reliant Energy 10-K Notes), UNA had a $25 million obligation primarily related to asbestos abatement, as required by Dutch law, and soil remediation at six sites. During 2000, the Company initiated a review of potential environmental matters associated with UNA's properties. UNA began remediation in 2000 of the properties identified to have exposed asbestos and soil contamination, as required by Dutch law and the terms of some leasehold agreements with municipalities in which the contaminated properties are located. All remediation efforts are to be fully completed by 2005. As of March 31, 2001, the estimated undiscounted liability for this asbestos abatement and soil remediation was $22 million.

Other. From time to time the Company has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental

contaminants. In addition, the Company has been named as a defendant in litigation related to such sites and in recent years has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

(c) Other Legal and Environmental Matters.

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(d) California Wholesale Market Uncertainty.

During the summer and fall of 2000, and continuing into early 2001, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreases in net electric imports, structural market flaws including over-reliance on the electric spot market, and limitations on supply as a result of maintenance and other outages. Although wholesale prices increased, California's deregulation legislation kept retail rates frozen below 1996 levels, until rates were raised, with certain limitations discussed below, by the California Public Utilities Commission (CPUC) on January 4, 2001 and March 27, 2001. This caused two of California's public utilities, which are the Company's customers based on its deliveries to the California Power Exchange (Cal PX) and the California Independent System Operator (Cal ISO), to accrue billions of dollars of unrecovered wholesale power costs and to ultimately default in January and February 2001 on payments owed for wholesale power purchased through the Cal PX and from the Cal ISO and, in the case of Pacific Gas and Electric Company (PG&E), to file a voluntary petition for bankruptcy.

As of December 31, 2000, the Company was owed $101 million by the Cal PX and $181 million by the Cal ISO. In the fourth quarter of 2000, the Company recorded a pre-tax provision of $39 million against receivable balances related to energy sales in the California market. From January 1, 2001 through March 31, 2001, the Company has collected $110 million of these receivable balances. As of March 31, 2001, the Company was owed a total of $337 million by the Cal ISO, the Cal PX, the California Department of Water Resources (CDWR) and California Energy Resource Scheduling for energy sales in the California wholesale market during the fourth quarter of 2000 through March 31, 2001. In the first quarter of 2001, the Company recorded a pre-tax provision of $38 million against receivable balances related to energy sales from January 1, 2001 through March 31, 2001 in the California market. Management will continue to assess the collectibility of these receivables based on further developments affecting the California electricity market and the market participants described herein. Additional provisions to the allowance may be warranted in the future.

Nevertheless, on May 9, 2001, at the request of California Governor Gray Davis, representatives of a number of generation and/or marketing companies doing business in California met with Governor Davis to discuss the California situation. At this meeting, Governor Davis suggested that he felt it would be appropriate for the entities owed money by the two defaulting California utilities to accept $.70 on the dollar in settlement of the receivables. No basis for this proposal was expressed. The Company does not believe that such a settlement is acceptable and intends to continue to pursue collection of all amounts owed to the Company by the two defaulting California utilities.

In response to the filing of a number of complaints challenging the level of wholesale prices, the Federal Energy Regulatory Commission (FERC) initiated a staff investigation and issued an order on December 15, 2000 implementing a series of wholesale market reforms, including an interim price review procedure for prices above a $150/MWh "breakpoint" on sales to the Cal ISO and through the Cal PX. The order did not prohibit sales above the "breakpoint," but the seller was subject to weekly reporting and monitoring requirements. For each reported transaction, potential refund liability extends for a period of 60 days following the date any such transaction is reported to the FERC. No notice has been issued for April 2001, but given the FERC methodology for determining refund amounts, the Company does not expect any potential refund obligation associated with sales for April. On March 9, 2001, the FERC issued a further order establishing a proxy market clearing price of $273/MWh for January 2001, and on March 16, 2001 the FERC issued a notice setting the proxy market clearing price at $430/MWh for

February 2001. On April 16, 2001, the FERC issued a notice setting the proxy market clearing price at $300/MWh for March 2001.

In the FERC's March 9 and March 16 orders, the FERC outlined criteria for determining amounts subject to possible refund based on the proxy market clearing price for January and February 2001 and indicated that approximately $12 million of the $125 million charged by the Company in January 2001 for sales in California to the Cal ISO and the Cal PX and approximately $7 million of the $47 million charged by the Company in February 2001 for sales in California to the Cal ISO were subject to possible refunds. In an order issued April 16, 2001, the FERC found that the Company did not have any potential refund obligations associated with its sales in March 2001. In the March 9 and March 16 orders, the FERC set forth procedures for challenging possible refund obligations. On April 11 and 13, the Company submitted cost or other justification for most of the prices charged above the proxy market clearing prices established in the March 9 and March 16 orders. On May 4, 2001, the FERC notified the Company that its price justification was insufficient and additional justification would be required to avoid refund. Any refunds the Company may ultimately be obligated to pay are to be credited against unpaid amounts owed to the Company for its sales in the Cal PX or to the Cal ISO. While the December 15 order established that a refund condition would be in place for the period beginning October 2, 2000 through December 31, 2002, this refund condition for January, February and March 2001 sales is limited to the amounts identified for possible refund. The balance of sales in these months, representing the vast majority of the Company's California sales in such months, are no longer subject to refund since they were not challenged during the 60-day period following the reporting of such sales. Sales prior to January 2001 and subsequent to October 2, 2000 remain subject to refund under the FERC's December 15 order. The December 15 order also eliminated the requirement that California's public utilities sell all of their generation into and purchase all of their power from the Cal PX and directed that the Cal PX wholesale tariffs be terminated effective April 2001. The Cal PX has since suspended its day-ahead and day-of markets and filed for bankruptcy protection on March 9, 2001. Motions for rehearing have been filed on a number of issues related to the December 15 order and such motions are still pending before the FERC.

On April 26, 2001, the FERC issued an order establishing a market monitoring and mitigation plan for the California markets to replace the $150/MWh breakpoint plan, which will begin on May 29, 2001 and be effective for no more than one year. The plan retains the "breakpoint" approach to price mitigation, for bids in the real-time market during periods when power reserves fall below 7.5 percent (i.e., Stages 1, 2 and 3 emergencies). The plan's breakpoint amount will be based on variable cost calculations using data submitted confidentially by each gas-fired generator to the FERC and the Cal ISO. The Cal ISO will use this data and daily indices of natural gas and emissions allowance costs to establish the market-clearing price in real-time based on the marginal cost of the highest-cost generator called to run. The plan also increases the Cal ISO's authority to coordinate and control generating facility outages, subject to periodic reports to and review by the FERC; requires generators in California to offer all their available capacity for sale in the real-time market, and conditions sellers' market-based rate authority such that sellers violating certain conditions on their bids will be subject to increased scrutiny by the FERC, potential refunds and even revocation of their market-based rate authority. The FERC conditioned implementation of the market monitoring and mitigation plan on the Cal ISO and the three California public utilities filing a regional transmission organization proposal by June 1, 2001.

In addition to the FERC investigation discussed above, several state and other federal regulatory investigations and complaints have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action. In California, the CPUC, the California Electricity Oversight Board, the California Bureau of State Audits and the California Office of the Attorney General all have separate ongoing investigations into the high prices and their causes. With the exception of a report by the California Bureau of State Audits, none of these investigations have been completed and no findings have been made in connection with any of them. The recently released California state audit report concluded that the foremost cause of the market disruptions in California was fundamental flaws in the structure of the power market.

Despite the market restructuring ordered under the December 15 order, the California public utilities have continued to accrue unrecovered wholesale costs. As a result, the credit ratings of two of these public utilities were severely downgraded to below investment grade in January 2001. As their credit lines became unavailable, the two utilities defaulted on payments due to the Cal PX and the Cal ISO, which operate financially as pass-through entities, coordinating payments from buyers and sellers of electricity. As a result, the Cal PX and Cal ISO were not able to pay final invoices to market participants totaling over $1 billion. The default of two of California's public utilities on

amounts owed the Cal PX and the Cal ISO for purchased power, and the filing of a voluntary petition for bankruptcy by PG&E, have further exacerbated the current crisis in the California wholesale markets and resulted in substantial uncollected receivables owed to the Company by the Cal ISO and the Cal PX. The Cal PX's efforts to recover the available collateral of the utilities, in the form of block forward contracts, were frustrated by the emergency acts of California's Governor, who seized control of the contracts upon the expiration of temporary restraining orders prohibiting such action. Although obligated to pay reasonable value for the contracts, the state of California has not yet made any payment to the Company for the contracts. Various actions have been filed and are still pending challenging the Governor's ability to seize these contracts and seeking to impose an obligation to pay the fair market value of the contracts as of the date seized.

Upon the default of the two utilities on amounts due to the Cal PX, the Cal PX issued "charge-backs" allocating the utilities' defaults to the other market participants. Proceedings were brought both in federal court and at the FERC seeking a suspension of the charge-backs and challenging the reasonableness of the Cal PX's actions. The Cal PX agreed to a preliminary injunction suspending any of its charge-back activities and on April 16, 2001, the FERC issued an order finding the charge-backs to be unjust and unreasonable under the circumstances but deferred further action pending resolution of certain state proceedings. Amounts owed to the Company were debited in invoices by the Cal PX for charge-backs in the amount of $29 million and, on February 14, 2001, the Company filed its own lawsuit against the Cal PX in the United States District Court for the Central District of California, seeking a recovery of those amounts and a stay of any further charge-backs by the Cal PX, to which the parties agreed. The filing of bankruptcy by the Cal PX has automatically stayed for some period the various court and administrative cases against the Cal PX. However, in its April 16 order, the FERC asserted its regulatory power to address the charge-back issues.

The two defaulting utilities have both filed lawsuits challenging the refusal of state regulators to allow wholesale power costs to be passed through to retail customers under the "filed rate doctrine." The suit brought by PG&E was dismissed without prejudice on May 2, 2001, on ripeness grounds because PG&E based its claims in part on non-final interim orders of the CPUC, but may be refiled once the challenged CPUC interim orders become final decisions. In the suit brought by Southern California Edison Company (SCE), the judge has denied SCE's request for preliminary relief, and an immediate retail rate increase, but is expected to issued a decision on the merits. The filed rate doctrine provides that wholesale power costs approved by the FERC are entitled to be recovered through rates. Additionally, to address the failing financial condition of the two defaulting utilities and the utilities' potential bankruptcy, the California Legislature passed emergency legislation, effective January 18, 2001 and February 2, 2001, appropriating funds to be used by the CDWR for the purchase of wholesale electricity on behalf of the utilities and authorizing the sale of bonds to fund future purchases under long-term power contracts with wholesale generators. The CDWR has solicited bids and has reported that it has entered into some long-term contracts with generators and continued the purchasing of short-term power contracts. No bonds have yet been issued by the CDWR to support long-term power purchases or to provide credit support for short-term purchases. However, on May 10, 2001, California Governor Davis signed legislation into law that allows the CDWR to issue up to $13.4 billion in bonds to cover the purchase of power. The proceeds from this bond issuance, however, may not be used to pay for any undercollections or existing debt of the utilities.

As noted above, two of California's public utilities have defaulted in their payment obligations to the Cal PX and the Cal ISO as a result of the refusal of state regulators to allow them to recover their wholesale power costs. This refusal by state regulators has also caused the utilities to default on numerous other financial obligations, and in the case of Pacific Gas and Electric Company, to file a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. On March 27, 2001, the CPUC approved an increase in the retail rates of the two defaulting California utilities but ordered the utilities to apply the increase to pay the CDWR for power purchased by the CDWR on the utilities' behalf. Because the CPUC order attempts to prevent use of the increased revenue to pay suppliers for electricity delivered before the date of the decision, the rate increase does not address the existing indebtedness of the utilities. While the bankruptcy filing will result in further post-petition purchases of wholesale electricity being considered administrative expenses of the debtor, a substantial delay could be experienced in the payment of pre-petition receivables pending the confirmation of a reorganization plan. The California Legislature is currently considering legislation under which a state entity would be formed to purchase and operate a substantial share of the transmission lines in California in an effort to provide cash to the utilities. A number of the creditors for one of the other troubled California public utilities, SCE, have indicated, however, that unless there is more action on a plan to restore the utility's solvency, an involuntary bankruptcy filing may be made by such creditors. SCE's April 9, 2001 memorandum of understanding with the state of California, which would transfer the utility's transmission system to the CDWR or another state agency for approximately $2.76 billion, is intended to address these issues. The closing of this type of transaction is subject to numerous factors including the completion of documentation and extensive regulatory approvals including approval by the FERC.

Because California's power reserves remained at low levels, in part as a result of the lack of creditworthy buyers of power given the defaults of the California utilities, the Cal ISO relied on emergency dispatch orders requiring generators to provide at the Cal ISO's direction all power not already under contract. The power supplied to the Cal ISO was used to meet the needs of the customers of the utilities, even though two of those utilities did not have the credit required to receive such power under the Cal ISO's tariff and were unable to pay for it. The Cal ISO had previously obtained a preliminary injunction on March 21, 2001 from a federal district court in California compelling the Company to comply with emergency dispatch orders despite the utilities' failure to meet credit standards, based on the court's conclusion that the Cal ISO's tariff provisions regarding credit were not applicable to emergency dispatch orders. On March 22, 2001, the Company filed a notice of appeal of the district court's injunction with the Ninth Circuit Court of Appeals and on March 23, 2001 the Company filed an emergency motion for stay of injunction. Because the Company showed a "high likelihood of success on the merits" of the appeal, the Ninth Circuit Court of Appeals granted the stay on April 5, 2001, suspending the district court's preliminary injunction pending its final ruling in the appeal. On April 6, 2001, the FERC issued an order confirming that the credit provisions of the Cal ISO's tariff apply to all sales of electricity under the tariff, including the emergency dispatch orders. As a result of the FERC's order, the district court's preliminary injunction expired in accordance with its terms and the district court dismissed the Cal ISO's complaint. Therefore, the Company did not pursue its appeal to the Ninth Circuit and is no longer compelled to comply with the emergency dispatch orders in the absence of a creditworthy counterparty. As of March 31, 2001, the Company was owed $108 million for power provided in compliance with the emergency dispatch orders.

In May 2001, a bill was passed by the California Senate that proposed a tax on "windfall profits" earned by electric generators in California. The bill would impose a 100% tax on any electricity sold by California generators that exceeds a "just and reasonable price," such price to be set by the CPUC. Initially, the rate would be set at $80 per MWh. The bill must still be voted on and passed by the California Assembly, and signed by the Governor, before it will become law. At this time, the Company cannot predict whether this legislation will be enacted into law, or if enacted, what form it will take or whether it may be legally applied to the Company's operations. If the bill in its current form is enacted into law, such a tax could significantly increase the cost of operating power generation facilities serving the California market and could have a material adverse effect on the Company's financial condition, results of operators and cash flows.

(e) Indemnification of Dutch Stranded Costs.

The stranded costs in the Dutch electricity market are considered to be the liabilities, uneconomical contractual commitments, and other costs associated with obligations entered into by the coordinating body for the Dutch electricity generating sector, N.V. Samenwerkende elecktriciteits-produktiebedrijven (SEP), plus some district heating contracts with some municipalities in Holland. As of December 29, 2000, SEP changed its name to BV Nederlands Elektriciteit Administratiekantoor.

Under the Cooperation Agreement (OvS Agreement), UNA and the other Dutch generators agreed to sell their generating output through SEP. Over the years, SEP incurred stranded costs as a result of a perceived need to cover anticipated shortages in energy production supply. SEP stranded costs consist primarily of investments in alternative energy sources and fuel and power purchase contracts currently estimated to be uneconomical.

In December 2000, the Dutch parliament adopted legislation, The Electricity Production Sector Transitional Arrangements Act (Transition Act), allocating to the Dutch generation sector, including UNA, financial responsibility for various stranded costs contracts and other liabilities of SEP. The Transition Act also authorizes the government to purchase from SEP at least a majority of the shares in the Dutch national transmission grid company. The legislation became effective in all material respects on January 1, 2001.

The Transition Act allocates financial responsibility to the individual Dutch generators based on their average share in the costs and revenues under the OvS Agreement during the past ten years. UNA's allocated share of these costs has been set at 22.5%. Among other things, the Transition Act allocates to the four Dutch generation companies, including UNA, financial responsibility for SEP's obligations to purchase electricity and gas under an import gas supply contract, three electricity import contracts and experimental coal facility and district heating contracts. The gas import contract expires in 2015 and provides for gas imports aggregating 2.283 billion cubic meters per year. The three electricity contracts have the following capacities and terms: (a) 300 MW through 2005, (b) 600 MW through 2005 and (c) 600 MW through 2002 and 750 MW through 2009. The generators have the option of assuming their pro rata interests in the contracts or, subject to the assignment terms of the contracts, selling their interests to third parties.

In connection with the acquisition of UNA, the selling shareholders of UNA agreed to indemnify UNA for some stranded costs in an amount not to exceed NLG 1.4 billion (approximately $558 million based on an exchange rate of 2.51 NLG per U.S. dollar as of March 31, 2001), which may be increased in some circumstances at the option of the Company up to NLG 1.9 billion (approximately $757 million). Of the total consideration paid by the Company for the shares of UNA, NLG 900 million (approximately $359 million) has been placed by the selling shareholders in an escrow account under the direction of the Dutch Ministry of

Economic Affairs to secure indemnity obligations.

Although the Company's management believes that the indemnity provision will be sufficient to fully satisfy UNA's ultimate share of any stranded costs obligation, this judgment is based on numerous assumptions regarding the ultimate outcome and timing of the resolution of the stranded cost issue and the selling shareholders' timely performance of their obligations under the indemnity arrangement, among other factors.

The Transition Act provides also that, subject to the approval of the European Commission, the Dutch government will make financial compensations to the Dutch generation sector for the out of market costs associated with two stranded cost items: an experimental coal facility and district heating contracts.

As a result of the above, UNA recorded an out-of-market, net stranded cost liability of $544 million at March 31, 2001 for its statutorily allocated share of these contracts. In addition, UNA recorded a corresponding asset of equal amount for the indemnification of this obligation from UNA's former shareholders.

The four Dutch generation companies and SEP are in discussions with the Dutch Ministry of Economic Affairs regarding the implementation of the Transition Act. In the first quarter of 2001, the parties have reached an agreement in principle with the Dutch Ministry of Economic Affairs regarding the compensation to be paid to SEP for the national transmission grid company. The proposed compensation amount is NLG 2.55 billion (approximately $1.0 billion based on an exchange rate of 2.51 NLG per U.S. dollar as of March 31, 2001). Although the Transition Act clarifies many issues regarding the anticipated resolution of the stranded costs debate in the Netherlands, there remain considerable uncertainties regarding the exact manner in which the Transition Act will be implemented and the potential for third parties to challenge the Transition Act on legal and constitutional grounds.

(f) Reliant Energy HL&P Rate Matters.

The Texas Utility Commission has issued rulings at its April 2001 meeting requiring Reliant Energy HL&P to reverse the amount of redirected depreciation and accelerated depreciation if, in the Texas Utility Commission's estimation, the utility has overmitigated its stranded costs. At March 31, 2001, cumulative redirected depreciation and cumulative accelerated depreciation for regulatory purposes totaled $668 million and approximately $900 million, respectively. The preliminary reversal of redirected depreciation would result in a lower rate for the transmission and distribution utility and the accelerated depreciation being returned through credits over ten years as offsets to the transmission and distribution utility's non-bypassable charges. The rates derived from the Texas Utility Commission's April 2001 ruling are interim and will be used during the retail electric pilot project that begins on June 1, 2001. The Company does not expect the final Reliant Energy HL&P transmission and distribution rate to be established until August 2001 and those rates will be implemented on January 1, 2002. The credits related to accelerated depreciation will begin on January 1, 2002. For information regarding redirected depreciation and accelerated depreciation, see Note 4(a) to Reliant Energy 10-K Notes.

(12) BENEFIT CURTAILMENT AND ENHANCEMENT CHARGE

During the three months ended March 31, 2001, the Company recognized a pre-tax, non-cash charge of $101 million relating to the redesign of some of Reliant Energy's benefit plans in anticipation of distributing to Reliant Energy's or its successor's shareholders the remaining common stock of its unregulated subsidiary, Reliant Resources. For information regarding this anticipated transaction, see Note 4(b) to Reliant Energy 10-K Notes.

Effective March 1, 2001, the Company will no longer accrue benefits under a noncontributory pension plan for its domestic non-union employees of Reliant Resources and Reliant Energy Tegco, Inc. (Resources Participants). Effective March 1, 2001, each non-union Resources Participant's unvested pension account balance became fully vested and a one-time benefit enhancement was provided to some qualifying participants. During the first quarter of 2001, the Company incurred a charge to earnings of $84 million (pre-tax) for a one-time benefit enhancement and a gain of $23 million (pre-tax) related to the curtailment of Reliant Energy's pension plan.

Effective March 1, 2001, the Company discontinued providing subsidized postretirement benefits to its domestic non-union employees of Reliant Resources and its participating subsidiaries and Reliant Energy Tegco, Inc. The Company incurred a pre-tax charge of $40 million during the first quarter of 2001 related to the curtailment of the Company's postretirement obligation. For additional information regarding these benefit plans, see Notes 12(b) and 12(d) to Reliant Energy 10-K Notes.

(13) REPORTABLE SEGMENTS

The Company's determination of reportable segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. The Company has identified the following reportable segments: Electric Operations, Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy, European Energy and Other Operations. For descriptions of these reporting segments, see Note 1 to Reliant Energy 10-K Notes. Financial data for the business segments are as follows:

	FOR THE THREE MONTHS ENDED MARCH 31, 2000			AS OF DECEMBER 31, 2000
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
	(IN MILLIONS)			
Electric Operations	$ 947	$ --	$ 202	$ 10,691
Natural Gas Distribution	1,044	7	105	4,509
Pipelines and Gathering	47	43	32	2,358
Wholesale Energy	2,014	142	(22)	11,172
European Energy	150	--	33	2,521
Other Operations	11	4	(9)	2,296
Discontinued Operations(1)	--	--	--	195
Reconciling Elimination	--	(196)	--	(1,665)
Consolidated	$ 4,213	$ --	$ 341	$ 32,077

	FOR THE THREE MONTHS ENDED MARCH 31, 2001			AS OF MARCH 31, 2001
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
	(IN MILLIONS)			
Electric Operations	$ 1,390	$ --	$ 186	$ 10,933
Natural Gas Distribution	2,269	54	135	4,089
Pipelines and Gathering	75	55	39	2,302
Wholesale Energy	9,284	309	216	10,903
European Energy	248	--	18	3,079
Other Operations	18	13	(134)	2,342
Discontinued Operations(1)	--	--	--	121
Reconciling Elimination	--	(431)	--	(1,301)
Consolidated	$ 13,284	$ --	$ 460	$ 32,468

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(1) Effective December 1, 2000, Reliant Energy's Board of Directors approved a plan to dispose of its Latin American segment, through sales of its assets. Accordingly, the Company is reporting the results of its Latin American segment as discontinued operations for all periods presented in the Interim Financial Statements in accordance with Accounting Principles Board Opinion No. 30.

Reconciliation of Operating Income to Net Income Attributable to Common Stockholders:

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Operating Income	$ 341	$ 460
Other Income	21	50
Interest Expense	(160)	(178)
Distribution on Trust Preferred Securities	(14)	(14)
Income Tax Expense	(55)	(110)
Loss on Disposal of Discontinued Operations, net of tax	--	(7)
Cumulative Effect of Accounting Change, net of tax	--	61
Net Income Attributable to Common Stockholders	$ 133	$ 262

(14) SUBSEQUENT EVENTS

(a) Construction Agency Agreement.

In April 2001, Reliant Resources, through several of its subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power generation projects. The special purpose entities have an aggregate financing commitment from equity and debt participants (the Investors) of $2.5 billion. Reliant Resources, through several of its subsidiaries, acts as construction agent for the special purpose entities, and is responsible for completing construction of these projects by August 31, 2004, but has generally limited its risk related to construction completion to less than 90% of costs incurred to date, except in certain events. Upon completion of an individual project and exercise of the lease option, Reliant Resources' subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If Reliant Resources does not exercise its option to lease any project at completion, Reliant Resources must purchase the project or remarket the project on behalf of the special purpose entities. At the end of an individual project's operating lease term (approximately five years from construction completion), the lessees have the option to extend the lease at fair market value, purchase the project at a fixed amount equal to the original construction cost, or act as a remarketing agent and sell the project to an independent third party. If the lessees elect the remarketing option, they may be required to make a payment of up to 85% of the project cost if the proceeds from remarketing are deficient to repay the Investors. Reliant Resources has guaranteed the performance and payment of its subsidiaries' obligations during the construction periods and if the lease option is exercised, the lessee's obligations during the lease period.

(b) Initial Public Offering of Reliant Resources.

On July 27, 2000, Reliant Energy announced its intention to form Reliant Resources to own and operate a substantial portion of Reliant Energy's unregulated operations, and to offer no more than 20% of the common stock of Reliant Resources in an initial public offering (Offering) in connection with the Company's business separation plan. On May 4, 2001, Reliant Resources completed its initial public offering of 52 million shares of its common stock and received net proceeds of $1.5 billion. On May 11, 2001, the underwriters of the Offering exercised an option to buy an additional 7.8 million shares of Reliant Resources common stock, resulting in net proceeds of $222 million. Reliant Resources used these net proceeds to increase its working capital. Reliant Energy expects the Offering to be followed by a distribution of the remaining common stock of Reliant Resources owned by Reliant Energy to Reliant Energy's or its successor's shareholders within 12 months of the Offering (Distribution). For additional information regarding the Company's business separation plan, please read Note 4(b) to Reliant Energy 10-K Notes.

The Distribution is subject to further corporate approvals, market and other conditions, and government actions, including receipt of a favorable Internal Revenue Service ruling that the Distribution would be tax-free to Reliant Energy or its successor and its shareholders for U.S. federal income tax purposes, as applicable. There can be no assurance that the Distribution will be completed as described or within the time periods outlined above.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF RELIANT ENERGY AND SUBSIDIARIES

The following discussion and analysis should be read in combination with our Interim Financial Statements contained in this Form 10-Q.

We are a diversified international energy services and energy delivery company that provides energy and energy services in North America and Western Europe. We operate one of the nation's largest electric utilities in terms of kilowatt-hour (KWh) sales, and our three natural gas distribution divisions together form one of the United States' largest natural gas distribution operations in terms of customers served. We invest in the acquisition, development and operation of international and domestic non-rate regulated power generation facilities. We own two interstate natural gas pipelines that provides gas transportation, supply, gathering and storage services, and we also engage in wholesale energy marketing and trading.

In this section we discuss our results of operation on a consolidated basis and individually for each of our business segments. We also discuss our liquidity and capital resources. Our financial reporting segments include Electric Operations, Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy, European Energy and Other Operations. For segment reporting information, please read Note 13 to our Interim Financial Statements.

Effective December 1, 2000, our Board of Directors approved a plan to dispose of our Latin American business segment and sale of its assets. Accordingly, we are reporting the results of our Latin American business segment as discontinued operations for all periods presented in our Interim Financial Statements in accordance with Accounting Principles Board Opinion No. 30. For additional information regarding the disposal of our Latin American business segment, please read Note 19 to Reliant Energy 10-K Notes.

In 2000, we submitted a business separation plan to the Texas Utility Commission that was later amended during the year to restructure our businesses into two separate publicly traded companies in order to separate our unregulated businesses from our regulated businesses. In December 2000, the plan was substantially approved by the Texas Utility Commission in its entirety and a final order was issued on April 10, 2001. For additional information regarding the business separation plan, please read Note 4(b) to Reliant Energy 10-K Notes.

As part of the separation, our parent company, Reliant Energy will undergo a restructuring of its corporate organization to achieve a new holding company structure. The new holding company will hold our regulated businesses. In connection with the formation of the new holding company, we will seek an exemption from the registration requirements of the Public Utility Holding Company Act of 1935 (1935 Act) or, if no exemption is available, the new holding company will register as a public utility holding company under the 1935 Act. The restructuring will require approval of the Securities and Exchange Commission, certain of the affected state commissions and the Nuclear Regulatory Commission.

In connection with the separation, we formed Reliant Resources, which owns and operates a substantial portion of our unregulated operations. In May 2001, Reliant Resources offered 59.8 million shares of its common stock to the public at an initial public offering price of $30 per share and received net proceeds from the offering of $1.7 billion. Reliant Energy expects to distribute the remaining common stock of Reliant Resources it owns to Reliant Energy's or its successor's shareholders within 12 months of the closing of the Reliant Resources initial public offering (Offering). For additional information regarding our business separation plan, please read Note 4(b) to Reliant Energy 10-K Notes.

On May 12, 2000, one of our subsidiaries purchased entities owning electric power generating assets and development sites located in Pennsylvania, New Jersey, and Maryland having an aggregate net generating capacity of approximately 4,262 MW. With the exception of development entities that were sold to another Reliant Energy subsidiary in July 2000, the assets of the entities acquired are held by REMA. The purchase price for the May 2000 transaction was $2.1 billion. We accounted for the acquisition as a purchase, and accordingly, our results of operations include the results of operations for REMA only for the period after the acquisition date. For additional information about this acquisition, including our accounting treatment of the acquisition, please read Note 3(a) to Reliant Energy 10-K Notes and Note 3 to our Interim Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS, EXCEPT PER SHARE DATA)	
Revenues	$ 4,213	$ 13,284
Operating Expenses	(3,872)	(12,824)
Operating Income	341	460
Other Income	21	50
Interest Expense and Other Charges	(174)	(192)
Income Tax Expense	(55)	(110)
Loss on Disposal of Discontinued Operations, net of tax	--	(7)
Cumulative Effect of Accounting Change, net of tax	--	61
Net Income Attributable to Common Stockholders	$ 133	$ 262
Basic Earnings Per Share	$ 0.47	$ 0.91
Diluted Earnings Per Share	$ 0.47	$ 0.90

Three months ended March 31, 2001 compared to three months ended March 31, 2000

We reported consolidated net income of $262 million ($0.90 per diluted share) for the three months ended March 31, 2001 compared to $133 million ($0.47 per diluted share) for the three months ended March 31, 2000. The 2001 results reflect a $7 million, after-tax non-cash loss on the disposal of discontinued operations in Latin America, a $61 million after-tax non-cash gain from the adoption of SFAS No. 133 and a $65 million after-tax non-cash charge relating to the redesign of the company's benefits for employees of our unregulated businesses. The 2000 results include a $1 million loss from discontinued operations in Latin America.

For information regarding the adoption of SFAS No. 133, the discontinuance of our Latin American segment and the benefit charge incurred in the first quarter of 2001, see Notes 2, 4 and 12 to our Interim Financial Statements.

Our consolidated net income, after adjusting for the charges described above, was $274 million ($0.94 per diluted share) for three months ended March 31, 2001 compared to $134 million ($0.47 per diluted share) for the three months ended March 31, 2000. The $140 million increase was primarily due to increased earnings from our Wholesale Energy, Natural Gas Distribution and Pipelines and Gathering segments.

For an explanation of changes in operating income for the first quarter of 2001 versus 2000, see the discussion below of operating income (loss) by segment. Other income increased by $29 million during the first quarter of 2001 compared to 2000 primarily due to increased earnings from unconsolidated subsidiaries of our Wholesale Energy segment and increased interest income from our Electric Operations and Wholesale Energy segments. In addition, during the first quarter of 2000, the Company realized interest income related to a tax refund of $26 million which was partially offset by a pre-tax impairment loss of $22 million related to certain marketable securities. For additional information regarding our investment in the equity securities noted above, see Note 2(l) to Reliant Energy 10-K Notes.

Our Wholesale Energy segment reported income from equity investments for the three months ended March 31, 2001 of $13 million compared to $0.5 million in the same period in 2000. The equity income in 2001 primarily resulted from an investment in an electric generation plant in Boulder City, Nevada. The plant became operational in May 2000.

We incurred interest expense and other charges of $192 million and $174 million for the first quarters of 2001 and 2000, respectively. The increase was a result of higher levels of short-term borrowing and long-term debt in 2001 compared to 2000.

The effective tax rate for the first quarter of 2000 and 2001 was 29% and 35%, respectively.

The table below shows operating income (loss) by segment:

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Electric Operations	$ 202	$ 186
Natural Gas Distribution	105	135
Pipelines and Gathering	32	39
Wholesale Energy	(22)	216
European Energy	33	18
Other Operations	(9)	(134)
Total Consolidated	$ 341	$ 460

ELECTRIC OPERATIONS

Our Electric Operations segment conducts operations under the name "Reliant Energy HL&P," an unincorporated division of Reliant Energy. Electric Operations generates, purchases, transmits and distributes electricity to approximately 1.7 million customers in a 5,000 square mile area on the Texas Gulf Coast, including Houston, Texas.

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Operating Revenues:		
Base Revenues	$ 602	$ 617
Reconcilable Fuel Revenues	345	773
Total Operating Revenues	947	1,390
Operating Expenses:		
Fuel and Purchased Power	358	786
Operation and Maintenance	210	248
Depreciation and Amortization	99	79
Other Operating Expenses	78	91
Total Operating Expenses	745	1,204
Operating Income	$ 202	$ 186
Electric Sales Including Unbilled (GWh(1)):		
Residential	3,446	3,951
Commercial	3,737	3,969
Industrial	7,009	6,804
Industrial - Interruptible	1,313	634
Other	721	296
Total Sales Including Unbilled	16,226	15,654
Average Cost of Fuel (Cents/MMBtu (2))	192.1	302.5

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(1) Gigawatt hours

(2) Million British thermal units

Our Electric Operations segment operating income for the three months ended March 31, 2001 decreased $16 million compared to the three months ended March 31, 2000. The decline was primarily due to increased operation and maintenance expenses and increased taxes, partially offset by strong demand from residential and commercial customers and reduced depreciation and amortization expense.

Base revenues increased $15 million for the first quarter of 2001 primarily due to increased customer growth and demand.

Reconcilable fuel revenues and fuel and purchased power expenses for the first quarter of 2001 increased as a result of the higher cost of natural gas ($2.67 and $7.50 per MMBtu in the first quarters of 2000 and 2001,

respectively), higher costs per unit for purchased power ($26.43 and $71.01 per megawatt hour (MWh) in the first quarters of 2000 and 2001, respectively) and higher volumes due to customer growth, which led to increased production.

Operation and maintenance expenses and other operating expenses for the first quarter of 2001 increased by $38 million and $13 million, respectively, when compared to the same period in 2000. The increases were largely due to higher revenue related taxes, increased benefits costs, and increased information technology costs.

Depreciation and amortization expense in the first quarter of 2001 decreased $20 million compared to the same period in 2000. The decrease was primarily due to a decrease in amortization of the book impairment loss recorded in June 1999 and decreased amortization expense due to regulatory assets related to cancelled projects being fully amortized in June 2000. For information regarding items that affect depreciation and amortization expense of Electric Operations pursuant to the Legislation and the Transition Plan, see Notes 2(g) and 4(a) to Reliant Energy 10-K Notes.

NATURAL GAS DISTRIBUTION

Our Natural Gas Distribution segment's operations consist of intrastate natural gas sales to, and natural gas transportation for residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas and some non-rate regulated retail marketing of natural gas.

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Operating Revenues	$ 1,051	$ 2,323
Operating Expenses:		
Natural Gas	758	1,977
Operation and Maintenance	124	133
Depreciation and Amortization	36	36
Other Operating Expenses	28	42
Total Operating Expenses	946	2,188
Operating Income	$ 105	$ 135
Throughput Data (in Bcf(1)):		
Residential and Commercial Sales	121	153
Industrial Sales	13	11
Transportation	15	15
Retail	140	132
Total Throughput	289	311

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(1) Billion cubic feet.

Our Natural Gas Distribution segment's operating income increased $30 million for the first quarter of 2001 as compared to the same period in 2000. The substantial rise was largely due to improved margins from cooler weather, partially offset by increased operating expenses. In addition, operating revenues for the first quarter of 2000 included a $12 million gain from the effect of a financial hedge of our Natural Gas Distribution segment's earnings against unseasonably warm weather during peak gas heating months, while for the first quarter of 2001, there was a $1 million loss. Increased operating margins (revenues less fuel costs) were slightly offset by higher operating expenses. Operating expenses increased primarily as a result of increased information system-related costs and employee benefit costs.

PIPELINES AND GATHERING

Our Pipelines and Gathering segment operates two interstate natural gas pipelines as well as provides gathering and pipeline services.

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Operating Revenues	$ 90	$ 130
Operating Expenses:		
Natural Gas	15	45
Operation and Maintenance	25	28
Depreciation and Amortization	14	14
Other Operating Expenses	4	4
Total Operating Expenses	58	91
Operating Income	$ 32	$ 39
Throughput Data (in MMBtu):		
Natural Gas Sales	4	6
Transportation	261	246
Gathering	70	70
Elimination(1)	(3)	(1)
Total Throughput	332	321

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(1) Elimination of volumes both transported and sold.

Our Pipelines and Gathering segment operating income for the first quarter of 2001 increased $7 million compared to the same period in 2000. Improved operating margins (revenues less natural gas costs) from both the pipelines and gas gathering businesses contributed to the increase.

WHOLESALE ENERGY

Our Wholesale Energy segment includes our non-rate regulated power generation operations in the United States and our wholesale energy trading, marketing, power origination and risk management operations in North America. Trading and marketing purchases fuel to supply existing generation assets, sells the electricity produced by these assets, and manages the day-to-day trading and dispatch associated with these portfolios. As a result, we have made, and expect to continue to make, significant investments in developing the trading and marketing infrastructure including software, trading and risk control resources.

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Operating Revenues	$ 2,156	$ 9,593
Operating Expenses:		
Fuel and Cost of Gas Sold	1,420	5,654
Purchased Power	687	3,547
Operation and Maintenance	62	133
Depreciation and Amortization	7	41
Other Operating Expenses	2	2
Total Operating Expenses	2,178	9,377
Operating (Loss) Income	$ (22)	$ 216
Operations Data:		
Natural Gas (in Bcf):		
Sales	549	767
Electricity (MMWh):		
Wholesale Power Sales	28	76

Our Wholesale Energy segment's operating income increased $238 million for first quarter of 2001 compared to the same period in 2000. The increase was primarily due to increased revenues from energy and ancillary services, the addition of our Mid-Atlantic assets and strong commercial and operational performance in other regions. These results were partially offset by higher general and administrative and air emissions regulatory allowance expenses and a $38 million provision taken against receivable balances related to energy sales in the West region. Gross margins (revenues less fuel and cost of gas sold and purchased power) for the Wholesale Energy segment rose by $343 million from the same quarter of last year.

For information regarding the reserve against receivables and uncertainties in the California wholesale energy market, see Notes 11(a) and 11(d) to our Interim Financial Statements.

Our Wholesale Energy segment's operating revenues increased $7.4 billion for the first quarter 2001 compared to the same period in 2000. The increase was primarily due to increases in prices for gas and power sales and to a lesser extent higher volumes of both power and gas sales. Our fuel and gas costs increased $4.2 billion in the first quarter of 2001 compared to the same period in 2000, largely due to a higher average cost of gas and increased volume. Our purchased power expense increased $2.9 billion in the first quarter of 2001, primarily due to higher power sales volumes and higher average cost of power. Operation and maintenance expenses increased $71 million in the first quarter of 2001 compared to the same period in 2000, primarily due to costs associated with the operation and maintenance of generating plants acquired or placed into service after the first quarter of 2000, lease expense associated with the Mid-Atlantic generating facilities' sale/leaseback transactions and higher staffing levels to support increased sales and expanded trading and marketing efforts. Depreciation and amortization expense for the first quarter of 2001 compared to the same period in 2000 increased as a result of higher expense related to the amortization of air emissions regulatory allowances, primarily in the West region, and depreciation of our Mid-Atlantic plants, which were acquired after the first quarter of 2000.

EUROPEAN ENERGY

Our European Energy segment includes the operations of UNA and its subsidiaries and our European trading, marketing and risk management operations. Our European Energy segment generates and sells power from its generation facilities in the Netherlands and participates in the emerging wholesale energy trading and marketing industry in Northwest Europe.

Beginning January 1, 2001, the Dutch wholesale electric market was completely opened to competition. Consistent with our expectations at the time we made the acquisition, we anticipate that UNA will experience a significant decline in electric margins in 2001 attributable to the deregulation of the market. For additional information on these and other factors that may affect the future results of operations of European Energy, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Our Future Earnings - Competitive, Regulatory and Other Factors Affecting Our European Energy Operations" in the Reliant Energy Form 10-K, which information is incorporated herein by reference.

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Operating Revenues	$ 150	$ 248
Operating Expenses:		
Fuel and Purchased Power	69	182
Operation and Maintenance and Other	28	29
Depreciation and Amortization	20	19
Total Operating Expenses	117	230
Operating Income	$ 33	$ 18

Our European Energy segment operating income decreased $15 million for the first quarter of 2001 compared to the same period in 2000. The decrease was primarily due to a decrease in margins (revenues less fuel and purchased power) as the Dutch wholesale electric market was completely opened to competition on January 1, 2001. Increased margins from ancillary services and district heating partially offset this decline.

Our European Energy segment operating revenues increased $98 million for the first quarter of 2001 compared to the same period in 2000. This increase was primarily due to increased trading revenues associated with our participation in the now fully deregulated Dutch wholesale electric market. Fuel and purchased power costs increased $113 million in the first quarter of 2001 compared to same period in 2000 primarily due to increased purchased power for trading activities, cost of natural gas and other fuels.

OTHER OPERATIONS

Our Other Operations segment includes the operations of our unregulated retail electric operations, a communications business offering enhanced data, voice and other services to customers in Texas, an eBusiness group, non-operating investments, certain real estate holdings and unallocated corporate costs.

Our Other Operations segment's operating loss increased $125 million for the first quarter of 2001 compared to the same period in 2000. The increase was primarily due to a $101 million pre-tax, non-cash charge related to the redesign of certain of our benefit plans in anticipation of the separation of our regulated businesses and our unregulated businesses. In addition, the increased operating loss was due to the timing of certain legal expenses, as well as costs related to our communications operations. For information regarding the benefit charge incurred in the first quarter of 2001, see Note 12 to our Interim Financial Statements.

CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

GENERAL

For information on other developments, factors and trends that may have an impact on our future earnings, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings" in the Reliant Energy Form 10-K, which is incorporated herein by reference. For additional information regarding the California wholesale market and related litigation, please read Notes 11(a) and 11(d) to our Interim Financial Statements.

ELECTRIC OPERATIONS

In contemplation of open competition, our Electric Operations segment has been allowed since 1998 under our Transition Plan approved by the Texas Utility Commission and the Legislation to earn base revenues which produced earnings in excess of traditional regulated levels. These excess earnings have been utilized to mitigate stranded cost of generation plants by accelerating the depreciation of these assets for regulatory purposes.

This transition to competition period is scheduled to end on December 31, 2001. At that time, and in accordance with the Legislation, our Electric Operations segment will be unbundled pursuant to our business separation plan (please read Notes 4(a) and 4(b) to Reliant Energy 10-K Notes) into three distinct businesses: a transmission and distribution company, a power generation company and a retail company. New rates based on the allowed invested capital, or "rate base", of the transmission and distribution business will be implemented beginning on January 1, 2002. For more information regarding the interim rulings in the transmission and distribution company's rate case, please read Note 11(f) to our Interim Financial Statements. The retail business will be conducted by a subsidiary of Reliant Resources. The generation business will sell power via capacity auctions at market rates. However, the Legislation provides that during the 2004 stranded cost true-up (please read Note 4(a) to Reliant Energy 10-K Notes), a true-up amount will be calculated which will be recovered from or returned to customers to adjust the market revenues earned from the capacity auctions to a level that would approximate a regulated return on the invested capital of the generation business. Thus, beginning in 2002, earnings of our Electric Operations segment will be reduced to near traditional regulated returns independent of any additional positive or negative cash flows which may result from implementation of competitive transition charges received from customers or other credits to customers, as applicable. Accordingly, the results of operations of our Electric Operations segment post-competition will significantly decline.

FINANCIAL CONDITION

The following table summarizes the net cash provided by (used in) operating, investing and financing activities for the three months ended March 31, 2000 and 2001.

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities	$ 476	$ 108
Investing activities	(1,374)	(490)
Financing activities	910	277

Net cash provided by operating activities during the three months ended March 31, 2001 decreased $368 million compared to the same period in 2000 primarily due to a net $780 million decrease in accounts payables. This decrease was partially offset by (a) a $238 million increase in operating income for the Wholesale Energy segment due to increased revenues from energy and ancillary services, the addition of our Mid-Atlantic assets and strong commercial and operational performance in other regions, and (b) a $227 million increase in margin deposits.

Net cash used in investing activities decreased $884 million during the three months ended March 31, 2001 compared to the same period in 2000 primarily due to the funding of the remaining purchase obligation for UNA for $982 million on March 1, 2000 partially offset by increased capital expenditures during the three months ended March 31, 2001.

Cash flows provided by financing activities decreased $633 million during the three months ended March 31, 2001 compared to the same period in 2000 primarily due to a decrease in cash received from short-term borrowings. The Company utilized the net borrowings incurred during the first three months of 2000 to fund the remaining UNA purchase obligation, to support increased capital expenditures by our Wholesale Energy segment and for general corporate purposes, including the repayment of indebtedness. The issuance of $550 million of unsecured long-term debt during the first three months of 2001 partially offset the decrease.

FUTURE SOURCES AND USES OF CASH FLOWS

Credit Facilities. As of March 31, 2001, we had credit facilities in effect, including facilities of various financing subsidiaries and operating subsidiaries, that provided for an aggregate of $9.1 billion in committed credit. As of March 31, 2001, $6.6 billion was outstanding under these facilities including commercial paper of $3.2 billion, other borrowings of $2.3 billion and letters of credit of $1.1 billion. The remaining unused credit facilities totaled $2.5 billion.

Of the $9.1 billion of committed credit facilities described above, $5.7 billion will expire in 2001. To the extent that we continue to need access to this amount of committed credit, we expect to extend or replace these facilities on normal commercial terms on a timely basis.

Between December 2000 and March 2001, Reliant Resources entered into thirteen bilateral credit facilities with financial institutions, which provide for an aggregate of $1.8 billion in committed credit. In May 2001, Reliant Resources entered into an additional bilateral credit facility which provide for an aggregate of $150 million in committed credit. These facilities became effective subsequent to December 31, 2000 and expire on October 2, 2001. During the first quarter of 2001, bilateral credit facilities totaling $275 million were terminated and credit facilities totaling $250 million were transferred from a financing subsidiary to Reliant Resources. Interest rates on the borrowings are based on LIBOR plus a margin, a base rate or a rate determined through a bidding process. These facilities contain various business and financial covenants requiring Reliant Resources to, among other things, maintain a ratio of net debt to the sum of net debt, subordinated affiliate debt and shareholders' equity not to exceed 0.60 to 1.00. These covenants are not anticipated to materially restrict Reliant Resources from borrowing funds or obtaining letters of credit under these facilities. The credit facilities are subject to facility and usage fees that are calculated based on the amount of the facility commitments and on the amounts outstanding under the facilities, respectively.

In May 2001, aggregate bank facilities and aggregate amount of commercial paper that can be offered were reduced by $1.5 billion, the amount of net proceeds from the Offering.

Shelf Registrations. At March 31, 2001, Reliant Energy had shelf registration statements providing for the issuance of $230 million aggregate liquidation value of our preferred stock, $580 million aggregate principal amount of our debt securities and $125 million of trust preferred securities and related junior subordinated debt securities. In addition, Reliant Energy had a shelf registration for 15 million shares of its common stock, which would have been worth $679 million as of March 31, 2001 based on the closing price of its common stock as of that date. In January 2001, RERC Corp. filed a shelf registration statement for $600 million of unsecured unsubordinated debt securities of which $550 million was issued in February 2001.

RERC Corp. Debt Issuance. In February 2001, RERC Corp. issued $550 million aggregate principal amount of unsecured unsubordinated notes that bear interest at 7.75% per year and mature in February 2011. Net proceeds to RERC Corp. were $545 million. RERC Corp. used the net proceeds from the sale of the notes to pay a $400 million dividend to Reliant Energy, and for general corporate purposes. Reliant Energy used the $400 million proceeds from the dividend for general corporate purposes, including the repayment of short-term borrowings.

Securitization. Reliant Energy HL&P filed an application with the Texas Utility Commission requesting a financing order authorizing the issuance by a special purpose entity organized by us, of transition bonds relating to Reliant Energy HL&P's generation related regulatory assets. In May 2000, the Texas Utility Commission issued a financing order to Reliant Energy authorizing the issuance of transition bonds in an amount not to exceed $740 million plus actual up-front qualified costs. Payments on the transition bonds will be made out of funds derived from non-bypassable transition charges assessed to Reliant Energy HL&P's transmission and distribution customers. The offering of the transition bonds will be registered under the Securities Act of 1933 and is expected to be consummated during 2001.

The expected timing of the transition bond offering assumes that the Texas Supreme Court will have rejected a constitutional challenge to the statute permitting the financing orders. That challenge was raised in a court challenge to a different financing order, issued by the Texas Utility Commission to another utility. The district court affirmed the constitutionality of the statute, but a direct appeal to the Texas Supreme Court under a statute providing for

expedited judicial review. The Texas Supreme Court heard oral argument on November 29, 2000, and to date, a decision has not been rendered.

Fuel Filing. As of March 31, 2001, Reliant Energy HL&P was under-collected on fuel recovery by approximately $694 million. In two separate filings in 2000, Reliant Energy HL&P received approval to implement fuel surcharges to collect the under-recovery of fuel expenses, as well as to adjust the fuel factor to compensate for significant increases in the price of natural gas.

On March 15, 2001, Reliant Energy HL&P filed to revise its fuel factor and address its undercollected fuel costs of $389 million, which is the accumulated amount since September 2000 through February 2001, plus estimates for March and April 2001. Reliant Energy HL&P is requesting to revise its fixed fuel factor to be implemented with the May 2001 billing cycle and has proposed to defer the collection of the $389 million until 2004 stranded costs true-up proceeding. On April 16, 2001, the Texas Utility Commission issued an order approving interim rates effective with the May 2001 billing cycle. As of May 10, 2001, a final Order has not been issued in this proceeding.

Initial Public Offering of Reliant Resources. On July 27, 2000, Reliant Energy announced its intention to form Reliant Resources to own and operate a substantial portion of Reliant Energy's unregulated operations, and to offer no more than 20% of the common stock of Reliant Resources in the Offering in connection with the Company's business separation plan. On May 4, 2001, Reliant Resources completed its initial public offering of 52 million shares of its common stock and received net proceeds of $1.5 billion. On May 11, 2001, the underwriters of the Offering exercised an option to buy an additional 7.8 million shares of Reliant Resources common stock, resulting in net proceeds of $222 million. Reliant Resources used these net proceeds to increase its working capital. Reliant Energy expects the Offering to be followed by a distribution of the remaining common stock of Reliant Resources owned by Reliant Energy to Reliant Energy's or its successor's shareholders within 12 months of the Offering. For additional information regarding the Company's business separation plan, please read Note 4(b) to Reliant Energy 10-K Notes.

Acquisition of Mid-Atlantic Assets. On May 12, 2000, we completed the acquisition of our Mid-Atlantic assets from Sithe Energies, Inc. for an aggregate purchase price of $2.1 billion. The acquisition was originally financed through commercial paper borrowings at one of our financing subsidiaries. In August 2000, we entered into separate sale/leaseback transactions with each of the three owner-lessors for our respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, which we acquired as part of the Mid-Atlantic acquisition. For additional discussion of these lease transactions, please read Notes 3(a) and 14(c) to Reliant Energy 10-K Notes. As consideration for the sale of our interest in the facilities, we received a total of $1.0 billion in cash that was used to repay commercial paper borrowings at one of our financing subsidiaries. We will continue to make lease payments through 2029. The lease terms expire in 2034.

Channelview Project. Our 781 MW gas-fired, combined cycle, cogeneration plant located in Channelview, Texas, which is currently under construction, is expected to cost $463 million, including $129 million in commitments for the purchase of combustion turbines. Of this amount, $315 million had been incurred as of March 31, 2001. The project continues to be financed through funds received under the terms of a committed equity bridge facility, which totals $92 million, a non-recourse debt facility aggregating $369 million and projected construction revenues of $2 million.

Other Generating Projects. As of March 31, 2001, we had three additional non-rate regulated generating facilities under construction. Total estimated costs of constructing these facilities are $870 million, including $372 million in commitments for the purchase of combustion turbines. As of March 31, 2001, we had incurred $753 million of the total projected costs of these projects, which were funded primarily through short-term borrowings from various financing subsidiaries of Reliant Energy. We believe that our level of cash, our borrowing capability and proceeds from the initial public offering of Reliant Resources as discussed above will be sufficient to fund these commitments. In addition, we have options to purchase additional combustion turbines for a total estimated cost of $483 million for future generation projects. We believe that our current level of cash, our borrowing capability and proceeds from the initial public offering will be sufficient to fund these options should we choose to exercise them.

Construction Agency Agreement. In April 2001, Reliant Resources, through several of its subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power generation projects. The special purpose entities have an aggregate financing commitment

from equity and debt participants, or the "investors," of $2.5 billion. Reliant Resources, through several of its subsidiaries, acts as construction agent for the special purpose entities, and is responsible for completing construction of these projects by August 31, 2004, but have generally limited Reliant Resources' risk related to construction completion to less than 90% of project costs incurred to date, except in certain events. Upon completion of an individual project and exercise of the lease option, its subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the investors. If Reliant Resources does not exercise its option to lease any project at our completion, we must purchase the project or remarket the project on behalf of the special purpose entities. At the end of an individual project's operating lease term (approximately five years from construction completion), the lessees have the option to extend the lease at fair market value, purchase the project at a fixed amount equal to the original construction cost, or act as remarketing agent and sell the project to an independent third party. If the lessees elect the remarketing option, they may be required to make a payment, up to 85% of the project cost, if the proceeds from remarketing are deficient to repay the investors. Reliant Resources has guaranteed the performance and payment of its subsidiaries' obligations during the construction periods and if the lease option is exercised, the lessee's obligations during the lease period.

California Trade Receivables. During the summer and fall of 2000, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emissions allowance costs, reduction in available hydroelectric generation resources, increased demand, decreases in net electric imports, structural market flaws including over-reliance on the spot market, and limitations on supply as a result of maintenance and other outages. Although wholesale prices increased, California's deregulation legislation kept retail rates frozen below 1996 levels. This caused two of California's public utilities, which are our customers based on our deliveries to the Cal PX and the Cal ISO, to accrue billions of dollars of unrecovered wholesale power costs and ultimately default in January and February 2001 on payments owed for wholesale power purchased through the Cal PX and from the Cal ISO, and in the case of Pacific Gas and Electric Company, to file a voluntary petition for bankruptcy. As of March 31, 2001, we were owed $337 million by the Cal ISO, the Cal PX, the CDWR and California Energy Resource Scheduling for energy sales in the California wholesale market, during the fourth quarter of 2000 through March 31, 2001 and have recorded an allowance against such receivables of $77 million. From April 1, 2001 through May 7, 2001, we have collected $1.1 million of these receivable balances. For additional information regarding uncertainties in the California wholesale market, please read Notes 11(a) and 11(d) to our Interim Financial Statements and Notes 14(g) and 14(h) to Reliant Energy 10-K Notes.

Reliant Energy HL&P Rate Matters. The Texas Utility Commission has issued rulings at its April 2001 meeting requiring Reliant Energy HL&P to reverse the amount of redirected depreciation and accelerated depreciation if, in the Texas Utility Commission's estimation, the utility has overmitigated its stranded costs. At March 31, 2001, cumulative redirected depreciation and cumulative accelerated depreciation for regulatory purposes totaled $668 million and approximately $900 million, respectively. The preliminary reversal of redirected depreciation would result in a lower rate for the transmission and distribution utility and the accelerated depreciation being returned through credits over ten years as offsets to the transmission and distribution utility's non-bypassable charges. The rates derived from the Texas Utility Commission's April 2001 ruling are interim and will be used during the retail electric pilot project that begins on June 1, 2001. We do not expect the final Reliant Energy HL&P transmission and distribution rate to be established until August 2001 and those rates will be implemented on January 1, 2002. The credits related to accelerated depreciation will begin on January 1, 2002. For information regarding redirected depreciation and accelerated depreciation, please read Note 4(a) to Reliant Energy 10-K Notes.

Other Sources/Uses of Cash. Our liquidity and capital requirements are affected primarily by capital expenditures, debt service requirements and various working capital needs. We expect to continue to participate as a bidder in future acquisitions of independent power projects and privatizations of generation facilities. We expect any resulting capital requirements to be met with excess cash flows from operations, as well as proceeds from debt and equity offerings, project financings and other borrowings. Additional capital expenditures depend upon the nature and extent of future project commitments, some of which may be substantial. We believe that our current level of cash and anticipated borrowing capability and proceeds from the Reliant Resources initial public offering discussed above, along with future cash flows from operations, will be sufficient to meet the existing operational needs of our businesses for the next 12 months.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

At March 31, 2001, we had issued fixed-rate debt and Trust Preferred Securities aggregating $6.0 billion in principal amount having a fair value of $6.1 billion. The fair value of these instruments would increase by approximately $458 million if interest rates were to decline by 10% from their levels at March 31, 2001.

Our floating-rate obligations aggregated $5.7 billion at March 31, 2001 (please read Note 10 to Reliant Energy 10-K Notes) inclusive of (a) amounts borrowed under our short-term and long-term credit facilities (including the issuance of commercial paper supported by these facilities), (b) borrowings underlying a receivables facility and (c) amounts subject to a master leasing agreement under which lease payments vary depending on short-term interest rates. If the floating rates were to increase by 10% from March 31, 2001 levels, our consolidated interest expense and expense under operating leases would increase by a total of approximately $3 million each month in which such increase continued.

In November 1998, RERC Corp. sold $500 million aggregate principal amount of its 6 3/8% Term Enhanced Remarketable Securities (TERM Notes) which included an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate in 2003 is below 5.66%. At March 31, 2001, we could terminate the option at a cost of $29 million. A decrease of 10% in the March 31, 2001 level of interest rates would increase the cost of termination of the option by approximately $14 million.

As discussed in Note 8(c) to Reliant Energy 10-K Notes, upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component of $122 million and a derivative component of $788 million. Changes in the fair value of the derivative component will be recorded in our statements of consolidated income and, therefore, we are exposed to changes in the fair value of the derivative component as a result of changes in the underlying risk-free interest rate. If the risk-free interest rate were to increase by 10% from March 31, 2001 levels, the fair value of the derivative component would increase by approximately $14 million, which would be recorded as a loss in our statements of consolidated income.

During the three months ended March 31, 2001, we entered into interest rate swaps for the purpose of decreasing the amount of debt subject to interest rate fluctuations. At March 31, 2001, these interest rate swaps had an aggregate notional amount of $375 million and a nominal fair value. An increase of 10% in the March 31, 2001 level of interest rates would not increase the cost of termination of the swaps by a material amount. For information regarding the accounting for these interest rate swaps, see Note 2 to our Interim Financial Statements.

EQUITY MARKET RISK

As discussed in Note 8 to Reliant Energy 10-K Notes, we own approximately 26 million shares of AOL Time Warner Inc. common stock (AOL TW Common), which we hold to facilitate our ability to meet our obligations under the ZENS. Please read Note 8 to Reliant Energy 10-K Notes for a discussion of the effect of adoption of SFAS No. 133 on our ZENS obligation and our historical accounting treatment of our ZENS obligation. Subsequent to adoption of SFAS No. 133, a decrease of 10% from the March 31, 2001 market value of AOL TW Common would result in a loss of approximately $6 million, which would be recorded as a loss in our statements of consolidated income.

FOREIGN CURRENCY EXCHANGE RATE RISK

As of March 31, 2001, we have entered into foreign currency swaps and foreign exchange forward contracts and have issued Euro-denominated debt to hedge our net European investment. Changes in the value of the swaps, forwards and debt are recorded as foreign currency translation adjustments as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of March 31, 2001, we had recorded a $2 million loss in cumulative net translation adjustments. The cumulative translation adjustments will be realized in earnings and cash flows only upon the disposition of the related investments.

As of March 31, 2001, our European Energy segment has entered into financial instruments to purchase approximately $120 million to hedge future fuel purchases payable in U.S. dollars. As of March 31, 2001, the fair

value of these financial instruments was a $4 million liability. An increase in the value of the Euro of 10% compared to the U.S. dollar from its March 31, 2001 level would result in an additional loss in the fair value of these foreign currency financial instruments of $12 million. For information regarding the accounting for these financial instruments, see Note 2 to our Interim Financial Statements.

COMMODITY PRICE RISK

We assess the risk of our non-trading derivatives (Energy Derivatives) using a sensitivity analysis method, and we assess the risk of our trading derivatives (Trading Derivatives) using the value-at-risk (VAR) method, in order to maintain our total exposure within management-prescribed limits.

The sensitivity analysis performed on our Energy Derivatives measures the potential loss in earnings based on a hypothetical 10% movement in energy prices. An increase of 10% in the market prices of energy commodities from their March 31, 2001 levels would have decreased the fair value of our Energy Derivatives from their levels on those respective dates by $197 million.

We utilize the variance/covariance model of VAR, which is a probabilistic model that measures the risk of loss to earnings in market sensitive instruments. With respect to Trading Derivatives, our highest, lowest and average monthly VAR during the first quarter of 2001 was $12 million, $5 million and $8 million, respectively, based on a 95% confidence level and a one day holding period. During 2000, our highest, lowest and average monthly VAR was $15 million, $1 million and $6 million, respectively, based on a 95% confidence level and a one day holding period.

We cannot assure you that market volatility, failure of counterparties to meet their contractual obligations, transactions entered into after the date of this Form 10-Q or a failure of risk controls will not lead to significant losses from our marketing and risk management activities.

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF RELIANT ENERGY, INCORPORATED)

STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
REVENUES	$ 3,098,731	$ 2,422,853
EXPENSES:		
Natural gas and purchased power	2,704,349	1,991,523
Operation and maintenance	156,519	159,745
Depreciation and amortization	52,107	51,221
Taxes other than income taxes	31,219	46,433
Total	2,944,194	2,248,922
OPERATING INCOME	154,537	173,931
OTHER INCOME (EXPENSE):		
Interest expense, net	(31,697)	(38,134)
Distribution on trust preferred securities	(8)	(7)
Other, net	(17,106)	3,395
Total	(48,811)	(34,746)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	105,726	139,185
Income Tax Expense	46,786	58,828
INCOME FROM CONTINUING OPERATIONS	58,940	80,357
Loss from Discontinued Operations, net of tax of zero	(3,804)	--
NET INCOME	$ 55,136	$ 80,357

See Notes to RERC's Interim Financial Statements

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF RELIANT ENERGY, INCORPORATED)

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	DECEMBER 31, 2000	MARCH 31, 2001
CURRENT ASSETS:		
Cash and cash equivalents	$ 22,576	$ 28,674
Accounts and notes receivable, principally customer, net	794,904	787,354
Accrued unbilled revenue	550,183	393,039
Materials and supplies	33,394	33,255
Fuel and petroleum products	82,707	28,725
Non-trading derivative assets	--	24,367
Other	45,926	20,250
Total current assets	1,529,690	1,315,664
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	3,429,304	3,434,563
Less accumulated depreciation	(399,947)	(424,323)
Property, plant and equipment, net	3,029,357	3,010,240
OTHER ASSETS:		
Goodwill, net	1,787,015	1,774,655
Prepaid pension asset	141,882	56,945
Non-trading derivative assets	--	7,926
Other	87,821	46,484
Total other assets	2,016,718	1,886,010
TOTAL ASSETS	$ 6,575,765	$ 6,211,914

See Notes to RERC's Interim Financial Statements

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF RELIANT ENERGY, INCORPORATED)

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS) -- (CONTINUED)
(UNAUDITED)

LIABILITIES AND STOCKHOLDER'S EQUITY

	DECEMBER 31, 2000	MARCH 31, 2001
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 146,252	$ 120,238
Short-term borrowings	635,000	350,000
Accounts payable	704,524	403,344
Accounts and notes payable - affiliated companies, net	134,707	174,272
Interest accrued	35,725	33,686
Taxes accrued	69,877	136,601
Customer deposits	33,357	32,970
Non-trading derivative liabilities	--	7,392
Other	96,375	75,485
Total current liabilities	1,855,817	1,333,988
OTHER LIABILITIES:		
Accumulated deferred income taxes	583,857	557,140
Benefit obligations	175,144	181,921
Non-trading derivative liabilities	--	1,947
Notes payable - affiliated companies, net	21,718	27,302
Other	144,853	133,686
Total other liabilities	925,572	901,996
LONG-TERM DEBT	1,392,798	1,940,363
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 10)		
RERC OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF RERC	608	601
STOCKHOLDER'S EQUITY:		
Common stock	1	1
Paid-in capital	2,410,716	2,014,043
Retained earnings	--	14,950
Accumulated other comprehensive (loss) income	(9,747)	5,972
Total stockholder's equity	2,400,970	2,034,966
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 6,575,765	$ 6,211,914

See Notes to RERC's Interim Financial Statements

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES
(A WHOLLY OWNED SUBSIDIARY OF RELIANT ENERGY, INCORPORATED)
STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 55,136	$ 80,357
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,107	51,221
Deferred income taxes	9,673	(2,550)
Net cash used in discontinued operations	(6,283)	--
Impairment of marketable equity securities	22,185	--
Changes in other assets and liabilities:		
Accounts and notes receivable	61,559	164,694
Accounts receivable/payable, affiliates	35,458	(20,677)
Inventory	49,498	63,711
Other current assets	9,090	25,676
Accounts payable	31,717	(301,180)
Interest and taxes accrued	58,119	64,685
Other current liabilities	(19,712)	(21,277)
Net price risk management assets	(18,424)	--
Margin deposits on energy trading activities, net	(20,570)	--
Fuel cost recovery	5,629	71,393
Other, net	(12,985)	(42)
Net cash provided by operating activities	312,197	176,011
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(57,469)	(45,033)
Other, net	10,254	(18,461)
Net cash used in investing activities	(47,215)	(63,494)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	--	(25,000)
Proceeds from long-term debt	--	544,632
Decrease in short-term borrowings, net	(166,384)	(285,000)
(Decrease) increase in notes with affiliates, net	(107,270)	60,612
Dividend	--	(400,000)
Other, net	(2,570)	(1,663)
Net cash used in financing activities	(276,224)	(106,419)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11,242)	6,098
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	80,127	22,576
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 68,885	$ 28,674
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 33,922	$ 39,110
Income taxes	93	57,043

See Notes to RERC's Interim Financial Statements

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

See Note 1 to Reliant Energy's Interim Financial Statements.

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

RERC's Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in RERC's Statements of Consolidated Income are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (a) seasonal variations in energy consumption, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to RERC's presentation of financial statements in the current year. These reclassifications do not affect earnings of RERC. RERC's Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the Reliant Energy Form 10-K and the RERC Corp. Form 10-K for the year ended December 31, 2000.

The following notes to the financial statements in the RERC Corp. Form 10-K relate to certain contingencies. These notes, as updated herein, are incorporated herein by reference:

Notes to Consolidated Financial Statements (RERC Corp. 10-K Notes): Note 2(f) (Regulatory Assets), Note 4 (Derivative Financial Instruments) and Note 9 (Commitments and Contingencies).

For information regarding environmental matters and legal proceedings, see Note 10.

(2) DERIVATIVE FINANCIAL INSTRUMENTS

Effective January 1, 2001, RERC adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended (SFAS No. 133), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement requires that derivatives be recognized at fair value in the balance sheet and that changes in fair value be recognized either currently in earnings or deferred as a component of other comprehensive income, depending on the intended use of the derivative, its resulting designation and its effectiveness. If certain conditions are met, an entity may designate a derivative instrument as hedging (a) the exposure to changes in the fair value of an asset or liability (Fair Value Hedge), (b) the exposure to variability in expected future cash flows (Cash Flow Hedge) or (c) the foreign currency exposure of a net investment in a foreign operation. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs.

Adoption of SFAS No. 133 on January 1, 2001 resulted in a cumulative after-tax decrease in accumulated other comprehensive loss of $38 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by $88 million, $5 million, $53 million and $2 million, respectively, in RERC's Consolidated Balance Sheet. During the three months ended March 31, 2001, $20 million of the initial transition adjustment recognized in other comprehensive income was realized in net income.

The application of SFAS No. 133 is still evolving and further guidance from the Financial Accounting Standards Board (FASB) is expected. The FASB released tentative guidance in April 2001 on three issues that impact our industry. The FASB concluded in its tentative guidance that contracts subject to "bookouts," a scheduling convenience used when two utilities have offsetting transactions, cannot qualify for the normal purchases and sales exception. The FASB also released tentative guidance that will prohibit option contracts on electricity to qualify for the normal purchases and normal sales exception. Lastly, the FASB issued tentative guidance that

forward contracts containing optionality features which modify the quantity delivered cannot qualify for the normal purchases and sales exception. The tentative guidance issued by the FASB is subject to a comment period which ends on June 1, 2001. If the tentative guidance is unchanged, RERC is required to adopt this guidance as of July 1, 2001. RERC is in the process of determining the effect of adoption.

RERC is exposed to various market risks. These risks are inherent in RERC's financial statements and arise from transactions entered into in the normal course of business. RERC utilizes derivative financial instruments to mitigate the impact of changes in natural gas and natural gas transportation prices on its operating results and cash flows. RERC utilizes other financial instruments to manage various other market risks.

Cash Flow Hedges. To reduce the risk from market fluctuations in revenues and the resulting cash flows derived from the sale of natural gas and related transportation, RERC enters into futures transactions, forward contracts, swaps and options (Energy Derivatives) in order to hedge some expected purchases of natural gas and other commodities and sales of natural gas (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements and to protect natural gas distribution earnings and cash flows against unseasonably warm weather during peak gas heating months, although usage to date for this purpose has not been material. The Energy Derivative portfolios are managed to complement the physical transaction portfolio, reducing overall risks within management-prescribed limits.

RERC applies hedge accounting for its derivative financial instruments utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being hedged. This correlation, a measure of hedge effectiveness, is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied. During the three months ended March 31, 2001, the amount of hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as cash flow hedges was immaterial. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, RERC realizes in net income the deferred gains and losses recognized in accumulated other comprehensive loss. During the three months ended March 31, 2001, there were no deferred gains or losses recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive loss is reclassified to net income and included in RERC's Statements of Consolidated Income under the captions (a) fuel expenses, in the case of natural gas transactions and (b) revenues, in the case of natural gas and transportation sales transactions. Cash flows resulting from these transactions in Energy Derivatives are included in RERC's Statements of Consolidated Cash Flows in the same category as the item being hedged. As of March 31, 2001, current non-trading derivative assets and current non-trading derivative liabilities and corresponding amounts in accumulated other comprehensive loss are expected to be recognized into net income during the next twelve months.

The maximum length of time RERC is hedging its exposure to the variability in future cash flows for forecasted transactions is five years.

(3) RELIANT ENERGY'S SEPARATION PLAN

In 2000, Reliant Energy announced its intention to divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. In August 2000, Reliant Energy formed Reliant Resources to own and operate a substantial portion of Reliant Energy's unregulated operations and to offer no more than 20% of Reliant Resources' common stock in an initial public offering. Reliant Resources completed its initial public offering of 59.8 million shares of its common stock in May 2001. Reliant Energy expects to distribute the remaining common stock of Reliant Resources it owns to Reliant Energy's or its successor's shareholders within twelve months after the completion of Reliant Resources' initial public offering.

On December 31, 2000, RERC Corp. transferred all of the outstanding stock of Reliant Energy Services International, Inc. (RESI), Arkla Finance Corporation (Arkla Finance) and Reliant Energy Europe Trading & Marketing, Inc. (RE Europe Trading), all wholly owned subsidiaries of RERC Corp., to Reliant Resources (collectively, the Stock Transfer). Both RERC Corp. and Reliant Resources are subsidiaries of Reliant Energy. As

a result of the Stock Transfer, RESI, Arkla Finance and RE Europe Trading each became a wholly owned subsidiary of Reliant Resources.

Also, on December 31, 2000, a wholly owned subsidiary of Reliant Resources merged with and into Reliant Energy Services, Inc. (Reliant Energy Services), a wholly owned subsidiary of RERC Corp., with Reliant Energy Services as the surviving corporation (Merger). As a result of the Merger, Reliant Energy Services became a wholly owned subsidiary of Reliant Resources. As consideration for the Merger, Reliant Resources paid $94 million to RERC Corp.

Prior to January 1, 2001, Reliant Energy Services, RESI and RE Europe Trading, conducted the trading, marketing, power origination and risk management business and operations of RERC. Arkla Finance is a company that holds an investment in marketable equity securities. The Stock Transfer and the Merger are part of Reliant Energy's previously announced restructuring.

RERC is reporting the results of RE Europe Trading as discontinued operations for all periods presented in RERC's Interim Financial Statements in accordance with Accounting Principles Board Opinion No. 30 (APB No. 30).

(4) DISCONTINUED OPERATIONS

As discussed in Note 3, on December 31, 2000, RERC transferred all of the outstanding stock of RE Europe Trading to Reliant Resources. As a result of the transfer, RERC is reporting the results of RE Europe Trading as discontinued operations for all periods presented in RERC's Interim Financial Statements in accordance with APB No. 30. Below is a table of the operating results of RE Europe Trading for the three months ended March 31, 2000.

	THREE MONTHS ENDED MARCH 31, 2000
	(IN MILLIONS)
Revenues	$ 1
Operating expenses	5
Operating loss	(4)
Net loss	(4)

In addition to RE Europe Trading, RERC transferred its interests in RESI, Arkla Finance and Reliant Energy Services to Reliant Resources as described in Note 3. The transfer of these operations did not result in the disposal of a segment of business as defined under APB No. 30. Revenues and net income for these operations were $2 billion and $4 million, respectively, for the three months ended March 31, 2000.

(5) DEPRECIATION AND AMORTIZATION

RERC's depreciation expense for the first quarter of 2000 was $37 million, compared to $36 million for the same period in 2001. Amortization expense, primarily relating to goodwill amortization, was $15 million for the first quarter of 2000 and 2001.

(6) LONG-TERM DEBT

In February 2001, RERC Corp. issued $550 million aggregate principal amount of unsecured unsubordinated notes that bear interest at 7.75% per year and mature in February 2011. Net proceeds to RERC Corp. were $545 million. RERC Corp. used the net proceeds from the sale of the notes to pay a $400 million dividend to Reliant Energy and for general corporate purposes.

(7) RERC OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF RERC -- see Note 10 to Reliant Energy's Interim Financial Statements.

(8) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income.

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Net income	$ 55	$ 80
Other comprehensive income:		
Additional minimum non-qualified pension liability adjustment	--	1
Cumulative effect of adoption of SFAS No. 133	--	38
Net deferred loss from cash flow hedges	--	(3)
Plus: Reclassification of deferred gain on derivatives realized in net income	--	(20)
Unrealized gain on available-for-sale securities	1	--
Plus: Reclassification adjustment for impairment loss on available-for-sale securities realized in net income	14	--
Comprehensive income	$ 70	$ 96

(9) RELATED PARTY TRANSACTIONS

From time to time, RERC has advanced or borrowed monies to/from Reliant Energy or it's subsidiaries. As of December 31, 2000 and March 31, 2001, RERC had net borrowings, included in accounts and notes payable-affiliated companies, totaling $81 million and $147 million, respectively. Net interest expense on these borrowings for the three months ended March 31, 2000, was immaterial. For the three months ended March 31, 2001, RERC had net interest income of $2 million.

In 2000, Reliant Energy Services supplied natural gas to, purchased electricity for resale from, and provided marketing and risk management services to, unregulated power plants in deregulated markets acquired or operated by Reliant Energy Power Generation, Inc., an indirect subsidiary of Reliant Energy, or its subsidiaries. In 2001, RERC supplies natural gas to Reliant Energy Services, now a subsidiary of Reliant Resources (see Note 3). For the three months ended March 31, 2000 and 2001, the sales and services to Reliant Energy and its affiliates totaled $44 million and $79 million, respectively. Purchases from Reliant Energy and its affiliates were $29 million and $302 million for the three months ended March 31, 2000 and 2001, respectively.

Reliant Energy provides some corporate services to RERC, including various corporate support services (including accounting, finance, investor relations, planning, legal, communications, governmental and regulatory affairs and human resources), information technology services and other shared services such as corporate security, facilities management, accounts receivable, accounts payable and payroll, office support services and purchasing and logistics. The costs of services have been directly charged or allocated to RERC using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment, and proportionate corporate formulas based on assets, operating expenses and employees. These charges and allocations are not necessarily indicative of what would have been incurred had RERC been a separate entity. Amounts charged and allocated to RERC for these services were $6 million and $7 million for the three months ended March 31, 2000 and 2001, respectively, and are included primarily in operation and maintenance expenses.

As of December 31, 2000 and March 31, 2001, net accounts payable to Reliant Energy and its subsidiaries, which are not owned by RERC, was $75 million and $55 million, respectively.

(10) ENVIRONMENTAL MATTERS AND LEGAL PROCEEDINGS

(a) Environmental Matters.

Manufactured Gas Plant Sites. RERC and its predecessors operated a manufactured gas plant (MGP) adjacent to the Mississippi River in Minnesota formerly known as Minneapolis Gas Works (MGW) until 1960. RERC has substantially completed remediation of the main site other than ongoing water monitoring and treatment. The manufactured gas was stored in separate holders. RERC is negotiating cleanup of one such holder. There are six

other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, RERC believes that two were neither owned nor operated by RERC. RERC believes it has no liability with respect to the sites it neither owned nor operated.

At March 31, 2001, RERC had accrued $19 million for remediation of the Minnesota sites. At March 31, 2001, the estimated range of possible remediation costs was $8 million to $36 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. RERC has received notices from the United States Environmental Protection Agency and others regarding its status as a potentially responsible party (PRP) for other sites. Based on current information, RERC has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Other Minnesota Matters. At March 31, 2001, RERC had recorded accruals of $4 million (with a maximum estimated exposure for these accruals of approximately $17 million at March 31, 2001), for other environmental matters in Minnesota for which remediation may be required.

Mercury Contamination. RERC's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by RERC at some sites in the past, and RERC has conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by RERC and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, RERC believes that the costs of any remediation of these sites will not be material to RERC's financial position, results of operations or cash flows.

Potentially Responsible Party Notifications. From time to time RERC has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Considering the information currently known about such sites and the involvement of RERC in activities at these sites, RERC does not believe that these matters will have a material adverse effect on RERC's financial position, results of operations or cash flows.

(b) Other Legal Matters.

California Wholesale Market. Reliant Energy, Reliant Energy Services, Reliant Energy Power Generation, Inc. and several other indirect subsidiaries of Reliant Energy have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. RERC Corp. has also been named as a defendant in one of the lawsuits. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(b) to Reliant Energy 10-K Notes), Reliant Resources has agreed to indemnify Reliant Energy and RERC Corp. for any damages arising under these lawsuits, and may elect to defend these lawsuits at its own expense. Three of these lawsuits were filed in the Superior Court of the State of California, San Diego County; two were filed in the Superior Court in San Francisco County; one was filed in the Superior Court in Los Angeles County. While the plaintiffs allege various violations by the defendants of state antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity, costs of suit and attorneys' fees. In one of the cases, the plaintiffs allege aggregate damages of over $4 billion. Defendants have filed petitions to remove some of these cases to federal court. Furthermore, defendants have filed a motion with the Panel on Multidistrict Litigation seeking transfer and consolidation of some of these cases. Defendants seek consolidation and transfer of these cases to a jurisdiction outside California, noting that the federal judges in California are potentially disqualified because they are ratepayers. The judges assigned to the cases in San Diego and San Francisco have recused themselves on these grounds. These lawsuits have only recently been filed.

Therefore, the ultimate outcome of the lawsuits cannot be predicted with any degree of certainty at this time. However, RERC believes, based on its analysis to date of the claims asserted in these lawsuits and the underlying facts, that resolution of these lawsuits will not have a material adverse effect on the RERC's financial condition, results of operations or cash flows.

Other. RERC is a party to litigation (other than that specifically noted) which arises in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that the effects, if any, from the disposition of these matters will not have a material adverse effect on RERC's financial position, results of operations or cash flows.

(11) TRANSFER OF BENEFIT ASSETS AND LIABILITIES

During the three months ended March 31, 2001, RERC Corp. had net distributions to Reliant Energy related to benefit assets and obligations, net of deferred taxes, of $62 million.

(12) REPORTABLE SEGMENTS

Because RERC Corp. is a wholly owned subsidiary of Reliant Energy, RERC's determination of reportable segments considers the strategic operating units under which Reliant Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. Segment financial data includes information for Reliant Energy and RERC on a combined basis, except for Reliant Energy segments which have no RERC operations in the applicable period. Reconciling items included under the caption "Elimination of Non-RERC Operations" reduce the consolidated Reliant Energy amounts by those operations not conducted within the RERC legal entity. Operations not owned or operated by RERC, but included in segment information before elimination include primarily the operations and assets of Reliant Energy's non-rate regulated power generation business in 2000 and Reliant Energy's investment in AOL Time Warner securities, retail electric start-up business and non-RERC corporate expenses in 2000 and 2001.

Reliant Energy has identified the following reportable segments in which RERC has operations: Wholesale Energy, Natural Gas Distribution, Pipelines and Gathering and Other Operations. For descriptions of the financial reporting segments, see Note 12 to RERC Corp. 10-K Notes. The following table summarizes financial data for the business segments:

	FOR THE THREE MONTHS ENDED MARCH 31, 2000			AS OF DECEMBER 31, 2000
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES (EXPENSES)	OPERATING INCOME	TOTAL ASSETS
	(IN MILLIONS)			
Wholesale Energy	$ 2,014	$ 142	$ (22)	$ 11,172
Natural Gas Distribution	1,044	7	105	4,509
Pipelines and Gathering	47	43	32	2,358
Other Operations	11	4	(9)	2,296
Reconciling Elimination	--	(196)	--	(1,665)
Elimination of Non-RERC Operations	(17)	--	49	(12,094)
Consolidated	$ 3,099	$ --	$ 155	$ 6,576

	FOR THE THREE MONTHS ENDED MARCH 31, 2001			AS OF MARCH 31, 2001
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES (EXPENSES)	OPERATING INCOME	TOTAL ASSETS
	(IN MILLIONS)			
Natural Gas Distribution	$ 2,269	$ 54	$ 135	$ 4,089
Pipelines and Gathering	75	55	39	2,302
Other Operations	18	13	(134)	2,342
Reconciling Elimination	--	(122)	--	(1,301)
Elimination of Non-RERC Operations	61	--	134	(1,220)
Consolidated	$ 2,423	$ --	$ 174	$ 6,212

(13) SUBSEQUENT EVENT

In May 2001, Reliant Energy made a $236 million capital contribution to RERC Corp. and RERC Corp. subsequently advanced the $236 million to a financing subsidiary of Reliant Energy which is not a subsidiary of RERC.

MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF RERC CORP. AND SUBSIDIARIES

The following narrative analysis should be read in combination with RERC Corp.'s Interim Financial Statements and notes contained in this Form 10-Q.

RERC Corp. meets the conditions specified in General Instruction H(1)(a) and (b) to Form 10-Q and is therefore permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, RERC Corp. has omitted from this report the information called for by Item 3 (Quantitative and Qualitative Disclosures About Market Risk) of Part I and the following Part II items of Form 10-Q: Item 2 (Changes in Securities and Use of Proceeds), Item 3 (Defaults Upon Senior Securities) and Item 4 (Submission of Matters to a Vote of Security Holders). The following discussion explains material changes in the amount of revenue and expense items of RERC between the first quarter of 2001 and the first quarter of 2000. Reference is made to Management's Narrative Analysis of the Results of Operations in Item 7 of the RERC Corp. Form 10-K and the RERC Corp. 10-K Notes referred to herein.

On July 27, 2000, Reliant Energy announced its intention to form Reliant Resources to own and operate a substantial portion of Reliant Energy's unregulated operations, and to offer no more than 20% of the common stock of Reliant Resources in an initial public offering (Offering) in connection with the Company's business separation plan. In May 2001, Reliant Resources completed its initial public offering of 59.8 million shares of its common stock and received net proceeds of $1.7 billion. Reliant Energy expects the Offering to be followed by a distribution of the remaining common stock of Reliant Resources owned by Reliant Energy to Reliant Energy's or its successor's stockholders within 12 months of the Offering (Distribution).

As part of the separation, our parent company, Reliant Energy will undergo a restructuring of its corporate organization to achieve a new holding company structure. The new holding company will hold our regulated businesses. In connection with the formation of the new holding company, Reliant Energy will seek an exemption from the registration requirements of the 1935 Act or, if no exemption is available, the new holding company will register as a public utility holding company under the 1935 Act. The restructuring will require approval of the Securities and Exchange Commission, certain of the affected state commissions and the Nuclear Regulatory Commission.

The Distribution is subject to further corporate approvals, market and other conditions, and government actions, including receipt of a favorable Internal Revenue Service ruling that the Distribution would be tax-free to Reliant Energy or its successor and its shareholders for U.S. federal income tax purposes, as applicable. There can be no assurance that the Distribution will be completed as described or within the time periods outlined above.

On December 31, 2000, RERC Corp. transferred all of the outstanding stock of RESI, Arkla Finance and RE Europe Trading, all wholly owned subsidiaries of RERC Corp., to Reliant Resources (Stock Transfer). Both RERC Corp. and Reliant Resources are subsidiaries of Reliant Energy. As a result of the Stock Transfer, RESI, Arkla Finance and RE Europe Trading each became a wholly owned subsidiary of Reliant Resources.

Also, on December 31, 2000, a wholly owned subsidiary of Reliant Resources merged with and into Reliant Energy Services, a wholly owned subsidiary of RERC Corp., with Reliant Energy Services as the surviving corporation (Merger). As a result of the Merger, Reliant Energy Services became a wholly owned subsidiary of Reliant Resources. As consideration of the Merger, Reliant Resources paid $94 million to RERC Corp.

Reliant Energy Services, together with RESI and RE Europe Trading, conduct the trading, marketing, power origination and risk management business and operations of Reliant Energy. Arkla Finance is a company that held an investment in marketable equity securities.

The Stock Transfer and the Merger are part of Reliant Energy's previously announced restructuring.

RERC is reporting the results of RE Europe Trading as discontinued operations for all periods presented in the consolidated financial statements in accordance with APB No. 30.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
	2000	2001
	(IN MILLIONS)	
Operating Revenues	$ 3,099	$ 2,423
Operating Expenses	(2,944)	(2,249)
Operating Income, net	155	174
Interest Expense	(32)	(38)
Other (Expense) Income, net	(17)	3
Income Tax Expense	(47)	(59)
Income From Continuing Operations	59	80
Loss From Discontinued Operations, net of tax	(4)	--
Net Income	$ 55	$ 80

For the first quarter 2001, RERC's net income was $80 million compared to net income of $55 million for the same period in 2000. The $25 million increase was primarily due to:

- an increase in operating income of the Natural Gas Distribution segment primarily due to improved margins from the effect of cooler weather, partially offset by increased operating costs related to information system-related costs and employee benefit expenses;
- an increase in operating margins (revenues less natural gas costs) from the pipelines and gathering businesses;
- an after-tax impairment loss of $14 million on marketable equity securities classified as "available-for-sale" incurred during the three months ended March 31, 2000 by the Other Operations segment;
- an increase in third-party interest expense primarily resulting from higher levels of long-term debt during the three months ended March 31, 2001 compared to the same period in 2000; and
- start-up costs of the RE Europe Trading operations in 2000 included in loss from discontinued operations.

During the three months ended March 31, 2000, RERC incurred a pre-tax impairment loss of $22 million on marketable equity securities classified as "available-for-sale" by its Other Operations segment. Management's determination to recognize this impairment resulted from a combination of events occurring in 2000 related to this investment. For additional information regarding this impairment loss, see Note 2(l) to RERC Corp. 10-K Notes. This investment is held by Arkla Finance which was transferred to Reliant Resources effective December 31, 2000.

RERC's operating revenues for three months ended March 31, 2001 were $2.4 billion compared to $3.1 billion for the same period in 2000. The $676 million, or 22%, decrease was primarily due the transfer of Reliant Energy Services to Reliant Resources pursuant to the Merger discussed above. This decrease was partially offset by an increase in revenues related to the Natural Gas Distribution and Pipelines and Gathering segments resulting from an increase in the costs of natural gas and to a lesser extent the effect of cooler weather on the operations of the Natural Gas Distribution segment.

RERC's operating expenses for the three months ended March 31, 2001 were $2.2 billion compared to $2.9 billion for the same period in 2000. The $695 million, or 24%, decrease was primarily due to the same reasons for the decreases in revenues discussed above.

RERC's effective tax rate in first quarter of 2000 was 44% compared to 42% in the same period in 2001.

RERC is reporting the results of RE Europe Trading as discontinued operations for all periods presented in RERC's consolidated financial statements in accordance with APB No. 30. For additional information regarding the operating results of the other entities transferred to Reliant Resources, please read Note 13 to RERC Corp. 10-K Notes and Notes 3 and 4 to RERC's Interim Financial Statements.

Seasonality and Other Factors. RERC's results of operations are affected by seasonal fluctuations in the demand for and, to a lesser extent, the price of natural gas. RERC's results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates charged by RERC, competition in RERC's various business operations, debt service costs and income tax expense.

For a discussion of certain other factors that may affect RERC's future earnings please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Competitive and Other Factors Affecting RERC Operations" "--Environmental Expenditures" and "-- Other Contingencies " in the Reliant Energy Form 10-K.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Reliant Energy:

For a description of legal proceedings affecting Reliant Energy, please review Note 11 to Reliant Energy Interim Financial Statements, Item 3 of the Reliant Energy Form 10-K and Notes 4 and 14 to Reliant Energy 10-K Notes, all of which are incorporated herein by reference.

RERC:

For a description of legal proceedings affecting RERC, please review Note 10 to RERC's Interim Financial Statements, Item 3 of the RERC Corp. Form 10-K and Note 11 to RERC Corp. 10-K Notes, which are incorporated herein by reference.

ITEM 5. OTHER INFORMATION.

Forward-Looking Statements. From time to time, Reliant Energy and RERC Corp. make statements concerning their respective expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although Reliant Energy and RERC Corp. believe that the expectations and the underlying assumptions reflected in their respective forward-looking statements are reasonable, they cannot assure you that these expectations will prove to be correct. Forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements.

The following are some of the factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements:

- state, federal and international legislative and regulatory developments, including deregulation; re-regulation and restructuring of the electric utility industry; and changes in, or application of environmental and other laws and regulations to which we are subject,
- the timing of the implementation of our business separation plan,
- the effects of competition, including the extent and timing of the entry of additional competitors in our markets,
- industrial, commercial and residential growth in our service territories,
- our pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities,
- state, federal and other rate regulations in the United States and in foreign countries in which we operate or into which we might expand our operations,
- the timing and extent of changes in commodity prices and interest rates,
- weather variations and other natural phenomena,
- political, legal and economic conditions and developments in the United States and in foreign countries in which we operate or into which we might expand our operations, including the effects of fluctuations in foreign currency exchange rates,
- financial market conditions and the results of our financing efforts,
- the performance of our projects, and

- other factors we discuss in this and other filings by Reliant Energy and RERC Corp. with the Securities and Exchange Commission.

When used in Reliant Energy's or RERC Corp.'s documents or oral presentations, the words "anticipate," "estimate," "believe," "continue," "could," "intend," "may," "plan," "potential," "predict," "should," "will," "expect," "objective," "projection," "forecast," "goal" and similar words are intended to identify forward-looking statements.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits.

Reliant Energy:

Exhibit 10.1	Master Separation Agreement entered into as of December 31, 2000 between Reliant Energy, Incorporated and Reliant Resources, Inc.
Exhibit 10.2	Transition Services Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.
Exhibit 10.3	Technical Services Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.
Exhibit 10.4	Texas Genco Option Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.
Exhibit 10.5	Employee Matters Agreement, entered into as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.
Exhibit 10.6	Retail Agreement, entered into as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.
Exhibit 10.7	Registration Rights Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.
Exhibit 10.8	Tax Allocation Agreement, entered into as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.
Exhibit 12	Ratio of Earnings to Fixed Charges.
Exhibit 99	Items incorporated by reference from the Reliant Energy Form 10-K: Item 3 "Legal Proceedings," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Our Future Earnings" and Notes 2(f) (Regulatory Assets), 3 (Business Acquisitions), 4 (Regulatory Matters), 5 (Derivative Financial Instruments), 8 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities), 14 (Commitments and Contingencies) and 20 (Subsequent Events) of the Reliant Energy 10-K Notes.

RERC:

Exhibit 12	Ratio of Earnings to Fixed Charges.
Exhibit 99	Items incorporated by reference from the Reliant Energy Form 10-K: Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Our Future Earnings." Items incorporated by reference from the RERC Corp. Form 10-K: Item 3 "Legal Proceedings," Item 7 "Management's Narrative Analysis of the Results of Operations of RERC and its Consolidated Subsidiaries" and

Notes 2(f) (Regulatory Assets), 4 (Derivative Financial Instruments) and 9 (Commitments and Contingencies) of the RERC Corp. 10-K Notes.

(b) Reports on Form 8-K.

Reliant Energy:

On January 26, 2001, a report on Form 8-K was filed reporting on the Company's earnings for the year 2000.

On April 16, 2001, a report on Form 8-K was filed reporting on Reliant Energy's first quarter earnings.

RERC:

On January 26, 2001, a report on Form 8-K was filed reporting on the Company's earnings for the year 2000.

On April 16, 2001, a report on Form 8-K was filed reporting on RERC's first quarter earnings.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RELIANT ENERGY, INCORPORATED
(Registrant)

By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Senior Vice President and Chief Accounting Officer

Date: May 14, 2001

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RELIANT ENERGY RESOURCES CORP.
(Registrant)

By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Senior Vice President

Date: May 14, 2001

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
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EXHIBIT 10.1

MASTER SEPARATION AGREEMENT

BETWEEN

RELIANT ENERGY, INCORPORATED

AND

RELIANT RESOURCES, INC.

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MASTER SEPARATION AGREEMENT

THIS MASTER SEPARATION AGREEMENT (this "Agreement") is entered into as of December 31, 2000, between Reliant Energy, Incorporated, a Texas corporation ("REI"), and Reliant Resources, Inc., a Delaware corporation ("Resources"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in Article I hereof.

RECITALS

WHEREAS, Resources is a wholly owned subsidiary of REI; and

WHEREAS, the Board of Directors of REI has determined that it would be appropriate and desirable for REI to separate the Resources Group from the REI Group, and, in that connection, for Resources or its Subsidiaries to acquire certain entities currently associated with the Resources Business and certain other assets from REI or its Subsidiaries and to assume related liabilities; and

WHEREAS, the Board of Directors of Resources has also approved such transactions; and

WHEREAS, REI and Resources currently contemplate that Resources will make an initial public offering ("IPO") of an amount of its common stock pursuant to a registration statement on Form S-1 filed pursuant to the Securities Act of 1933, as amended, that will reduce REI's ownership of Resources by less than 20%; and

WHEREAS, REI currently contemplates that, following the IPO, REI's successor holding company will distribute to the holders of its common stock, by means of a pro rata distribution, all of the shares of Resources common stock it then owns (the "Distribution"); and

WHEREAS, REI and Resources intend that the Distribution will qualify as a tax-free distribution under Section 355 of the Internal Revenue Code of 1986, as amended (the "Code"), and that this Agreement is intended to be, and is hereby adopted as, a plan of reorganization under Section 368 of the Code; and

WHEREAS, the parties intend in this Agreement, including the Exhibits and Schedules hereto, to set forth the principal arrangements between them regarding the separation of the Resources Group from the REI Group, the IPO, and the Distribution.

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

1.1 ACTION. "Action" means any demand, action, suit, countersuit, arbitration, inquiry, proceeding or investigation by or before any federal, state, local, foreign or international Governmental Authority or any arbitration or mediation tribunal.

1.2 AFFILIATES. An "Affiliate" of any Person means another Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. For this purpose "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of the Person controlled, whether through ownership of voting securities, by contract or otherwise. The fact that any Person may be deemed at any time an Affiliate of another Person for purposes of the Utilities Code shall not create any implication that such Persons are "affiliates" for purposes of this Agreement. Notwithstanding anything herein to the contrary, no member of the Resources Group shall be deemed an Affiliate of any member of the REI Group and no member of the REI Group shall be deemed an Affiliate of any member of the Resources Group.

1.3 ANCILLARY AGREEMENTS. "Ancillary Agreements" has the meaning set forth in Section 2.5.

1.4 BUSINESS DAY. "Business Day" means a day other than a Saturday, a Sunday or a day on which banking institutions located in the State of Texas are authorized or obligated by law or executive order to close.

1.5 BUSINESS SEPARATION PLAN. "Business Separation Plan" means the Business Separation Plan, as amended, filed by REI with the PUCT in accordance with Section 39.051 of the Utilities Code and approved by the PUCT at its open meeting on December 1, 2000 (Docket No. 21956).

1.6 CHOICE DATE. "Choice Date" shall mean January 1, 2002, or such other date as may be fixed by the PUCT for the commencement of customer retail electric choice in the area served by REI's retail electric business.

1.7 CODE. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.8 COMMISSION. "Commission" means the Securities and Exchange Commission.

1.9 CUSTOMER CARE LLC. "Customer Care LLC" means Reliant Energy Customer Care Services LLC, a Delaware limited liability company all of the membership interests in which are owned by Retail Holdings LLC.

1.10 DISTRIBUTION. The "Distribution" has the meaning set forth in the Recitals hereof.

1.11 DISTRIBUTION AGENT. "Distribution Agent" has the meaning set forth in Section 7.1.

1.12 DISTRIBUTION DATE. "Distribution Date" has the meaning set forth in Section 7.1.

1.13 EXCHANGE ACT. "Exchange Act" means the Securities Exchange Act of 1934, as amended.

1.14 FINAL ORDER. Unless the context requires otherwise, "Final Order," "Order," "Injunction," "Decree," "Legal Restraint," "Prohibition," "Writ" or other words of similar import shall mean final adjudication by a court or regulatory agency that is no longer subject to rehearing or appeal.

1.15 GENCO ASSETS. "Genco Assets" means all of the generation assets (as that term is defined in Section 39.251(3) of the Utilities Code) of the Reliant Energy HL&P Division of REI. The Genco Assets shall include, without limitation, the generation plants and other assets set forth in Schedule 1.15 and contract and permit rights associated with those generation plants. The methodology for determining the demarcation between Genco Assets and transmission and distribution assets is set forth in Section D of the Business Separation Plan.

1.16 GENCO BUSINESS. "Genco Business" shall mean the electric generation business and operations conducted with the Genco Assets.

1.17 GENCO; GENCO INC. "Genco Inc." means the corporation to which the membership interests in Genco GP LLC and Genco LP LLC will be contributed as provided in Section 8.4. Genco means Genco Inc. or Genco LP, as the context may require.

1.18 GENCO LIABILITIES. "Genco Liabilities" shall mean (without duplication)

(i) any and all Liabilities under contracts for the purchase of fuel, equipment or other goods and services for use in the Genco Business;

(ii) any and all Liabilities that are expressly contemplated by this Agreement or any Ancillary Agreement as Liabilities to be assumed by Genco LP, including Liabilities under the Technical Services Agreement and the contracts, agreements and permits included in the Genco Assets;

(iii) all Liabilities (other than Taxes based on, or measured by reference to, net income), primarily relating to, arising out of, or resulting from:

(A) the operation of the Genco Business, as conducted at any time prior to, on or after, the Genco Organization Date (including any Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person's authority));

(B) the operation of any business conducted by Genco at any time after the Genco Organization Date (including any Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person's authority)); or

(C) the ownership or use of the Genco Assets.

1.19 GENCO LP. "Genco LP" means a yet-to-be formed limited partnership, being the limited partnership to which the Genco Assets will be transferred as provided in Section 8.1.

1.20 GENCO OPTION. "Genco Option" means the "Option" as defined in the Genco Option Agreement.

1.21 GENCO OPTION AGREEMENT. "Genco Option Agreement" means the Texas Genco Option Agreement dated as of December 31, 2000 between REI and Resources.

1.22 GENCO ORGANIZATION DATE. "Genco Organization Date" means the date on which the Genco Assets are contributed to Genco LP as provided in Section 8.1.

1.23 GENCO PUBLIC OWNERSHIP EVENT. "Genco Public Ownership Event" has the meaning assigned to that term in the Genco Option Agreement.

1.24 GOVERNMENTAL APPROVALS. "Governmental Approvals" means any notices, reports or other filings to be made, or any consents, registrations, approvals, permits or authorizations to be obtained from, any Governmental Authority.

1.25 GOVERNMENTAL AUTHORITY. "Governmental Authority" shall mean any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority.

1.26 GROUP. "Group" means either of the REI Group or the Resources Group, as the context requires.

1.27 HOLDING COMPANY RESTRUCTURING. "Holding Company Restructuring" means the corporate restructuring consisting of the transactions set forth in Section 6.2, as such transactions may be modified at the election of REI as contemplated by Section 6.5.

1.28 INDEBTEDNESS. "Indebtedness" of any Person means, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any mortgage, lien, pledge, or other encumbrance on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all guarantees by such Person of Indebtedness of others, (h) all capital lease obligations of such Person, and (i) all securities or other similar instruments convertible or exchangeable into any of the foregoing, but excluding daily cash overdrafts associated with routine cash operations.

1.29 INDEMNIFYING PARTY. "Indemnifying Party" has the meaning set forth in Section 3.4(a).

1.30 INDEMNITEE. "Indemnitee" shall have the meaning set forth in Section 3.4(a).

1.31 INFORMATION. "Information" means information, whether or not patentable or copyrightable, in written, oral, electronic or other tangible or intangible forms, stored in any medium, including studies, reports, records, books, contracts, instruments, surveys, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, computer data, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names, communications by or to attorneys (including attorney-client privileged communications), memos and other materials prepared by attorneys or under their direction (including attorney work product), and other technical, financial, employee or business information or data.

1.32 INSURANCE PROCEEDS. "Insurance Proceeds" means those monies:

(a) received by an insured from an insurance carrier; or

(b) paid by an insurance carrier on behalf of the insured;

in any such case net of any applicable premium adjustments (including reserves and retrospectively rated premium adjustments) and net of any costs or expenses (including allocated costs of in-house counsel and other personnel) incurred in the collection thereof.

1.33 IPO. "IPO" has the meaning set forth in the Recitals hereof.

1.34 IPO CLOSING DATE. "IPO Closing Date" means the first date on which the proceeds of any sale of Resources Common Stock to the underwriters in the IPO are received.

1.35 IPO PROSPECTUS. "IPO Prospectus" means the prospectus included in the IPO Registration Statement, including any prospectus subject to completion, final prospectus or any supplement to or amendment of any of the foregoing.

1.36 IPO REGISTRATION STATEMENT. "IPO Registration Statement" means the Registration Statement on Form S-1 (Registration No. 333-48038) of Resources filed with the Commission pursuant to the Securities Act of 1933, as amended, registering the shares of Resources Common Stock to be issued in the IPO, together with all amendments thereto.

1.37 LIABILITIES. "Liabilities" shall mean any and all Indebtedness, liabilities and obligations, whether accrued, fixed or contingent, mature or inchoate, known or unknown, reflected on a balance sheet or otherwise, including, but not limited to, those arising under any law, rule, regulation, Action, order, injunction or consent decree of any Governmental Authority or any judgment of any court of any kind or any award of any arbitrator of any kind, and those arising under any contract, commitment or undertaking.

1.38 LOSSES. "Losses" shall mean any and all damages, losses, deficiencies, Liabilities, obligations, penalties, judgments, settlements, claims, payments, fines, interest costs and expenses (including, without limitation, the costs and expenses of any and all Actions and demands, assessments, judgments, settlements and compromises relating thereto and the costs and expenses of attorneys', accountants', consultants' and other professionals' fees and expenses

incurred in the investigation or defense thereof or the enforcement of rights hereunder), including direct and consequential damages, but excluding punitive damages (other than punitive damages awarded to any third party against an Indemnified Party).

1.39 MORTGAGE. "Mortgage" means the Mortgage and Deed of Trust dated November 1, 1944 between Houston Lighting & Power Company and The Chase Manhattan Bank (successor to South Texas Commercial National Bank of Houston) as Trustee, as amended and supplemented.

1.40 MRT ENERGY MARKETING ASSETS AND LIABILITIES. "MRT Energy Marketing Assets" shall mean the assets identified or described in Schedule 1.40 and "MRT Energy Marketing Liabilities" shall mean the liabilities identified or described in that Schedule.

1.41 NYSE. "NYSE" means the New York Stock Exchange.

1.42 PERSON. "Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

1.43 PUCT. "PUCT" means the Public Utility Commission of Texas.

1.44 RECI. "RECI" means Reliant Energy Communications, Inc., a Delaware corporation all of the stock of which is owned by REI.

1.45 RECORD DATE. "Record Date" means the close of business on the date to be determined by the Board of Directors of REI as the record date for determining the shareholders of REI entitled to receive shares of common stock of Resources in the Distribution.

1.46 REGCO. "Regco" means Reliant Energy Regco, Inc., a Texas or Delaware corporation, the corporation organized by REI and, by means of a merger of a wholly owned subsidiary of Regco with and into REI, that will become a holding company for REI's regulated businesses, as described in Section 6.2; provided, however, that if any provision of this Agreement referring to Regco applies at a time when Regco has not become such a holding company, references to Regco in such provision shall be deemed to refer to REI or the ultimate parent entity of REI, as the case may be.

1.47 REGULATED RETAIL ASSETS. "Regulated Retail Assets" shall mean the assets identified or described in Schedule 1.47.

1.48 REGULATED RETAIL BUSINESS. "Regulated Retail Business" shall mean the businesses identified or described in Schedule 1.48.

1.49 REGULATED RETAIL LIABILITIES. "Regulated Retail Liabilities" shall mean (without duplication), any and all Liabilities, whether arising before or after the Separation Date, of REI or its Subsidiaries or any of their predecessor companies or businesses, including any employee-related Liabilities, primarily relating to, arising out of or resulting from the ownership or use of the Regulated Retail Assets or the operations or conduct of the Regulated Retail Business

(including any such Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person's authority)).

1.50 REGULATORY PROCEEDINGS. "Regulatory Proceedings" shall mean filings, notices, adjudicatory proceedings, rulemakings, enforcement actions before an agency or in court relative to regulatory activity, and any other proceedings at or before any regulatory or administrative agency. The term shall also refer to appellate activities relative to any of the foregoing, including actions seeking injunctions, writs of mandamus and appeals.

1.51 REI'S AUDITORS. "REI's Auditors" means REI's independent certified public accountants.

1.52 REI BUSINESS. "REI Business" means any business of REI and its Subsidiaries other than the Resources Business.

1.53 REI GROUP. "REI Group" means REI, each Subsidiary of REI (other than any member of the Resources Group) immediately after the Separation Date, including the Subsidiaries set forth in Schedule 1.53, and each Person that becomes a Subsidiary of REI after the Separation Date. After the Holding Company Restructuring, references to the REI Group shall also include Regco and each Subsidiary of Regco (other than any member of the Resources Group). Notwithstanding anything herein to the contrary, after the closing of the exercise of the Genco Option, the REI Group shall not include Genco Inc. or any Subsidiary of Genco Inc.

1.54 REI INDEMNITEES. "REI Indemnitees" has the meaning assigned to that term in Section 3.2.

1.55 REPG. "REPG" means Reliant Energy Power Generation, Inc. ("REPG"), a Delaware corporation all of the stock of which is owned by REI.

1.56 RERC. "RERC" means Reliant Energy Resources Corp., a Delaware corporation all of the stock of which is owned by REI.

1.57 RES. "RES" means Reliant Energy Services, Inc., a Delaware corporation all of the stock of which is owned by RERC.

1.58 RESOURCES AUDITORS. "Resources Auditors" means Resources' independent certified public accountants.

1.59 RESOURCES BALANCE SHEET. "Resources Balance Sheet" means the combined balance sheet of Resources and affiliates as of September 30, 2000.

1.60 RESOURCES BUSINESS. "Resources Business" means (a) the business and operations conducted by Resources and its Subsidiaries after giving effect to the transactions described in Article II, as described in the caption "Our Business" in the IPO Prospectus, and including without limitation the following assets and operations conducted by REI and its Subsidiaries prior to the Separation:

(i) the non-Reliant Energy HL&P power generation assets and related energy trading, marketing and risk management operations in North America and Europe;

(ii) the retail electric operations; and

(iii) the eBusiness group, the communications business and venture capital operations,

and (b) except as otherwise specifically provided herein, any terminated, divested or discontinued business or operations that at the time of termination, divestiture or discontinuation related primarily to the Resources Business as then conducted.

1.61 RESOURCES COMMON STOCK. "Resources Common Stock" means the Common Stock, par value $.001 per share, of Resources.

1.62 RESOURCES DEBT OBLIGATIONS. "Resources Debt Obligations" means all Indebtedness of Resources or any other member of the Resources Group, excluding all Indebtedness of any member of the REI Group to the extent it constitutes Indebtedness of Resources by virtue of clause (f) or clause (g) of the definition of Indebtedness. Resources Debt Obligations shall include, as of the date of the most recent balance sheet of Resources included in the IPO Prospectus, the Indebtedness of Resources reflected on such balance sheet.

1.63 RESOURCES EXCLUDED LIABILITIES. "Resources Excluded Liabilities" shall mean any and all Liabilities that are expressly contemplated by this Agreement or any Ancillary Agreement as Liabilities to be retained or assumed by REI or any other member of the REI Group, and all agreements and obligations of any member of the REI Group under this Agreement or any of the Ancillary Agreements.

1.64 RESOURCES GROUP. "Resources Group" means Resources, each Subsidiary of Resources immediately after the Separation Date, including the Subsidiaries set forth in Schedule 1.64, and each Person that becomes a Subsidiary of Resources after the Separation Date.

1.65 RESOURCES INDEMNITEES. "Resources Indemnitees" has the meaning assigned to that term in Section 3.3.

1.66 RESOURCES LIABILITIES. "Resources Liabilities" shall mean (without duplication):

(i) any and all Liabilities that are expressly contemplated by this Agreement or any Ancillary Agreement to be assumed by Resources or any member of the Resources Group, and all agreements, obligations and Liabilities of any member of the Resources Group under this Agreement or any of the Ancillary Agreements;

(ii) all Liabilities (other than Taxes based on, or measured by reference to, net income) primarily relating to, arising out of or resulting from:

(A) the operation of the Resources Business, as conducted at any time prior to, on or after the IPO Closing Date (including any Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person's authority));

(B) the operation of any business conducted at any time after the IPO Closing Date by any member of the Resources Group (including any Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person's authority));

(C) any Resources Assets; or

(D) the Resources Debt Obligations;

and in any case whether arising before, on or after the IPO Closing Date; and

(iii) all Liabilities reflected as liabilities or obligations of Resources in the Resources Balance Sheet, subject to any discharge of such Liabilities subsequent to the date of the Resources Balance Sheet.

Notwithstanding the foregoing, the Resources Liabilities shall not include the Resources Excluded Liabilities.

1.67 RESOURCES RIGHTS PLAN. "Resources Rights Plan" shall mean the stockholders rights plan of Resources as evidenced by the Rights Agreement, dated as of January 15, 2001, by and among Resources and The Chase Manhattan Bank, as Rights Agent.

1.68 RETAIL ELECTRIC PROVIDER LLC. "Retail Electric Provider LLC" means Reliant Energy Retail Services LLC, a Delaware limited liability company all of the membership interests in which are owned by Retail Holdings LLC.

1.69 RETAIL HOLDINGS LLC. "Retail Holdings LLC" means Reliant Energy Retail Holdings LLC, a Delaware limited liability company all of the membership interests in which are owned by REI.

1.70 SEPARATION. "Separation" means the transfer of the Resources Business to Resources and its Subsidiaries and the assumption by Resources and its Subsidiaries of the Resources Liabilities, all as more fully described in this Agreement and the Ancillary Agreements.

1.71 SEPARATION DATE. "Separation Date" has the meaning set forth in Section 2.1 hereof.

1.72 SUBSIDIARY. A "Subsidiary" of any Person means any corporation or other organization whether incorporated or unincorporated of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the

board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries.

1.73 TAXES. "Taxes" has the meaning set forth in the Tax Allocation Agreement.

1.74 TAX ALLOCATION AGREEMENT. "Tax Allocation Agreement" means the Tax Allocation Agreement dated as of December 31, 2000 between REI and Resources.

1.75 THIRD PARTY CLAIM. "Third Party Claim" has the meaning set forth in Section 3.5(a).

1.76 UNDERWRITERS. "Underwriters" means the underwriters named in the Underwriting Agreement.

1.77 UNDERWRITING AGREEMENT. "Underwriting Agreement" has the meaning set forth in Section 4.1(b) hereof.

1.78 UNREGULATED RETAIL ASSETS. "Unregulated Retail Assets" shall mean the assets identified or described in Schedule 1.78.

1.79 UNREGULATED RETAIL BUSINESS. "Unregulated Retail Business" shall mean the businesses identified or described in Schedule 1.79.

1.80 UNREGULATED RETAIL LIABILITIES. "Unregulated Retail Liabilities" shall mean (without duplication), any and all Liabilities, whether arising before or after the Separation Date, of REI or its Subsidiaries or any of their predecessor companies or businesses, including any employee-related Liabilities, primarily relating to, arising out of or resulting from the ownership or use of the Unregulated Retail Assets or the operations or conduct of the Unregulated Retail Business (including any such Liability relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person's authority).

1.81 UTILITIES CODE. "Utilities Code" means the Utilities Code of Texas.

ARTICLE II

SEPARATION

2.1 SEPARATION DATE. Unless otherwise provided in this Agreement, or in any agreement to be executed in connection with this Agreement, the effective time and date of each action in connection with the Separation shall be as of 11:59 p.m., Houston Time, December 31, 2000 or such other date as may be fixed by REI (the "Separation Date").

2.2 RESTRUCTURING TRANSACTIONS. In order to effect the Separation, REI will take, or cause to be taken, the following actions:

(a) REI will transfer the Regulated Retail Assets to Resources and Resources will assume the Regulated Retail Liabilities.

(b) Resources will transfer the Regulated Retail Assets to Retail Holdings LLC and Retail Holdings LLC will assume the Regulated Retail Liabilities.

(c) Retail Holdings LLC will transfer the Regulated Retail Assets to Customer Care LLC and Customer Care LLC will assume the Regulated Retail Liabilities.

(d) REI will transfer the Unregulated Retail Assets to Resources and Resources will assume the Unregulated Retail Liabilities.

(e) Resources will transfer the Unregulated Retail Assets to Retail Holdings LLC and Retail Holdings LLC will assume the Unregulated Retail Liabilities.

(f) Retail Holdings LLC will transfer the Unregulated Retail Assets to Retail Electric Provider LLC and Retail Electric Provider LLC will assume the Unregulated Retail Liabilities.

(g) RERC will transfer to Resources the stock of each of its Subsidiaries listed on Schedule 2.2(g) in exchange for the consideration listed on Schedule 2.2(g).

(h) REI will contribute to Resources, as a contribution to capital, (i) all of the stock of REPG, (ii) all of the stock of RECI, and (iii) all of the stock and membership interests of each of its Subsidiaries listed on Schedule 2.2(h).

(i) RES will contribute the MRT Energy Marketing Assets to the capital of MRT Energy Marketing Company and MRT Energy Marketing Company will assume the MRT Energy Marketing Liabilities.

(j) RES will distribute to RERC all of the stock of MRT Energy Marketing Company.

(k) A newly formed wholly owned subsidiary of Resources will merge with and into RES, with the result that RES will survive the merger as a wholly owned subsidiary of Resources and RERC will receive cash in exchange for all of the stock of RES.

(l) REI will contribute to Resources the Genco Option, and in that connection REI and Resources will execute and deliver the Genco Option Agreement.

(m) REI will contribute to Resources, as a contribution to capital, the assets listed in Schedule 2.2 (m).

2.3 RELEASE FROM MORTGAGE, ETC. REI shall obtain such releases from the Mortgage as may be necessary for the transfers referred to in Section 2.2(a) and Section 2.2(c).

2.4 INSTRUMENTS OF TRANSFER AND ASSUMPTION. REI and Resources agree that (a) transfers of the Regulated Retail Assets, the Unregulated Retail Assets and all other assets required to be transferred by this Agreement shall be effected by delivery by REI or the other transferring entity, as applicable, to the transferee, of (i) with respect to those assets that constitute stock, certificates endorsed in blank or evidenced or accompanied by stock powers or other instruments of transfer endorsed in blank, against receipt, (ii) with respect to any real property interest or any improvements thereon, a general warranty deed with general warranty of limited application limiting recourse and remedies to title insurance and warranties by predecessors in title to REI, and (iii) with respect to all other Assets, such good and sufficient instruments of contribution, conveyance, assignment and transfer, in form and substance reasonably satisfactory to REI and Resources, as shall be necessary to vest in the designated transferee, all of the title and ownership interest of the transferor in and to any such Asset, and (b) to the extent necessary, the assumption of the Liabilities contemplated pursuant to Section 2.2 hereof shall be effected by delivery by the transferee to the transferor of such good and sufficient instruments of assumption, in form and substance reasonably satisfactory to REI and Resources, as shall be necessary for the assumption by the transferee of such Liabilities. Each of the parties hereto also agrees to deliver to any other party hereto such other documents, instruments and writings as may be reasonably requested by such other parties hereto in connection with the transactions contemplated hereby. Notwithstanding any other provisions of this Agreement to the contrary, (x) THE TRANSFERS AND ASSUMPTIONS REFERRED TO IN THIS ARTICLE II WILL BE MADE WITHOUT ANY REPRESENTATION OR WARRANTY OF ANY NATURE (a) AS TO THE VALUE OR FREEDOM FROM ENCUMBRANCE OF, ANY ASSETS, (b) AS TO ANY WARRANTY OF MERCHANTABILITY OR WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE OF, OR ANY OTHER MATTER CONCERNING, ANY ASSETS OR (c) AS TO THE LEGAL SUFFICIENCY TO CONVEY TITLE TO ANY ASSETS, and (y) the instruments of transfer or assumption referred to in this Section 2.4 shall not include any representations and warranties other than as specifically provided herein. REI and Resources hereby acknowledge and agree that ALL ASSETS ARE BEING TRANSFERRED "AS IS, WHERE IS."

2.5 AGREEMENTS. On the Separation Date, or as soon as practicable after the Separation Date, REI and Resources shall execute and deliver (or shall cause their appropriate Subsidiaries to execute and deliver, as applicable) the agreements between them designated as follows:

(i) the Transition Services Agreement,

(ii) the Employee Matters Agreement,

(iii) the Tax Allocation Agreement,

(iv) the Retail Agreement,

(v) the Genco Option Agreement,

(vi) the Technical Services Agreement,

(vii) the Registration Rights Agreement,

(viii) the Miscellaneous Transition Matters Agreement,

(ix) the REP Lease,

(x) the EDC Lease,

(xi) the EC/DC Lease,

(xii) the Innovative Business Solutions Center Lease,

(xiii) the Dark Fiber Lease Agreement,

(xiv) the Fiber Optics Operation and Maintenance Agreement,

(xv) the Intellectual Property Agreement, and

(xvi) such other agreements, documents or instruments as the parties may agree are necessary or desirable and which specifically state that they are Ancillary Agreements within the meaning of this Agreement

(collectively, the "Ancillary Agreements"). To the extent such documents are not executed and delivered on the Separation Date, they shall be executed and delivered as soon as practicable thereafter and (except as otherwise provided therein) shall be effective as of the Separation Date.

ARTICLE III

MUTUAL RELEASES; INDEMNIFICATION

3.1 RELEASE OF PRE-CLOSING CLAIMS.

(a) Except as provided in Section 3.1(c), effective as of the IPO Closing Date, Resources does hereby, for itself and each other member of the Resources Group, their respective Affiliates (other than any member of the REI Group), successors and assigns, and all Persons who at any time prior to the IPO Closing Date have been shareholders, directors, officers, agents or employees of any member of the Resources Group (in each case, in their respective capacities as such), remise, release and forever discharge REI, each member of the REI Group and their respective Affiliates (other than any member of the Resources Group), successors and assigns, and all Persons who at any time prior to the IPO Closing Date have been shareholders, directors, officers, agents or employees of any member of the REI Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all Liabilities whatsoever to Resources and each other member of the Resources Group, whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the IPO Closing Date, including in connection with the transactions and all other activities to implement any of the Separation, the IPO, the Restructuring and the Distribution.

(b) Except as provided in Section 3.1(c), effective as of the IPO Closing Date, REI does hereby, for itself and each other member of the REI Group, their respective Affiliates (other than any member of the Resources Group), successors and assigns, and all Persons who at any time prior to the IPO Closing Date have been shareholders, directors, officers, agents or employees of any member of the REI Group (in each case, in their respective capacities as such), remise, release and forever discharge Resources, each member of the Resources Group, and their respective Affiliates (other than any member of the REI Group), successors and assigns, and all Persons who at any time prior to the IPO Closing Date have been shareholders, directors, officers, agents or employees of any member of the Resources Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all Liabilities whatsoever to REI and each other member of the REI Group, whether at law or in equity (including any right of contribution), whether arising under any contract or agreement, by operation of law or otherwise, existing or arising from any acts or events occurring or failing to occur or alleged to have occurred or to have failed to occur or any conditions existing or alleged to have existed on or before the IPO Closing Date, including in connection with the transactions and all other activities to implement any of the Separation, the IPO, the Restructuring and the Distribution.

(c) Nothing contained in Section 3.1(a) or (b) shall impair any right of any Person to enforce this Agreement, any Ancillary Agreement or any agreements, arrangements, commitments or understandings that are specified in this Agreement or in any Ancillary Agreement. Nothing contained in Section 3.1(a) or (b) shall release any Person from:

(i) any Liability, contingent or otherwise, assumed, transferred, assigned or allocated to the Group of which such Person is a member in accordance with, or any other Liability of any member of any Group under, this Agreement or any Ancillary Agreement;

(ii) any Liability for the sale, lease, construction or receipt of goods, property or services purchased, obtained or used in the ordinary course of business by a member of one Group from a member of any other Group prior to the IPO Closing Date;

(iii) any Liability for unpaid amounts for products or services or refunds owing on products or services due on a value-received basis for work done by a member of one Group at the request or on behalf of a member of another Group;

(iv) any Liability that the parties may have with respect to indemnification or contribution pursuant to this Agreement for claims brought against the parties by third Persons, which Liability shall be governed by the provisions of this Article III and, if applicable, the appropriate provisions of the Ancillary Agreements; or

(v) any Liability the release of which would result in the release of any Person other than a Person released pursuant to this Section 3.1; provided that the parties agree not to bring suit or permit any of their Subsidiaries to bring suit

against any Person with respect to any Liability to the extent that such Person would be released with respect to such Liability by this Section 3.1 but for the provisions of this clause (v).

(d) Resources shall not make, and shall not permit any member of the Resources Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against REI or any member of the REI Group, or any other Person released pursuant to Section 3.1(a), with respect to any Liabilities released pursuant to Section 3.1(a). REI shall not make, and shall not permit any member of the REI Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against Resources or any member of the Resources Group, or any other Person released pursuant to Section 3.1(b), with respect to any Liabilities released pursuant to Section 3.1(b).

(e) It is the intent of each of REI and Resources by virtue of the provisions of this Section 3.1 to provide for a full and complete release and discharge of all Liabilities existing or arising from all acts and events occurring or failing to occur or alleged to have occurred or to have failed to occur and all conditions existing or alleged to have existed on or before the IPO Closing Date, between or among Resources or any member of the Resources Group, on the one hand, and REI or any member of the REI Group, on the other hand (including any contractual agreements or arrangements existing or alleged to exist between or among any such members on or before the IPO Closing Date), except as expressly set forth in Section 3.1(c). At any time, at the request of any other party, each party shall cause each member of its respective Group to execute and deliver releases reflecting the provisions hereof.

3.2 INDEMNIFICATION BY RESOURCES. Except as provided in Section 3.4, Resources shall, and in the case of clauses (a), (b) and (c) below shall in addition cause the Appropriate Member of the Resources Group to, indemnify, defend and hold harmless REI, each member of the REI Group and each of their respective directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "REI Indemnitees") from and against any and all Losses of the REI Indemnitees relating to, arising out of or resulting from any of the following (without duplication):

(a) the failure of Resources or any other member of the Resources Group or any other Person to pay, perform or otherwise promptly discharge any Resources Liabilities in accordance with their respective terms, whether prior to or after the IPO Closing Date or the date thereof;

(b) the Resources Business or any Resources Liability;

(c) any breach by Resources or any member of the Resources Group of this Agreement or any of the Ancillary Agreements; and

(d) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the IPO

Registration Statement or any IPO Prospectus (other than information regarding REI provided by REI to Resources for inclusion in the IPO Registration Statement or any IPO Prospectus).

As used in this Section 3.2, "Appropriate Member of the Resources Group" means the member or members of the Resources Group, if any, whose acts, conduct or omissions or failures to act caused, gave rise to or resulted in the loss from and against which indemnity is provided.

3.3 INDEMNIFICATION BY REI. Except as provided in Section 3.4, REI shall, and in the case of clauses (a), (b) and (c) below shall in addition cause the Appropriate Member of the REI Group to, indemnify, defend and hold harmless Resources, each member of the Resources Group and each of their respective directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "Resources Indemnitees") from and against any and all Losses of the Resources Indemnitees relating to, arising out of or resulting from any of the following (without duplication):

(a) the failure of REI or any other member of the REI Group or any other Person to pay, perform or otherwise promptly discharge any Liabilities of any member of the REI Group other than the Resources Liabilities, in accordance with their respective terms, whether prior to or after the IPO Closing Date or the date hereof;

(b) the REI Business or any Liability of any member of the REI Group other than the Resources Liabilities;

(c) any breach by REI or any member of the REI Group of this Agreement or any of the Ancillary Agreements; and

(d) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to information regarding REI provided by REI to Resources for inclusion in the IPO Registration Statement or any IPO Prospectus.

As used in this Section 3.3, "Appropriate Member of the REI Group" means the member or members of the REI Group, if any, whose acts, conduct or omissions or failures to act caused, gave rise to or resulted in the Loss from and against which indemnity is provided.

3.4 INDEMNIFICATION OBLIGATIONS NET OF INSURANCE PROCEEDS AND OTHER AMOUNTS. (a) The parties intend that any Loss subject to indemnification or reimbursement pursuant to this Article III will be net of Insurance Proceeds that actually reduce the amount of the Loss. Accordingly, the amount which any party (an "Indemnifying Party") is required to pay to any Person entitled to indemnification hereunder (an "Indemnitee") will be reduced by any Insurance Proceeds theretofore actually recovered by or on behalf of the Indemnitee in reduction of the related Loss. If an Indemnitee receives a payment (an "Indemnity Payment") required by this Agreement from an Indemnifying Party in respect of any Loss and subsequently receives Insurance Proceeds, then the Indemnitee will pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payment received over the amount of the Indemnity Payment that would have been due if the Insurance Proceeds recovery had been received, realized or recovered before the Indemnity Payment was made.

(b) An insurer who would otherwise be obligated to pay any claims shall not be relieved of the responsibility with respect thereto or, solely by virtue of the indemnification provisions hereof, have any subrogation rights with respect thereto, it being expressly understood and agreed that no insurer or any other third party shall be entitled to a "windfall" (i.e., a benefit they would not be entitled to receive in the absence of the indemnification provisions) by virtue of the indemnification provisions hereof. Nothing contained in this Agreement or any Ancillary Agreement shall obligate any member of any Group to seek to collect or recover any Insurance Proceeds.

3.5 PROCEDURES FOR INDEMNIFICATION OF THIRD PARTY CLAIMS. (a) If an Indemnitee shall receive notice or otherwise learn of the assertion by a Person (including any Governmental Authority) who is not a member of the REI Group or the Resources Group of any claims or of the commencement by any such Person of any Action (collectively, a "Third Party Claim") with respect to which an Indemnifying Party may be obligated to provide indemnification to such Indemnitee pursuant to Section 3.2 or 3.3, or any other Section of this Agreement or any Ancillary Agreement, such Indemnitee shall give such Indemnifying Party written notice thereof within 20 days after becoming aware of such Third Party Claim. Any such notice shall describe the Third Party Claim in reasonable detail. Notwithstanding the foregoing, the failure of any Indemnitee or other Person to give notice as provided in this Section 3.5(a) shall not relieve the related Indemnifying Party of its obligations under this Article III, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice.

(b) An Indemnifying Party may elect to defend (and, unless the Indemnifying Party has specified any reservations or exceptions, to seek to settle or compromise), at such Indemnifying Party's own expense and by such Indemnifying Party's own counsel, any Third Party Claim. Within 30 days after the receipt of notice from an Indemnitee in accordance with Section 3.5(a) (or sooner, if the nature of such Third Party Claim so requires), the Indemnifying Party shall notify the Indemnitee of its election whether the Indemnifying Party will assume responsibility for defending such Third Party Claim, which election shall specify any reservations or exceptions. After notice from an Indemnifying Party to an Indemnitee of its election to assume the defense of a Third Party Claim, such Indemnitee shall have the right to employ separate counsel and to participate in (but not control) the defense, compromise, or settlement thereof, but the fees and expenses of such counsel shall be the expense of such Indemnitee except as set forth in the next sentence. In the event that the Indemnifying Party has elected to assume the defense of the Third Party Claim but has specified, and continues to assert, any reservations or exceptions in such notice, then, in any such case, the reasonable fees and expenses of one separate counsel for all Indemnitees shall be borne by the Indemnifying Party.

(c) If an Indemnifying Party elects not to assume responsibility for defending a Third Party Claim, or fails to notify an Indemnitee of its election as provided in Section 3.5(b), such Indemnitee may defend such Third Party Claim at the cost and expense (included allocated costs of in-house counsel and other personnel) of the Indemnifying Party.

(d) Unless the Indemnifying Party has failed to assume the defense of the Third Party Claim in accordance with the terms of this Agreement, no Indemnitee may settle or compromise any Third Party Claim without the consent of the Indemnifying Party.

(e) No Indemnifying Party shall consent to entry of any judgment or enter into any settlement of the Third Party Claim without the consent of an Indemnitee if the effect thereof is to permit any injunction, declaratory judgment, other order or other nonmonetary relief to be entered, directly or indirectly, against such Indemnitee.

(f) The provisions of Section 3.2 through 3.5 shall not apply to Taxes (which are covered by the Tax Allocation Agreement).

3.6 ADDITIONAL MATTERS. (a) Any claim on account of a Loss which does not result from a Third Party Claim shall be asserted by written notice given by the Indemnitee to the related Indemnifying Party. Such Indemnifying Party shall have a period of 30 days after the receipt of such notice within which to respond thereto. If such Indemnifying Party does not respond within such 30-day period, such Indemnifying Party shall be deemed to have refused to accept responsibility to make payment. If such Indemnifying Party does not respond within such 30-day period or rejects such claim in whole or in part, such Indemnitee shall be free to pursue such remedies as may be available to such party as contemplated by this Agreement and the Ancillary Agreements.

(b) In the event of payment by or on behalf of any Indemnifying Party to any Indemnitee in connection with any Third Party Claim, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnitee as to any events or circumstances in respect of which such Indemnitee may have any right, defense or claim relating to such Third Party Claim against any claimant or plaintiff asserting such Third Party Claim or against any other person. Such Indemnitee shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost and expense (including allocated costs of in-house counsel and other personnel) of such Indemnifying Party, in prosecuting any subrogated right, defense or claim.

(c) In the event of an Action in which the Indemnifying Party is not a named defendant, if either the Indemnified Party or Indemnifying Party shall so request, the parties shall endeavor to substitute the Indemnifying Party for the named defendant, if at all practicable. If such substitution or addition cannot be achieved for any reason or is not requested, the named defendant shall allow the Indemnifying Party to manage the Action as set forth in this Section and the Indemnifying Party shall fully indemnify the named defendant against all costs of defending the Action (including court costs, sanctions imposed by a court, attorneys' fees, experts' fees and all other external expenses, and the allocated costs of in-house counsel and other personnel), the costs of any judgment or settlement, and the cost of any interest or penalties relating to any judgment or settlement.

(D) THE PARTIES UNDERSTAND AND AGREE THAT THE INDEMNIFICATION OBLIGATIONS HEREUNDER AND UNDER THE ANCILLARY AGREEMENTS MAY INCLUDE INDEMNIFICATION FOR LOSSES RESULTING FROM, OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, AN INDEMNIFIED PARTY'S OWN NEGLIGENCE OR STRICT LIABILITY.

3.7 REMEDIES CUMULATIVE. The remedies provided in this Article III shall be cumulative and, subject to the provisions of Article IX, shall not preclude assertion by any

Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

3.8 SURVIVAL OF INDEMNITIES. The rights and obligations of each REI and Resources and their respective Indemnitees under this Article III shall survive the sale or other transfer by any party of any Assets or businesses or the assignment by it of any Liabilities.

3.9 INDEMNIFICATION OF DIRECTORS AND OFFICERS. For purpose of Sections 3.2 through 3.8, inclusive, and notwithstanding anything to the contrary contained herein, Persons who serve on both the Board of Directors of Resources and the Board of Directors of REI and persons who serve as officers of both Resources and REI shall be deemed both Resources Indemnitees and REI Indemnitees.

ARTICLE IV

THE IPO AND ACTIONS PENDING THE IPO

4.1 TRANSACTIONS PRIOR TO THE IPO. Subject to the conditions specified in Section 4.4, REI and Resources shall use their reasonable commercial efforts to consummate the IPO. Such efforts shall include, but not necessarily be limited to, those specified in this Section 4.1:

(a) Resources has filed the IPO Registration Statement, and shall use its best efforts to cause such IPO Registration Statement to become effective, including by filing such amendments thereto as may be necessary or appropriate, responding promptly to any comments of the Commission and taking such other action in that connection as may be reasonably requested by REI. REI and Resources shall also cooperate in preparing, filing with the Commission and causing to become effective a registration statement registering the Resources Common Stock under the Exchange Act, and any registration statements or amendments thereof which are required to reflect the establishment of, or amendments to, any employee benefit and other plans necessary or appropriate in connection with the IPO, the Separation, the Restructuring, the Distribution or the other transactions contemplated by this Agreement.

(b) Resources shall enter into an underwriting agreement with the underwriters named in the IPO Registration Statement (the "Underwriting Agreement"), in form and substance reasonably satisfactory to Resources, and shall comply with its obligations thereunder.

(c) REI and Resources shall consult with each other and the Underwriters regarding the timing, pricing and other material matters with respect to the IPO.

(d) Resources shall use its reasonable commercial efforts to take all such action as may be necessary or appropriate under state securities and blue sky laws of the United States (and any comparable laws under any foreign jurisdictions) in connection with the IPO.

(e) Resources shall prepare, file and use reasonable commercial efforts to seek to make effective, an application for listing of the Resources Common Stock issued in the IPO on the NYSE, subject to official notice of issuance.

4.2 USE OF PROCEEDS. Resources shall use the net proceeds from the IPO (after deduction of all expenses in connection with the IPO payable by Resources as provided in Section 10.7) initially to increase working capital and as and when needed to fund capital expenditures, and, depending on the timing of future acquisitions of generation facilities, may also use a portion of such net proceeds to finance one or more such acquisitions. Should the net proceeds from the IPO exceed $1,400,000,000, 50% of the net proceeds above such amount shall be applied to prepay indebtedness owing from REPG to REI outstanding as of December 31, 2000 in respect of the indebtedness of Reliant Energy FinanceCo III LP, including accrued and unpaid interest on the amount so prepaid to the date of prepayment (the amount thereof to be so prepaid, assuming exercise in full of any underwriters' overallotment option, being called the "Specified Indebtedness"). If the net proceeds are sufficient to result in the repayment in full of all such indebtedness owing from REPG to REI outstanding as of December 31, 2000 in respect of the indebtedness of Reliant Energy FinanceCo III LP in accordance with the preceding sentence, any excess shall be retained by Resources.

4.3 COOPERATION. Resources shall consult with, and cooperate in all respects with, REI in connection with the pricing of the Resources Common Stock to be offered in the IPO and shall, at REI's direction, promptly take any and all actions necessary or desirable to consummate the IPO as contemplated by the IPO Registration Statement and the Underwriting Agreement.

4.4 CONDITIONS PRECEDENT TO CONSUMMATION OF THE IPO. As soon as practicable after the Separation Date, the parties hereto shall use their reasonable commercial efforts to satisfy the conditions listed below to the consummation of the IPO. The obligations of the parties to use their reasonable commercial efforts to consummate the IPO shall be conditioned on the satisfaction, or waiver by REI, of the following conditions:

(a) The IPO Registration Statement shall have been filed and declared effective by the Commission, and there shall be no stop order in effect with respect thereto.

(b) The actions and filings with regard to state securities and blue sky laws of the United States (and any comparable laws under any foreign jurisdictions) described in Section 4.1(d) shall have been taken and, where applicable, have become effective or been accepted.

(c) The Resources Common Stock to be issued in the IPO shall have been accepted for listing on the NYSE, on official notice of issuance.

(d) Resources shall have entered into the Underwriting Agreement and all conditions to the obligations of Resources and the Underwriters shall have been satisfied or waived.

(e) REI shall be satisfied in its sole discretion that (1) it will own more than 80% of the outstanding Resources Common Stock following the IPO, (2) it will control Resources within the meaning of Section 368(c) of the Code, and (3) it will satisfy the stock ownership requirements of Section 1504(a)(2) of the Code with respect to the stock of Resources. All other conditions to permit the Distribution to qualify as a tax-free distribution to REI, Resources and REI's shareholders shall, to the extent applicable as of the time of the IPO,

be satisfied, and there shall be no event or condition that is likely to cause any of such conditions not to be satisfied as of the time of the Distribution or thereafter.

(f) Any material Governmental Approvals necessary to consummate the IPO shall have been obtained and be in full force and effect.

(g) No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Separation or the IPO or any of the other transactions contemplated by this Agreement or any Ancillary Agreement shall be in effect.

(h) The Separation shall have become effective.

(i) Such other actions as the parties hereto may, based upon the advice of counsel, reasonably request to be taken prior to the IPO in order to assure the successful completion of the IPO shall have been taken.

(j) This Agreement and all Ancillary Agreements have been executed and shall not have been terminated.

(k) A pricing committee designated by the Board of Directors of REI shall have determined that the terms of the IPO are acceptable to REI.

4.5 CANCELLATION OF OUTSTANDING INTERCOMPANY INDEBTEDNESS. Prior to the IPO Closing Date, REI shall convert into a capital contribution, without the issuance of any additional shares of Resources Common Stock to REI, all Indebtedness owed by Resources or its Subsidiaries to any member of the REI Group as of December 31, 2000, including all amounts owed by REPG to REI as of such date in respect of the indebtedness of Reliant Energy FinanceCo III LP other than the portion thereof constituting "Specified Indebtedness" as defined in Section 4.2 but excluding any Indebtedness as of such date consisting of (a) borrowings made to provide cash collateral for margin obligations of RES and any replacements or refinancings thereof or (b) reimbursement and other obligations under letters of credit, surety bonds or similar instruments provided as security for obligations of RES and its subsidiaries. If the terms of the IPO include an underwriters' overallotment option and upon the exercise of such option in full, the total net proceeds from the IPO would exceed $1,400,000,000 (whether or not the total net proceeds would exceed such amount if the option were not exercised), then

(a) prior to the IPO Closing Date, no Specified Indebtedness shall be converted into a capital contribution;

(b) if and to the extent the overallotment option is exercised, 50% of the net proceeds attributable to such exercise shall immediately be applied to the prepayment of any Specified Indebtedness not otherwise prepaid on the IPO Closing Date; and

(c) if and to the extent the overallotment option expires or terminates without being exercised, the entire remaining amount of Specified Indebtedness not theretofore prepaid shall be converted into a capital contribution without the issuance of any additional shares of Resources Common Stock to REI.

ARTICLE V

CORPORATE GOVERNANCE AND CERTAIN
FINANCIAL REPORTING AND OTHER MATTERS

5.1 CHARTER AND BYLAWS. As of the IPO Closing Date, the Restated Certificate of Incorporation and Bylaws of Resources shall be in the forms of Schedule 5.1(a) and 5.1(b), respectively, with such changes therein as may be agreed to in writing by REI.

5.2 RIGHTS PLAN AMENDMENTS. Following the Closing Date and for so long as REI beneficially owns shares representing at least 30% of the voting power of all of the outstanding shares of Resources Common Stock, without the prior written consent of REI, Resources shall not amend or modify the Resources Rights Plan.

5.3 CHARTER/BYLAW AMENDMENTS. So long as REI owns shares representing 30% of the voting power of all of the outstanding shares of Resources Common Stock, Resources will not, without the prior consent of REI, adopt any amendments to its Restated Certificate of Incorporation or Bylaws or take or recommend to its stockholders any action during the terms of this Agreement which would (i) impose limitations on the legal rights of REI or any other member of the REI Group as a stockholder of Resources other than those imposed pursuant to the express terms of this Agreement or the form of Resources' Restated Certificate of Incorporation set forth as Schedule 5.1(a) hereto, including, without limitation, any action which would impose restrictions (A) based upon the size of security holding, the business in which a security holder is engaged or other considerations applicable to REI or any other member of the REI Group and not to security holders generally, or (B) by means of the issuance of or proposal to issue any other class of securities having voting power disproportionately greater than the equity investment in Resources represented by such securities; (ii) involve the issuance or corporate action providing for the issuance of any warrant, right capital stock or other security (A) which is, or under specified circumstances will become, convertible into or represent the right to acquire any securities of REI or any other member of the REI Group or (B) which is dependent upon the amount of voting securities owned by REI or any other member of the REI Group, (iii) deny any benefit to REI or any other member of the REI Group proportionately as holders of any class of voting securities generally; or (iv) alter voting or other rights of the holders of any class of voting securities so that any such rights (or the vote required with respect to any matter) are determined with reference to the amount of voting securities held by REI or any other member of the REI Group; provided, that this Section 5.3 shall not prohibit Resources from adopting the Resources Rights Plan or taking any action otherwise prohibited hereby, so long as REI and the other members of the REI Group are, either expressly or as part of a class of stockholders which includes REI and the other members of the REI Group, exempted from such action or the limitations on legal rights imposed thereby.

5.4 RESOURCES BOARD REPRESENTATION.

(a) Beginning on the IPO Closing Date, and for so long as REI beneficially owns shares representing a majority of the voting power of all of the outstanding Resources Common Stock, REI shall have the right to designate for nomination by the Resources Board (or any nominating committee thereof) to the Resources Board a majority of the members of the

Resources Board. For so long as REI beneficially owns shares representing less than a majority but at least 20% of the voting power of all of the outstanding Resources Common Stock, REI shall have the right to designate for nomination by the Resources Board (or any nominating committee thereof) to the Resources Board a proportionate number of members of the Resources Board, as calculated in accordance with Section 5.4. Notwithstanding anything to the contrary set forth herein, Resources' obligations with respect to the election or appointment of Resources' designated members shall be limited to the obligations set forth under subsections (b) and (c) below.

(b) Resources shall exercise all authority under applicable law and shall use its best efforts to cause at least three persons designated by REI to be elected to the Resources Board effective as of the IPO Closing Date (or at the first regularly scheduled meeting thereafter). For so long as REI beneficially owns shares representing a majority of the voting power of all of the outstanding Resources Common Stock, commencing with the annual meeting of stockholders of Resources to be held in 2002 and prior to each annual meeting of stockholders of Resources thereafter, REI shall be entitled to present to the Resources Board or any nominating committee thereof such number of designees of REI (each, an "REI Designee") for election to the Resources Board (or if there is a classified board, the class of directors up for election) at such annual meeting as would result in REI having the appropriate number of REI Designees on the Resources Board as determined pursuant to subsection (a) above.

(c) Resources shall at all such times exercise all authority under applicable law and use its best efforts to cause all such designees to be nominated as Board members by the nominating committee of the Resources Board if there is such a committee. Resources shall cause each REI Designee for election to the Resources Board to be included in the slate of designees recommended by the Resources Board to holders of Resources Common Stock (including at any special meeting of stockholders held for the election of directors) and shall use its best efforts to cause the election of each such REI Designee, including soliciting proxies in favor of the election of such persons. In the event that any REI Designee elected to the Resources Board shall cease to serve as a director for any reason, the vacancy resulting therefrom shall be filled by the Resources Board with a substitute REI Designee, unless such vacancy was caused by action of stockholders (in which case, in accordance with Resources' Restated Certificate of Incorporation, the stockholders shall fill such vacancy). In the event that as a result of any increase in the size of the Resources Board, REI is entitled to have one or more additional REI Designees elected to the Resources Board pursuant to subsection (a) above, the REI Board shall appoint the appropriate number of such additional REI Designees, unless such increase in size of the Resources Board was caused by the action of stockholders (in which case, in accordance with Resources' Restated Certificate of Incorporation, the stockholders shall elect such additional director or directors). The parties hereto agree that the directors of Resources identified in the IPO Registration Statement include at least three REI Designees.

(d) If at any time that REI Designees are serving on the Resources Board, REI beneficially owns shares representing less than a majority but at least 20% of the total voting power of all of the outstanding Resources Common Stock, the number of persons REI shall be entitled to designate for nomination by the Resources Board (or any nominating committee thereof) for election to the Resources Board shall be equal to the number of directors computed using the following formula (rounded to the nearest whole number): the product of (1) the

percentage of the voting power of all of the outstanding shares of Resources Common Stock beneficially owned by REI and (2) the number of directors then on the Resources Board (assuming no vacancies exist). Notwithstanding the foregoing, if REI beneficially owns shares of Resources Common Stock representing less than a majority of the total voting power of all outstanding shares of Resources Common Stock and the calculation of the formula set forth in the foregoing sentence would result in REI being entitled to elect a majority of the members of the Resources Board, the formula will be recalculated with the product being rounded down to the nearest whole number; provided, however, that if REI, at any time, acquires additional shares of Resources Common Stock so that REI beneficially owns shares of Resources Common Stock representing a majority of the total voting power of all of the outstanding shares of Resources Common Stock, then the number of persons REI shall be entitled to designate for nomination by the Resources Board (or any nominating committee thereof) for election to the Resources Board shall be adjusted upward, if appropriate as a result of rounding, in accordance with the provisions of this Section 5.4(d). If the number of REI Designees serving on the Resources Board exceeds the number determined pursuant to the foregoing sentences of this Section 5.4(d) (such difference being herein called the "Excess Director Number), then REI in its sole discretion shall instruct a number of REI Designees (the number of which designees shall be equal to the Excess Director Number) to promptly resign from the Resources Board, and, to the extent such persons do not so resign, REI shall assist Resources in increasing the size of the Resources Board, so that after giving effect to such increase, the number of REI Designees on the Resources Board is in accordance with the provisions of this Section 5.4(d).

5.5 ISSUANCE OF STOCK. Following the IPO Closing Date and prior to the Distribution Date, without the prior consent of REI, Resources shall not issue any stock of Resources or any securities, options, warrants or rights convertible into or exercisable or exchangeable for stock of Resources if the issuance would cause REI to fail to control Resources within the meaning of Section 368(c) of the Code or if the issuance would cause REI to fail to satisfy the stock ownership requirements of Section 1504(a)(2) of the Code with respect to the stock of Resources.

ARTICLE VI

HOLDING COMPANY RESTRUCTURING

6.1 INTENT TO EFFECT HOLDING COMPANY RESTRUCTURING. REI intends to cause the Holding Company Restructuring described in this Article VI to occur as soon as the conditions precedent set forth in Section 6.4 are satisfied.

6.2 RESTRUCTURING STEPS. The Holding Company Restructuring shall consist of the following transactions:

(a) REI will form a new wholly owned Subsidiary ("Genco Holding Company") to become a transitory holding company of Genco LP.

(b) Genco Holding Company will form two wholly owned limited liability companies ("Genco GP LLC" and "Genco LP LLC") that form Genco LP of which Genco GP LLC is the 1% general partner and Genco LP LLC is the 99% limited partner.

(c) REI will contribute the Genco Assets to the capital of Genco LP for the benefit of Genco Holding Company, Genco GP LLC and Genco LP LLC.

(d) Regco will organize a wholly owned subsidiary ("MergerCo2") for purposes of effecting the Restructuring Merger.

(e) MergerCo2 will merge (the "Restructuring Merger") with and into REI; in the merger the Regco stock owned by REI will be cancelled and each outstanding share of common stock of REI will be automatically converted into an outstanding share of common stock of Regco.

(f) REI will distribute to Regco the stock of the Genco Holding Company and the stock of the Subsidiaries identified in Schedule 6.2(f) owned by REI.

(g) Regco will expressly assume all obligations of REI under this Agreement and under each of the Ancillary Agreements and all other obligations under this Agreement and under each of the Ancillary Agreements which are expressed as requiring performance by, or imposing obligations on, Regco.

(h) Genco Holding Company will merge with and into Regco.

6.3 ACTIONS PRIOR TO THE HOLDING COMPANY RESTRUCTURING. (a) If required by applicable law, Regco shall file a Registration Statement on Form S-4 with respect to the offer and sale of common stock of Regco in the Restructuring Merger and use reasonable commercial efforts to cause the same to become effective and the proxy statement and prospectus contained therein shall be mailed to shareholders of REI in accordance with the requirements of the Securities Act of 1933, as amended.

(b) Regco shall prepare and file, and use reasonable commercial efforts to have approved, a listing of its common stock issued in the Restructuring Merger on the NYSE, subject to official notice of issuance.

(c) REI and Regco shall use reasonable commercial efforts to make appropriate filings and applications with the Commission in order to satisfy the condition set forth in Section 6.4(b).

6.4 CONDITIONS TO HOLDING COMPANY RESTRUCTURING. The following are conditions to the Holding Company Restructuring. The conditions are for the sole benefit of REI and shall not give rise to or create any duty on the part of REI or the REI Board of Directors to waive or not waive any such condition.

(a) To the extent required by applicable law, the shareholders of REI shall have approved an agreement and plan of merger necessary to effect the Restructuring Merger.

(b) (i) The Commission shall have issued an order acceptable to REI under Sections 9(a)(2) and 10 of the Public Utility Holding Company Act of 1935, as amended, approving the acquisition by Regco of securities of "public utility companies" in the Holding Company Restructuring and (ii) if no exemption from the registration requirements of such Act

is available to Regco, the registration of Regco as a "holding company" under such Act shall have become effective.

(c) Any other material Governmental Approvals necessary to consummate the Holding Company Restructuring shall have been obtained and be in full force and effect.

(d) No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Holding Company Restructuring shall be in effect and no other event outside the control of REI shall have occurred or failed to occur that prevents the consummation of the Holding Company Restructuring.

(e) Regco shall have obtained a private letter ruling from the Internal Revenue Service in form and substance satisfactory to Regco (in its sole discretion), to the effect that the transfer from REI to Genco LP of the ownership of the nuclear decommissioning trust assets referred to in Section 10.13 and those Genco Assets that are subject to regulation by the Nuclear Regulatory Commission will not adversely affect the tax status of Genco or of the nuclear decommissioning trust or of further contributions to such trust.

(f) Such amendments, consents, waivers, approvals, refinancings or other actions as may be necessary in connection with the Holding Company Restructuring under debt obligations of REI and its Subsidiaries and material contracts and agreements to which REI or any of its Subsidiaries are parties shall have been obtained or taken.

6.5 SOLE DISCRETION OF REI. REI currently intends, following the consummation of the IPO, to complete the Holding Company Restructuring as promptly as practicable after the IPO Closing Date. REI shall, in its sole and absolute discretion, determine the date of the consummation of the Holding Company Restructuring and the steps therein and all terms thereof, including, without limitation, the form, structure and terms of any transaction(s) to effect the Holding Company Restructuring and the timing of and conditions to the consummation thereof. In addition, REI may at any time and from time to time until the completion of the Holding Company Restructuring decide to abandon the Holding Company Restructuring or modify or change the terms of the Holding Company Restructuring including, without limitation, by accelerating or delaying the timing of the consummation of all or part of the Holding Company Restructuring. Resources shall cooperate with REI in all respects to accomplish the Holding Company Restructuring and shall, at REI's direction, promptly take any and all actions necessary or desirable to effect the Holding Company Restructuring.

ARTICLE VII

THE DISTRIBUTION

7.1 THE DISTRIBUTION.

(a) Delivery of Shares for Distribution. Subject to Section 7.4 hereof, on or prior to the date the Distribution is made (the "Distribution Date"), Regco will deliver to the distribution agent to be appointed by Regco, or if no distribution agent is appointed, then Regco (the "Distribution Agent"), to distribute to the shareholders of Regco the shares of Resources

Common Stock held by Regco pursuant to the Distribution for the benefit of holders of record of common stock of Regco on the record date, a single stock certificate, endorsed by Regco in blank, representing all of the outstanding shares of Resources Common Stock then owned by Regco, and shall cause the transfer agent for the shares of common stock of Regco to instruct the Distribution Agent to distribute on the Distribution Date the appropriate number of such shares of Resources Common Stock to each such holder or designated transferee or transferees of such holder.

(b) Shares Received. Subject to Sections 7.4 and 7.5, each holder of common stock of Regco on the Record Date (or such holder's designated transferee or transferees) will be entitled to receive in the Distribution a number of shares of Resources Common Stock equal to the number of shares of common stock of Regco held by such holder on the Record Date multiplied by a fraction the numerator of which is the number of shares of Resources Common Stock beneficially owned by Regco on the Record Date and the denominator of which is the number of shares of common stock of Regco outstanding on the Record Date.

(c) Obligation to Provide Information. Resources and Regco, as the case may be, will provide to the Distribution Agent all share certificates and any information required in order to complete the Distribution on the basis specified above.

7.2 ACTIONS PRIOR TO THE DISTRIBUTION.

(a) Regco and Resources shall prepare and mail, prior to the Distribution Date, to the holders of common stock of Regco such information concerning Resources and the Distribution and such other matters as Regco shall reasonably determine are necessary and as may be required by law. Regco and Resources will prepare, and Resources will, to the extent required under applicable law, file with the Commission any such documentation which Regco and Resources determine is necessary or desirable to effectuate the Distribution, and Regco and Resources shall each use its reasonable commercial efforts to obtain all necessary approvals from the Commission with respect thereto as soon as practicable.

(b) Regco and Resources shall take all such actions as may be necessary or appropriate under the securities or blue sky laws of the United States (and any comparable laws under any foreign jurisdiction) in connection with the Distribution.

(c) Resources shall prepare and file, and shall use its reasonable commercial efforts to have approved, an application for the listing of the Resources Common Stock to be distributed in the Distribution on the NYSE, subject to official notice of distribution.

(d) Immediately prior to the Distribution, (i) each person who is an officer or employee of any member of the REI Group and an officer or employee of any member of the Resources Group immediately prior to the Distribution (each a "Joint Employee") and who is to continue as an officer or employee of any member of the REI Group after the Distribution shall resign from each of such person's positions as an officer or employee with each member of the Resources Group, and (ii) each such Joint Employee who is to continue as an officer or employee of any member of the Resources Group, after the Distribution, shall resign from each of such person's positions as an officer or employee with each member of the REI Group.

7.3 SOLE DISCRETION OF REI. REI currently intends, following the consummation of the IPO, that Regco shall complete the Distribution as promptly as practicable after the IPO Closing Date. Regco shall, in its sole and absolute discretion, determine the date of the consummation of the Distribution and all terms of the Distribution, including, without limitation, the form, structure and terms of any transaction(s) and/or offering(s) to effect the Distribution and the timing of and conditions to the consummation of the Distribution. In addition, REI (or Regco) may at any time and from time to time until the completion of the Distribution decide to abandon the Distribution or modify or change the terms of the Distribution, including, without limitation, by accelerating or delaying the timing of the consummation of all or part of the Distribution. Resources shall cooperate with Regco in all respects to accomplish the Distribution and shall, at Regco's direction, promptly take any and all actions necessary or desirable to effect the Distribution, including, without limitation, the registration under the Securities Act of 1933, as amended, of the Resources Common Stock on an appropriate registration form or forms to be designated by Regco. REI shall select any investment banker(s) and manager(s) in connection with the Distribution, as well as any financial printer, solicitation and/or exchange agent and outside counsel for Regco; provided, however, that nothing herein shall prohibit Resources from engaging (at its own expense) its own financial, legal, accounting and other advisors in connection with the Distribution.

7.4 CONDITIONS TO THE DISTRIBUTION. The following are conditions to the consummation of the Distribution. The conditions are for the sole benefit of Regco and shall not give rise to or create any duty on the part of Regco or the Regco Board of Directors to waive or not waive any such condition.

(a) IRS Ruling. Regco shall have obtained a private letter ruling from the Internal Revenue Service in form and substance satisfactory to Regco (in its sole discretion), and such ruling shall remain in effect as of the Distribution Date, to the effect that (i) the contribution by REI of all of its Resources Common Stock to Regco will qualify as a reorganization under Section 355 of the Code, (ii) the distribution by Regco of all of its Resources Common Stock to the shareholders of Regco will qualify as a reorganization under Section 355 of the Code; (iii) no gain or loss will be recognized by (and no amount will otherwise be included in the income of) the shareholders of Regco upon their receipt of Resources Common Stock pursuant to the Distribution; (iv) no gain or loss will be recognized by REI upon the contribution of its Resources Common Stock to Regco; and (v) no gain or loss will be recognized by Regco pursuant to the Distribution.

(b) Holding Company Restructuring. The Holding Company Restructuring shall have occurred.

(c) Governmental Approvals. Any material Governmental Approvals necessary to consummate the Distribution shall have been obtained and be in full force and effect;

(d) No Legal Restraints. No order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Distribution shall be in effect and no other event outside the control of

Regco shall have occurred or failed to occur that prevents the consummation of the Distribution; and

(e) No Material Adverse Effect. No other events or developments shall have occurred subsequent to the IPO Closing Date that, in the judgment of the Board of Directors of Regco, would result in the Distribution having a material adverse effect on Regco or on the shareholders of Regco.

7.5 FRACTIONAL SHARES. As soon as practicable after the Distribution Date, Regco shall direct the Distribution Agent to determine the number of whole shares and fractional shares of Resources Common Stock allocable to each holder of record or beneficial owner of common stock of REI as of the Record Date, to aggregate all such fractional shares and sell the whole shares obtained thereby at the direction of Regco, in open market transactions, at then prevailing trading prices, and to cause to be distributed to each such holder or for the benefit of each such beneficial owner to which a fractional share shall be allocable such holder's or owner's ratable share of the proceeds of such sale, after making appropriate deductions of the amount required to be withheld for federal income tax purposes and after deducting an amount equal to all brokerage charges, commissions and transfer taxes attributed to such sale. Regco and the Distribution Agent shall use their reasonable commercial efforts to aggregate the shares of common stock of REI that may be held by any beneficial owner thereof through more than one account in determining the fractional share allocable to such beneficial owner.

ARTICLE VIII

GENCO TRANSACTIONS

8.1 ORGANIZATION OF GENCO LP. In connection with the Holding Company Restructuring, REI shall cause the Genco Assets to be contributed to Genco LP, free and clear of the lien of the Mortgage and all other liens and security interests securing Indebtedness, and shall cause Genco LP to assume the Genco Liabilities. The date on which such contribution and assumption occurs is referred to herein as the "Genco Organization Date." On the Genco Organization Date, all of the outstanding partnership interests in Genco LP shall be indirectly owned by Regco.

8.2 GENCO CONTRACTS. On the Genco Organization Date, Genco LP shall be assigned, and will assume the obligations of REI under, the Technical Services Agreement.

8.3 INSTRUMENTS OF TRANSFER AND ASSUMPTION. Transfers of the Genco Assets shall be effected by delivery by REI or the other transferring entity, as applicable, to the transferee, of (i) with respect to those assets that constitute stock, certificates endorsed in blank or evidenced or accompanied by stock powers or other instruments of transfer endorsed in blank, against receipt, (ii) with respect to real property interests and improvements thereon, a general warranty deed with general warranty of limited application limiting recourse and remedies to title insurance and warranties by predecessors in title to REI, and (iii) with respect to all other Assets, such good and sufficient instruments of contribution, conveyance, assignment and transfer, in form and substance reasonably satisfactory to REI and Resources, as shall be necessary to vest in the designated transferee, all of the title and ownership interest of the transferor in and to any such

Asset, (b) to the extent necessary, the assumption of the Liabilities contemplated pursuant to Section 8.1 hereof shall be effected by delivery by the transferee to the transferor of such good and sufficient instruments of assumption, in form and substance reasonably satisfactory to REI and Resources, as shall be necessary for the assumption by the transferee of such Liabilities. Each instrument of transfer shall contain a representation and warranty that the portion of the Genco Assets transferred thereby shall be free and clear of the lien of the Mortgage and all other liens and security interests securing Indebtedness. Each of the parties hereto also agrees to deliver to any other party hereto such other documents, instruments and writings as may be reasonably requested by such other parties hereto in connection with the transactions contemplated hereby. Notwithstanding any other provisions of this Agreement to the contrary, (x) THE TRANSFERS AND ASSUMPTIONS REFERRED TO IN THIS ARTICLE VIII WILL BE MADE WITHOUT ANY REPRESENTATION OR WARRANTY OF ANY NATURE (a) AS TO THE VALUE OR FREEDOM FROM ENCUMBRANCE OF, ANY ASSETS, (b) AS TO ANY WARRANTY OF MERCHANTABILITY OR WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE OF, OR ANY OTHER MATTER CONCERNING, ANY ASSETS OR (c) AS TO THE LEGAL SUFFICIENCY TO CONVEY TITLE TO ANY ASSETS, and (y) the instruments of transfer or assumption referred to in this Section 8.3 shall not include any representations and warranties other than as specifically provided herein. REI and Resources hereby acknowledge and agree that ALL ASSETS ARE BEING TRANSFERRED "AS IS, WHERE IS."

8.4 ORGANIZATION OF GENCO INC. Prior to the Genco Public Ownership Date, REI shall organize Genco Inc. and shall contribute to Genco Inc. all of the membership interests in Genco GP LLC and Genco LP LLC. Immediately following such transactions, all the outstanding common stock of Genco Inc. shall be owned by Regco.

8.5 RELEASES AND INDEMNITIES. In connection with the organization of Genco LP or the Genco Public Ownership Event, REI and Genco will enter into agreements regarding such mutual releases and indemnities similar in effect to those set forth in Article III as REI shall specify.

ARTICLE IX

ARBITRATION; DISPUTE RESOLUTION

9.1 AGREEMENT TO ARBITRATE. Except as otherwise specifically provided in any Ancillary Agreement, the procedures for discussion, negotiation and arbitration set forth in this Article IX shall apply to all disputes, controversies or claims (whether sounding in contract, tort or otherwise) that may rise out of or relate to, or arise under or in connection with this Agreement or any Ancillary Agreement, or the transactions contemplated hereby or thereby (including all actions taken in furtherance of the transactions contemplated hereby or thereby on or prior to the date hereof), or (for a period of ten years after the date hereof) the commercial or economic relationship of the parties relating hereto or thereto, between or among any member of the REI Group and the Resources Group. Each party agrees on behalf of itself and each member of its respective Group that the procedures set forth in this Article IX shall be the sole and exclusive remedy in connection with any dispute, controversy or claim relating to any of the foregoing matters and irrevocably waives any right to commence any Action in or before any

Governmental Authority, except as expressly provided in Section 9.7(b) and except to the extent provided under the Arbitration Act in the case of judicial review of arbitration results or awards. Each party on behalf of itself and each member of its respective Group irrevocably waives any right to any trial by jury with respect to any claim, controversy or dispute set forth in this Section 9.1.

9.2 ESCALATION. (a) It is the intent of the parties to use their respective reasonable best efforts to resolve expeditiously any dispute, controversy or claim between or among them with respect to the matters covered hereby that may arise from time to time on a mutually acceptable negotiated basis. In furtherance of the foregoing, any party involved in a dispute, controversy or claim may deliver a notice (an "Escalation Notice") demanding an in-person meeting involving representatives of the parties at a senior level of management of the parties (or if the parties agree, of the appropriate strategic business unit or division within such entity). A copy of any such Escalation Notice shall be given to the General Counsel, or like officer or official, of each party involved in the dispute, controversy or claim (which copy shall state that it is an Escalation Notice pursuant to this Agreement). Any agenda, location or procedures for such discussions or negotiations between the parties may be established by the parties from time to time; provided, however, that the parties shall use their reasonable best efforts to meet within 30 days of the Escalation Notice.

(b) The parties may, by mutual consent, retain a mediator to aid the parties in their discussions and negotiations by informally providing advice to parties. Any opinion expressed by the mediator shall be strictly advisory and shall not be binding on the parties, nor shall any opinion expressed by the mediator be admissible in any arbitration proceedings. The mediator may be chosen from a list of mediators previously selected by the parties or by other agreement of the parties. Costs of the mediation shall be borne equally by the parties involved in the matter, except that each party shall be responsible for its own expenses. Mediation is not a prerequisite to a demand for arbitration under Section 9.3.

9.3 DEMAND FOR ARBITRATION. (a) At any time after the first to occur of (i) the date of the meeting actually held pursuant to the applicable Escalation Notice or (ii) 45 days after the delivery of an Escalation Notice (as applicable, the "Arbitration Demand Date"), any party involved in the dispute, controversy or claim (regardless of whether such party delivered the Escalation Notice) may deliver a notice demanding arbitration of such dispute, controversy or claim (a "Arbitration Demand Notice"). In the event that any party shall deliver an Arbitration Demand Notice to another party, such other party may itself deliver an Arbitration Demand Notice to such first party with respect to any related dispute, controversy or claim with respect to which the Applicable Deadline has not passed without the requirement of delivering an Escalation Notice. No party may assert that the failure to resolve any matter during any discussions or negotiations, the course of conduct during the discussions or negotiations or the failure to agree on a mutually acceptable time, agenda, location or procedures for the meeting, in each case, as contemplated by Section 9.2, is a prerequisite to a demand for arbitration under Section 9.3. In the event that any party delivers an Arbitration Demand Notice with respect to any dispute, controversy or claim that is the subject of any then pending arbitration proceeding or of a previously delivered Arbitration Demand Notice, all such disputes, controversies and claims shall be resolved in the arbitration proceeding for which an Arbitration Demand Notice was first

delivered unless the arbitrator in his or her sole discretion determines that it is impracticable or otherwise inadvisable to do so.

(b) Except as may be expressly provided in any Ancillary Agreement, any Arbitration Demand Notice may be given until one year and 45 days after the later of the occurrence of the act or event giving rise to the underlying claim or the date on which such act or event was, or should have been, in the exercise of reasonable due diligence, discovered by the party asserting the claim (as applicable and as it may in a particular case be specifically extended by the parties in writing, the "Applicable Deadline"). Any discussions, negotiations or mediations between the parties pursuant to this Agreement or otherwise will not toll the Applicable Deadline unless expressly agreed in writing by the parties. Each of the parties agrees on behalf of itself and each member of its Group that if an Arbitration Demand Notice with respect to a dispute, controversy or claim is not given prior to the expiration of the Applicable Deadline, as between or among the parties and the members of their Groups, such dispute, controversy or claim will be barred. Subject to Sections 9.7(d) and 9.8, upon delivery of an Arbitration Demand Notice pursuant to Section 9.3(a) prior to the Applicable Deadline, the dispute, controversy or claim shall be decided by a sole arbitrator in accordance with the rules set forth in this Article IX.

9.4 ARBITRATORS. (a) Within 15 days after a valid Arbitration Demand Notice is given, the parties involved in the dispute, controversy or claim referenced therein shall attempt to select a sole arbitrator satisfactory to all such parties.

(b) In the event that such parties are not able jointly to select a sole arbitrator within such 15-day period, such parties shall each appoint an arbitrator (who need not be disinterested as to the parties or the matter) within 30 days after delivery of the Arbitration Demand Notice. If one party appoints an arbitrator within such time period and the other party or parties fail to appoint an arbitrator within such time period, the arbitrator appointed by the one party shall be the sole arbitrator of the matter.

(c) In the event that a sole arbitrator is not selected pursuant to paragraph (a) or (b) above, the two arbitrators will, within 30 days after the appointment of the later of them to be appointed, select an additional arbitrator who shall act as the sole arbitrator of the dispute. After selection of such sole arbitrator, the initial arbitrators shall have no further role with respect to the dispute. In the event that the arbitrators so appointed do not, within 30 days after the appointment of the later of them to be appointed, agree on the selection of the sole arbitrator, any party involved in such dispute may apply to the Senior Judge of the U.S. District Court for the Southern District of Texas to select the sole arbitrator, which selection shall be made by such organization within 30 days after such application. Any arbitrator selected pursuant to this paragraph (c) shall be disinterested with respect to each of the parties and shall be reasonably competent in the applicable subject matter.

(d) The sole arbitrator selected pursuant to paragraph (a), (b) or (c) above will set a time for the hearing of the matter which will commence no later than 90 days after the date of appointment of the sole arbitrator pursuant to paragraph (a), (b) or (c) above and which hearing will be no longer than 30 days (unless in the judgment of the arbitrator the matter is unusually complex and sophisticated and thereby requires a longer time, in which event such

hearing shall be no longer than 90 days). The final decision of such arbitrator will be rendered in writing to the parties not later than 60 days after the last hearing date, unless otherwise agreed by the parties in writing.

(e) The place of any arbitration hereunder will be Houston, Texas, unless otherwise agreed by the parties.

9.5 HEARINGS. Within the time period specified in Section 9.4(d), the matter shall be presented to the arbitrator at a hearing by means of written submissions of memoranda and verified witness statements, filed simultaneously, and responses, if necessary in the judgment of the arbitrator or both the parties. If the arbitrator deems it to be essential to a fair resolution of the dispute, live cross-examination or direct examination may be permitted, but is not generally contemplated to be necessary. The arbitrator shall actively manage the arbitration with a view to achieving a just, speedy and cost-effective resolution of the dispute, claim or controversy. The arbitrator may, in his or her discretion, set time and other limits on the presentation of each party's case, its memoranda or other submissions, and refuse to receive any proffered evidence, which the arbitrator, in his or her discretion, finds to be cumulative, unnecessary, irrelevant or of low probative nature. Except as otherwise set forth herein, any arbitration hereunder will be conducted in accordance with the procedures of the Center for Public Resources of New York ("CPR"). Except as expressly set forth in Section 9.8(b), the decision of the arbitrator will be final and binding on the parties, and judgment thereon may be had and will be enforceable in any court having jurisdiction over the parties. Arbitration awards will bear interest at an annual rate of the Prime Rate plus 2% per annum, subject to any maximum amount permitted by applicable law. To the extent that the provisions of this Agreement and the prevailing rules of the CPR conflict, the provisions of this Agreement shall govern.

9.6 DISCOVERY AND CERTAIN OTHER MATTERS. (a) Any party involved in a dispute subject to this Article IX may request limited document production from the other party or parties of specific and expressly relevant documents, with the reasonable expenses of the producing party incurred in such production paid by the requesting party. Any such discovery (which right to documents shall be substantially less than document discovery rights prevailing under the Federal Rules of Civil Procedure) shall be conducted expeditiously and shall not cause the hearing provided for in Section 9.5 to be adjourned except upon consent of all parties involved in the applicable dispute or upon an extraordinary showing of cause demonstrating that such adjournment is necessary to permit discovery essential to a party to the proceeding. Depositions, interrogatories or other forms of discovery (other than the document production set forth above) shall not occur except by consent of the parties involved in the applicable dispute. Disputes concerning the scope of document production and enforcement of the document production requests will be determined by written agreement of the parties involved in the applicable dispute or, failing such agreement, will be referred to the arbitrator for resolution. All discovery requests will be subject to the parties' rights to claim any applicable privilege. The arbitrator will adopt procedures to protect the proprietary rights of the parties and to maintain the confidential treatment of the arbitration proceedings (except as may be required by law). Subject to the foregoing, the arbitrator shall have the power to issue subpoenas to compel the production or documents relevant to the dispute, controversy or claim.

(b) The arbitrator shall have full power and authority to determine issues of arbitrability but shall otherwise be limited to interpreting or construing the applicable provisions of this Agreement or any Ancillary Agreement, and will have no authority or power to limit, expand, alter, amend, modify, revoke or suspend any condition or provision of this Agreement or any Ancillary Agreement; it being understood, however, that the arbitrator will have full authority to implement the provisions of this Agreement or any Ancillary Agreement, and to fashion appropriate remedies for breaches of this Agreement (including interim or permanent injunctive relief); provided that the arbitrator shall not have (i) any authority in excess of the authority a court having jurisdiction over the parties and the controversy or dispute would have absent these arbitration provisions or (ii) any right or power to award punitive or treble damages. It is the intention of the parties that in rendering a decision the arbitrator give effect to the applicable provisions of this Agreement and the Ancillary Agreements and follow applicable law (it being understood and agreed that this sentence shall not give rise to a right of judicial review of the arbitrator's award).

(c) If a party fails or refuses to appear at and participate in an arbitration hearing after due notice, the arbitrator may hear and determine the controversy upon evidence produced by the appearing party.

(d) Arbitration costs will be borne equally by each party involved in the mater, except that each party will be responsible for its own attorney's fees and other costs and expenses, including the costs of witnesses selected by such party.

9.7 CERTAIN ADDITIONAL MATTERS. (a) Except as to arbitration of cases arising under or related to the Genco Option Agreement, any arbitration award shall be a bare award limited to a holding for or against a party and shall be without findings as to facts, issues or conclusions of law (including with respect to any matters relating to the validity or infringement of patents or patent applications) and shall be without a statement of the reasoning on which the award rests, but must be in adequate form so that a judgment of a court may be entered thereupon. Judgment upon any arbitration award hereunder may be entered in any court having jurisdiction thereof.

(b) Prior to the time at which an arbitrator is appointed pursuant to Section 9.4, any party may seek one or more temporary restraining orders in a court of competent jurisdiction if necessary in order to preserve and protect the status quo. Neither the request for, or grant or denial of, any such temporary restraining order shall be deemed a waiver of the obligation to arbitrate as set forth herein and the arbitrator may dissolve, continue or modify any such order. Any such temporary restraining order shall remain in effect until the first to occur of the expiration of the order in accordance with its terms or the dissolution thereof by the arbitrator.

(c) Except as required by law, the parties shall hold, and shall cause their respective officers, directors, employees, agents and other representatives to hold, the existence, content and result of mediation or arbitration in confidence in accordance with the provisions of Article X and except as may be required in order to enforce any award. Each of the parties shall request that any mediator or arbitrator comply with such confidentiality requirement.

(d) In the event that at any time the sole arbitrator shall fail to serve as an arbitrator for any reason, the parties shall select a new arbitrator who shall be disinterested as to the parties and the matter in accordance with the procedures set forth herein for the selection of the initial arbitrator. The extent, if any, to which testimony previously given shall be repeated or as to which the replacement arbitrator elects to rely on the stenographic record (if there is one) of such testimony shall be determined by the replacement arbitrator.

9.8 ARBITRATION OF GENCO OPTION AGREEMENT CASES. In cases arising under or related to the Genco Option Agreement:

(a) The proposed final decision of the Arbitrator shall be rendered pursuant to Section 9.4(d), but shall invite the parties to submit findings of facts and conclusions of law for use by the Arbitrator in drawing up his final arbitral award.

(b) The final award shall expressly set forth sufficient findings of fact and conclusions of law to support a final judgment under Texas law based upon the arbitration award. Any exercise of discretion shall be limited by the standards applicable to trial court judges.

(c) A full record, including a stenographic transcription of oral testimony, evidence shall be maintained by the Arbitrator and forwarded to a court of competent jurisdiction in the event of appeal.

(d) The final award shall be appealable to the courts of Texas to the full extent permitted by laws, and such courts shall have all of such power to review, correct, reverse, modify, remand or otherwise adjudicate such appeal as Texas law may allow.

9.9 CONTINUITY OF SERVICE AND PERFORMANCE. Unless otherwise agreed in writing, the parties will continue to provide service and honor all other commitments under this Agreement and each Ancillary Agreement during the course of dispute resolution pursuant to the provisions of this Article IX with respect to all matters not subject to such dispute, controversy or claim.

9.10 LAW GOVERNING ARBITRATION PROCEDURES. The interpretation of the provisions of this Article IX, only insofar as they relate to the agreement to arbitrate and any procedures pursuant thereto, shall be governed by the Arbitration Act and other applicable federal law. In all other respects, the interpretation of this Agreement shall be governed as set forth in Section 11.3.

ARTICLE X

COVENANTS AND OTHER MATTERS

10.1 OTHER AGREEMENTS. In addition to the specific agreements, documents and instruments annexed to this Agreement, REI and Resources agree to execute or cause to be executed by the appropriate parties and deliver, as appropriate, such other agreements, instruments and other documents as may be necessary or desirable in order to effect the purposes of this Agreement and the Ancillary Agreements.

10.2 FURTHER INSTRUMENTS. At the request of Resources and without further consideration, REI will execute and deliver, and will cause its applicable Subsidiaries to execute and deliver, to Resources and its Subsidiaries such other instruments of transfer, conveyance, assignment, substitution and confirmation and take such action as Resources may reasonably deem necessary or desirable in order more effectively to transfer, convey and assign to Resources and its Subsidiaries and confirm Resources' and its Subsidiaries' title to all of the assets, rights and other things of value contemplated to be transferred to Resources and its Subsidiaries pursuant to this Agreement, the Ancillary Agreements, and any documents referred to therein, to put Resources and its Subsidiaries in actual possession and operating control thereof and to permit Resources and its Subsidiaries to exercise all rights with respect thereto (including, without limitation, rights under contracts and other arrangements as to which the consent of any third party to the transfer thereof shall not have previously been obtained). At the request of REI and without further consideration, Resources will execute and deliver, and will cause its applicable Subsidiaries to execute and deliver, to REI and its Subsidiaries all instruments, assumptions, novations, undertakings, substitutions or other documents and take such other action as REI may reasonably deem necessary or desirable in order to have Resources fully and unconditionally assume and discharge the liabilities contemplated to be assumed by Resources under this Agreement, any Ancillary Agreement or any document in connection herewith and to relieve the REI Group of any liability or obligation with respect thereto and evidence the same to third parties. Neither REI nor Resources shall be obligated, in connection with the foregoing, to expend money other than reasonable out-of-pocket expenses, attorneys' fees and recording or similar fees. Furthermore, each party, at the request of another party hereto, shall execute and deliver such other instruments and do and perform such other acts and things as may be necessary or desirable for effecting completely the consummation of the transactions contemplated hereby.

10.3 AGREEMENT FOR EXCHANGE OF INFORMATION. Each of REI and Resources agrees to provide, or cause to be provided, to each other as soon as reasonably practicable after written request therefor, any Information in the possession or under the control of such party that the requesting party reasonably needs (i) to comply with reporting, disclosure, filing or other requirements imposed on the requesting party (including under applicable securities laws) by a Governmental Authority having jurisdiction over the requesting party, (ii) for use in any Regulatory Proceeding, judicial proceeding or other proceeding or in order to satisfy audit, accounting, claims, regulatory, litigation or other similar requirements, (iii) to comply with its obligations under this Agreement or any Ancillary Agreement or (iv) in connection with the ongoing businesses of REI or Resources as it relates to the conduct of such businesses prior to the Distribution Date, as the case may be; provided, however, that in the event that any party determines that any such provision of Information could be commercially detrimental, violate any law or agreement, or waive any attorney-client privilege, the parties shall take all reasonable measures to permit the compliance with such obligations in a manner that avoids any such harm or consequence.

(a) After the Separation Date, (i) each party shall maintain in effect at its own cost and expense adequate systems and controls for its business to the extent necessary to enable the other party to satisfy its reporting, accounting, audit and other obligations, and (ii) each party shall provide, or cause to be provided, to the other party and its Subsidiaries in such form as such requesting party shall request, at no charge to the requesting party, all financial and other data

and information as the requesting party determines necessary or advisable in order to prepare its financial statements and reports or filings with any Governmental Authority.

(b) Any Information owned by a party that is provided to a requesting party pursuant to this Section 10.3 shall be deemed to remain the property of the providing party. Unless specifically set forth herein, nothing contained in this Agreement shall be construed as granting or conferring rights of license or otherwise in any such Information.

(c) To facilitate the possible exchange of Information pursuant to this Section 10.3 and other provisions of this Agreement after the Distribution Date, each party agrees to use its reasonable commercial efforts to retain all Information in its respective possession or control on the Distribution Date substantially in accordance with its policies as in effect on the Separation Date. Resources shall not amend its or its Subsidiaries' record retention policies prior to the Distribution Date without the consent of REI. However, except as set forth in the Tax Allocation Agreement, at any time after the Distribution Date, each party may amend their respective record retention policies at such party's discretion; provided, however, that if a party desires to effect the amendment within three (3) years after the Distribution Date, the amending party must give thirty (30) days prior written notice of such change in the policy to the other party to this Agreement. No party will destroy, or permit any of its Subsidiaries to destroy, any Information that exists on the Separation Date (other than Information that is permitted to be destroyed under the current record retention policy of such party) without first using its reasonable commercial efforts to notify the other party of the proposed destruction and giving the other party the opportunity to take possession of such Information prior to such destruction.

(d) No party shall have any liability to any other party in the event that any Information exchanged or provided pursuant to this Section is found to be inaccurate, in the absence of willful misconduct by the party providing such Information. No party shall have any liability to any other party if any Information is destroyed or lost after reasonable commercial efforts by such party to comply with the provisions of Section 10.3(c).

(e) The rights and obligations granted under this Section 10.3 are subject to any specific limitations, qualifications or additional provisions on the sharing, exchange or confidential treatment of Information set forth in this Agreement and any Ancillary Agreement.

(f) Each party hereto shall, except in the case of a dispute subject to this Article IX brought by one party against another party (which shall be governed by such discovery rules as may be applicable under Article IX or otherwise), use its reasonable commercial efforts to make available to each other party, upon written request, the former, current and future directors, officers, employees, other personnel and agents of such party as witnesses and any books, records or other documents within its control or which it otherwise has the ability to make available, to the extent that any such person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with any Regulatory Proceeding, judicial proceeding or other proceeding in which the requesting party may from time to time be involved, regardless of whether such Regulatory Proceeding, judicial proceeding or other proceeding is a matter with respect to which indemnification may be sought hereunder. The requesting party shall bear all costs and expenses in connection therewith.

(g) To the extent Resources or a member of the Resources Group is deemed or determined by the PUCT by final order no longer subject to rehearing by the PUCT to be an "affiliate" or a "competitive affiliate" of REI, Resources and REI shall observe any applicable requirements of the Utilities Code, PUCT rules and of the REI code of conduct and shall require their respective personnel and contractor personnel to observe that code of conduct. No member of the REI Group or the Resources Group shall directly or indirectly make application or request to the PUCT to make such a finding or determination nor will any member of the REI Group or the Resources Group directly or indirectly take a position in support of such a finding or determination.

10.4 AUDITORS AND AUDITS; ANNUAL AND QUARTERLY STATEMENTS AND ACCOUNTING. (a) Each party agrees that, for so long as Resources remains a Subsidiary of REI, and with respect to any financial reporting period during which Resources was a Subsidiary of REI:

(i) Resources shall not select a different accounting firm than the firm selected by REI to audit its financial statements to serve as its independent certified public accountants (the "Resources Auditors") for purposes of providing an opinion on its consolidated financial statements without REI's prior written consent (which shall not be unreasonably withheld).

(ii) Resources shall use its reasonable commercial efforts to enable the accounting firm that audits its financial statements (the "Resources Auditors") to complete their audit such that they will date their opinion on Resources' audited annual financial statements on the same date that REI's Auditors date their opinion on REI's audited annual financial statements, and to enable REI to meet its timetable for the printing, filing and public dissemination of REI's annual financial statements. Resources shall use its reasonable commercial efforts to enable the Resources Auditors to complete their quarterly review procedures such that they will provide clearance on Resources' quarterly financial statements on the same date that REI's Auditors provide clearance on REI's quarterly financial statements.

(iii) Resources shall provide to REI on a timely basis all Information that REI reasonably requires to meet its schedule for the preparation, printing, filing, and public dissemination of REI's annual and quarterly financial statements. Without limiting the generality of the foregoing, Resources will provide all required financial information with respect to Resources and its Subsidiaries to the Resources Auditors in a sufficient and reasonable time and in sufficient detail to permit the Resources Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to REI's Auditors with respect to Information to be included or contained in REI's annual and quarterly financial statements. Similarly, REI shall provide to Resources on a timely basis all Information that Resources reasonably requires to meet its schedule for the preparation, printing, filing, and public dissemination of Resources' annual and quarterly financial statements. Without limiting the generality of the foregoing, REI will provide all required financial Information with respect to REI and its

Subsidiaries to REI's Auditors in a sufficient and reasonable time and in sufficient detail to permit REI's Auditors to take all steps and perform all reviews necessary to provide sufficient assistance to the Resources Auditors with respect to Information to be included or contained in Resources' annual and quarterly financial statements.

(iv) Resources shall authorize the Resources Auditors to make available to REI's Auditors both the personnel who performed or are performing the annual audits and quarterly reviews of Resources and work papers related to the annual audits and quarterly reviews of Resources, in all cases within a reasonable time prior to the Resources Auditors' opinion date, so that REI's Auditors are able to perform the procedures they consider necessary to take responsibility for the work of the Resources Auditors as it relates to REI's Auditors' report on REI's financial statements, all within sufficient time to enable REI to meet its timetable for the printing, filing and public dissemination of REI's annual and quarterly statements. Similarly, REI shall authorize REI's Auditors to make available to the Resources Auditors both the personnel who performed or are performing the annual audits and quarterly reviews of REI and work papers related to the annual audits and quarterly reviews of REI, in all cases within a reasonable time prior to REI's Auditors' opinion date, so that the Resources Auditors are able to perform the procedures they consider necessary to take responsibility for the work of REI's Auditors as it relates to the Resources Auditors' report on Resources' financial statements, all within sufficient time to enable Resources to meet its timetable for the printing, filing and public dissemination of Resources' annual and quarterly financial statements.

(v) Resources may not change its accounting principles or practices if a change in such accounting principle or practice would be required to be disclosed in Resources' financial statements as filed with the SEC or otherwise publicly disclosed therein without the prior written consent of REI, except for changes which are required by GAAP and as to which there is no discretion on the part of Resources, as concurred in by Resources Auditors prior to its implementation. Resources shall give REI as much prior notice as reasonably practical of any proposed determination of, or any significant changes in, its accounting estimates or, subject as aforesaid, accounting principles from those in effect on the Separation Date. Resources will consult with REI and, if requested by REI, Resources will consult with REI's Auditors with respect thereto. REI shall give Resources as much prior notice as reasonably practical of any proposed determination of, or any significant changes in, its accounting estimates or accounting principles from those in effect on the Separation Date.

(vi) Nothing in Sections 10.3 and 10.4 shall require Resources to violate any agreement with any third parties regarding the confidentiality of confidential and proprietary information relating to that third party or its business; provided, however, that in the event that Resources is required under Sections 10.3 and 10.4 to disclose any such information, Resources shall use all commercially reasonable efforts to seek to obtain such third party's consent to the

disclosure of such information. Similarly, nothing in Sections 10.3 and 10.4 shall require REI to violate any agreement with any third parties regarding the confidentiality of confidential and proprietary information relating to that third party or its business; provided, however, that in the event that REI is required under Sections 10.3 and 10.4 to disclose any such information, REI shall use all commercially reasonable efforts to seek to obtain such third party's consent to the disclosure of such information.

(b) For so long as REI beneficially owns shares representing 20% or more of the voting power of the outstanding Resources Common Stock (i) Resources will furnish REI within nine (9) business days after the end of each quarter and eleven (11) business days after the end of each fiscal year, the unaudited balance sheet, income statement and statement of cash flows of Resources and its Subsidiaries as at the end of such period, (ii) Resources shall furnish to REI such financial information or documents in the possession of Resources and any of its Subsidiaries as REI may reasonably request, and (iii) Resources shall furnish to REI on a monthly basis such management and other periodic reports related to financial information in the form and substance consistent with the practice of Resources as of the date of this Agreement. For so long as REI beneficially owns shares representing 50% or more of the voting power of all of the outstanding Resources Common Stock, Resources will furnish REI the consolidated balance sheet, consolidated income statement and consolidated statement of cash flows, if any, of Resources and its Subsidiaries as at the end of each such quarterly and annual period in the form and substance consistent with the practice of Resources as of the date of this Agreement.

10.5 AUDIT RIGHTS. To the extent any member of the REI group provides goods or services to any member of the Resources Group or any member of the Resources Group provides goods or services to a member of the REI Group under this Agreement or under any Ancillary Agreement, the company providing such goods or services (the "Providing Company") shall maintain complete and accurate books and records relating to costs and charges made to the company receiving such goods and services (the "Receiving Company"). Books and accounts shall be maintained in accordance with generally accepted accounting principles, consistently applied, and to the extent such books and records relate to regulated business activities, shall conform to any applicable regulatory code of accounts which the Receiving Company is required to comply with, to the extent such conformity is reasonably feasible. If conformity to a regulatory code of accounts is infeasible, the Providing Company shall maintain its books and records related to the provision of goods and services in such a manner that the Receiving Company may readily reconcile such books and records to the applicable code of accounts. Annually, the Receiving Company shall be entitled to audit the Providing Company's books and records related to the goods and services provided, using its own personnel or personnel from its independent auditing firm. Discrepancies identified as a result of any audit shall be promptly reconciled between the parties in accordance with any provisions of the Ancillary Agreement or, if no such provision is applicable, in accordance with the dispute resolution provisions of this Agreement. Any charge which is not questioned by the Receiving Company within the calendar year after the charge was rendered shall be deemed incontestable.

10.6 PRESERVATION OF LEGAL PRIVILEGES. REI and Resources recognize that the members of their respective groups possess and will possess information and advice that has been previously developed but is legally protected from disclosure under legal privileges, such as

the attorney-client privilege or work product exemption and other concepts of legal protection ("Privilege"). Each party recognizes that they shall be jointly entitled to the Privilege with respect to such privileged information and that each shall be entitled to maintain and use for its own benefit all such information and advice, but both parties shall ensure that such information is maintained so as to protect the Privileges with respect to the other party's interest. To that end neither party will knowingly waive or compromise any Privilege associated with such information and advice without the consent of the other party. In the event that privileged information is required to be disclosed to any arbitrator or mediator in connection with a dispute between the parties, such disclosure shall not be deemed a waiver of Privilege with respect to such information, and any party receiving it in connection with a proceeding shall be informed of its nature and shall be required to safeguard and protect it.

10.7 PAYMENT OF EXPENSES. Resources shall pay all underwriting fees, discounts and commissions and other direct costs incurred in connection with the IPO. Except as otherwise provided in this Agreement, the Ancillary Agreements or any other agreement between the parties relating to the Separation, the IPO or the Distribution, all other out-of-pocket costs and expenses of the parties hereto in connection with the preparation of this Agreement and the Ancillary Agreements, the Separation, the IPO and the Distribution shall be paid by REI. Notwithstanding the foregoing, Resources shall pay any internal fees, costs and expenses incurred by Resources in connection with the Separation, the IPO and the Distribution.

10.8 GOVERNMENTAL APPROVALS. The parties acknowledge that certain of the transactions contemplated by this Agreement and the Ancillary Agreements are subject to certain conditions established by applicable government regulations, orders, and approvals ("Existing Authority"). The parties intend to implement this Agreement, the Ancillary Agreements and the transactions contemplated thereby consistent with and to the extent permitted by Existing Authority and to cooperate toward obtaining and maintaining in effect such Governmental Approvals as may be required in order to implement this Agreement and each of the Ancillary Agreements as fully as possible in accordance with their respective terms. To the extent that any of the transactions contemplated by this Agreement or any Ancillary Agreement require any Governmental Approvals, the parties will use their reasonable commercial efforts to obtain any such Governmental Approvals.

10.9 REGULATORY PROCEEDINGS. It is recognized and understood that high levels of cooperation and assistance will be required between members of the REI Group and the Resources Group in connection with Regulatory Proceedings necessary to implement the Separation and the Business Separation Plan approved by the PUCT and all matters relating to the Genco Option. During the period from the Separation Date until an order issued by the PUCT in connection with the stranded cost determination regarding the Genco Assets becomes final and nonappealable, the parties agree as follows:

(a) Upon reasonable request, members of the REI Group and of the Resources Group will provide personnel, information and other assistance to members of the other group in order to prepare, file and prosecute to completion Regulatory Proceedings which are either (i) required to be filed under the Utilities Code or under the Business Separation Plan or (ii) deemed by the requesting party to be desirable to implement or preserve some aspect of the Separation contemplated herein.

(b) Assistance provided may, without limitation, relate to information that has been transferred to or retained by the assisting party in the separation or which the assisting party is uniquely qualified to provide in connection with Regulatory Proceedings that relate to the Separation and its implementation under the Utilities Code. Assistance may take the form of developing, filing and giving testimony and reports to the PUCT or other regulatory authority.

(c) The appropriate members of the REI Group or the Resources Group shall timely file with the PUCT or other regulatory authority or court and shall prosecute to completion all Regulatory Proceedings required to implement the Business Separation Plan approved by the PUCT, the Genco Option and the other provisions of this Agreement, such as, without limitation, filings to terminate the "Price To Beat" obligation, if appropriate, the determination of any "clawback" related to retail customers served by Reliant Energy Retail Services, and the determination of stranded costs related to the Genco Assets.

(d) A member of the REI Group shall make all regulatory filings contemplated above in this Section 10.9 except where a member of the Resources Group is required by the Utilities Code to file separately or join in such filings. A member of the REI Group will be responsible for the direction and prosecution of all Regulatory Proceedings in which REI Group filings are made, except as follows: A member of the Resources Group will be responsible for filing on behalf of and in the name of the REI Group, and shall have sole responsibility and control of the direction and prosecution of (i) any filing pursuant to Utilities Code Section 39.202(j) and (ii) that portion of any filing pursuant to Utilities Code Section 39.262(e) which pertains to the reconciliation of the Price to Beat and market prices and the determination of any credits to REI under that subsection. With respect to the filings specified in the immediately preceding sentence, the Resources Group shall be entitled to act for and be subrogated to the interests of the REI Group. A member of the Resources Group will be responsible for filing in its own name and shall have sole responsibility and control of proceedings to establish, revise or adjust the Price to Beat.

(e) Except as provided below, the party supplying assistance shall be reimbursed for costs incurred in providing assistance. For time expended by its personnel, the assisting party shall be reimbursed for actual salary costs, plus payroll burdens and overhead allocations in accordance with its standard procedures for reimbursing other members of its group. Services provided for information technology or other internal services shall be charged in the same manner they would be charged among the members of the providing company's Group, and out of pocket costs paid to third parties shall be reimbursed at actual cost.

(f) The party requesting assistance shall endeavor to minimize the impacts of such assistance on the other business needs of the assisting party.

(g) Until the issuance of a Final Order determining the stranded costs with respect to the Genco Assets (the "Stranded Cost Order"), no member of the REI Group or the Resources Group will, directly or indirectly, without express written permission, assert a position which is adverse to the position of a member of the other in a Regulatory Proceeding before the PUCT, the Texas Legislature or any other regulatory authority having jurisdiction over a member of such Group, with respect to amendment or other revision to Senate Bill 7 or the Utilities Code.

(h) Until the issuance of the Stranded Cost Order, no member of the Resources Group will, directly or indirectly, without the express written permission of REI, assert a position which is adverse to the position of a member of the REI Group in Regulatory Proceedings before the PUCT or any other regulatory authority having jurisdiction over a member of the REI Group with respect to the following matters: (i) stranded cost quantification or recovery or (ii) the proper level or components of T&D Utility rates, provided, however, that positions taken by a member of the Resources Group relating solely to the allocation of costs or the use of a rate design consistent with Price to Beat rate designs will not be considered adverse positions even if such positions differ from those asserted by members of the REI Group. REI will not unreasonably withhold permission for a member of the Resources Group to take positions which may be indirectly adverse to its own position. In any T&D Utility rate case that proposes rates to be effective prior to the issuance of the Stranded Cost Order, any direct case presented by the REI Group shall be based upon a T&D Utility rate design that is substantially similar to either the Price to Beat rate design or the rate design approved by the PUCT in PUCT Docket No. 22355.

10.10 CONTINUANCE OF REI CREDIT SUPPORT; BORROWINGS. Notwithstanding any other provision of this Agreement or the provisions of any Ancillary Agreement to the contrary, the parties hereby agree that REI and each Subsidiary of REI shall maintain in full force and effect each guarantee, letter of credit, keepwell or support agreement or other credit support document, instrument or other similar arrangement issued for the benefit of any Person in the Resources Group by or on behalf of REI or a Subsidiary of REI (the "Credit Support Arrangements") which is outstanding as of the Separation Date, until the earlier of (a) such time as such Credit Support Arrangement terminates in accordance with its terms or is otherwise released at the request of Resources or (b) the Distribution Date; provided, that Resources shall use commercially reasonable efforts, at the request of REI, to attempt to release or replace any Credit Support Arrangement for which such replacement or release is reasonably available. All such obligations shall be deemed Resources Liabilities. For so long as REI or any Subsidiary of REI remains liable with respect to any such Credit Support Arrangement, (1) Resources shall pay, or cause the Person in the Resources Group for whose benefit the Credit Support Arrangement is provided to pay, the underlying obligation as and when the same shall become due and payable, to the end that neither REI nor such Subsidiary of REI shall be required to make any payment under or by reason of its obligation under such Credit Support Arrangement and (2) REI or such Subsidiary shall retain all rights of reimbursement and subrogation it may have, whether arising by law, by contract or otherwise, with respect to such Credit Support Arrangement and such rights shall be enforceable against Resources as well as the Subsidiary of Resources for whose benefit the Credit Support Arrangement was made. Members of the REI Group may advance funds to or borrow funds from members of the Resources Group from time to time at market-based rates; provided, however, that except as provided in the Genco Option Agreement, no member of the REI Group or the Resources Group shall have any obligation to do so.

To the extent covenants and agreements contained in any loan or credit agreement or other financing document in effect on the date of this Agreement to which any member of the REI Group is a party requires, or requires such party to cause, any member of the Resources Group to take or refrain from taking any action, or provides for a default or event of default if any member of the Resources Group takes or refrains from taking any action, such member of the Resources

Group shall at all times prior to the Distribution Date, take or refrain from taking any such action as would result in a breach or violation of, or a default under, such agreement.

10.11 CERTAIN NON-COMPETITION PROVISIONS; FREEDOM OF ACTION. In order to preserve the separation of its Texas businesses as contemplated in the Business Separation Plan as approved by the PUCT and to protect the goodwill associated with the separate businesses, for a period of three years after the Choice Date the parties agree that they will conduct their respective businesses as follows:

(a) Neither REI, Regco nor any Affiliate or successor in interest of REI or Regco will sell electricity at retail or provide data, voice or video transmission services as a commercial activity for profit to retail customers within the State of Texas, and

(b) Neither REI, Regco nor any Affiliate or successor in interest of REI or Regco will acquire or operate any electric generating facilities within the State of Texas other than the Genco Assets;

provided, however, neither REI nor Resources shall be restricted from providing natural gas and other non-electric energy commodities, and REI and its affiliates shall not be restricted from providing fuel cells, microturbines and similar distributed generating devices having an individual unit capacity less than 10 MW, including the installation, operation and maintenance associated with those devices. Nor shall REI and its Affiliates be precluded from providing energy services of the type and character currently being provided so long as it does not provide sales of electricity to customers as a Retail Electric Provider.

10.12 CLAWBACK PAYMENT. Resources will pay to REI the lesser of (i) the amount required to be credited to REI by its affiliated retail electric provider pursuant to Section 39.262(e) of the Utilities Code promptly following the determination that such a payment is owed and the amount thereof and (ii) $150 multiplied by the number of residential or small commercial customers served by the affiliated transmission and distribution utility that are buying electricity from the affiliated retail electric provider at the price to beat on the second anniversary of the beginning of competition, minus the number of new customers obtained outside the service area.

10.13 NUCLEAR DECOMMISSIONING TRUST AND INVESTMENT. Upon transfer of the Genco Assets to Genco LP, all rights and obligations associated with REI's interest in the South Texas Project Electric Generating Station shall become the rights and obligations of Genco LP, including, without limitation, the interest of beneficiary under that certain Trust Agreement, originally dated as of July 2, 1990, as amended and restated to date, between Houston Lighting & Power Company and Mellon Bank, N.A., as Trustee. That Trust Agreement, commonly referred to as the "STP Decommissioning Trust," provides for the funding of REI's share of the costs of decontamination and decommissioning of STP. As owner of STP, Genco shall maintain the STP Decommissioning Trust in accordance with NRC requirements and shall order disbursements of funds as provided in the STP Decommissioning Trust and NRC regulations. REI shall continue to collect through rates, or other authorized charges to customers, amounts designated for funding the STP Decommissioning Trust, and shall promptly pay all such

amounts that it collects to Genco. Genco shall deposit and maintain all such amounts with the Trustee under the STP Decommissioning Trust.

Under the STP Decommissioning Trust, REI has appointed an Investment Advisory Committee to provide guidelines for the Trustee in the investment of the trust funds. Genco shall maintain that Investment Advisory Committee as a four-member committee, and following the Restructuring, Genco and REI shall each appoint two representatives to the Investment Advisory Committee.

Upon decommissioning of STP, in the event that funds from the STP Decommissioning Trust should prove inadequate to fund Genco's obligations under the terms of its NRC license and NRC regulations, REI shall collect through rates, or other authorized charges to customers, as contemplated by Section 39.205 of the Utilities Code, all additional amounts required to fund Genco's obligations related to the decommissioning of STP and pay all amounts so collected to Genco, and shall indemnify Genco from and against any obligations related to such decommissioning not otherwise satisfied through such collections and pay over the amount of any such shortfall to Genco upon request. Following the completion of decommissioning, if surplus funds remain in the STP Decommissioning Trust, such excess shall be refunded to REI.

10.14 AUCTIONS OF CAPACITY. Prior to the Option Expiration Date, Genco LP (and Genco, as applicable) shall auction all its capacity to purchasers other than Regco or an Affiliate of Regco on the following terms:

(a) 15% REQUIREMENT: Fifteen percent (15%) of its capacity shall be auctioned in accordance with rules prescribed by the PUCT so long as the PUCT rules require an affiliated Power Generation Company to auction capacity. Resources shall not be entitled to participate in or reserve for itself any portion of such capacity that is offered pursuant to PUCT requirements.

(b) REMAINING CAPACITY AUCTION: After deducting capacity required to satisfy operational requirements associated with the capacity auctioned pursuant to PUCT rules, including without limitation the capacity auction and Price to Beat rules and the obligation under the Agreement for Spinning Reserve Service with Central Power and Light Company dated December 30, 1992, the remaining capacity and related ancillary services shall be auctioned to purchasers other than Regco. Prior to each such auction, Genco LP (and Genco, as applicable) shall determine the types of products to be auctioned, taking into consideration anticipated market demand and the Auction Principles included in Schedule 10.14(b). Terms and conditions for the remaining capacity auction shall be established by Genco LP (and Genco, as applicable), and reasonable notice of the products and terms for the auction will be given to Resources but no less than ten business days prior to the scheduled auction date.

(c) ENTITLEMENT AND OBLIGATIONS OF RESOURCES: Resources shall be entitled to purchase at the prices established in each auction fifty percent (50%) (but not less than such percentage) of the capacity auctioned. To exercise its entitlement, Resources will notify Genco LP (and Genco, as applicable) whether it elects to purchase fifty percent (50%) of each product auctioned, and Genco LP (and Genco, as applicable) shall exclude such capacity from the auction. Resources shall give such notification no later than three business days prior to the date

of the auction. Any portion of the capacity that Resources does not reserve through such notification shall be auctioned along with the balance of the capacity being auctioned. Upon determination of auction prices for the products auctioned, Resources shall be obligated to purchase the capacity it elected to reserve from the auction process at the prices set during the auction for that product. If energy and ancillary services are auctioned separately by Genco LP (and Genco, as applicable), Resources shall be entitled to participate in fifty percent (50%) of the offered capacity of each. In addition to its reservation of capacity, and whether or not it has reserved capacity in the auction, Resources shall be entitled to participate in each auction of the remaining capacity.

If Resources exercises the Genco Option, then after the Option Exercise Date and until the Option Closing Date occurs or the Option terminates pursuant to the Genco Option Agreement, Genco shall conduct no auctions of capacity other than those required pursuant to PUCT rules without consulting with Resources and obtaining its reasonable concurrence, not to be unreasonably withheld.

(d) COMPLIANCE WITH PUCT RULES. In the event the rules of the PUCT relating to Price to Beat do not allow for the fuel factor to be adjusted based on the auction of capacity as contemplated in this Section 10.14 or in the event the PUCT, by rule or order, otherwise indicates that the auction of capacity as contemplated in this Section 10.14 would be inconsistent with its requirements, Genco LP (or Genco, as applicable) shall, in consultation with Resources, modify the auction procedures set forth herein or, if an auction would not be acceptable, Resources and Genco LP (or Genco, as applicable) will use their best efforts to reach agreement on a power purchase agreement which would satisfy PUCT requirements and preserve, as nearly as possible, Resources' entitlement to obtain 50 percent of Genco's available capacity at market prices.

(e) RECONCILIATION PAYMENT OBLIGATIONS. Genco or its parent company shall reconcile any difference between the price of power obtained through capacity auctions required by PUCT rules with the PUCT's ECOM model, as required by PUCT rules, and Genco or its parent company shall pay to REI, or REI shall pay to Genco or its parent company as appropriate, the difference between such amounts during the period, to the extent and in the manner required by rules of the PUCT.

10.15 CONFIDENTIALITY.

(a) REI and Resources shall hold and shall cause the members of the REI Group and the Resources Group, respectively, to hold, and shall each cause their respective officers, employees, agents, consultants and advisors to hold, in strict confidence and not to disclose or release without the prior written consent of the other party, any and all Confidential Information (as defined herein); provided, that the parties may disclose, or may permit disclosure of, Confidential Information (i) to their respective auditors, attorneys, financial advisors, bankers and other appropriate consultants and advisors who have a need to know such information and are informed of their obligation to hold such information confidential to the same extent as is applicable to the parties hereto and in respect of whose failure to comply with such obligations, REI or Resources, as the case may be, will be responsible or (ii) to the extent any member of the REI Group or the Resources Group is compelled to disclose any such Confidential Information

by judicial or administrative process or, in the opinion of legal counsel, by other requirements of law. Notwithstanding the foregoing, in the event that any demand or request for disclosure of Confidential Information is made pursuant to clause (ii) above, REI or Resources, as the case may be, shall promptly notify the other of the existence of such request or demand and shall provide the other a reasonable opportunity to seek an appropriate protective order or other remedy, which both parties will cooperate in seeking to obtain. In the event that such appropriate protective order or other remedy is not obtained, the party whose Confidential Information is required to be disclosed shall or shall cause the other party to furnish, or cause to be furnished, only that portion of the Confidential Information that is legally required to be disclosed. As used in this Section 10.15, "Confidential Information" shall mean all proprietary, technical or operational information, data or material of one party which, prior to or following the IPO Closing Date, has been disclosed by REI or members of the REI Group, on the one hand, or Resources or members of the Resources Group, on the other hand, in written, oral (including by recording), electronic, or visual form to, or otherwise has come into the possession of, the other, including pursuant to the access provisions of Section 10.3 hereof or any other provision of this Agreement (except to the extent that such Information can be shown to have been (a) in the public domain through no fault of such party (or, in the case of REI, any other member of the REI Group or, in the case of Resources, any other member of the Resources Group) or (b) later lawfully acquired from other sources by the party (or, in the case of REI, such member of the REI Group or, in the case of Resources, such member of the Resources Group) to which it was furnished; provided, however, in the case of (b) that such sources did not provide such Information in breach of any confidentiality obligations).

(b) Notwithstanding anything to the contrary set forth herein, (i) REI and the other members of the REI Group, on the one hand, and Resources and the other members of the Resources Group, on the other hand, shall be deemed to have satisfied their obligations hereunder with respect to Confidential Information if they exercise the same degree of care (but no less than a reasonable degree of care) as they take to preserve confidentiality for their own similar Information and (ii) confidentiality obligations provided for in any agreement between REI or any other member of the REI Group, or Resources or any other members of the Resources Group, on the one hand, and any employee of REI or any other member of the REI Group, or Resources or any other members of the Resources Group, on the other hand, shall remain in full force and effect. Confidential Information of REI or any other member of the REI Group, on the one hand, or Resources or any other member of the Resources Group, on the other hand, in the possession of and used by the other as of the IPO Closing Date may continue to be used by such Person in possession of the Confidential Information in and only in the operation of the REI Business or the Resources Business, as the case may be, and may be used only so long as the Confidential Information is maintained in confidence and not disclosed in violation of Section 10.15(a). Such continued right to use may not be transferred to any third party unless the third party purchases all or substantially all of the business and assets in which the relevant Confidential Information is used or employed in one transaction or in a series or related transactions. In the event that such right to use is transferred in accordance with the preceding sentence, the transferring party shall not disclose the source of the relevant Confidential Information.

10.16 1000 MAIN LEASE. As soon as reasonably practicable, following the IPO, REI will transfer and assign to Resources the Lease Agreement dated as of February 26, 2001

between Main/Lamar Partnership, L.P. and REI (the "1000 Main Lease") and Resources will assume the obligations of REI thereunder. Such assignment shall be made pursuant to the provisions of Section 8.1.1 of the 1000 Main Lease. Resources will concurrently deliver to the landlord under such 1000 Main Lease a confirmation of assignment and assumption pursuant to Section 8.1.1 of the 1000 Main Lease and will take such action as REI may reasonably request to establish the satisfaction of the Release Conditions referred to therein.

ARTICLE XI

MISCELLANEOUS

11.1 LIMITATION OF LIABILITY. EXCEPT TO THE EXTENT SPECIFICALLY PROVIDED IN ANY ANCILLARY AGREEMENT IN NO EVENT SHALL ANY MEMBER OF THE REI GROUP OR THE RESOURCES GROUP OR THEIR RESPECTIVE DIRECTORS, OFFICERS AND EMPLOYEES BE LIABLE TO ANY OTHER MEMBER OF THE REI GROUP OR THE RESOURCES GROUP FOR ANY SPECIAL, CONSEQUENTIAL, INDIRECT, INCIDENTAL OR PUNITIVE DAMAGES OR LOST PROFITS, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY (INCLUDING NEGLIGENCE) ARISING IN ANY WAY OUT OF THIS AGREEMENT, WHETHER OR NOT SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES; PROVIDED, HOWEVER, THAT THE FOREGOING LIMITATIONS SHALL NOT LIMIT EACH PARTY'S INDEMNIFICATION OBLIGATIONS FOR LIABILITIES TO THIRD PARTIES AS SET FORTH IN THIS AGREEMENT OR ANY ANCILLARY AGREEMENT.

11.2 ENTIRE AGREEMENT. This Agreement, the other Ancillary Agreements and the Exhibits and Schedules referenced or attached hereto and thereto, constitutes the entire agreement between the parties with respect to the subject matter hereof and shall supersede all prior written and oral and all contemporaneous oral agreements and understandings with respect to the subject matter hereof.

11.3 GOVERNING LAW. This Agreement shall be governed and construed and enforced in accordance with the laws of the State of Texas as to all matters regardless of the laws that might otherwise govern under the principles of conflicts of laws applicable thereto.

11.4 TERMINATION. This Agreement and all Ancillary Agreements may be terminated at any time prior to the IPO Closing Date by and in the sole discretion of REI without the approval of Resources. This Agreement may be terminated at any time after the IPO Closing Date by mutual consent of REI and Resources. In the event of termination pursuant to this Section, neither party shall have any liability of any kind to the other party.

11.5 NOTICES. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted

means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to clause (ii) or (iii)), addressed to the attention of the addressee's General Counsel at the address of its principal executive office or to such other address or facsimile number for a party as it shall have specified by like notice.

11.6 COUNTERPARTS. This Agreement, including the Schedules and Exhibits hereto and the other documents referred to herein, may be executed in counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

11.7 BINDING EFFECT; ASSIGNMENT. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. This Agreement may not be assigned by any party hereto.

11.8 SEVERABILITY. If any term or other provision of this Agreement or the Schedules or Exhibits attached hereto is determined by a nonappealable decision by a court, administrative agency or arbitrator to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest extent possible.

11.9 FAILURE OR INDULGENCE NOT WAIVER; REMEDIES CUMULATIVE. No failure or delay on the part of either party hereto in the exercise of any right hereunder shall impair such right or be construed to be a waiver of, or acquiescence in, any breach of any representation, warranty or agreement herein, nor shall any single or partial exercise of any such right preclude other or further exercise thereof or of any other right. All rights and remedies existing under this Agreement or the Schedules or Exhibits attached hereto are cumulative to, and not exclusive of, any rights or remedies otherwise available.

11.10 AMENDMENT. No change or amendment will be made to this Agreement except by an instrument in writing signed on behalf of each of the parties to this Agreement.

11.11 AUTHORITY. Each of the parties hereto represents to the other that (a) it has the corporate or other requisite power and authority to execute, deliver and perform this Agreement and the Ancillary Agreements, (b) the execution, delivery and performance of this Agreement and the Ancillary Agreements by it have been duly authorized by all necessary corporate or other actions, (c) it has duly and validly executed and delivered this Agreement and the Ancillary Agreements to be executed and delivered on or prior to the Separation Date, and (d) this Agreement and such Ancillary Agreements are legal, valid and binding obligations, enforceable against it in accordance with their respective terms subject to applicable bankruptcy, insolvency,

reorganization, moratorium or other similar laws affecting creditors' rights generally and general equity principles.

11.12 INTERPRETATION. The headings contained in this Agreement, in any Exhibit or Schedule hereto and in the table of contents to this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Any capitalized term used in any Schedule or Exhibit but not otherwise defined therein, shall have the meaning assigned to such term in this Agreement. When a reference is made in this Agreement to an Article or a Section, Exhibit or Schedule, such reference shall be to an Article or Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated.

11.13 CONFLICTING AGREEMENTS. In the event of conflict between this Agreement and any Ancillary Agreement or other agreement executed in connection herewith, the provisions of such other agreement shall prevail.

WHEREFORE, the parties have signed this Master Separation Agreement effective as of the date first set forth above.

RELIANT ENERGY, INCORPORATED

By: /s/ David M. McClanahan

David M. McClanahan
Vice Chairman

RELIANT RESOURCES, INC.

By: /s/ R. S. Letbetter

R. S. Letbetter
Chairman, President and
Chief Executive Officer

EXHIBIT 10.2

TRANSITION SERVICES AGREEMENT

between

RELIANT ENERGY, INCORPORATED

and

RELIANT RESOURCES, INC.

TRANSITION SERVICES AGREEMENT

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TRANSITION SERVICES AGREEMENT

THIS TRANSITION SERVICES AGREEMENT, dated as of December 31, 2000 (the "Effective Date"), is between Reliant Energy, Incorporated, a Texas corporation ("REI"), and Reliant Resources, Inc., a Delaware corporation ("Resources"). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article I hereof or as assigned to them in the Master Separation Agreement (as defined below).

WHEREAS, the Board of Directors of REI has determined that it is in the best interests of REI and its shareholders to separate REI's existing businesses into two independent business groups;

WHEREAS, in order to effectuate the foregoing, REI and Resources have entered into a Master Separation Agreement, dated as of the date hereof (the "Separation Agreement"), which provides, among other things, subject to the terms and conditions thereof, for the Separation and the IPO, and the execution and delivery of certain other agreements in order to facilitate and provide for the foregoing; and

WHEREAS, in order to ensure an orderly transition under the Separation Agreement it will be necessary for REI to provide to Resources the Services described herein for a transitional period.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties, intending to be legally bound, agree as follows:

ARTICLE I
DEFINITIONS

For the purpose of this Agreement the following terms shall have the following meanings:

1.1 ADDITIONAL SERVICES. "Additional Services" shall have the meaning set forth in subsection 2.1(c).

1.2 CORPORATE CENTER SERVICES. "Corporate Center Services" shall mean the Services described in Exhibit 2.1(a)(i).

1.3 DISTRIBUTION DATE. "Distribution Date" has the meaning assigned to that term in the Separation Agreement.

1.4 IMPRACTICABLE. "Impracticable" (and words of similar import) shall have the meaning set forth in Section 2.5(b).

1.5 INFORMATION TECHNOLOGY SERVICES. "Information Technology Services" shall mean the Services described in the Service Level Agreements identified in Exhibit 2.1(a)(ii).

1.6 INITIAL SERVICES. "Initial Services" shall have the meaning set forth in Section 2.1(a).

1.7 IPO AND IPO CLOSING DATE. "IPO" and "IPO Closing Date" has the meaning assigned to that term in the Separation Agreement.

1.8 LIABILITY. "Liability" has the meaning assigned to that term in the Separation Agreement.

1.9 PROVIDING COMPANY. "Providing Company" shall mean, with respect to any particular Service, REI, or if a REI Subsidiary is identified on the applicable Exhibit as the party to provide such Service, such REI Subsidiary.

1.10 RECEIVING COMPANY. "Receiving Company" shall mean, with respect to any particular Service, Resources or such Resources Subsidiary or Resources Subsidiaries as may be identified on the applicable Exhibit as the party to receive such Service or as Resources may hereafter designate to receive such Service.

1.11 REI GROUP. "REI Group" shall mean REI and its Subsidiaries excluding Resources and other members of the Resources Group.

1.12 REPRESENTATIVE. "Representative" of any party shall mean a managerial level employee appointed by such party to have the responsibilities and authority set forth in Section 2.9.

1.13 RESOURCES GROUP. "Resources Group" shall mean Resources and its Subsidiaries.

1.14 SERVICE. "Service" shall have the meaning set forth in Section 2.1(c).

1.15 SERVICE LEVEL AGREEMENTS. "Service Level Agreements" shall have the meaning set forth in Section 2.1(e).

1.16 SHARED SERVICES. "Shared Services" shall mean the Services described in Exhibit 2.1(a)(iii) and the Service Level Agreements for such Services.

1.17 SUBSIDIARY. "Subsidiary" shall mean, with respect to REI or Resources, a corporation, partnership, limited liability company or other entity more than 50% of the voting common stock or other interests entitled to vote generally for the election of directors (or comparable governing body) is owned, directly or indirectly, by REI or Resources, respectively.

1.18 SYSTEM. "System" shall mean the software, hardware, data store or maintenance and support components or portions of such components of a set of information technology assets identified in an Exhibit hereto.

ARTICLE II
SERVICES

2.1 SERVICES.

(a) INITIAL SERVICES. Except as otherwise provided herein, during the applicable term determined pursuant to Section 2.7 hereof the following "Initial Services" shall be provided by REI or other Providing Company with respect to a Service to Resources or other Receiving Company with respect to a Service:

(i) CORPORATE CENTER SERVICES described in Exhibit 2.1(a)(i);

(ii) INFORMATION TECHNOLOGY SERVICES described in the Service Level Agreements for the Services identified in Exhibit 2.1(a)(ii); and

(iii) SHARED SERVICES described in Exhibit 2.1(a)(iii) and the Service Level Agreements for the Services identified therein.

(b) FINAL EXHIBITS. The parties have made good faith efforts as of the date hereof to identify each Initial Service and complete the content of each Exhibit or Service Level Agreement pertaining to the Initial Services. To the extent an Exhibit or Service Level Agreement has not been prepared for an Initial Service or an Exhibit or Service Level Agreement is otherwise incomplete as of the date hereof, the parties shall use good faith efforts to prepare or complete Exhibits or Service Level Agreement by the IPO Closing Date. Any Services reflected on any such additional or amended Exhibit or Service Level Agreement shall be deemed an "Initial Service" as if set forth on such Exhibit as of the date hereof.

(c) ADDITIONAL SERVICES.

(i) From time to time after the IPO Closing Date, the parties may identify additional services that one party will provide to the other party in accordance with the terms of this Agreement (the "Additional Services" and, together with the Initial Services, the "Services"). The parties shall create an Exhibit for each Additional Service setting forth a description of the Service, the time period during which the Service will be provided, the charge for the Service and any other terms applicable thereto and obtain the approval of each party's Representative. Except as set forth in Section 2.1(c)(ii), the parties may, but shall not be required to, agree on Additional Services during the term of this Agreement.

(ii) Except as set forth in the next sentence, the Providing Company shall be obligated to perform, at charges established pursuant to Section 2.3, any Additional Service that: (A) was provided by the Providing Company immediately prior to the IPO Closing Date and that Receiving Company reasonably believes was inadvertently or unintentionally omitted from the list of Initial Services or (B) is essential to effectuate an orderly transition under the Separation Agreement unless such performance would significantly disrupt Providing Company's operations or materially increase the scope of its responsibility under this Agreement. If Providing Company reasonably believes the performance of Additional Services required under the foregoing clauses (A) or (B)

would significantly disrupt its operations or materially increase the scope of its responsibility under this Agreement, the Providing Company and Receiving Company shall negotiate in good faith to establish terms under which Providing Company can provide such Additional Services, but the Providing Company shall not be obligated to provide such Additional Services if, following good faith negotiation, it is unable to reach agreement on such terms.

(d) SERVICES PERFORMED BY OTHERS. At its option, a Providing Company may cause any Service it is required to provide hereunder to be provided by another member of the REI Group or by any other Person that is providing, or may from time to time provide, the same or similar services for the Providing Company. The Providing Company shall remain responsible, in accordance with the terms of this Agreement, for performance of any Service it causes to be so provided.

(e) SERVICE LEVEL AGREEMENTS; EFFECT. The Service Level Agreements identified in Exhibits 2.1(a)(ii) and 2.1(a)(iii) are agreements in effect prior to the date of this Agreement for the provision of certain services by REI to Resources or the businesses that have been or are being transferred to Resources. They are referred to in this Agreement for purposes of

(i) identifying Information Technology Services and Shared Services;

(ii) establishing specific bases for charging for Information Technology Services and Shared Services; and

(iii) defining performance metrics or standards and other procedures and requirements with respect to such Information Technology Services and Shared Services.

To the extent so referred to, the applicable provisions of the Service Level Agreements are incorporated herein by reference. Except to the extent provisions thereof are so incorporated by reference herein, from and after the date of this Agreement the Service Level Agreements shall cease to have effect and shall be superseded by this Agreement.

(f) SCALED UP OR MODIFIED SERVICES. If Resources requests the level at which any Service is to be provided to be scaled up to a level in excess of the level in effect on the IPO Closing Date (or, in the case of Corporate Center Services, such levels as may reasonably be expected to result taking into account the status of Resources as a separate public company), or a modification to any Service, Resources shall give REI such advance notice as it may reasonably require sufficient to enable REI to make any necessary preparations to perform such Services on the scaled-up or modified basis, and to develop changes in the cost-based rates for those services as described in Section 2.3(d). For purposes of this Section, the level of a Service shall be considered to be "scaled up" if providing the service at the proposed level involves an increase in personnel, equipment or other resources that is not de minimis and is not reasonably embraced by the agreed definition and scope of that Service prior to the proposed increase.

2.2 SUBSIDIARIES. REI may cause any Service required to be provided hereunder by another member of the REI Group, but unless otherwise specified herein or on an

Exhibit hereto or a Service Level Agreement referred to in an Exhibit, REI shall be responsible for the performance of that Service by the other member of the REI Group. Resources may direct that any Service required to be provided hereunder be provided for the benefit of another member of the Resources Group, but unless specified herein or on an Exhibit hereto or a Service Level Agreement referred to in an Exhibit, Resources shall be responsible for the payment of charges and other performance required of the Receiving Company with respect to such Service.

To the extent REI personnel who traditionally have provided services contemplated by this Agreement are transferred to a similar position with Resources or a member of the Resources Group, such personnel shall continue to provide services to Resources and, until the Distribution Date, will provide such services to REI to the extent REI requests. To the extent such transferred personnel provide services to Resources, REI shall be relieved of its obligations to provide such services to Resources under this Agreement.

If REI personnel necessary to provide services under this Agreement are transferred to Resources before the Distribution Date and REI is thereby rendered unable to continue to provide such services as contemplated by this Agreement, REI shall be excused from its obligations to provide such services, except to the extent either (i) such services can reasonably be provided from personnel remaining with REI without an increase in costs to REI that are not subject to reimbursement under this Agreement or (ii) such services are treated as Additional Services.

Services that Resources provides to REI prior to Distribution Date shall be treated as though Resources is the Providing Company and REI is the Receiving Company under this Agreement and REI shall compensate Resources for such services in the same manner as Resources compensates REI for similar services, and the risk allocation to Resources for such services shall be the same as the risk allocation to REI for the services.

2.3 CHARGES AND PAYMENT.

(a) GENERAL PRINCIPLES RELATING TO CHARGES FOR SERVICES. Subject to the specific terms of this Agreement, the Services will be charged and paid for on the same general basis as has been heretofore in effect, with the intent that such charges shall approximate the fully allocated direct and indirect costs of providing the services, including reimbursement of out-of-pocket third party costs and expenses, but without any element of profit except to the extent routinely included as a component of traditional utility cost of capital. It is the further intent of the parties that (subject as aforesaid) the fully allocated direct and indirect costs incurred by REI and its Subsidiaries in providing Services under this Agreement and similar services to other entities within the REI Group will be charged for on a basis that allocates such costs charged on a fair nondiscriminatory basis. The parties shall use good faith efforts to discuss any situation in which the actual charge for a Service is reasonably expected to exceed the estimated charge, if any, set forth on an Exhibit for a particular Service (or a Service Level Agreement referred to therein), provided, however, that charges incurred in excess of any such estimate shall not justify stopping the provision of, or payment for, Services under this Agreement.

(i) Special Provisions for Corporate Center Services. In the case of Corporate Center Services, the costs of Services included in Exhibit 2.1(a)(i) will be direct billed on the basis of the fully allocated direct and indirect costs of providing those Services determined under the principles set forth in Section 2.3(a) where practicable. The costs of all other Corporate Center Services will be gathered in a common cost pool with similar services provided to other members of the REI Group and allocated to Resources and to other members of the REI Group pursuant to the existing methodology derived from the 1999 corporate cost allocation study conducted for REI by DMG Maximus. As is the case under the current methodology, when there is a significant increase or decrease in one or more components of the cost of providing a Service, or when a category of Services is terminated as provided in Section 2.7, an adjustment to the allocation will be made by REI to reflect such changes. Out-of-pocket costs and expenses will also be included in the charges as provided in this Section 2.3(a).

(ii) Special Provisions for Information Technology Services. In the case of Information Technology Services, Services will be charged for initially based on the rates and usage formulas set forth in the applicable Service Level Agreements referenced in Exhibit 2.1(a)(ii), and shall be adjusted from time to time thereafter. The rates and formulas in effect at the IPO Closing Date will continue in effect until December 31, 2001, unless adjustments prior to that date are required as specified in Section 2.3(b). Out-of-pocket costs and expenses will also be included in the charges as provided in this Section 2.3(a). Subsequent to December 31, 2001, components of rates attributable to equipment usage will be adjusted to reflect compensation for depreciation and return on capital investment.

In the case of any Services associated with facilitating the transition to an independent information technology infrastructure for Resources (as distinguished from the continuation of services of the nature heretofore provided) the scope and pricing of which has not been defined as of the IPO Closing Date, the rates therefor will be determined by REI on the basis of the same cost-based methodology underlying the pricing of other Services provided under this Agreement. REI and Resources will use their respective commercially reasonable efforts to minimize incremental costs of effecting a transition to an independent information technology infrastructure for Resources.

It is understood that, except as otherwise provided herein or agreed in writing, the cost of buying new hardware or obtaining new software licenses specifically for the benefit of Resources shall be the responsibility of Resources.

It is understood that REI's commitment to deliver the level of service specified in the applicable Service Level Agreements is contingent upon adherence by Resources to REI's process and technology standards as currently in effect and as subsequently modified and communicated to Resources.

It is understood that REI is responsible for protecting the performance levels and security of existing systems and IT infrastructure. Accordingly, Resources agrees to review all modifications to any existing system currently running on REI's infrastructure

and to obtain REI's approval, which shall not be unreasonably withheld, for such modifications. Similarly, Resources will review all new systems to be run on REI's infrastructure, or which connect with it, and will obtain REI's approval, which shall not be unreasonably withheld or delayed, before such systems are put in development or production.

It is understood that the rates provided for herein are based on a continuation of REI's centralized information technology infrastructure and organization. If Resources requests changes to any Services provided that require the segmentation of REI's information technology infrastructure into multiple or independent units, REI shall have the right to elect whether or not to provide Services on such changed basis, including the right to establish the economic terms on which it is willing to provide such Services.

(iii) Special Provisions for Shared Services. In the case of Shared Services, the Services will be charged for initially based on the rates and usage formulas set forth in the applicable Service Level Agreements referenced in Exhibit 2.1(a)(iii), and shall be adjusted from time to time thereafter, as provided herein. The rates and formulas in effect at the IPO Closing Date will continue in effect until December 31, 2001, unless adjustments prior to that date are required as specified in Section 2.3(b). Out-of-pocket costs and expenses will also be included in the charges as provided in this Section 2.3(a).

(b) ECONOMIC REOPENER. If, in the case of any Services, events or circumstances arise which, in the opinion of the Providing Company, render the costs of providing such Services as determined under the principles set forth in Section 2.3(a) materially different from those being charged under a specific rate or formula then in effect, the specific rate or formulas shall be equitably adjusted to take into account such events or changed circumstances and bring them into line with the general principles set forth in Section 2.3(a). Rates for a Service will also be adjusted on a pro rata basis whenever the cost of providing the Service increases by reason of the necessity to renegotiate a software license or obtain a new license as a result of the change in the relationship between the Providing Company and the entity to whom the Service is provided.

(c) ANNUAL ADJUSTMENTS. Specific rates and formulas for Services provided hereunder shall be subject to adjustment as of January 1 in each year commencing January 1, 2002 to bring the rates and formulas into conformity with the general principles referred to in Section 2.3(a), based on estimated fixed and variable costs and budgeted usage levels for the year commencing on such January 1.

(d) SCALED UP OR MODIFIED SERVICES. If Resources requests the scaling up or modifications of services under Section 2.1(f), REI shall determine appropriate changes in the charges for such scaled up or modified services in accordance with the general principles set forth in Section 2.3(a) and shall give notice thereof to Resources. REI shall not be required to incur costs or obligations or otherwise commit time and resources to preparation for providing such Services on the scaled up or modified basis (except to the extent necessary to make such determination of appropriate changes in the charges to be made) unless and until Resources gives REI notice that it will accept the charges for such services determined by REI in accordance with this Section 2.3(d). If the scaling up of Services requires the hiring of additional employees by

REI or its Subsidiaries or the procurement of additional equipment or services (other than equipment or services the full cost of which is paid or reimbursed by Resources on a current basis), REI may include in the charges for the scaled up services provisions for recovery (either as part of the periodic rate or as payments due upon termination of the Services) of (a) employee severance expenses and (b) the cost of equipment and systems which REI cannot otherwise recover following termination of the Services, in each case to the extent attributable to the scaled-up service levels. In case any scaling up or modification of services requires the incurrence of costs to implement such modification or scaling up (for example, an SAP change or payroll configuration), REI may charge Resources for such costs on an "up front" basis, in addition to any adjustments in periodic rates occasioned by such scaling up or modification.

(e) CHARGES FOR ADDITIONAL SERVICES. Receiving Company shall pay Providing Company the charges, if any, set forth on each Exhibit hereafter created for each of the Additional Services listed therein. Charges, if any, for other Additional Services, including those required by Section 2.1(c)(ii), shall be determined according to methods in use prior to the IPO Closing Date or such other method as may be mutually agreed that ensures that Providing Company recovers costs and expenses, but without any profit except to the extent routinely included as a component of traditional utility cost of capital, in accordance with subsection 2.3(a). Notwithstanding the foregoing, however, the agreement of a party to provide or receive any Additional Service that is not required pursuant to Section 2.1(c)(ii) at any given rate or charge shall be at the sole discretion of such party.

(f) PAYMENT TERMS. Charges and collections for Services rendered pursuant to this Agreement shall continue to be made using the SAP functionality in use as of the date of this Agreement unless and until either party elects to discontinue such procedures, in which case Providing Company shall thereafter bill Receiving Company monthly for all charges pursuant to this Agreement and Receiving Company shall pay Providing Company for all Services within thirty days after receipt of an invoice therefor. Charges shall be supported by reasonable documentation (which may be maintained in electronic form), consistent with past practices. Late payments shall bear interest at the lesser of the prime rate announced by The Chase Manhattan Bank and in effect from time to time plus two percent (2%) per annum or the maximum non-usurious rate of interest permitted by applicable law.

(g) PERFORMANCE UNDER ANCILLARY AGREEMENTS. Notwithstanding anything to the contrary contained herein, Receiving Company shall not be charged under this Agreement for any Services that are specifically required to be performed under the Separation Agreement or any other Ancillary Agreement and any such other Services shall be performed and charged for in accordance with the terms of the Separation Agreement or such other Ancillary Agreement.

(h) ERROR CORRECTION; TRUE-UPS; ACCOUNTING. Providing Company shall make adjustments to charges as required to reflect the discovery of errors or omissions in charges. Providing Company and Receiving Company shall conduct an annual true up process to adjust charges based on a reconciliation of differences in budgeted usage and costs with actual experience. It is the intent of the parties that such true-up process will be conducted using substantially the same process, procedures and methods of review as have been heretofore in effect. Services under this Agreement and charges therefor shall be subject to the provisions of Section 10.5 of the Separation Agreement (Audit Rights).

2.4 GENERAL OBLIGATIONS; STANDARD OF CARE.

(a) PERFORMANCE METRICS: PROVIDING COMPANY. Subject to Sections 2.3 and 2.5(c), the Providing Company shall maintain sufficient resources to perform its obligations hereunder and shall perform such obligations in a commercially reasonable manner. Specific performance metrics for the Providing Company may be set forth in Exhibits or Service Level Agreements referred to therein. Where none is set forth, the Providing Company shall provide Services in accordance with the policies, procedures and practices in effect before the date of this Agreement and shall exercise the same care and skill as it exercises in performing similar services for itself.

(b) PERFORMANCE METRICS: RECEIVING COMPANY. Specific performance metrics for the Receiving Company may be set forth in Exhibits or Service Level Agreements referred to therein. Where none is set forth, the Receiving Company shall, in connection with receiving Services, follow the policies, procedures and practices in effect before the date of this Agreement including providing information and documentation sufficient for Providing Company to perform the Services as they were performed before the date of this Agreement and making available, as reasonably requested by the Providing Company, sufficient resources and timely decisions, approvals and acceptances in order that Providing Company may accomplish its obligations hereunder in a timely manner.

(c) TRANSITIONAL NATURE OF SERVICES; CHANGES. The parties acknowledge the transitional nature of the Services and that Providing Company may make changes from time to time in the manner of performing the Services if Providing Company is making similar changes in performing similar services for members of its own Group and if Providing Company furnishes to Receiving Company substantially the same notice Providing Company shall provide members of its own Group respecting such changes.

(d) RESPONSIBILITY FOR ERRORS; DELAYS. Providing Company's sole responsibility to Receiving Company:

(i) for errors or omissions in Services, shall be to furnish correct information and/or adjustment in the Services, at no additional cost or expense to Receiving Company; provided, Receiving Company must promptly advise Providing Company of any such error or omission of which it becomes aware after having used reasonable efforts to detect any such errors or omissions in accordance with the standard of care set forth in subsection 2.4(b); and provided, further, that the responsibility to furnish correct information or an adjustment of services at no additional cost or expense to the Receiving Company shall not be construed to require Providing Company to make any payment or incur any Liability for which it is not responsible, or with respect to which it is provided indemnity, under Section 2.8; and

(ii) for failure to deliver any Service because of Impracticability, shall be to use commercially reasonable efforts, subject to subsection 2.5(b), to make the Services available and/or to resume performing the Services as promptly as reasonably practicable.

(e) GOOD FAITH COOPERATION; CONSENTS. The parties will use good faith efforts to cooperate with each other in all matters relating to the provision and receipt of Services. Such cooperation shall include exchanging information, providing electronic access to systems used in connection with Services to the extent the systems in use are designed and configured to permit such access, performing true-ups and adjustments and obtaining all consents, licenses, sublicenses or approvals necessary to permit each party to perform its obligations hereunder. The costs of obtaining such consents, licenses, sublicenses or approvals shall be allocated in accordance with Section 2.3. The parties will maintain documentation supporting the information contained in the Exhibits and cooperate with each other in making such information available as needed in the event of a tax audit, whether in the United States or any other country.

(f) ALTERNATIVES. If Providing Company reasonably believes it is unable to provide any Service because of a failure to obtain necessary consents, licenses, sublicenses or approvals pursuant to subsection 2.4(e) or because of Impracticability, the parties shall cooperate to determine the best alternative approach. Until such alternative approach is found or the problem otherwise resolved to the satisfaction of the parties, the Providing Party shall use commercially reasonable efforts, subject to Section 2.5(b) and Section 2.5(c), to continue providing the Service or, in the case of Systems, to support the function to which the System relates or permit Receiving Party to have access to the System so Receiving Party can support the function itself.

2.5 CERTAIN LIMITATIONS.

(a) SERVICE BOUNDARIES AND SCOPE. Except as provided in an Exhibit for a specific Service or a Service Level Agreement referred to therein: (i) Providing Company shall be required to provide the Services only at the locations such Services are being provided by Providing Company for the members of the Resources Group immediately prior to the IPO Closing Date; and (ii) the Services will be available only for purposes of conducting the business of Resources and its Subsidiaries substantially in the manner it was conducted prior to the IPO Closing Date.

(b) IMPRACTICABILITY. Providing Company shall not be required to provide any Service to the extent the performance of such Service becomes "Impracticable" as a result of a cause or causes outside the reasonable control of Providing Company including unfeasible technological requirements, or to the extent the performance of such Services (i) would require Providing Company to violate any applicable laws, rules or regulations or (ii) would result in the breach of any software license or other applicable contract in effect on the date of this Agreement.

(c) ADDITIONAL RESOURCES. Except as provided in an Exhibit for a specific Service, in providing the Services, Providing Company shall not be obligated to: (i) maintain the employment of any specific employee; (ii) purchase, lease or license any additional equipment or software; or (iii) pay any costs related to the transfer or conversion of Receiving Company's data to Receiving Company or any alternate supplier of Services.

(d) NO SALE, TRANSFER, ASSIGNMENT. No Receiving Company may sell, transfer, assign or otherwise use the Services provided hereunder, in whole or in part, for the benefit of any Person other than a member of the Resources Group.

2.6 CONFIDENTIALITY.

(a) INFORMATION SUBJECT TO OTHER OBLIGATIONS. Providing Company and Receiving Company agree that all Information regarding the Services, including, but not limited to, price, costs, methods of operation, and software, and all Information provided by any Receiving Company in connection with the Services, shall be maintained in confidence and shall be subject to Sections 10.3 and 10.15 of the Separation Agreement.

(b) ALL INFORMATION CONFIDENTIAL. Providing Company's Systems used to perform the Services provided hereunder are confidential and proprietary to Providing Company or third parties. Receiving Company shall treat these Systems and all related procedures and documentation as confidential and proprietary to Providing Company or its third party vendors.

(c) INTERNAL USE; TITLE, COPIES, RETURN. Subject to the applicable provisions of the Intellectual Property Agreement governing ownership, use and licensing of Intellectual Property, Receiving Company agrees that:

(i) all Systems, procedures and related materials provided to Receiving Company are for Receiving Company's internal use only and only as related to the Services or any of the underlying Systems used to provide the Services;

(ii) title to all Systems used in performing the Services provided hereunder shall remain in Providing Company or its third party vendors;

(iii) Receiving Company shall not copy, modify, reverse engineer, decompile or in any way alter Systems without Providing Company's express written consent; and

(iv) Upon the termination of any of the Services, Receiving Company shall return to Providing Company, as soon as practicable, any equipment or other property of Providing Company relating to the Services which is owned or leased by it and is or was in Receiving Company's possession or control.

2.7 TERM; EARLY TERMINATION.

(a) TERM. The term of this Agreement shall commence on the date hereof and shall remain in effect through December 31, 2004 or until such earlier time as all Services are terminated as provided in this Section. This Agreement may be extended by the parties in writing either in whole or with respect to one or more of the Services, provided, however, that such extension shall only apply to the Service for which the Agreement was extended. Except as otherwise provided on an Exhibit for a particular Service, the obligation to provide Corporate Center Services shall terminate on the Distribution Date. The parties may agree on an earlier expiration date respecting a specific Service by specifying such date on the Exhibit for that Service. Services shall be provided up to and including the date set forth in the applicable Exhibit, subject to earlier termination as provided herein.

(b) TERMINATION BY RESOURCES OF SPECIFIC SERVICE CATEGORIES. Resources may terminate this Agreement either with respect to all, or with respect to any one or more, of the Services provided hereunder at any time and from time to time, for any reason or no reason, by giving written notice to the Providing Party as follows:

(i) for Corporate Center Services, except to the extent otherwise provided in Exhibit 2.1(a)(i), a terminated category of Services must include all Services included in one of the nine major service categories specified in Exhibit 2.1(a)(i), and notice of termination thereof must be given at least 30 days in advance of the effective date of the termination.

(ii) for Information Technology Services, except to the extent otherwise provided in a Service Level Agreement referred to in Exhibit 2.1(a)(ii), a terminated category of Services must include one of the thirteen major service categories specified in Exhibit 2.1(a)(ii), in its entirety, and a notice of termination must be given at least 90 days in advance of the effective date of the termination except for SAP services and systems. SAP-related applications and services shall be subject to termination in accordance with a SAP separation plan to be mutually developed by Resources and REI as hereinafter provided. Resources will propose a SAP separation plan to REI no later than March 1, 2001. This plan will specify notice periods, processes and other terms for terminating SAP applications and services. REI will review and propose modifications to this plan within 30 days of receipt. Both Resources and REI will act reasonably and in good faith with the objective of having a mutually agreed upon SAP separation plan in effect by April 15, 2001. Such plan may be modified from time to time by mutual agreement. In the event that a mutually agreed upon SAP separation plan is not in effect at any time at which Resources requests termination of SAP applications and services, both parties will use commercially reasonable efforts to terminate such services as quickly as possible without the incurrence of unnecessary costs or jeopardizing REI's infrastructure or other applications.

(iii) for Shared Services, except to the extent otherwise provided in a Service Level Agreement referred to in Exhibit 2.1(a)(iii), a terminated category of Services must include a complete service function specified in Exhibit 2.7(b)(iii) and advance notice of termination for that function must be given no later than the date specified in Exhibit 2.7(b)(iii).

(c) TERMINATION OF LESS THAN ALL SERVICES. In the event of any termination with respect to one or more, but less than all, Services, this Agreement shall continue in full force and effect with respect to any Services not terminated hereby.

(d) USER IDS, PASSWORDS. The parties shall use good faith efforts at the termination or expiration of this Agreement or any specific Exhibit hereto, to ensure that all user IDs and passwords are canceled and, subject to Section 2.6(c), that any data pertaining solely to the other parties are deleted or removed from Systems.

2.8 DISCLAIMER OF WARRANTIES, LIMITATION OF LIABILITY AND INDEMNIFICATION.

(a) DISCLAIMER OF WARRANTIES. REI AND ITS SUBSIDIARIES DISCLAIM ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THE SERVICES. REI AND ITS SUBSIDIARIES MAKES NO REPRESENTATIONS OR WARRANTIES AS TO THE QUALITY, SUITABILITY OR ADEQUACY OF THE SERVICES FOR ANY PURPOSE OR USE.

(b) LIMITATION OF LIABILITY; INDEMNIFICATION OF RECEIVING COMPANY. REI and its Subsidiaries shall have no Liability to any Receiving Company with respect to its furnishing any of the Services hereunder except for Liabilities arising out of or resulting from the gross negligence or willful misconduct occurring after the IPO Closing Date of the Providing Company or any member of the REI Group. REI will indemnify, defend and hold harmless each Receiving Company in respect of all such Liabilities arising out of or resulting from such gross negligence or willful misconduct. Such indemnification obligation shall be a Liability of REI for purposes of the Separation Agreement and the provisions of Article III of the Separation Agreement with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL REI OR ANY MEMBER OF THE REI GROUP HAVE ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, OR BREACH OF OBLIGATIONS HEREUNDER AND WHETHER OR NOT REI OR ANY MEMBER OF THE REI GROUP WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES.

(c) LIMITATION OF LIABILITY; INDEMNIFICATION OF PROVIDING COMPANY. Resources shall indemnify and hold harmless REI and any other applicable Providing Company in respect of all Liabilities arising out of or resulting from Providing Company's furnishing or failing to furnish the Services provided for in this Agreement, other than Liabilities arising out of or resulting from the gross negligence or willful misconduct of the Providing Company or any other member of the REI Group. The provisions of this indemnity shall apply only to losses which relate directly to the provision of Services. Such indemnification obligation shall be a Liability of Resources for purposes of the Separation Agreement and the provisions of Article III of the Separation Agreement with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL RESOURCES OR ANY MEMBER OF THE RESOURCES GROUP HAVE ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, OR BREACH OF OBLIGATIONS HEREUNDER AND WHETHER OR NOT RESOURCES OR ANY MEMBER OF THE RESOURCES GROUP WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES.

(d) SUBROGATION OF RIGHTS VIS-A-VIS THIRD PARTY CONTRACTORS. In the event any Liability arises from the performance of Services hereunder by a third party contractor, the Receiving Company shall be subrogated to such rights, if any, as the Providing Company may have against such third party contractor with respect to the Services provided by such third party contractor to or on behalf of the Receiving Company. Subrogation under this Section 2.8(d) shall not affect the obligation of Providing Company to perform Services under this Agreement.

2.9 REPRESENTATIVES. The parties shall each appoint one or more Representatives to facilitate communications and performance under this Agreement. The maximum number of Representatives for each party shall be three, one for each of the three principal categories specified in Section 2.1(a). Each party may treat an act of a Representative of another party as being authorized by such other party without inquiring behind such act or ascertaining whether such Representative had authority to so act. Each party shall have the right at any time and from time to time to replace any of its Representatives by giving notice in writing to the other party setting forth the name of (i) each Representative to be replaced and (ii) the replacement, and certifying that the replacement Representative is authorized to act for the party giving the notice in all matters relating to this Agreement (or matters relating to one or more categories specified in Section 2.1(a)). Each Representative is hereby authorized by the party he or she represents to approve the establishment of new or modifications to existing Exhibits for Initial Services before or after the IPO Closing Date and the addition of new Exhibits for Additional Services after the IPO Closing Date.

ARTICLE III
MISCELLANEOUS

3.1 TAXES. (a) General. Resources and its Subsidiaries shall bear all taxes, duties and other similar charges (and any related interest and penalties), imposed as a result of their receipt of Services under this Agreement, including any tax which a Receiving Company is required to withhold or deduct from payments to a Providing Company, except any net income tax imposed upon Providing Company by the country of its incorporation or any governmental entity within its country of incorporation.

(b) Sales Tax Liability and Payment. Notwithstanding Section 3.1(a), each Receiving Company is liable for and will indemnify and hold harmless any Providing Company from all sales, use and similar taxes (plus any penalties, fines or interest thereon) (collectively, "Sales Taxes") assessed, levied or imposed by any governmental or taxing authority on the providing of Services by the Providing Company to the Receiving Company. The Providing Company shall collect from the Receiving Company any Sales Tax that is due on the Service it provides to such Receiving Company and shall pay such Sales Tax so collected to the appropriate governmental or taxing authority.

3.2 LAWS AND GOVERNMENTAL REGULATIONS. Receiving Company shall be responsible for (i) compliance with all laws and governmental regulations affecting its business and (ii) any use Receiving Company may make of the Services to assist it in complying with such laws and governmental regulations. The provision of Services shall comply, to the extent applicable, with REI's Internal Code of Conduct. Providing Company shall comply with all laws and governmental regulations applicable to the provision of Services.

3.3 RELATIONSHIP OF PARTIES. Nothing in this Agreement shall be deemed or construed by the parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the parties, it being understood and agreed that no provision contained herein, and no act of the parties, shall be deemed to create any relationship between the parties other than the relationship of independent contractor nor be deemed to vest any rights, interest or claims in any third parties.

3.4 REFERENCES. All reference to Sections, Articles, Exhibits or Schedules contained herein mean Sections, Articles, Exhibits or Schedules of or to this Agreement, as the case may be, unless otherwise stated. When a reference is made in this Agreement to a "party" or "parties", such reference shall be to a party or parties to this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The use of the singular herein shall be deemed to be or include the plural (and vice versa) whenever appropriate. The use of the words "hereof", "herein", "hereunder", and words of similar import shall refer to this entire Agreement, and not to any particular article, section, subsection, clause, paragraph or other subdivision of this Agreement, unless the context clearly indicates otherwise. The word "or" shall not be exclusive; "may not" is prohibitive and not permissive.

3.5 MODIFICATION AND AMENDMENT. Except for modifications to Exhibits, which may be made by Representatives pursuant to Section 2.9 hereof, this Agreement may not be modified or amended, or any provision waived, except in the manner set forth in the Separation Agreement.

3.6 INCONSISTENCY. In the event of any inconsistency between the terms of this Agreement and any of the Exhibits hereto, the terms of this Agreement, other than charges, shall control.

3.7 RESOLUTION OF DISPUTES. If a dispute, claim or controversy results from or arises out of or in connection with this Agreement or the performance of, or failure to perform, the Services, the parties agree to use the procedures set forth in Article IX of the Separation Agreement, in lieu of other available remedies, to resolve the same.

3.8 SUCCESSORS AND ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Except as contemplated by Section 2.2, no party shall assign this Agreement or any rights herein without the prior written consent of the other party, which may be withheld for any or no reason.

3.9 NOTICES. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to

clause (ii) or (iii)), addressed to the attention of the addressee's General Counsel at the address of its principal executive office or to such other address or facsimile number for a party as it shall have specified by like notice.

3.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

3.11 SEVERABILITY. Wherever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any portion of this Agreement is declared invalid for any reason, such declaration shall have no effect upon the remaining portions of this Agreement, which shall continue in full force and effect as if this Agreement had been executed with the invalid portions thereof deleted.

3.12 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument.

3.13 RIGHTS OF THE PARTIES. Nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity, other than the parties and to the extent provided herein their respective Subsidiaries, any rights or remedies under or by reason of this Agreement or any transaction contemplated thereby.

3.14 RESERVATION OF RIGHTS. The waiver by either party of any of its rights or remedies afforded hereunder or at law is without prejudice and shall not operate to waive any other rights or remedies which that party shall have available to it, nor shall such waiver operate to waive the party's rights to any remedies due to a future breach, whether of a similar or different nature. The failure or delay of a party in exercising any rights granted to it hereunder shall not constitute a waiver of any such right and that party may exercise that right at any time. Any single or partial exercise of any particular right by a party shall exhaust the same or constitute a waiver of any other right.

3.15 ENTIRE AGREEMENT. All understandings, representations, warranties and agreements, if any, heretofore existing between the parties regarding the subject matter hereof are merged into this Agreement, which fully and completely express the agreement of the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Transition Services Agreement as of the date first above written.

RELIANT ENERGY, INCORPORATED

By: /s/ David M. McClanahan

David M. McClanahan
Vice Chairman

RELIANT RESOURCES, INC.

By: /s/ R. S. Letbetter

R. S. Letbetter
Chairman, President and Chief Executive Officer

EXHIBIT 10.3

TECHNICAL

SERVICES AGREEMENT

between

RELIANT ENERGY, INCORPORATED

and

RELIANT RESOURCES, INC.

TECHNICAL SERVICES AGREEMENT

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TECHNICAL SERVICES AGREEMENT

THIS TECHNICAL SERVICES AGREEMENT, dated as of December 31, 2000 (the "Effective Date"), is between Reliant Energy, Incorporated, a Texas corporation ("REI") acting through its Reliant Energy HL&P Division and Reliant Resources, Inc., a Delaware corporation ("Resources"). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article I hereof or as assigned to them in the Separation Agreement (as defined below).

WHEREAS, the Board of Directors of REI has determined that it is in the best interests of REI and its shareholders to separate REI's existing businesses into two independent business groups;

WHEREAS, in order to effectuate the foregoing, REI and Resources have entered into a Master Separation Agreement, dated as of December 31, 2000 (the "Separation Agreement"); and

WHEREAS, the Separation Agreement provides, among other things, for REI and Resources to enter into this Agreement in order to set forth the terms on which Resources will provide to REI the Services described herein.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties, intending to be legally bound, agree as follows:

ARTICLE I
DEFINITIONS

For the purpose of this Agreement the following terms shall have the following meanings:

1.1 ADDITIONAL SERVICES. "Additional Services" has the meaning set forth in Section 2.1(b).

1.2 EFFECTIVE DATE. "Effective Date" means the date of this Agreement.

1.3 COMPUTER SYSTEMS SERVICES. "Computer Systems Services" has the meaning assigned to that term in Section 2.1(a)(iii).

1.4 ENVIRONMENTAL AND SAFETY SERVICES. "Environmental and Safety Services" has the meaning assigned to that term in Section 2.1(a)(ii).

1.5 GENCO ASSETS. "Genco Assets" has the meaning assigned to that term in Section 1.15 of the Separation Agreement.

1.6 GENCO LP. "Genco LP" has the meaning assigned to that term in the Genco Option Agreement.

1.7 GENCO OPTION AGREEMENT. "Genco Option Agreement" means the Texas Genco Option Agreement dated as of December 31, 2000 between REI and Resources.

1.8 IMPRACTICABLE. "Impracticable" (and words of similar import) has the meaning set forth in Section 2.4(b).

1.9 INFORMATION TECHNOLOGY SERVICES. "Information Technology Services" has the meaning assigned to that term in Section 2.1(a)(iv).

1.10 LIABILITY. "Liability" has the meaning assigned to that term in the Separation Agreement.

1.11 OPTION CLOSING DATE. "Option Closing Date" has the meaning assigned to that term in the Genco Option Agreement.

1.12 OPTION EXPIRATION DATE. "Option Expiration Date" has the meaning assigned to that term in the Genco Option Agreement.

1.13 PROVIDING COMPANY. "Providing Company" means Resources.

1.14 RECEIVING COMPANY. "Receiving Company" means REI or a permitted assignee under Section 2.4(c), including Genco.

1.15 REI GROUP. "REI Group" means REI and its Subsidiaries excluding Resources and other members of the Resources Group.

1.16 REPRESENTATIVE. "Representative" of any party means a managerial level employee appointed by such party to have the responsibilities and authority set forth in Section 2.8.

1.17 RESOURCES GROUP. "Resources Group" means Resources and its Subsidiaries.

1.18 SERVICE. "Service" has the meaning set forth in subsection 2.1(b).

1.19 SUBSIDIARY. "Subsidiary" means, with respect to REI or Resources, a corporation, partnership, limited liability company or other entity more than 50% of the voting common stock or other interests entitled to vote generally for the election of directors (or comparable governing body) is owned, directly or indirectly, by REI or Resources, respectively.

1.20 TECHNICAL SERVICES. "Technical Services" has the meaning assigned to that term in Section 2.1(a)(i).

ARTICLE II
SERVICES

2.1 SERVICES.

(a) INITIAL SERVICES. Except as otherwise provided herein, during the applicable term determined pursuant to Section 2.6 hereof the following "Initial Services" shall be provided by Resources to Receiving Company:

(i) TECHNICAL SERVICES consist of engineering and technical support services required to support operation and maintenance of the Genco Assets, including betterment and reliability analysis, surveillance, testing, calibrations, diagnostic analysis and water technology services, all as more particularly described in Exhibit 2.1(a)(i);

(ii) ENVIRONMENTAL AND SAFETY SERVICES consist of environmental, safety and industrial health services in support of the operation and maintenance of the Genco Assets, all as more particularly described in Exhibit 2.1(a)(ii);

(iii) COMPUTER SYSTEMS SERVICES consist of the provision of computer systems (software and hardware) used for economic dispatch, QSE scheduling, QSE settlement, ISO settlement and communication, and related functions associated with the operation and maintenance of the Genco Assets, including technical, programming, consulting support, and hardware maintenance services (but excluding the provisions of any plant-specific hardware, which will be purchased by the Receiving Company), all as more particularly described in Exhibit 2.1(a)(iii); and

(iv) INFORMATION TECHNOLOGY SERVICES consist of the provision of information technology services associated with the operation and maintenance of the Genco Assets, all as more particularly described in Exhibit 2.1(a)(iv).

(b) ADDITIONAL SERVICES. From time to time after the Effective Date, the parties may, by mutual agreement, identify additional services that one party will provide to the other party in accordance with the terms of this Agreement (the "Additional Services" and, together with the Initial Services, the "Services"). In such case, the parties shall create an Exhibit for each Additional Service setting forth a description of the Service, the time period during which the Service will be provided, the charge for the Service and any other terms applicable thereto.

(c) EXHIBITS. To the extent not affixed at the date of this Agreement, Exhibits 2.1(a)(i) through (iv) shall be established by agreement of the parties and, upon such agreement, shall be affixed and made a part hereof.

(d) SERVICES PERFORMED BY OTHERS. At its option, Resources may cause any Service it is required to provide hereunder to be provided by another member of the Resources Group or by any other Person that is providing, or may from time to time provide, the same or similar services for members of the Resources Group.

Resources shall remain responsible, in accordance with the terms of this Agreement, for performance of any Service it causes to be so provided by others.

2.2 CHARGES AND PAYMENT.

(a) CHARGES FOR SERVICES. Subject to Section 2.2(b), Resources will charge for the Services, and the Receiving Company will pay for them on the following basis:

(i) Resources will charge the Receiving Company for its direct operating costs incurred in providing the Services, including, but not limited to, allocable salary and wages, incentives, paid absences, payroll taxes, payroll additives (insurance premiums, social security, health care and retirement benefits and the like) and similar expenses, and reimbursement of out-of-pocket third party costs and expenses; and

(ii) Resources will also charge the Receiving Company for its indirect costs of providing the services, including, but not limited to, allocable charges for management, payroll, procurement, legal, risk management, accounting, tax, audit, human Resources and the like, and similar expenses.

It is the intent of the parties that the charges for the Services will be based on Resources' fully allocated direct and indirect costs of providing the Services, but without any element of profit, and that the Services under this Agreement and similar services provided by Resources to entities within the Resources Group will be charged for on a basis that allocates the costs charged out on a fair and nondiscriminatory basis.

(b) SPECIAL PROVISIONS APPLICABLE TO COMPUTER SYSTEMS SERVICES. Costs incurred by Resources in providing Computer Systems Services that constitute capital investment shall be charged to the Receiving Company in the form of a base service rate on an installed megawatt basis, using the same methodology by which capital costs are allocated by Resources to Resources' generation operations in regions outside the territory served by the business conducted with the Genco Assets. Capital additions that benefit both the operations conducted with the Genco Assets and Resources' generation operations in other regions will be allocated on an installed megawatt basis. Capital additions that benefit only the operation of the Genco Assets or only Resources' other generation operations will be charged directly to the entity that benefits from those additions, and use by others shall be prohibited.

(c) BUDGETING. In advance of each calendar year, Resources shall prepare and deliver to the Receiving Party a proposed budget for Services to be performed during that year, taking into account such information as may be provided by Receiving Company for the specification of the scope of the Services to be performed during that year and any changes in the scope of work from that theretofore provided, and including budgetary parameters for the use of third party service providers. Resources will also prepare on a monthly basis forward budgetary forecasts for the Services, including an analysis of variances from previously budgeted amounts.

(d) CHARGES FOR ADDITIONAL SERVICES. Receiving Company shall pay Resources the charges, if any, set forth on each Exhibit hereafter created for each of the Additional Services listed therein. Notwithstanding the foregoing the agreement of a party to provide or receive any Additional Service at any given rate or charge shall be at the sole discretion of such party.

(e) PAYMENT TERMS. Resources shall bill Receiving Company monthly for all charges pursuant to this Agreement and Receiving Company shall pay Resources for all Services within thirty days after receipt of an invoice therefor. Charges shall be supported by reasonable documentation (which may be maintained in electronic form) consistent with past practices. Late payments shall bear interest at the lesser of the prime rate as announced and in effect from time to time at The Chase Manhattan Bank plus two percent (2%) per annum or the maximum non-usurious rate of interest permitted by applicable law.

(f) PERFORMANCE UNDER ANCILLARY AGREEMENTS. Notwithstanding anything to the contrary contained herein, Receiving Company shall not be charged under this Agreement for any Services that are specifically required to be performed under the Separation Agreement or any other Ancillary Agreement and any such other Services shall be performed and charged for in accordance with the terms of the Separation Agreement or such other Ancillary Agreement.

(g) ERROR CORRECTION; TRUE-UPS; ACCOUNTING. Resources shall make adjustments to charges as required to reflect the discovery of errors or omissions in charges. Resources and Receiving Company shall conduct a true-up process at least annually and more frequently if necessary to adjust charges based on a reconciliation of amounts charged and costs incurred. It is the intent of the parties that such true-up process will be conducted using substantially the same process, procedures and methods of review as have been heretofore in effect. Resources will maintain such books and records as are necessary to support the charges for Services, in sufficient detail as may be necessary to enable REI to satisfy applicable regulatory requirements. Services under this Agreement and charges therefor shall be subject to the provisions of Section 10.5 of the Separation Agreement (Audit Rights).

2.3 GENERAL OBLIGATIONS; STANDARD OF CARE.

(a) PERFORMANCE METRICS: PROVIDING COMPANY. The Providing Company shall maintain sufficient resources to perform its obligations hereunder and shall perform such obligations in a commercially reasonable manner. Specific performance metrics for the Providing Company may be set forth in Exhibits referred to herein. Where none is set forth, the Providing Company shall provide Services in accordance with the policies, procedures and practices in effect for the provision of similar services in support of the operation and maintenance of the Genco Assets before the date of this Agreement and shall exercise the same care and skill as it exercises in performing similar services hereafter for generation operations conducted by members of the Resources Group and shall not, in situations in which common personnel, equipment or facilities are used in performing Services hereunder and such similar Services for

members of the Resources Group, favor either a Receiving Company or a member of the Resources Group.

(b) PERFORMANCE METRICS: RECEIVING COMPANY. Specific performance metrics for the Receiving Company may be set forth in Exhibits referred to herein. Where none is set forth, the Receiving Company shall, in connection with receiving Services, follow the policies, procedures and practices in effect before the date of this Agreement including providing information and documentation sufficient for the Providing Company to perform the Services as they were performed before the date of this Agreement and making available, as reasonably requested by the Providing Company, sufficient resources and timely decisions, approvals and acceptances in order that Providing Company may accomplish its obligations hereunder in a timely manner. In connection with the provision of Information Technology Services, Receiving Company will use hardware and software configurations conforming to Resources' standards when reasonably practicable. If Receiving Company elects to use different standards, Resources will use commercially reasonable efforts to provide services consistent with such standards, but shall have no responsibility for the functionality of the nonconforming configurations, and Receiving Company shall be responsible for all costs incurred by Resources in adapting to the different standards.

(c) TRANSITIONAL NATURE OF SERVICES; CHANGES. The parties acknowledge the transitional nature of the Services and that Providing Company may make changes from time to time in the manner of performing the Services if Providing Company is making similar changes in performing similar services for members of the Resources Group and if Providing Company furnishes to Receiving Company substantially the same notice Providing Company shall provide members of the Resources Group respecting such changes.

(d) RESPONSIBILITY FOR ERRORS; DELAYS. Providing Company's sole responsibility to Receiving Company:

(i) for errors or omissions in Services, shall be to furnish correct information and/or adjustment in the Services, at no additional cost or expense to Receiving Company; provided, Receiving Company must promptly advise Providing Company of any such error or omission of which it becomes aware after having used commercially reasonable efforts to detect any such errors or omissions in accordance with the standard of care set forth in Section 2.3(b); and provided, further, that the responsibility to furnish correct information or an adjustment of services at no additional cost or expense to the Receiving Company shall not be construed to require Providing Company to make any payment or incur any Liability for which it is not responsible, or with respect to which it is provided indemnity, under Section 2.7; and

(ii) for failure to deliver any Service because of Impracticability, shall be to use commercially reasonable efforts, subject to subsection 2.4(b), to make the Services available and/or to resume performing the Services as promptly as reasonably practicable.

(e) GOOD FAITH COOPERATION; CONSENTS. The parties will use good faith efforts to cooperate with each other in all matters relating to the provision and receipt of Services. Such cooperation shall include exchanging information, providing electronic access to systems used in connection with Services to the extent the systems in use are designed and configured to permit such access, performing true-ups and adjustments and obtaining all consents, licenses, sublicenses or approvals necessary to permit each party to perform its obligations hereunder. The parties will cooperate with each other in making such information available as needed in the event of a tax audit or Regulatory Proceeding, whether in the United States or any other country.

2.4 CERTAIN LIMITATIONS.

(a) SERVICE BOUNDARIES AND SCOPE. Except as provided in an Exhibit for a Service, the Services will be available only for purposes of conducting the generation business of REI and its Subsidiaries substantially in the manner as the generation business of the Reliant Energy HL&P Division of REI was conducted prior to the Effective Date.

(b) IMPRACTICABILITY. Providing Company shall not be required to provide any Service to the extent the performance of such Service becomes "Impracticable" as a result of a cause or causes outside the reasonable control of Providing Company including unfeasible technological requirements, or to the extent the performance of such Services would require Providing Company to violate any applicable laws, rules or regulations or would result in the breach of any software license or other applicable contract.

(c) SALE, TRANSFER, ASSIGNMENT. No Receiving Company may sell, transfer, assign or otherwise use the Services provided hereunder, in whole or in part, for the benefit of any Person other than a member of the REI Group. Without limitation, it is understood and agreed that REI may assign its rights under this Agreement to Genco LP.

2.5 CONFIDENTIALITY.

(a) INFORMATION SUBJECT TO OTHER OBLIGATIONS. Providing Company and Receiving Company agree that all Information regarding the Services, including, but not limited to, price, costs, methods of operation and software, shall be maintained in confidence and shall be subject to Sections 10.3 and 10.15 of the Separation Agreement.

(b) ALL INFORMATION CONFIDENTIAL. Providing Company's systems used to perform the Services provided hereunder are confidential and proprietary to Providing Company or third parties. Receiving Company shall treat these systems and all related procedures and documentation as confidential and proprietary to Providing Company or its third party vendors.

(c) INTERNAL USE; TITLE, COPIES, RETURN. Subject to the applicable provisions of the Intellectual Property Agreement governing the ownership, use, and licensing of Intellectual Property, Receiving Company agrees that:

(i) all systems, procedures and related materials provided to Receiving Company are for Receiving Company's internal use only and only as related to the Services or any of the underlying systems used to provide the Services;

(ii) title to all systems used in performing the Services provided hereunder shall remain in Providing Company or its third party vendors; and

(iii) upon the termination of any of the Services, Receiving Company shall return to Providing Company, as soon as practicable, any equipment or other property of Providing Company relating to the Services which is owned or leased by it and is or was in Receiving Company's possession or control.

2.6 TERM; EARLY TERMINATION.

(a) TERM. The term of this Agreement shall commence on the date hereof and shall remain in effect through the earlier of (i) the Option Closing Date, (ii) the sale or disposition by REI, directly or indirectly, of Genco LP or of all or substantially all of the Genco Assets, and (iii) May 31, 2005 or until such earlier time as all Services are terminated as provided in this Section. Notwithstanding the foregoing, if the Genco Option is not exercised prior to the Option Expiration Date, Receiving Company may extend the term of this Agreement until December 31, 2005 (or such earlier time as Genco LP or all or substantially all of the Genco Assets are disposed of as provided in clause (ii) of the preceding sentence). This Agreement may be extended by the parties in writing either in whole or with respect to one or more of the Services, provided, however, that such extension shall only apply to the Service for which the Agreement was extended. Services shall be subject to earlier termination as provided herein. In the event that any Genco Asset is sold or otherwise disposed of other than through exercise of the Genco Option, Services shall no longer be provided with respect to the Genco Asset that is sold or otherwise disposed of and the charges for services shall be adjusted to take the same into account. In the event a change is made to the Option Expiration Date pursuant to Section 12.1 of the Genco Option Agreement, corresponding changes shall automatically be made to the May 31, 2005 and December 31, 2005 dates in this paragraph.

(b) TERMINATION BY RECEIVING COMPANY OF SPECIFIC SERVICE CATEGORIES. A Receiving Company may terminate this Agreement either with respect to all, or with respect to any one or more, of the Services provided hereunder at any time and from time to time, for any reason or no reason, by giving written notice to the Providing Company as follows:

(i) for Technical Services, except to the extent otherwise provided in Exhibit 2.1(a)(i), a terminated category of Services must include all Services

included in one of the service categories specified in Exhibit 2.1(a)(i), and notice of termination thereof must be given at least 90 days in advance of the effective date of the termination.

(ii) for Environmental and Safety Services, except to the extent otherwise provided in Exhibit 2.1(a)(ii), a terminated category of Services must include all of the Services included in one of the service categories specified in Exhibit 2.1(a)(ii), and notice of termination thereof must be given at least 90 days in advance of the effective date of the termination.

(iii) for Computer Systems Services, except to the extent otherwise provided in Exhibit 2.1(a)(iii), a terminated category of Services must include all of the Services included in one of the service categories specified in Exhibit 2.1(a)(iii), and notice of termination thereof must be given at least 90 days in advance of the effective date of the termination.

(iv) for Information Technology Services, except to the extent otherwise provided on Exhibit 2.1(a)(iv), a terminated category of Services must include all of the Services included in one of the service categories specified in Exhibit 2.1(a)(iv), and notice of termination thereof must be given at least 90 days in advance of the effective date of the termination.

(c) TERMINATION OF LESS THAN ALL SERVICES. In the event of any termination with respect to one or more, but less than all, Services, this Agreement shall continue in full force and effect with respect to any Services not terminated hereby.

2.7 DISCLAIMER OF WARRANTIES, LIMITATION OF LIABILITY AND INDEMNIFICATION.

(a) DISCLAIMER OF WARRANTIES. RESOURCES DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, WITH RESPECT TO THE SERVICES. RESOURCES MAKES NO REPRESENTATIONS OR WARRANTIES AS TO THE QUALITY, SUITABILITY OR ADEQUACY OF THE SERVICES FOR ANY PURPOSE OR USE.

(b) LIMITATION OF LIABILITY; INDEMNIFICATION OF RECEIVING COMPANY. Resources and its Subsidiaries shall have no Liability to any Receiving Company with respect to its furnishing any of the Services hereunder except for Liabilities arising out of or resulting from the gross negligence or willful misconduct occurring after the Effective Date of Resources or any member of the Resources Group. Resources will indemnify, defend and hold harmless each Receiving Company in respect of all such Liabilities arising out of or resulting from such gross negligence or willful misconduct. Such indemnification obligation shall be a Liability of Resources for purposes of the Separation Agreement and the provisions of Article III of the Separation Agreement with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL RESOURCES OR ANY MEMBER OF THE RESOURCES GROUP HAVE ANY LIABILITY UNDER

THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, AND WHETHER OR NOT RESOURCES OR ANY MEMBER OF THE RESOURCES GROUP WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES. IN NO EVENT SHALL RESOURCES OR ANY MEMBER OF THE RESOURCES GROUP HAVE ANY LIABILITY HEREUNDER OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR FAILURE TO PERFORM, SERVICES IN AN AGGREGATE AMOUNT EXCEEDING THE TOTAL CHARGES PAID OR PAYABLE TO RESOURCES HEREUNDER.

(c) LIMITATION OF LIABILITY; INDEMNIFICATION OF PROVIDING COMPANY. REI and each other Receiving Company shall indemnify and hold harmless Resources in respect of all Liabilities arising out of or resulting from Resources' furnishing or failing to furnish the Services to such Receiving Company provided for in this Agreement, other than Liabilities arising out of or resulting from the gross negligence or willful misconduct of Resources or any other member of the Resources Group. The provisions of this indemnity shall apply only to losses which relate directly to the provision of Services. Such indemnification obligation shall be a Liability of REI for purposes of the Separation Agreement and the provisions of Article III of the Separation Agreement with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL REI OR ANY MEMBER OF THE REI GROUP HAVE ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM ITS RECEIPT OF SERVICES HEREUNDER FOR LOSS OF ANTICIPATED PROFITS OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, AND WHETHER OR NOT REI OR ANY MEMBER OF THE REI GROUP WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES.

(d) SUBROGATION OF RIGHTS VIS-A-VIS THIRD PARTY CONTRACTORS. In the event any Liability arises from the performance of Services hereunder by a third party contractor, the Receiving Company shall be subrogated to such rights, if any, as the Providing Company may have against such third party contractor with respect to the Services provided by such third party contractor to or on behalf of the Receiving Company. Subrogation under this Section 2.7(d) shall not affect the obligation of Providing Company to perform Services under this Agreement.

2.8 REPRESENTATIVES. Each party shall by notice to the other appoint one or more Representatives to facilitate communications and performance under this Agreement. The maximum number of Representatives for each party shall be four, one for Technical Services, one for Environmental and Safety Services, one for Computer Systems Services and one for Information Technology Services. Each party may treat an act of a Representative of another party as being authorized by such other party without inquiring behind such act or ascertaining whether such Representative had authority to so act. Each party shall have the right at any time and from time to time to replace any of its Representatives by giving notice in writing to the other party setting forth the name of (i) each Representative to be replaced and (ii) the replacement, and certifying that the

replacement Representative is authorized to act for the party giving the notice in all matters relating to this Agreement (or matters relating to one category of Services as aforesaid).

ARTICLE III
MISCELLANEOUS

3.1 TAXES. (a) GENERAL. The Receiving Company shall bear all taxes, duties and other similar charges (and any related interest and penalties), imposed as a result of its receipt of Services under this Agreement, including any tax which Receiving Company is required to withhold or deduct from payments to Providing Company, except any net income tax imposed upon Providing Company by the country of its incorporation or any governmental entity within its country of incorporation.

(b) SALES TAX LIABILITY AND PAYMENT. Notwithstanding Section 3.1(a), each Receiving Company is liable for and will indemnify and hold harmless any Providing Company from all sales, use and similar taxes (plus any penalties, fines or interest thereon) (collectively, "Sales Taxes") assessed, levied or imposed by any governmental or taxing authority on the providing of Services by the Providing Company to the Receiving Company. The Providing Company shall collect from the Receiving Company any Sales Tax that is due on the Service it provides to such Receiving Company and shall pay such Sales Tax so collected to the appropriate governmental or taxing authority.

3.2 LAWS AND GOVERNMENTAL REGULATIONS. Receiving Company shall be responsible for (i) compliance with all laws and governmental regulations affecting its business and (ii) any use Receiving Company may make of the Services to assist it in complying with such laws and governmental regulations. The provision of Services shall comply, to the extent applicable, with REI's Internal Code of Conduct. Providing Company shall comply with all laws and governmental regulations applicable to the provision of Services.

3.3 RELATIONSHIP OF PARTIES. Nothing in this Agreement shall be deemed or construed by the parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the parties, it being understood and agreed that no provision contained herein, and no act of the parties, shall be deemed to create any relationship between the parties other than the relationship of independent contractor nor be deemed to vest any rights, interest or claims in any third parties.

3.4 REFERENCES. All reference to Sections, Articles, Exhibits or Schedules contained herein mean Sections, Articles, Exhibits or Schedules of or to this Agreement, as the case may be, unless otherwise stated. When a reference is made in this Agreement to a "party" or "parties", such reference shall be to a party or parties to this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The use of the singular herein shall be deemed to be or include the plural (and vice versa) whenever appropriate. The use of the words "hereof", "herein",

"hereunder", and words of similar import shall refer to this entire Agreement, and not to any particular article, section, subsection, clause, paragraph or other subdivision of this Agreement, unless the context clearly indicates otherwise. The word "or" shall not be exclusive; "may not" is prohibitive and not permissive.

3.5 MODIFICATION AND AMENDMENT. This Agreement may not be modified or amended, or any provision waived, except in the manner set forth in the Separation Agreement.

3.6 INCONSISTENCY. In the event of any Inconsistency between the terms of this Agreement and any of the Exhibits hereto, the terms of this Agreement, other than charges, shall control.

3.7 RESOLUTION OF DISPUTES. If a dispute, claim or controversy results from or arises out of or in connection with this Agreement or the performance of, or failure to perform, the Services, the parties agree to use the procedures set forth in Article IX of the Separation Agreement, in lieu of other available remedies, to resolve the same.

3.8 SUCCESSORS AND ASSIGNMENT. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. Except as contemplated by Section 2.4(c), no party shall assign this Agreement or any rights herein without the prior written consent of the other party, which may be withheld for any or no reason.

3.9 NOTICES. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to clause (ii) or (iii)), addressed to the attention of the addressee's General Counsel at the address of its principal executive office or to such other address or facsimile number for a party as it shall have specified by like notice.

3.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

3.11 SEVERABILITY. Wherever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any portion of this Agreement is declared invalid for any reason, such declaration shall have no effect upon the remaining portions of this Agreement, which shall continue in full force and effect as if this Agreement had been executed with the invalid portions thereof deleted.

3.12 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument.

3.13 RIGHTS OF THE PARTIES. Nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity, other than the parties and to the extent provided herein their respective Subsidiaries, any rights or remedies under or by reason of this Agreement or any transaction contemplated thereby.

3.14 RESERVATION OF RIGHTS. The waiver by either party of any of its rights or remedies afforded hereunder or at law is without prejudice and shall not operate to waive any other rights or remedies which that party shall have available to it, nor shall such waiver operate to waive the party's rights to any remedies due to a future breach, whether of a similar or different nature. The failure or delay of a party in exercising any rights granted to it hereunder shall not constitute a waiver of any such right and that party may exercise that right at any time. Any single or partial exercise of any particular right by a party shall exhaust the same or constitute a waiver of any other right.

3.15 ENTIRE AGREEMENT. All understandings, representations, warranties and agreements, if any, heretofore existing between the parties regarding the subject matter hereof are merged into this Agreement, which fully and completely express the agreement of the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties have executed this Technical Services Agreement as of the date first above written.

RELIANT ENERGY, INCORPORATED

By: /s/ David M. McClanahan

David M. McClanahan
Vice Chairman

RELIANT RESOURCES, INC.

By: /s/ R. S. Letbetter

R. S. Letbetter,
Chairman, President and
Chief Executive Officer

EXHIBIT 10.4

TEXAS GENCO OPTION AGREEMENT

between

RELIANT ENERGY, INCORPORATED

and

RELIANT RESOURCES, INC.

TEXAS GENCO OPTION AGREEMENT

This Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated, a Texas corporation ("REI"), and Reliant Resources, Inc., a Delaware corporation ("Resources");

WHEREAS, Section 2.2(h) of the Master Separation Agreement (as defined below) provides for this Agreement to be entered into prior to the sale of shares of common stock of Resources to the public as provided therein;

NOW THEREFORE, the parties, in consideration of the premises and for good and valuable consideration agree as follow:

ARTICLE I
Definitions

1.1 Definitions. The following terms used in this Agreement have the meanings set forth below:

An "Affiliate" of any Person means another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, such Person. For purposes of the foregoing, "control", with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, or by contract or otherwise. The fact that any Person may be deemed at any time an Affiliate of another Person for purposes of the Utilities Code shall not create any implication that such Persons are "affiliates" for purposes of this Agreement. Notwithstanding anything herein to the contrary, no member of the Resources Group shall be deemed an Affiliate of any member of the REI Group and no member of the REI Group shall be deemed an Affiliate of any member of the Resources Group.

"CERCLA" means the federal Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C.ss.ss.9601-9675).

"Choice Date" means January 1, 2002 or such other date on which retail electric customer choice begins in the traditional service territory of Reliant Energy HL&P pursuant to Section 39.102 of the Utilities Code.

"Control Premium Amount" has the meaning set forth in Section 3.1.

"Environmental Laws" means all applicable Federal, state and local, provincial and foreign, civil and criminal laws, regulations, rules, ordinances, codes, decrees, judgments, directives, or judicial or administrative orders relating to pollution or protection of the environment, natural resources or human health and safety, including, without limitation, laws relating to Releases or threatened Releases of Hazardous Substances (including, without limitation, Releases to ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage,

Release, transport, disposal or handling of Hazardous Substances. "Environmental Laws" include, without limitation, CERCLA, the Hazardous Materials Transportation Act (49 U.S.C.ss.ss. 1801 et seq.), the Resource Conservation and Recovery Act (42 U.S.C.ss.ss. 6901 et seq.), the Federal Water Pollution Control Act (33 U.S.C. ss.ss. 1251 et seq.), the Clean Air Act (42 U.S.C.ss.ss. 7401 et seq.), the Toxic Substances Control Act (15 U.S.C. ss.ss. 2601 et seq.), the Oil Pollution Act (33 U.S.C.ss.ss. 2701 et seq.), the Emergency Planning and Community Right-to-Know Act (42 U.S.C.ss.ss. 11001 et seq.), the Occupational Safety and Health Act (29 U.S.C.ss.ss. 651 et seq) and all applicable state laws analogous to any of the above.

"Environmental Permits" means permits, certificates, certifications, licenses, franchises and other governmental filings, notices, authorizations, consents and approvals under Environmental Laws.

"Genco" means the corporation which will become the indirect owner of all the partnership interests in Genco LP as provided in Section 2.3, except that when used in Article VII, Genco shall mean such corporation or Genco LP, as the context may require.

"Genco Assets" has the meaning assigned to that term in Section 1.15 of the Master Separation Agreement, as such assets may exist from time to time, including all additions thereto and betterments, improvements and replacements thereof.

"Genco Common Stock" means the common stock, par value $.001 per share, of Genco.

"Genco GP LLC" means the limited liability company which will become the 1% general partner of Genco LP.

"Genco IPO" means the sale of Genco Common Stock, either in a primary offering by Genco or in a secondary offering by Regco, in an underwritten public offering that results in Regco's ownership of the outstanding Genco Common Stock being reduced from 100% to a percentage not greater than 83% and not less than 80%.

"Genco Liabilities" has the meaning assigned to that term in Section 1.18 of the Master Separation Agreement.

"Genco LP" means the limited partnership to which the Genco Assets will be transferred as provided in Section 2.1.

"Genco LP LLC" means the limited liability company which will become the 99% limited partner of Genco LP.

"Genco Organization Date" means the date the Genco Assets are contributed to Genco LP and the Genco Liabilities are assumed by Genco LP as provided in Section 2.1.

"Genco Public Ownership Date" means the date on which a Genco Public Ownership Event occurs.

"Genco Public Ownership Event" means the first to occur of (a) the closing of the first sale of Genco Common Stock to the underwriters pursuant to a Genco IPO or (b) the distribution date for a Genco Spin-off that is a distribution or the date shares are accepted for exchange in a Genco spin-off accomplished by means of an exchange offer.

"Genco Spin-off" means either (a) a distribution by Regco with respect to its outstanding Common Stock of at least 19%, but not more than 20%, of the Genco Common Stock owned by it or (b) the consummation by Regco of an exchange offer to holders of its outstanding common stock in which Regco transfers at least 19%, but not more than 20%, of the Genco Common Stock owned by it to such holders in exchange for Regco's common stock held by such holders, in either case resulting in Regco's ownership of the outstanding Genco Common Stock being reduced to a percentage not greater than 81% and not less than 80%.

"Good Operating Practices" mean any of the practices, methods and acts engaged in or approved by a significant portion of the electric generation industry or any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, would have been expected to accomplish the desired result at a reasonable cost consistent with reliability, safety and expedition during the relevant time period. Good Operating Practices are not intended to be limited to the optimum practices, methods or acts to the exclusion of all others, but rather to be acceptable practices, methods or acts generally accepted in the industry.

"Governmental Approvals" has the meaning assigned to that term in the Master Separation Agreement.

"Governmental Authority" means any federal, state, local or other governmental regulatory or administrative agency, commission, department, board, or other governmental subdivision, court, tribunal, arbitrating body or other governmental authority.

"Hazardous Substances" or "hazardous substances" means (a) any petrochemical or petroleum products, coal ash, oil, radioactive materials, radon gas, asbestos in any form that is friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid which contains levels of polychlorinated biphenyls in excess of 50 parts per million, (b) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "hazardous constituents," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants," "pollutants," "toxic pollutants" or words of similar meaning and regulatory effect under any applicable Environmental Law; and (c) any other chemical, material or substances, exposure to which is prohibited, limited or regulated by any applicable Environmental Law.

"Indebtedness" of any Person means, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services, (f) all

Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any mortgage, lien, pledge, or other encumbrance on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all guarantees by such Person of Indebtedness of others, (h) all capital lease obligations of such Person, and (i) all securities or other similar instruments convertible or exchangeable into any of the foregoing, but excluding daily cash overdrafts associated with routine cash operations.

"Independent Director" means a director of Genco who (a) meets the independence requirements for audit committee members under the rules of the principal national securities exchange or automated quotation system on which the Genco Common Stock is listed or reported and (b) is not otherwise a director, officer or employee of Regco or of Resources or of any of their Subsidiaries.

"Investment" in any Person means any loan or advance to such Person, any purchase or other acquisition of any capital stock or other ownership or profit interest, warrants, rights, options, obligations or other securities of such Person, any capital contribution to such Person or any other investment in such Person, including, without limitation, any arrangement pursuant to which the investor incurs Indebtedness of the types referred to in clauses (f) or (g) of the definition of "Indebtedness" in respect of such Person.

"Liabilities" means any and all Indebtedness, liabilities and obligations, whether accrued, fixed or contingent, mature or inchoate, known or unknown, reflected on a balance sheet or otherwise, including, but not limited to, those arising under any law, rule, regulation, action, order, injunction or consent decree of any Governmental Authority or any judgment of any court of any kind or any award of any arbitrator of any kind, and those arising under any contract, commitment or undertaking.

"Master Separation Agreement" means the Master Separation Agreement dated as of December 31, 2000 between REI and Resources.

"Material Adverse Effect" means an effect that is or could be expected to be materially adverse to the business, assets, condition (financial or otherwise), prospects, properties or results of operations of Genco, or prior to the Genco Organization Date, of the Genco Assets or the business and operations conducted with the Genco Assets.

"Mortgage" means the Mortgage and Deed of Trust, dated November 1, 1944 between Houston Lighting & Power Company and Chase Manhattan Bank National Association (successor to South Texas Commercial National Bank of Houston) as Trustee, as amended and supplemented.

"Option" means the option granted to Resources pursuant to Article III of this Agreement.

"Option Closing Date" means the date on which delivery of and payment for the Shares is made pursuant to Section 3.2 or Section 3.5, as applicable.

"Option Exercise Date" means the date on which Resources gives notice of exercise of the Option pursuant to Section 3.1.

"Option Expiration Date" means January 24, 2004.

"Option Period" means the period beginning at 8:00 a.m. on January 10, 2004 and ending at 5:00 p.m., Houston time on the Option Expiration Date, or such other period during which the Option may be exercised as may be established pursuant to Section 3.5.

"Permits" means permits, certificates, certifications, licenses, franchises and other filings, notices, authorizations, consents and approvals of any Governmental Authority (other than Environmental Permits).

"Person" means and includes an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization or a Governmental Authority.

"Pricing Period" has the meaning specified in Section 3.1.

"PUCT" means the Public Utility Commission of Texas.

"Regco" means the corporation that will be organized by REI and, by means of a merger of a wholly owned subsidiary of Regco with and into REI, that will become a holding company for REI's regulated businesses, as described in Article VI of the Master Separation Agreement; provided, however, that if any provision of this Agreement referring to Regco applies at a time when Regco has not become such a holding company, references to Regco in such provision shall be deemed to refer to REI or the ultimate parent entity of REI, as the case may be.

A "Regco Change in Control Event" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Regco Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Regco Voting Stock, unless such acquisition is made directly from Regco in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is or becomes the beneficial owner of 30% or more of the Outstanding Regco Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the Regco Board; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Regco Business Combination unless, immediately following such Regco Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Regco Voting Stock immediately prior to such Regco Business Combination beneficially own, directly or indirectly,

more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Regco Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Regco Business Combination, of the Outstanding Regco Voting Stock, (ii) if the Regco Business Combination involves the issuance or payment by Regco of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Regco Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Regco Voting Stock plus the principal amount of Regco's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Regco Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Regco Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Regco Business Combination were Incumbent Directors of Regco immediately prior to consummation of such Regco Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Regco Asset Disposition unless, immediately following such Major Regco Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Regco Voting Stock immediately prior to such Major Regco Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of Regco (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of Regco (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors immediately prior to consummation of such Major Regco Asset Disposition.

For purposes of the foregoing,

(1) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act");

(2) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(3) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Exchange Act;

(4) the term "Incumbent Director" means a director of Regco (x) who was a director of Regco immediately following the Restructuring Merger or (y) who becomes a director subsequent to the date of the Restructuring Merger and whose election, or nomination for election by Regco's stockholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the Board;

(5) the term "Major Regco Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of Regco and its subsidiaries on a consolidated basis;

(6) the term "Outstanding Regco Voting Stock" means outstanding voting securities of Regco entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Regco Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(7) the term "parent corporation resulting from a Business Combination" means Regco if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns Regco or all or substantially all the Regco either directly or through one or more subsidiaries; and

(8) the term "Regco Board" means the board of directors of Regco; and

(9) the term "Regco Business Combination" means (x) a merger or consolidation involving Regco or its stock or (y) an acquisition by Regco, directly or through one or more subsidiaries, of another entity or its stock or assets;

and any specified percentage or portion of the assets of Regco shall be based on fair market value, as determined by a majority of the Incumbent Directors.

"Regular Cash Dividends" means regular quarterly cash dividends by Genco meeting the requirements of Section 7.9.

"Regulatory Conditions to Exercise" has the meaning set forth in Section 3.4.

"Regulatory Conditions to Genco Public Ownership Event" has the meaning set forth in Section 6.1.

"Release" means release, spill, leak, discharge, dispose of, pump, pour, emit, empty, inject, leach, dump or allow to escape into or through the environment.

"Restructuring Date" means the date on which the merger of a wholly owned subsidiary of Regco with and into REI as provided in Section 6.2(g) of the Master Separation Agreement becomes effective.

"Restructuring Merger" means the merger referred to in the definition of Restructuring Date.

"SEC" shall mean the Securities and Exchange Commission.

"Shares" means the shares of Genco Common Stock subject to the Option, which shall not include the Genco Common Stock sold or distributed in the Genco Public Ownership Event.

"Subsidiary" of a Person means (i) any corporation, association or other business entity of which 50% or more of the total voting power of shares or other voting securities outstanding thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other subsidiaries of that Person (or a combination thereof) and (ii) any partnership or limited liability company (a) the sole general partner or the managing general partner or managing member of which is such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) or (b) the only general partners or members of which are such Person or one or more of the other Subsidiaries of such Person (or any combination thereof). For purposes of this Agreement, however, neither Resources nor any Subsidiary of Resources, nor Genco nor any Subsidiary of Genco shall be deemed to be a Subsidiary of either REI or of Regco.

"Tax Returns" means all returns, declarations, reports, statements and other documents required to be filed in respect of Taxes, and the term "Tax Return" means any one of the foregoing Tax Returns.

"Taxes" mean all federal, state, local, foreign and other net income, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, service use, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, windfall profits, fuel, gas import, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever imposed by any governmental entity, together with any interest and any penalties, additions to tax or additional amounts with respect thereto, and shall include all liability for the payment of any consolidated or combined income taxes (including, without limitation, any United States federal consolidated income tax liability) that is payable as a result of being a member of, and which may be imposed upon, any affiliated group (as defined in Section 1504(a) of the Code or other applicable law) of which Genco is a member, and the term "Tax" means any one of the foregoing Taxes.

"Utilities Code" means the Utilities Code of Texas.

ARTICLE II
Organization of Genco LP and Genco

2.1 Organization of Genco LP. REI agrees, prior to the Restructuring Merger, and in any case no later than December 31, 2001, to cause the Genco Assets to be contributed to Genco LP free and clear of the lien of the Mortgage and all other liens and security interests securing any Indebtedness, and to cause Genco LP to assume the Genco Liabilities, all pursuant to and in accordance with Article VI and Section 8.1 of the Master Separation Agreement. After giving effect to such transactions, all of the outstanding partnership interests in Genco LP shall be owned initially by REI, indirectly through Genco GP LLC and Genco LP LLC. On the Restructuring Date, Regco shall become the owner of such partnership interests, indirectly through Genco GP LLC and Genco LP LLC.

2.2 Genco Contracts. On the Genco Organization Date, REI will cause to be assigned to Genco the Technical Services Agreement between REI and Resources and Genco will assume the obligations of REI thereunder.

2.3 Organization of Genco. Prior to the Genco Public Ownership Date, Regco shall organize Genco and contribute to Genco all of Regco's interests in Genco GP LLC and Genco LP LLC. Immediately following such transactions, all outstanding shares of Genco Common Stock shall be owned by Regco, unless at such time the Restructuring Merger shall not have been effected, in which case all outstanding shares of Genco Common Stock shall be owned by REI. In connection with the organization of Genco, REI shall cause Genco's certificate of incorporation to contain a provision electing not to be governed by Section 203 of the Delaware General Corporation Law or Articles 13.01 et seq. of the Texas Business Corporation Act, as applicable.

2.4 Genco Employee Matters. Effective no later than the earlier of the Distribution Date and January 1, 2002, REI shall transfer to Genco LP all personnel employed by REI who are assigned to generating plants and other facilities owned by Genco LP, together with other employees identified by REI as energy production employees who are directly supporting the functions of Genco LP. Prior to such effective date, REI shall complete any necessary consultations with labor organizations. In accordance with the Employee Matters Agreement, REI shall cause benefit and welfare plans to be in place for employees of Genco as of the effective date of the transfer of employment.

ARTICLE III
Grant of Option

3.1 Grant of Option. Subject to the terms and conditions and in reliance on the representations and warranties herein set forth, REI hereby grants to Resources the option to purchase, during the Option Period, all (but not less than all) of the shares of Genco Common Stock owned by Regco at the time of exercise (which shall not include the shares of Genco Common Stock sold or distributed in the Genco Public Ownership Event) for an aggregate price equal to the sum of (a) the product of (x) the average daily closing price per share of the Genco Common Stock on the principal national securities exchange on which the Genco Common Stock is traded over the 30 consecutive trading days out of the 120 trading days ending

January 9, 2004 (the "Pricing Period") which result in the highest average closing price for any such 30 trading day period and (y) the number of shares of Genco Common Stock so owned by Regco, (b) any applicable Control Premium Amount and (c) any adjustment (whether positive or negative) required by Section 7.9. The Option shall also be exercisable prior to the Option Period in the circumstances set forth in Section 3.5 for the price and on the terms set forth therein. The Control Premium Amount shall apply to the extent that the PUCT includes a control premium in the valuation of Genco pursuant to Section 39.262(h)(3) of the Utilities Code, and shall equal the amount of the control premium so determined to exist, but shall in no event exceed 10% of the amount determined under clause (a) of the first sentence of this Section 3.1. In the event of any stock dividend, stock split or combination affecting the Genco Common Stock during the Pricing Period, appropriate proportionate adjustments shall be made in the computation of the average daily closing price pursuant to this Section 3.1.

Notwithstanding anything to the contrary herein, the Option shall not be exercisable unless the Distribution (as defined in the Master Separation Agreement) has occurred. If at any time the Option is exercisable hereunder the Restructuring Date has not occurred, or for any other reason the Genco Common Stock is held by REI or one or more other Subsidiaries of REI or Regco rather than by Regco, the Option shall be an option to purchase all of the Genco Common Stock held by REI or such other Subsidiary or Subsidiaries.

3.2 Exercise of Option. Resources may exercise the Option by giving written notice thereof to Regco during the Option Period. Subject to compliance with Section 3.3, and to satisfaction of the Regulatory Conditions to Exercise, delivery of and payment for the Shares (assuming the Option has been so exercised) shall be made at 10:00 A.M., Houston time, on the later of (a) the third business day following the giving of such notice (or such other date as the parties agree) and (b) the first business day following the satisfaction of the Regulatory Conditions to Exercise (satisfaction of which shall be a condition precedent to such delivery and payment) (which date shall be the "Option Closing Date"), provided that if the amount of any Control Premium Amount included in the exercise price has not been determined by Final Order of the PUCT prior to the date for delivery and payment so determined, the payment made on the date so determined shall exclude any Control Premium Amount and such Control Premium Amount shall be paid in immediately available funds no later than 5 business days after the PUCT issues a Final Order determining market value under Section 39.262(h)(3) of the Utilities Code. Delivery of the Shares shall be made to Resources against payment by Resources of the purchase price by wire transfer payable in same-day funds to the account specified by Regco. Delivery of the Shares shall be made by delivery to Resources of stock certificates representing the Shares, accompanied by appropriate stock powers or other instruments in proper form to effect such transfer. If Resources determines prior to the Option Period and within one year prior to the anticipated Option Closing Date that it intends in good faith, subject to economic conditions and other reasonable assumptions identified at such time, to exercise the Option, it and Regco shall make all appropriate regulatory filings, including filings under the Hart-Scott-Rodino Antitrust Improvements Act ("H-S-R") and the Nuclear Regulatory Commission, with a view to obtaining required approvals or expiration or termination of the applicable waiting period prior to the Option Exercise Date. Regco and Resources shall use commercially reasonable efforts to cause all other Regulatory Conditions to Exercise to be satisfied as promptly as practicable after the Option Exercise Date.

If Resources exercises the Option and all other Regulatory Conditions to Exercise have not been satisfied by the expiration or termination of the H-S-R waiting period, Resources shall deposit the payment for the Shares in an interest bearing account with an escrow agent mutually acceptable to Resources and Regco, and Genco shall execute a power sales agreement with Resources under which Genco shall sell to Resources or its designee all of Genco's available capacity (after deducting requirements to satisfy prior obligations and amounts it is required to sell to third parties under PUCT rules) at market-based rates until the earlier of the Option Closing Date described above and May 31, 2005. At the Option Closing Date, the escrow agent holding the payment for the shares shall remit to Regco the entire amount deposited by Resources, plus all interest accrued and unpaid to the Option Closing Date, net of dividends paid to Regco during the period such funds are held in escrow. During the continuation of the power sales agreement, Resources shall be obligated to advance, on the same terms credit is extended by Regco pursuant to Section 6.5, all amounts required by Genco for capital expenditures, and shall also pay for power purchased under the power sales agreement pursuant to the terms thereof. If the Option Closing Date has not occurred by May 31, 2005, the rights of the parties under this Agreement shall terminate (except for the obligations of Regco to reimburse Resources as set forth in the next sentence), the escrow shall be terminated and all funds deposited with the escrow agent, together with interest accrued thereon, shall be paid to Resources. Within five business days following such termination, Regco shall cause Genco to repay, or shall otherwise reimburse Resources for, all unrepaid advances made to fund Genco's capital expenditures during the continuation of the power sales agreement as provided above.

3.3 Requirement to Purchase Notes and Receivables. It shall be a condition to Resource's right to exercise the Option that Resources shall purchase from Regco (or any Subsidiary of Regco, as applicable) any notes and other receivables owed by Genco to Regco or any Subsidiary of Regco as of the Option Closing Date (other than Indebtedness incurred pursuant to Section 6.5 which establishes specified terms for repayment, the repayment of which shall be governed by the terms thereof), at an amount equal to the outstanding principal amount thereof plus any accrued and unpaid interest thereon to such date. If there are any notes or other receivables owed by Regco or any Subsidiary of Regco to Genco as of the Option Closing Date, Resources shall assume the obligations of the obligors on such notes and other receivables and in consideration for the making of such assumption, Regco shall pay (or cause its Subsidiary obligor to pay, as applicable) to Resources an amount equal to the outstanding principal amount thereof plus any accrued and unpaid interest thereon to such date. Regco shall provide an estimate of such amounts owed by and to Genco and reasonably available supporting detail within two business days following any request by Resources during the Option Period or during the ten business days prior thereto, and within one business day after the giving of the notice of exercise pursuant to Section 3.2. The estimated amounts notified to Resources following the giving of the notice of exercise shall be paid by Resources, or by Regco or the appropriate Subsidiary obligor, as applicable, in same-day funds at the same time payment is made for the purchase of the Shares. Any variation in the actual amounts outstanding as of the Option Closing Date from the estimated amounts on the basis of which payment was made on the Option Closing Date shall be determined as soon as practicable and payments made from Resources to Regco, or from Regco to Resources, as applicable, so that the amounts paid on the Option Closing Date, as adjusted to reflect such additional payments, are equal to the amounts payable on the basis of the actual amounts outstanding.

3.4 Regulatory Conditions to Exercise. (a) The purchase and sale of the Shares pursuant to the exercise of the Option shall be subject to the satisfaction of following conditions precedent (collectively, the "Regulatory Conditions to Exercise"):

(i) any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act shall have expired or been terminated; and

(ii) any approval by the SEC, the Nuclear Regulatory Commission or any other regulatory agency then having jurisdiction over the transfer of the Shares upon exercise of the Option or the ownership by Resources of the Shares that is required by law to be obtained prior to the transfer of the Shares or in order for Resources to exercise full rights of ownership with respect thereto shall have been obtained and shall be in full force and effect.

(b) Regco shall use its best efforts to expedite all regulatory approvals, including initiation of share transfer approval proceedings before the Nuclear Regulatory Commission prior to the Option Exercise Date as soon as reasonably practical after receiving a non-binding notice from Resources prior to the commencement of the Option Period stating that the current intention of Resources is to exercise the Option.

3.5 Regco Change in Control. If a Regco Change in Control Event occurs, and the Pricing Period specified in Section 3.1 has not been completed, then the Option shall become exercisable on the terms specified in this Section 3.5, including the modifications set forth in this Section 3.5 to the determination of the exercise price therefor and the time and manner of payment of the exercise price. In such event, Resources may exercise the option by giving written notice thereof to Regco at any time after the occurrence of the Regco Change in Control Event (provided the Genco Public Ownership Date has occurred and at least 30 trading days have occurred thereafter) and prior to the Option Expiration Date. If the Pricing Period has not been completed at the time the notice of exercise is given, the option price payable on the Option Closing Date shall be determined on the same basis as set forth in Section 3.1 except that the Pricing Period shall be the 30 consecutive trading days out of the 120 trading days (or if there have not been 120 trading days, out of such shorter period during which trading has occurred) ending on the date the notice of exercise is given. At such time as the Option Period would have commenced absent the occurrence of a Regco Change in Control Event a computation of the exercise price shall be made in accordance with Section 3.1, including the determination of any Control Premium Amount, and if that computation results in an exercise price lower than has been paid by Resources on the Option Closing Date, the difference shall be repaid by Regco to Resources as an adjustment to the exercise price. There shall be no such adjustment if such computation results in an exercise price higher than that paid on the Option Closing Date. Except as modified by this Section 3.5, the provisions of Article III shall apply to any exercise of the Option pursuant to this Section 3.5.

3.6 Prohibitions on Market Activity. Prior to the Option Exercise Date or, if the option is not exercised, the Option Expiration Date, neither REI, Resources nor Genco shall, directly or indirectly through any Subsidiary or other Person, purchase, sell, contract to purchase or sell, or otherwise acquire or dispose of, any shares of Genco Common Stock or any options,

warrants, rights, convertible securities or other securities convertible into or exercisable or exchangeable for Genco Common Stock.

3.7 Distributions, etc. Pending the Option Closing Date. On and after the commencement of the Pricing Period through and including the Option Closing Date, Genco shall not declare any dividend or other distribution with respect to the Genco Common Stock except for Regular Quarterly Dividends consistent with past practices.

3.8 Commitments Pending the Option Closing Date. On and after the Option Exercise Date through and including the Option Closing Date, Genco shall not enter into any long term contract or commitment for the purchase of fuel or for the purchase or sale of power (including any such contract or commitment reasonably expected to require performance or payment after the Option Closing Date) without prior consultation with, and the consent of, Resources, such consent not to be unreasonably withheld.

3.9 Regulatory Proceedings. To the extent permitted by court or agency rules, Resources shall be entitled to participate jointly with Regco in all Regulatory Proceedings (as defined in the Master Separation Agreement) pertaining in any way to the value of Genco or to the Option.

ARTICLE IV
Representations and Warranties of REI

REI hereby represents and warrants to Resources as follows:

4.1 Organization; Authorization, etc.. REI is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas. All necessary corporate action on the part of REI to authorize the entering into and performance of this Agreement has been duly and validly taken. This Agreement is a valid and binding obligation of REI.

4.2 No Breach or Default. None of the execution, delivery or performance of this Agreement by REI or the assumption or performance by Regco of the obligations hereunder required to be performed by it will constitute a breach of or a default under any provision of the articles of incorporation or bylaws of REI or similar constituent documents of Regco or of any note, mortgage, indenture, loan or credit agreement, contract or other agreement to which either REI or Regco is a party or by which either of them is bound or to which any material assets or property of either of them is subject.

4.3 Matters Relating to Genco. On and following the Genco Organization Date, Genco will be duly organized, validly existing and in good standing under the laws of its state of incorporation. All the outstanding shares of Genco Common Stock issued prior to the purchase by Resources of the Shares pursuant to the exercise of the Option will be duly authorized and validly issued, fully paid and nonassessable and free of any preemptive or similar rights. All the partnership interests of Genco LP will be validly issued, and following the transactions described in Section 2.3, Genco will be the sole beneficial owner thereof (indirectly through Genco GP LLC and Genco LP LLC). At all times during the Option Period and prior to

the Option Closing Date Regco will be the record and beneficial owner of the Shares free and clear of all liens, encumbrances, equities and claims, and assuming that Resources acquires the Shares upon payment therefor as provided in Section 3.2 without notice of any adverse claim (within the meaning of Section 8.105 of the Texas Business and Commerce Code (the "UCC")), no action based on an adverse claim (within the meaning of Section 8.105 of the UCC) may be asserted against Resources with respect to the Shares.

ARTICLE V
Representations and Warranties of Resources

Resources hereby represents and warrants to REI as follows:

5.1 Organization, Authorization, etc.. Resources is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. All necessary corporate action on the part of Resources to authorize the entering into and performance of this Agreement has been duly and validly taken. This Agreement is a valid and binding obligation of Resources.

5.2 No Breach or Default. None of the execution, delivery or performance of this Agreement by Resources will constitute a breach of or a default under any provision of the certificate of incorporation or bylaws of Resources or of any note, mortgage, indenture, loan or credit agreement, contract or other agreement to which Resources is a party or by which it is bound or to which any of its material assets or property is subject.

ARTICLE VI
Covenants of REI and Regco

REI covenants and agrees, for itself and on behalf of Regco, to comply with the covenants set forth in this Article VI until the Option Closing Date or, if the Option is not exercised, the Option Expiration Date. In connection with the transactions occurring on the Restructuring Date, REI covenants and agrees to cause Regco to expressly assume the obligations under this Agreement required to be performed by REI and by Regco.

6.1 Genco IPO or Genco Spin-off. Regco will use its best efforts to satisfy all Regulatory Conditions to Genco Public Ownership Event on or prior to June 30, 2002. Subject only to the satisfaction of such conditions, Regco will cause a Genco Public Ownership Event to occur on or prior to June 30, 2002. The "Regulatory Conditions to Genco Public Ownership Event" are that:

(a) Any material Governmental Approvals necessary under applicable law to effect the Genco Public Ownership Event shall have been obtained and be in full force and effect; and

(b) No order, injunction or decree issued by any court or agency of competent jurisdiction preventing the consummation of the Genco Public Ownership Event shall be in effect.

6.2 Ownership; Encumbrances. From the Genco Organization Date through and including the Option Closing Date or, if the Option is not exercised, the Option Expiration Date, Regco will not (a) sell, contract to sell, grant or enter into any option providing for the sale of, or otherwise transfer or dispose of, directly or indirectly, any partnership interests in Genco LP or any Subsidiary of Genco LP or Genco (other than transfers thereof pursuant to the restructuring transactions expressly contemplated herein) or any Genco Common Stock or any options, warrants, rights, convertible securities or other securities convertible into or exercisable or exchangeable for such partnership interests or Genco Common Stock, other than pursuant to (i) the Genco IPO or the Genco Spin-off (ii) the sale of the Shares pursuant to the Option or (iii) in the event the Genco Public Ownership Event is a Genco IPO which does not result in Regco's ownership of the outstanding Genco Common Stock being reduced to 81% or less, the sale prior to the commencement of the Pricing Period of Shares in an amount sufficient to result in a reduction of Regco's ownership of the outstanding Genco Common Stock to such level, but not below 80%, so that Regco may use the partial stock valuation method specified in Section 39.262(h)(3) of the Utilities Code or (b) mortgage, pledge, assign or encumber any partnership interests in Genco LP or Genco (or any Subsidiary of Genco LP or Genco), or any Genco Common Stock.

6.3 Operation, etc. of Genco Assets prior to Genco Organization Date. Prior to the Genco Organization Date, REI will:

6.3.1 Operate the Genco Assets and the business conducted therewith in the ordinary course of business consistent with past practices and Good Operating Practices;

6.3.2 Comply with all applicable laws and regulations applicable to the Genco Assets, including without limitation all Environmental Laws, except where failure to do so would not result in a Material Adverse Effect;

6.3.3 With respect to the Genco Assets, comply with Sections 7.5, 7.6, 7.7, 7.8, 7.9 and 7.12 as though named therein as Genco.

6.3.4 Not pledge, mortgage, hypothecate or grant a security interest in, or permit any mortgage, pledge, security interest or other lien upon any Genco Assets to secure any Indebtedness except pursuant to the Mortgage.

6.4 Pre-Genco Public Ownership Date Capital Contributions. Following the Genco Organization Date and prior to the Genco Public Ownership Date, Regco will lend to, or contribute to the capital of, Genco LP (and after its organization Genco, which Regco shall cause to make corresponding loans or capital contributions to Genco LP) from time to time such funds as may be necessary, together with other funds of Genco LP (and Genco, as applicable), to enable Genco LP (and Genco, as applicable) to operate its business in the ordinary course consistent with past practices and Good Operating Practices, to satisfy its debts and other obligations and to fulfill its covenants set forth in Article VII of this Agreement. On or prior to the Genco Public Ownership Date, Regco shall take such commercially reasonable action as may be appropriate (which actions may include without limitation contributions to the capital of Genco, causing Genco to declare and pay dividends, lending funds to Genco or arranging for

Genco to borrow from others, or causing Genco to repay loans theretofore made) to cause Genco to have a capital structure appropriate, in the judgment of Regco's board of directors, for the satisfactory marketing of Genco Common Stock in a Genco IPO or to establish a satisfactory trading market for the Genco Common Stock following a Genco Spin-off, as applicable. Except as provided in this Section 6.4, Regco shall have no obligation to contribute to the capital of Genco or otherwise provide equity to Genco.

6.5 Credit Arrangements. On or prior to the Genco Public Ownership Date, Regco shall establish commercially reasonable terms and conditions (which shall be determined by Regco on the basis of its judgment as to the terms Genco could obtain from an unaffiliated lender) under which it will lend funds to Genco from time to time upon the request of Genco on or prior to the earlier of the Option Closing Date and the Option Expiration Date.

6.6 Governance. From and after the Genco Public Ownership Date until the Option Closing Date or, if the Option is not exercised, the Option Expiration Date, Regco shall comply with the provisions applicable to it contained in Article VIII and shall exercise its rights as a stockholder of Genco and otherwise use its best efforts to enable and cause Genco to comply with the provisions applicable to it contained in Article VIII.

ARTICLE VII
Covenants of Genco

REI shall cause Genco, in connection with the organization of Genco pursuant to Article II, to execute and deliver an undertaking in favor of Resources to observe and comply with the covenants set forth in this Article VII expressed as obligations of Genco. Prior to the Genco Public Ownership Date, Regco shall cause Genco LP to observe and comply with such covenants. All covenants contained in this Agreement that do not by their terms terminate or cease to apply at an earlier date shall terminate upon the Option Closing Date or, if the option is not exercised, on the Option Expiration Date.

7.1 Ordinary Course of Business. On and after the Genco Organization Date, Genco will conduct, and cause each of its Subsidiaries to conduct, its business in the ordinary course, consistent with its past practices and those of REI and with Good Operating Practices.

7.2 Compliance with Laws. On and after the Genco Organization Date, Genco will comply, and will cause each of its Subsidiaries to comply, with all applicable laws and regulations applicable to Genco or the Genco Assets, including without limitation all Environmental Laws, except where failure to do so would not result in a Material Adverse Effect and is consistent in all material respects with Good Operating Practices.

7.3 Payment of Taxes. On and after the Genco Organization Date, Genco will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all material taxes, assessments and governmental charges levied or imposed upon Genco or any of its Subsidiaries or upon the income, profits or property of Genco or any of its Subsidiaries, and (2) all material lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of Genco or any of its Subsidiaries; provided, however, that Genco shall not be required to pay or discharge or cause to be paid, or discharged any such tax,

assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

7.4 Existence. On and after the Genco Organization Date, Genco and Genco LP will each do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence or partnership existence, as the case may be.

7.5 Maintenance of Insurance. Genco shall maintain insurance coverage for Genco and its Subsidiaries with responsible and reputable insurance companies or associations in such amounts and covering such risks as is customarily carried by companies engaged in the electric generation industry and owning similar assets in the same general areas in which Genco operates.

7.6 Operation and Maintenance and Capital Expenditures. (a) Genco shall operate and maintain the Genco Assets in the ordinary course of business in a manner consistent with past practices (including the past practices of REI) and in that connection shall, subject to Section 7.6(b), make expenditures for operation, maintenance and repair of the Genco Assets and for additions to and replacements, betterments and improvements of property, plant and equipment included therein, such as are necessary to maintain and keep them in good condition, repair and working order, supplied with all necessary equipment, and capable of operation in compliance in all material respects with all applicable laws (including Environmental Laws), all in a manner consistent with good electric generation industry business practices, reliability, safety and expedition. Genco shall not abandon or permanently retire any of its generation units, but may mothball units if and to the extent its Board of Directors determines in good faith that it is economically warranted to do so.

(b) Capital expenditures for environmental compliance projects reflected in the estimated expenditures set forth on Schedule 7.6(b), shall be made unless and to the extent (i) such expenditures are determined by final order of the PUCT no longer subject to rehearing by the PUCT not to be recoverable as stranded costs under the Utilities Code, in which case Genco may cease making such expenditures as are determined not to be recoverable and shall promptly give notice to Resources of any determination to cease making such expenditures and the basis therefor or (ii) such expenditures relate to generation units Genco has determined, in accordance with Good Operating Practices, to mothball, provided that prior to ceasing such expenditures Genco shall have provided Resources with its written analysis in reasonable detail supporting the decision to mothball the unit. It is understood that the amounts set forth on Schedule 7.6(b) are current estimates and that actual required expenditures for the projects may be greater or less than such amounts.

7.7 Compliance with Contracts. Genco will observe and comply in all material respects with its covenants and obligations contained in the agreements specified in Section 2.2. Genco will, except to the extent failure to do so would be consistent with Good Operating Practices and would not have a Material Adverse Effect, comply, and cause each of its Subsidiaries to comply, in all material respects with all other material contracts for fuel supply and the purchase or sale of power.

7.8 No Issuances or Sales of Equity Securities, etc. Neither Genco LP, Genco nor any of their respective Subsidiaries will issue, sell, pledge, dispose of or encumber, or authorize or propose the issuance, sale, pledge, disposition or encumbrance of, directly or indirectly, any of Genco LP's partnership interests or any shares of Genco's capital stock of any class or any options, warrants, rights or convertible securities or other securities convertible into or exercisable or exchangeable for any such partnership interests or shares of Genco's capital stock, other than (a) the issuance of partnership interests issued upon Genco's organization as described in Article II and related transfers thereof in connection with such organization, (b) Genco Common Stock initially issued to Regco as provided in Section 2.3 and thereafter issued to the holders of Genco Common Stock in respect thereof in connection with any reclassification, stock dividend or stock split, (c) Genco Common Stock sold by Genco in the IPO, (d) the sale of Shares pursuant to the Option, or (e) in the event the Genco Public Ownership Event is a Genco IPO which does not result in Regco's ownership of the outstanding Genco Common Stock being reduced to 81% or less, the sale prior to the commencement of the Pricing Period of Shares, in an amount sufficient to result in a Reduction of Regco's ownership of the outstanding Genco Common Stock to such level, but not below 80%, so that Regco may use the partial stock valuation method specified in Section 39.262(h)(3) of the Utilities Code.

7.9 Dividends; No Repurchases of Capital Stock. For the period beginning on the Genco Public Ownership Date and extending through the end of the Pricing Period, Genco shall establish a dividend policy under which it will distribute to its shareholders through regular quarterly cash dividends complying with this Section 7.9 ("Regular Cash Dividends") all its annual earnings which it may lawfully distribute to shareholders under corporate law or applicable regulatory restrictions. The goal of such policy shall be to pay out through dividends all earnings and at the same time maintain consistent levels of dividend payments during the year without requiring unusual or large payments. To implement such payment policy, the initial Genco dividend set at the Genco Public Ownership Date shall be based on estimated earnings for the remainder of the calendar year in which the Genco Public Ownership Date occurs. To the extent that dividends paid for that year are greater or less than actual earnings for that year, the Regular Cash Dividend for the ensuing calendar year shall be increased or decreased as appropriate to reflect that overage or underage in earnings paid out.

If Resources exercises the Option, the purchase price for the Shares shall be adjusted for the difference between:

(a) the actual earnings per share of Genco through the earlier of (x) the Option Closing Date or (y) if the Option Closing Date is delayed as contemplated in Section 3.2, the date Resources deposits payment for the Shares with an escrow agent pursuant to such Section multiplied by the shares owned by Regco, and

(b) the dividends paid by Genco to Regco to that date.

To the extent dividends paid for each Share have been less than the per share earnings of Genco, the Option Price shall be adjusted upward for the difference, and to the extent dividends paid exceed actual earnings to that date, the option price shall be credited with that difference.

From and after the Genco Public Ownership Date, Genco will not declare, set aside or pay any dividend payable in cash, stock or property, except for (a) Regular Cash Dividends, or (b) dividends payable solely in Genco Common Stock for which, if occurring during the Pricing Period, an adjustment is made pursuant to Section 3.1. Genco will not, and will not permit any of its Subsidiaries to, purchase or otherwise acquire for value any shares of Genco Common Stock.

7.10 Indebtedness. Following the Genco Public Ownership Date, Genco will not, and will not permit any of its Subsidiaries to, incur, assume or otherwise become liable in respect of any Indebtedness except to satisfy requirements for operating and maintenance expenditures and capital expenditures in accordance with the terms of this Agreement, to meet working capital needs and to refund or refinance Indebtedness incurred for any of the foregoing purposes. Genco will not, and will not permit and of its Subsidiaries to, incur, assume or otherwise become liable in respect of any Indebtedness incurred for the purpose of making any expenditure in violation of Section 7.12.

7.11 Negative Pledge. Genco will not pledge, mortgage, hypothecate or grant a security interest in, or permit any mortgage, pledge, security interest or other lien upon, any Genco Assets to secure any Indebtedness, provided, however, that this restriction shall not apply to or prevent the creation or existence of:

(a) any mortgage, pledge, security interest, lien or encumbrance upon any property or assets created at the time of the acquisition of such property or assets by Genco or within one year after such time to secure all or a portion of the purchase price for such property or assets;

(b) any mortgage, pledge, security interest, lien or encumbrance upon any property or assets existing thereon at the time of the acquisition thereof by Genco (whether or not the obligations secured thereby are assumed by Genco or any Subsidiary);

(c) any extension, renewal or refunding of any mortgage, pledge, security interest, lien or encumbrance permitted by subsection (a) or (b) above on substantially the same property or assets theretofore subject thereto;

(d) any mortgage, pledge, security interest, lien or encumbrance in favor of Genco; or

(e) any mortgage, pledge, security interest, lien or encumbrance created or assumed by Genco in connection with the issuance of debt securities the interest on which is excludable from gross income of the holder of such security pursuant to the Internal Revenue Code of 1986, as amended, for the purpose of financing, in whole or in part, the acquisition or construction of property or assets to be used by Genco.

For the purpose of this Section 7.11, "security interest" shall include the interest of the lessor under a lease with a term of three years or more that should be, in accordance with generally accepted accounting principles, recorded as a capital lease, and any such lease of

property or assets not acquired from Genco in contemplation of such lease shall be treated as though the lessee had purchased such property or assets from the lessor.

7.12 Other Negative Covenants. Genco will not, except as (x) contemplated by this Agreement, (y) described in Schedule 7.12, or (z) required under applicable law or by any Governmental Authority:

7.12.1 Make any material change in the levels of inventories customarily maintained by Genco or, prior to the Genco Organization Date, REI with respect to the Genco Assets, other than changes which are consistent with Good Operating Practices.

7.12.2 Sell, lease (as lessor), encumber, pledge, transfer or otherwise dispose of, any material Genco Assets individually or in the aggregate (except for Genco Assets used, consumed or replaced in the ordinary course of business consistent with past practices of Genco or, prior to the Genco Organization Date, REI and Good Operating Practices) other than encumbrances not securing any Indebtedness that arise in the ordinary course of business and do not detract from or interfere with in any material respect the value or use of such assets and pledges, mortgages, security interests or other liens securing Indebtedness of Genco or a Subsidiary of Genco permitted under Section 7.11.

7.12.3 Modify, amend or voluntarily terminate prior to the applicable expiration date any agreements or real property leases of Genco (or, prior to the Genco Organization Date, applicable to the Genco Assets) or any of the Permits or Environmental Permits associated with the Genco Assets in any material respect, other than (a) in the ordinary course of business, to the extent consistent with the past practices of Genco or REI and with Good Operating Practices, or (b) with cause, to the extent consistent with past practices of Genco or REI or with Good Operating Practices.

7.12.4 Merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or a series of related transactions) all or any substantial portion of its properties or assets (whether now owned or hereafter acquired) to, any Person.

7.12.5 Make any material change in the nature of its business as carried on at the date hereof.

7.12.6 Not make any loan or advance to, or engage in any transaction with, an Affiliate of Genco except (a) on terms no less favorable to Genco than could be obtained in a comparable arm's-length transaction with a Person not an Affiliate of Genco, (b) transactions permitted by agreements specifically identified herein or in the Master Separation Agreement, (c) the payment of reasonable compensation to the directors and officers of Genco and (d) loans, advances, or equity contributions to Subsidiaries of Genco all of the capital stock

of which is owned, directly or indirectly through another Subsidiary or Subsidiaries, by Genco.

7.12.7 Construct or acquire new generation plants or capacity.

7.12.8 Become a general partner in any general or limited partnership or joint venture.

7.12.9 Engage in hedging transactions or other transactions in contracts or financial instruments under which Genco is exposed to market risk related to commodity prices, interest rates or currency exchange rates except in compliance with Regco's policies regarding such transactions.

7.12.10 Except as otherwise provided herein, enter into any written or oral contract, agreement, commitment or arrangement with respect to any of the proscribed transactions set forth in the foregoing Section 7.12.1 through 7.12.9.

7.13 Reporting Requirements. Genco (or, prior to the Genco Organization Date, REI) will furnish to Resources:

7.13.1 Beginning on the Genco Organization Date, as soon as available and in any event within 15 days after the end of each quarter, a balance sheet of Genco LP as of the end of such quarter and statements of income and cash flows of Genco LP for the period beginning at the end of the last fiscal year and ending with the end of such quarter, duly certified by its principal accounting officer as having been prepared in accordance with generally accepted accounting principles, provided that following the date on which Genco becomes the indirect beneficial owner of all interests in Genco LP, such statements shall be those of Genco rather than Genco LP;

7.13.2 Beginning on the Genco Organization Date, as soon as available and in any event within 90 days after the end of each fiscal year of Genco LP, a balance sheet of Genco LP as of the end of such year and statements of income and cash flows of Genco LP for the year then ended, accompanied by a report of Genco LP's independent public accountants; provided that following the date on which Genco becomes the indirect beneficial owner of all the interests in Genco LP, such statements shall be those of Genco rather than Genco LP; and

7.13.3 Beginning on the Genco Public Ownership Date, promptly after the sending or filing thereof, copies of all reports that Genco sends to any of its security holders, and copies of all reports, registration statements or other statements that Genco files with the Securities and Exchange Commission.

7.14 Obtain PUCT Final Order. Genco will use its best efforts to obtain prior to the beginning of the Option Period any and all Final Orders (as such term is defined in the Master Separation Agreement) from the PUCT and any other necessary Governmental Authority necessary for (i) the facilities (as such term is used in Section 32 of the Public Utility Holding Company Act of 1935, as amended) of Genco to become eligible facilities (as such term is

defined in such Act) and (ii) Genco to become an "exempt wholesale generator" under such Act, which Final Orders shall include, without limitation, the determinations required by Section 32(c) of such Act.

ARTICLE VIII
Governance Matters

8.1 Board Composition. At least three persons who qualify as Independent Directors shall be appointed to the Board of Directors of Genco no later than three months following the Genco Public Ownership Date, provided that to the extent permitted by applicable stock exchange and other requirements two Independent Directors may be so designated no later than such time and the appointment of the third Independent Director may be delayed until a date no later than twelve months following the Genco Public Ownership Date. Thereafter, Regco shall use reasonable efforts (including voting its shares of Genco Common Stock) to ensure that the Board of Directors of Genco includes at least three Independent Directors at all times prior to the Option Closing Date or, if the Option is not exercised, the Option Expiration Date.

8.2 Charter and By-law Amendments. The certificate or articles of incorporation and by-laws of Genco shall not authorize any class of stock other than the Genco Common Stock, or provide for a board of directors divided into classes or contain any provisions requiring a higher vote of the Genco Common Stock on any matter than is required by applicable law or any provisions which would impose restrictions or have any other effects set forth in Section 5.3 of the Master Separation Agreement with respect to Resources as a stockholder of Genco or a Person who may become a stockholder of Genco. Prior to the Option Closing Date or, if the Option is not exercised, the Option Expiration Date, Genco shall not amend its certificate or articles of incorporation or bylaws or adopt any shareholder rights plan, except for (a) amendments to conform to requirements of any national securities exchange or transactions reporting system on which the Genco Common Stock is listed or quoted or (b) amendments which (i) are not adverse to Regco in any material respect, (ii) would not result in disparate treatment of Resources as a stockholder or as a Person who may become a stockholder following exercise of the Option and (iii) would not have any of the other effects set forth in Section 5.3 of the Master Separation Agreement.

8.3 Chief Executive Officer. From and after the Genco Public Ownership Date and prior to the Option Closing Date or, if the Option is not exercised, the Option Expiration Date, the Chief Executive Officer of Genco shall at all times be a full time employee of Genco.

ARTICLE IX
Tax Covenants of REI and Regco

REI covenants and agrees, for itself and on behalf of Regco, to comply with the covenants set forth in this Article IX until the Option Closing Date or, if the Option is not exercised, the Option Expiration Date. In connection with the transactions occurring on the Restructuring Date, REI covenants and agrees to cause Regco to expressly assume the obligations under this Agreement required to be performed by REI and by Regco.

9.1 Except as set forth on Schedule 9.1, on the Option Closing Date, there will be no liens for Taxes (other than for current Taxes not yet due and payable) on any of the assets of REI, Regco or any Subsidiary of REI or Regco.

9.2 On the Option Closing Date, except as set forth on Schedule 9.2, no property owned by REI, Regco or any subsidiary of REI or Regco (i) will be property required to be treated as being owned by another person pursuant to the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended and in effect immediately prior to the enactment of the Tax Reform Act of 1986, (ii) will constitute "tax-exempt use property" within the meaning of Section 168(h)(1) of the Internal Revenue Code of 1986 (the "Code") or (iii) will be "tax-exempt bond financed property" within the meaning of Section 168(g) of the Code.

9.3 On the Option Closing Date, Genco will not be a foreign person within the meaning of Section 1445 of the Code.

9.4 On the Option Closing Date, Genco will be a member of a "selling consolidated group" as such term is defined in Treasury Regulation Section 1.338(h)(10)-1(c).

9.5 Except as set forth on Schedule 9.5, on the Option Closing Date, none of REI, Regco or any Subsidiary of REI or Regco will be a party to, be bound by or have any obligations under any Tax sharing agreement, any Tax indemnification agreement or similar contract or arrangement.

9.6 Except as set forth on Schedule 9.6, on the Option Closing Date, no tax audits or other administrative proceedings or court proceedings will be presently pending with regard to any Taxes for which Genco or any Subsidiary of Genco will be liable except for audits or proceedings which would not have a Material Adverse Effect.

9.7 Except as would not have, individually or in the aggregate, a Material Adverse Effect, on the Option Closing Date, none of REI, Regco or any Subsidiary of REI or Regco will have executed or entered into (or prior to the close of business on the Option Closing Date will execute or enter into) with any taxing authority (i) any agreement, waiver or other document extending or having the effect of extending or waiving the period for assessments or collection of any Taxes for which Genco or any Subsidiary of Genco would or could be liable or (ii) any closing agreement pursuant to Section 7121 of the Code, or any predecessor provision thereof or any similar provision of state, local or foreign Tax law that relates to the assets or operations of Genco or any Subsidiary of Genco.

9.8 Except as would not have, individually or in the aggregate, a Material Adverse Effect, on the Option Closing Date, none of Genco or any Subsidiary of Genco will have made any payments, will be obligated to make any payments, or will be a party to any agreement or other arrangement that could obligate it to make any payments that would not be deductible under Section 280G of the Code.

9.9 Except as would not have, individually or in the aggregate, a Material Adverse Effect, on the Option Closing Date, each of Genco and any Subsidiary of Genco will have collected and withheld all Taxes that it will have been required to collect or withhold and will have timely submitted all such collected and withheld Taxes to the appropriate authorities.

Each of Genco or any Subsidiary of Genco will have complied and will be in compliance with all applicable laws, rules and regulations relating to the payment, withholding and information reporting requirements relating to any Taxes required to be collected or withheld.

9.10 On the Option Closing Date, none of Genco or any Subsidiary of Genco will have made an election or filed a consent under Section 341(f) of the Code or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by such entity.

9.11 On the Option Closing Date, no claim will ever have been made by an authority in a jurisdiction where any of Genco or any Subsidiary of Genco did not or will not have filed Tax returns that such Company or such Subsidiary of any Company will be or may be subject to taxation by that jurisdiction.

9.12 REI will take all necessary actions to ensure that each of Sections 9.1 to 9.11 are true on the Option Closing Date.

ARTICLE X
Tax Matters

10.1 Election Under Section 338(h)(10).

(a) REI, for itself and on behalf of Regco ("Seller"), and Resources shall make a joint election for Genco under Section 338(h)(10) of the Code and under any comparable provisions of state or local law (an "Election") with respect to the purchase of the Genco Common Stock. Seller and Resources shall mutually execute and complete copies of IRS Form 8023 and any similar state or local forms no later than 60 days prior to the due date (including extensions) for filing such forms or the Tax Returns to which such forms must be attached. If any changes are required in these forms as a result of information that is first available after such forms are prepared, the parties will promptly agree on such changes.

(b) Resources shall prepare and submit to Seller a proposed allocation of the Modified Adjusted Deemed Sales Price (as defined in Treasury Regulation Section 1.338(h)(10)-1(f)) for Genco among the assets of Genco as soon as practicable after the Option Closing Date. Seller shall approve and agree to the proposed allocation unless Seller reasonably determines that the proposed allocation is improper. Neither Resources nor Seller shall take any action inconsistent with, or fail to take any action necessary for, the validity of the Election, and, if an allocation schedule is agreed to by Resources and Seller, Resources and Seller shall adopt and utilize the asset values as determined on the allocation schedule for the purpose of all Tax Returns filed by them unless otherwise required by applicable law.

10.2 Tax Returns. Seller shall cause Genco and its Subsidiaries to prepare and file at the Seller's expense (i) all Tax Returns of Genco and its Subsidiaries which are required to

be filed (taking into account extensions of time to file) on or before the Option Closing Date and (ii) all federal and state income and franchise Tax Returns of Genco and its Subsidiaries for all periods ending on or prior to the Option Closing Date. Resources shall prepare and file (or cause to be prepared and filed) at its own expense all other Tax Returns of Genco and its Subsidiaries. If either Resources, on the one hand, or Seller, on the other hand, may be liable for any material portion of the Tax payable in connection with any Tax Return to be filed by the other, the party responsible under this Section 10.2 for filing such return (the "Preparer") shall prepare and deliver to the other party (the "Payor") a copy of such return and any schedules, work papers and other documentation then available that are relevant to the preparation of the portion of such return for which the Payor is or may be liable hereunder not later than 30 days before the Due Date (as defined in Section 10.12 of this Agreement). The Preparer shall not file such return until the earlier of either the receipt of written notice from the Payor indicating the Payor's consent thereto, or the Due Date. The Payor shall have the option of providing to the Preparer, at any time at least 15 days prior to the Due Date, written instructions as to how the Payor wants any, or all, of the items for which it may be liable reflected on such Tax Return. The Preparer shall, in preparing such return, cause the items for which the Payor is liable hereunder to be reflected in accordance with the Payor's instructions (unless, in the opinion of nationally recognized tax counsel to the Preparer, complying with the Payor's instructions would likely subject the Preparer to any criminal penalty or to civil penalties) and, in the absence of having received such instructions, in accordance with past practice.

If the Preparer fails to satisfy its obligations pursuant to this Section 10.2, the Payor shall have no obligation to indemnify the Preparer for any Taxes which are reflected on any such Tax Return if and to the extent the Payor was actually prejudiced by such failure, and shall retain any and all remedies it may otherwise have which arise out of such failure.

10.3 Transfer Taxes. All excise, transfer, stamp, documentary, filing, recordation and other similar taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the sale and transfer by Seller to Resources of the Genco Common Stock (the "Transfer Taxes"), shall be borne 50% by Resources and 50% by Seller. Notwithstanding Section 10.2 of this Agreement, which shall not apply to Tax Returns relating to Transfer Taxes, any Tax Returns that must be filed in connection with Transfer Taxes shall be prepared and filed when due by Resources, and Resources will use its reasonable efforts to provide such Tax Returns to Seller at least 10 days prior to the Due Date for such Tax Returns.

10.4 Indemnification.

(a) Seller's Indemnification of Resources. Seller shall indemnify Resources from, against and in respect of (A) any Taxes imposed on Genco or any Subsidiary of Genco with respect to any taxable period, or portion thereof, ending on or before the Option Closing Date; and (B) any Transfer Taxes for which Seller is liable pursuant to Section 10.3 hereof.

(b) Resource's Indemnification of Seller. Resources shall indemnify Seller from, against and in respect of any liability of Seller or its Subsidiaries for (A) any Taxes imposed on Genco or any Subsidiary of Genco with respect to any taxable period, or portion thereof, beginning on or after the Option Closing Date; and (B) any Transfer Taxes for which Resources is liable pursuant to Section 10.3 hereof.

10.5 Computation of Tax Liabilities.

(a) Proration of Taxes and Earnings and Profits. To the extent permitted by law or administrative practice, the taxable years of Genco and its Subsidiaries shall end on and include the Option Closing Date. Whenever it is necessary to determine the liability for Taxes, or the earnings and profits, of Genco or any Subsidiary of Genco for a portion of a taxable year or period that begins before and ends after the Option Closing Date, the determination of the Taxes or the earnings and profits for the portion of the year or period ending on, and the portion of the year or period beginning after, the Option Closing Date shall be determined by assuming that the taxable year or period ended on and included the Option Closing Date, except that exemptions, allowances or deductions that are calculated on an annual basis and annual property taxes shall be prorated on the basis of the number of days in the annual period elapsed through the Option Closing Date as compared to the number of days in the annual period elapsing after the Option Closing Date.

(b) Standalone Basis. Whenever it is necessary to determine the liability of Genco or any Subsidiary of Genco for Taxes, such liability shall be computed as if Genco or such Subsidiary of Genco was not a member of Seller's consolidated, affiliated, combined or unitary group for Tax purposes.

10.6 Contest Provisions.

(a) Notification of Contests. Each of Resources, on the one hand, and Seller, on the other hand (the "Recipient"), shall notify the Vice President - Taxes or chief tax officer of the other party in writing within 45 days of receipt by the Recipient of written notice of any pending or threatened audits, adjustments or assessments (a "Tax Audit") which are likely to affect the liability for Taxes of such other party. If the Recipient fails to give such prompt notice to the other party, it shall not be entitled to indemnification for any Taxes arising in connection with such Tax Audit if and to the extent that such other party is actually prejudiced by such failure to give notice.

(b) Which Party Controls.

(1) Seller's Items. If such Tax Audit relates to any taxable period, or portion thereof, ending on or before the Option Closing Date or for any Taxes for which Seller is liable in full hereunder, Seller shall at its expense control the defense and settlement of such Tax Audit.

(2) Resource's Items. If such Tax Audit relates to any taxable period, or portion thereof, beginning on or after the Option Closing Date or for any Taxes for which Resources is liable in full hereunder, Resources shall at its expense control the defense and settlement of such Tax Audit.

(3) Combined and Mixed Items. If such Tax Audit relates to Taxes for which both Seller and Resources are liable hereunder, to the extent practicable such Tax Items (as defined in Section 10.12 of this Agreement) will be distinguished and each party will control the defense and settlement of those Taxes for which it is so liable. If such Tax Audit relates to a taxable period, or portion thereof, beginning before and ending after the Option Closing Date and any Tax Item cannot be identified as being a liability of only one party or cannot be separated from a Tax Item for which the other party is liable, the party which has the greater potential liability for those Tax Items that cannot be so attributed or separated (or both) shall control the defense of the Tax Audit, provided that such party defends the items as reported on the relevant Tax Return and provided further that no such matter shall be settled without the written consent of both parties, not to be unreasonably withheld.

(4) Participation Rights. Any party whose liability for Taxes may be affected by a Tax Audit shall be entitled to participate at its expense in such defense and to employ counsel of its choice at its expense.

10.7 Resource's Claiming, Receiving or Using of Refunds and Overpayments. If after the Closing, Resources, Genco, or any Subsidiary of Genco (A) receives any refund or (B) utilizes the benefit of any overpayment of Taxes which, in each case (A) and (B), (x) relates to Taxes paid by Seller or Genco, or any Subsidiary of Genco with respect to a taxable period, or portion thereof, ending on or before the Option Closing Date, or (y) is the subject of indemnification by Seller pursuant to this Agreement, Resources shall promptly transfer, or cause to be transferred, to Seller the entire amount of the refund or overpayment (including interest) resolved or utilized by Resources, Genco, or any Subsidiary of Genco. Resources agrees to notify Seller within 15 days following the discovery of a right to claim any such refund or overpayment and the receipt of any such refund or utilization of any such overpayment. Resources agrees to claim any such refund or to utilize any such overpayment as soon as possible and to furnish to Seller all information, records and assistance necessary to verify the amount of the refund or overpayment.

10.8 Resolution of All Tax-Related Disputes. In the event that Seller and Resources cannot agree on the calculation of any amount relating to Taxes or the interpretation or application of any provision of this Agreement relating to Taxes, such dispute shall be resolved by a nationally recognized accounting firm mutually acceptable to Seller and Resources, whose decision shall be final and binding upon all Persons involved and whose expenses shall be shared equally by Seller, on the one hand, and Resources on the other hand.

10.9 Termination of Existing Tax Sharing Agreements. Any and all existing Tax sharing agreements or arrangements, written or unwritten, binding Genco or any Subsidiary of Genco, shall be terminated as of the Option Closing Date.

10.10 Assistance and Cooperation. The parties agree that, after the Option Closing Date:

(a) Resources, on the one hand, and Seller, on the other hand, shall each assist the other (and cause its respective Affiliates to assist) the other party in preparing any Tax Returns which such other party is responsible for preparing and filing;

(b) Resources, on the one hand, and Seller, on the other hand, shall cooperate fully in preparing for any Tax audits, or disputes with taxing authorities, relating to any Tax Returns or Taxes of Genco or any Subsidiary of Genco.

(c) Resources, on the one hand, and Seller, on the other hand, shall make available to each other upon written request and to any taxing authority as reasonably requested in writing all relevant books and records relating to Tax Returns or Taxes of Genco or a Subsidiary of Genco. Any such information shall be kept strictly confidential;

(d) Resources, on the one hand, and Seller, on the other hand, shall promptly furnish the other party with copies of all relevant correspondence received from any taxing authority in connection with any Tax Audit or information request relating to Taxes for which such other party may have an indemnification obligation under this Agreement; and

(e) Except as otherwise provided herein, the party requesting assistance or cooperation shall bear the other party's out-of-pocket expenses in complying with such request to the extent that those expenses are attributable to fees and other costs of unaffiliated third-party service providers.

10.11 This Article X alone shall govern the procedure for all Tax indemnification claims, notwithstanding any provision of Article XI or of Article IX of the Master Separation Agreement.

10.12 For purposes of this Agreement, "Due Date" shall mean, with respect to any Tax Return, the date such return is due to be filed (taking into account any valid extensions); and "Tax Item" shall mean, with respect to Taxes, any item of income, gain deduction, loss or credit or other tax attribute.

ARTICLE XI
Dispute Resolution

11.1 If a dispute, claim or controversy arises out of or in connection with this Agreement, the parties agree to use the procedures set forth in Article IX of the Master Separation Agreement, in lieu of either party pursuing other available remedies, to resolve the same.

11.2 Notwithstanding Section 11.1 or any other provision hereof, it is understood and agreed that Resources would suffer irreparable harm by reason of any failure of Regco to perform its obligations under Article III or Section 6.1, and that Resources shall therefore be entitled, in addition to and not in limitation of all other remedies, to the remedy of specific performance with respect to any breach or default by Regco of its obligations under Article III or Section 6.1. This provision shall take precedence over any other dispute resolution, remedial or other provision of the Master Separation Agreement, this Agreement, or any other agreement or contract between the parties.

ARTICLE XII
Miscellaneous

12.1 Modifications to this Agreement Arising from Amendment of the Utilities Code. To the extent any change effective after the date of this Agreement to any provision of the Utilities Code (including without limitation Section 39.262(c) or Section 39.262(h)(3)) accelerates or allows the acceleration of the filing required by Section 39.262(c) or shortens or otherwise modifies the 30-trading day period or the 120-trading day period for the partial stock valuation method in Section 39.262(h)(3) or such other section that may be used to perform the market valuation of Texas Genco, the dates and periods set forth in this Agreement shall be adjusted by agreement of the parties in order to preserve the essential regulatory and other objectives of the transaction intended by the parties.

12.2 Amendments. This Agreement shall not be supplemented, amended or modified in any manner whatsoever (including by course of dealing or of performance or usage of trade) except in writing signed by the parties.

12.3 Successors and Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. No party shall assign this Agreement or any rights herein without the prior written consent of the other party, which may be withheld for any or no reason.

12.4 Notices. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to clause (ii) or (iii)), addressed to the attention of the addressee's General Counsel at the address of its principal executive office or to such other address or facsimile number for a party as it shall have specified by like notice.

12.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

12.6 Headings. The various headings used in this Agreement are for convenience only and are not to be used in interpreting the text of the Articles or Sections in which they appear or to which they relate.

12.7 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any portion of this Agreement is declared invalid for any reason, such declaration shall have no effect upon the remaining portions of this Agreement, which shall continue in full force and effect as if this Agreement had been executed with the invalid portions thereof deleted.

12.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument. 12.9 Rights of the Parties. Nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity, other than the Parties and their respective Subsidiaries and Affiliates, as the case may be, any rights or remedies under or by reason of this Agreement or any transaction contemplated thereby.

12.10 Reservation of Rights. The waiver by either party of any of its rights or remedies afforded hereunder or at law is without prejudice and shall not operate to waive any other rights or remedies which that party shall have available to it, nor shall such waiver operate to waive the party's rights to any remedies due to a future breach, whether of a similar or different nature. The failure or delay of a party in exercising any rights granted to it hereunder shall not constitute a waiver of any such right and that party may exercise that right at any time. Any single or partial exercise of any particular right by a party shall exhaust the same or constitute a waiver of any other right.

12.11 Entire Agreement. All understandings, representations, warranties and agreements, if any, heretofore existing between the parties regarding the subject matter hereof are merged into this Agreement, which fully and completely express the agreement of the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the undersigned, by their officers thereunto duly authorized, have executed this Agreement as of the day and year first above written.

RELIANT ENERGY, INCORPORATED

By /s/ David M. McClanahan

David M. McClanahan
Vice Chairman

RELIANT RESOURCES, INC.

By /s/ R. S. Letbetter

R. S. Letbetter
Chairman, President and
Chief Executive Officer

EXHIBIT 10.5

EMPLOYEE MATTERS AGREEMENT

BETWEEN

RELIANT ENERGY, INCORPORATED

AND

RELIANT RESOURCES, INC.

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EMPLOYEE MATTERS AGREEMENT

This EMPLOYEE MATTERS AGREEMENT (this "Agreement") is entered into as of December 31, 2000, between Reliant Energy, Incorporated, a Texas corporation ("REI"), and Reliant Resources, Inc., a Delaware corporation ("Resources"). Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in Article I hereof.

RECITALS

WHEREAS, the Board of Directors of REI and Resources have each determined that it would be appropriate and desirable for REI to separate the Resources Group from the REI Group;

WHEREAS, REI and Resources currently contemplate that Resources will make an initial public offering ("IPO") of an amount of its common stock pursuant to a registration statement on Form S-1 filed pursuant to the Securities Act of 1933, as amended, that will reduce REI's ownership of Resources by less than 20%;

WHEREAS, REI currently contemplates that, following the IPO, REI's successor holding company will distribute to the holders of its common stock, by means of a pro rata distribution, all of the shares of Resources common stock it then owns (the "Distribution");

WHEREAS, in furtherance of the foregoing, REI and Resources have agreed to enter into this Agreement to allocate between them assets, liabilities and responsibilities with respect to certain employee compensation, benefit plans and programs, and certain employment matters; and

NOW, THEREFORE, in consideration of the foregoing and the covenants and agreements set forth below, the parties hereto agree as follows:

ARTICLE I.

DEFINITIONS

Wherever used in this Agreement, the following terms shall have the meanings indicated below, unless a different meaning is plainly required by the context. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed to such terms in the Separation Agreement. The singular shall include the plural, unless the context indicates otherwise. Headings of sections are used for convenience of reference only, and in case of conflict, the text of this Agreement, rather than such headings, shall control:

1.01 ACTION. "Action" means any demand, action, suit, countersuit, arbitration, inquiry, proceeding or investigation by or before any federal, state, local, foreign or international Governmental Authority or any arbitration or mediation tribunal.

1.02 AFFILIATES. "Affiliates" shall have the meaning set forth in the Separation Agreement.

1.03 AGREEMENT. "Agreement" means this Employee Matters Agreement, including all the Addenda, Schedules and Exhibits hereto, and all amendments made hereto from time to time.

1.04 AICP. "AICP," when immediately preceded by "REI," means the Reliant Energy, Incorporated Annual Incentive Compensation Plan, as amended and restated effective January 1, 1999. When immediately preceded by "Resources," "AICP" means the annual incentive compensation plan to be established by Resources pursuant to Sections 2.03 and 7.05.

1.05 ANCILLARY AGREEMENTS. "Ancillary Agreements" shall have the meaning set forth in the Separation Agreement.

1.06 ASO CONTRACTS. "ASO Contracts" is defined in Subsection 6.04(a) and Schedule 6.04(a).

1.07 BENEFIT RESTORATION PLAN. "Benefit Restoration Plan," when immediately preceded by "REI," means the Reliant Energy, Incorporated Benefit Restoration Plan, as established effective June 1, 1985 and thereafter amended from time to time. When immediately preceded by "Resources," "Benefit Restoration Plan" means the frozen Resources Benefit Restoration Plan to be established by Resources pursuant to Sections 2.03 and 5.03.

1.08 COBRA. "COBRA" means the continuation coverage requirements for "group health plans" under Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended from time to time, and as codified in Code Section 4980B and ERISA Sections 601 through 608.

1.09 CODE. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.10 COMMON STOCK. "Common Stock," when immediately preceded by "REI," means the common stock, without par value of REI. When immediately preceded by "Resources," "Common Stock" means the common stock, par value $.001 per share, of Resources.

1.11 DEFERRED COMPENSATION PLAN. "Deferred Compensation Plan," when immediately preceded by "REI," means the Reliant Energy, Incorporated Deferred Compensation Plan, as established effective September 1, 1985, the Reliant Energy, Incorporated Deferred Compensation Plan, as amended and restated effective January 1, 1989, and the Reliant Energy, Incorporated Deferred Compensation Plan, as amended and restated effective January 1, 1991, each such plan as thereafter amended from time to time. Depending on the context, "REI

Deferred Compensation Plan" shall mean all of such plans or a particular one of such plans. When immediately preceded by "Resources," "Deferred Compensation Plan" means the deferred compensation plan to be established by Resources pursuant to Sections 2.03 and 5.02 that corresponds to the REI Deferred Compensation Plan.

1.12 DISTRIBUTION. "Distribution" has the meaning set forth in the Recitals hereof, as the same is further described in the Separation Agreement.

1.13 DISTRIBUTION DATE. "Distribution Date" shall have the meaning set forth in the Separation Agreement.

1.14 DISTRIBUTION RATIO. "Distribution Ratio" means the number of shares of Resources Common Stock each holder of REI Common Stock on the Record Date (or such holder's designated transferee or transferees) will be entitled to receive in the Distribution determined by multiplying the number of shares of REI Common Stock held by such holder on the Record Date by a fraction, the numerator of which is the number of shares of Resources Common Stock beneficially owned by REI on the Record Date and the denominator of which is the number of shares of REI Common Stock outstanding on the Record Date.

1.15 DOL. "DOL" means the United States Department of Labor.

1.16 EMPLOYMENT LIABILITIES. "Employment Liabilities" means all claims, causes of action, demands, liabilities, debts or damages (known or unknown) related to all employment matters addressed in this Agreement, including but not limited to claims arising under federal, state or local statute (including, without limitation, Title VII of the Civil Rights Act of 1964, as amended ("Title VII"); the Age Discrimination in Employment Act of 1967, including the Older Workers Benefit Protection Act of 1990 ("ADEA"); the Civil Rights Act of 1866, as amended, the Civil Rights Act of 1991, the Americans with Disabilities Act of 1990 ("ADA"), the Energy Reorganization Act, as amended, 42 U.S.C. ss. 5851; the Workers Adjustment and Retraining Notification Act of 1988; the Pregnancy Discrimination Act of 1978; ERISA; FMLA; the Fair Labor Standards Act; the Occupational Safety and Health Act; the Equal Pay Act); claims in connection with workers' compensation or "whistle blower" statutes and/or contract, tort, defamation, slander, wrongful termination or any other state or federal regulatory, statutory or common law or local ordinance.

1.17 ERISA. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.18 ESOP "ESOP" means the employee stock ownership plan portion of the REI Savings Plan.

1.19 EXECUTIVE PLANS. "Executive Plans," when immediately preceded by "REI," means the Houston Industries Incorporated Executive Life Insurance Plan and the Houston Industries Incorporated Executive Benefits Plan. When immediately preceded by "Resources," "Executive Plans" means the Resources executive plans to be established pursuant to Sections 2.03 and 5.01 that correspond to the respective REI Executive Plans.

1.20 FLEXIBLE BENEFITS PLAN. "Flexible Benefits Plan," when immediately preceded by "REI," means the Reliant Energy, Incorporated Flexible Benefits Plan. When immediately preceded by "Resources," Flexible Benefits Plan means the flexible benefits plan to be established by Resources pursuant to Section 2.03 and Article VI that corresponds to the REI Flexible Benefits Plan.

1.21 FMLA. "FMLA" means the Family and Medical Leave Act of 1993, as amended from time to time.

1.22 FOREIGN PLAN. "Foreign Plan" means those Resources Plans maintained by Resources for the benefit of its non-expatriate employees outside the U.S.

1.23 FRINGE BENEFITS. "Fringe Benefits," when immediately preceded by "REI," means the REI fringe benefits, plans, programs and arrangements sponsored and maintained by REI (as set forth in Article VIII). When immediately preceded by "Resources," "Fringe Benefits" means the fringe benefits, plans, programs and arrangements established or to be established by Resources pursuant to Section 2.03 and Article VIII that correspond to the respective REI Fringe Benefits.

1.24 GOVERNMENTAL AUTHORITY. "Governmental Authority" shall mean any federal, state, local, foreign or international court, government, department, commission, board, bureau, agency, official or other regulatory, administrative or governmental authority.

1.25 GROUP INSURANCE POLICIES. "Group Insurance Policies" is defined in Subsection 6.04(b) and the Schedule thereto.

1.26 HCFA. "HCFA" means the United States Health Care Financing Administration.

1.27 HEALTH AND WELFARE PLANS. "Health and Welfare Plans," when immediately preceded by "REI," means the REI Health Plans, the REI Flexible Benefits Plan, and the health and welfare plans listed on Schedule 1.27 established and maintained by REI for the benefit of employees and retirees of any member of the REI Group, and such other welfare plans or programs as may apply to such employees and retirees as of the Distribution Date. When immediately preceded by "Resources," "Health and Welfare Plans" means the Resources Health Plans, the Resources Flexible Benefits Plan, and the health and welfare plans to be established by Resources pursuant to Section 2.03 and Article VI that correspond to the respective REI Health and Welfare Plans.

1.28 HEALTH PLANS. "Health Plans," when immediately preceded by "REI," means the Plans set forth on Schedule 1.28, and any similar or successor plans, programs or arrangements. When immediately preceded by "Resources," "Health Plans" means the health plans, programs and arrangements to be established by Resources pursuant to Section 2.03 and Article VI that correspond to the respective REI Health Plans.

1.29 HMO. "HMO" means a health maintenance organization that provides benefits under the REI Health Plans or the Resources Health Plans.

1.30 HMO AGREEMENTS. "HMO Agreements" is defined in Subsection 6.04(c) and Schedule 6.04(c).

1.31 IPO. "IPO" has the meaning set forth in the Recitals hereof, as the same is further described in the Separation Agreement.

1.32 IPO CLOSING DATE. "IPO Closing Date" means the first date on which the proceeds of any sale of Resources Common Stock to the underwriters in the IPO are received.

1.33 IRS. "IRS" means the United States Internal Revenue Service.

1.34 LEAVE OF ABSENCE PROGRAMS. "Leave of Absence Programs," when immediately preceded by "REI," means the personal, medical, military and FMLA leave offered from time to time under the personnel policies and practices of REI. When immediately preceded by "Resources," "Leave of Absence Programs" means the leave of absence programs established and maintained by Resources.

1.35 LIABILITIES. "Liabilities" shall mean any and all Indebtedness (as such term is defined in the Separation Agreement), liabilities and obligations, whether accrued, fixed or contingent, mature or inchoate, known or unknown, reflected on a balance sheet or otherwise, including, but not limited to, those arising under any law, rule, regulation, Action, order, injunction or consent decree of any Governmental Authority or any judgment of any court of any kind or any award of any arbitrator of any kind, and those arising under any contract, commitment or undertaking.

1.36 LICP. "LICP" means the 1994 Houston Industries Incorporated Long-Term Incentive Compensation Plan and the Houston Industries Incorporated Long-Term Incentive Compensation Plan (Established Effective as of January 1, 1989), each such plan as thereafter amended from time to time.

1.37 LTIP. "LTIP" means the Long-Term Incentive Plan of Reliant Resources, Inc. as described in Section 7.04.

1.38 NEW REI OPTION. "New REI Option" shall have the meaning set forth in Section 7.01.

1.39 NORAM RABBI TRUSTS. "NorAm Rabbi Trusts" means that certain trust agreement dated as of August 8, 1989 by and between Arkla, Inc. and Boatmen's Trust Company (also referred to as "Trust Agreement No. 1"), that certain trust agreement dated as of August 8, 1989 by and between Arkla, Inc. and Boatmen's Trust Company (also referred to as "Trust Agreement No. 2") and that certain trust agreement dated as of August 8, 1989 by and between Arkla, Inc. and Boatmen's Trust Company (also referred to as "Trust Agreement No. 3").

1.40 OPTION. "Option," when immediately preceded by "REI," means an option to purchase REI common stock pursuant to a Stock Plan. When immediately preceded by "Resources," "Option" means an option to purchase Resources common stock pursuant to a plan providing such benefits to be established by Resources pursuant to Section 2.03 and Article VII.

1.41 OUTSOURCE. "Outsource" is defined in Subsection 6.02(b).

1.42 PARTICIPATING COMPANY. "Participating Company" means: (a) REI; (b) any Person (other than an individual) that REI has approved for participation in, has accepted participation in, and which is participating in, a Plan sponsored by REI; or (c) any Person (other than an individual) which, by the terms of such a Plan, participates in such a Plan sponsored by REI or any employees of which, by the terms of such a Plan, participate in or are covered by such a Plan.

1.43 PBGC. "PBGC" means the Pension Benefit Guaranty Corporation.

1.44 PERSON. "Person" means an individual, a partnership, a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

1.45 PLAN. "Plan," depending on the context, may mean any plan, policy, program, payroll practice, arrangement, contract, trust, insurance policy, or any agreement or funding vehicle providing compensation or benefits to employees, former employees or directors of REI or Resources.

1.46 QDRO. "QDRO" means a domestic relations order which qualifies under Code Section 414(p) and ERISA Section 206(d) and which creates or recognizes an alternate payee's right to, or assigns to an alternate payee, all or a portion of the benefits payable to a participant under the REI Savings Plan or the Retirement Plan.

1.47 QMCSO. "QMCSO" means a medical child support order which qualifies under ERISA Section 609(a) and which creates or recognizes the existence of an alternate recipient's right to, or assigns to an alternate recipient the right to, receive benefits for which a participant or beneficiary is eligible under any of the Health Plans.

1.48 RECORD DATE. "Record Date" means the close of business on the date to be determined by the Board of Directors of REI as the record date for determining the shareholders of REI entitled to receive shares of Resources Common Stock in the Distribution.

1.49 REI. "REI" means Reliant Energy, Incorporated a Texas corporation. In all such instances in which REI is referred to in this Agreement, it shall also be deemed to include a reference to each member of the REI Group, unless it specifically provides otherwise; REI shall be solely responsible to Resources for ensuring that each member of the REI Group complies with the applicable terms of this Agreement.

1.50 REI EMPLOYEE. "REI Employee" means an individual who, on the Distribution Date, is or was employed with any member of the REI Group and is not a Resources Employee.

1.51 REI GROUP. "REI Group" shall have the meaning set forth in the Separation Agreement.

1.52 REI STOCK VALUE. "REI Stock Value" means the average over the five trading days immediately preceding the Distribution Date of the high and low sales price (with dividend) of a share of REI Common Stock on the New York Stock Exchange - Composite Transactions reporting system, as reported in The Wall Street Journal on each of the five trading days immediately preceding the Distribution Date.

1.53 REI TERMINATED EMPLOYEE. "REI Terminated Employee" means any individual who is a former employee of any member of the REI Group and who, on the Distribution Date, is not a Resources Employee.

1.54 REI WCP. "REI WCP" means the REI Workers' Compensation Program, comprised of the various arrangements established by a member of the REI Group to comply with the workers' compensation requirements of the states in which the REI Group conducts business.

1.55 RESOURCES. "Resources" means Reliant Resources, Inc., a Delaware corporation. In all such instances in which Resources is referred to in this Agreement, it shall also be deemed to include a reference to each member of the Resources Group, unless it specifically provides otherwise; Resources shall be solely responsible to REI for ensuring that each member of the Resources Group complies with the applicable terms of this Agreement.

1.56 RESOURCES EMPLOYEE. "Resources Employee" means any individual who, as of the Distribution Date, is: (a) either actively employed by, or on a leave of absence from, any member of the Resources Group; (b) a Resources Terminated Employee; (c) an alternate payee under a QDRO, alternate recipient under a QMCSO, beneficiary, covered dependent, or qualified beneficiary (as such term is defined under COBRA), of an employee described in Subsection (a) or (b) above; or (d) an employee or group of employees designated by REI and Resources, by mutual agreement, as Resources Employees; but not (e) a Resources Retired Employee. An employee may be a Resources Employee pursuant to this Section regardless of whether such employee is, as of the Distribution Date, alive, actively employed, on a temporary leave of absence from active employment, on layoff, terminated from employment, retired or on any other type of employment or post-employment status relative to a REI Plan, and regardless of whether, as of the Distribution Date, such employee is then receiving any benefits from a REI Plan.

1.57 RESOURCES GROUP. "Resources Group" shall have the meaning set forth in the Separation Agreement.

1.58 RESOURCES RETIRED EMPLOYEE. "Resources Retired Employee" means any individual who would have qualified as a Resources Employee but who retired on or

after January 1, 2001 and on or before the Distribution Date and who is identified as a Resources Retired Employee by mutual agreement between Resources and REI on or before the Distribution Date.

1.59 RESOURCES STOCK VALUE. "Resources Stock Value" means the average of the high and low sales price of a share of Resources Common Stock on the New York Stock Exchange - Composite Transactions reporting system, as reported in The Wall Street Journal, for each of the five trading days immediately preceding the Distribution Date.

1.60 RESOURCES TERMINATED EMPLOYEE. "Resources Terminated Employee" means any individual who is a former employee of any member of the REI Group who was terminated from any member of the Resources Group on or after January 1, 2001 and on or before the Distribution Date. Notwithstanding the foregoing, "Resources Terminated Employee" shall not, unless otherwise expressly provided to the contrary in this Agreement, include: (a) an individual who is a REI Employee at the Distribution Date; (b) an individual who is otherwise a Resources Terminated Employee, but who is subsequently employed by any member of the REI Group on or prior to the Distribution Date; or (c) a Resources Retired Employee.

1.61 RESOURCES UNION EMPLOYEES. "Resources Union Employees" mean Resources Employees whose employment is covered by the terms of a collective bargaining agreement.

1.62 RESOURCES WCP CLAIMS. "Resources WCP Claims" is defined in Subsection 6.07(a)(i).

1.63 RETIREMENT PLAN. "Retirement Plan" means the Reliant Energy, Incorporated Retirement Plan, a defined benefit plan.

1.64 SAVINGS PLAN. "Savings Plan" when immediately preceded by "REI," means the Reliant Energy, Incorporated Savings Plan, a defined contribution plan. When immediately preceded by "Resources," " Savings Plan" means the savings plan to be established by Resources pursuant to Sections 2.03 and 4.01. When immediately preceded by "REMA," "Savings Plan" means the Reliant Energy Mid-Atlantic Savings Plan for Non-Union Employees, a defined contribution plan.

1.65 SAVINGS RESTORATION PLAN. "Savings Restoration Plan," when immediately preceded by REI, means the Reliant Energy, Incorporated Savings Restoration Plan, as established effective January 1, 1991 and thereafter amended from time to time. When immediately preceded by "Resources," "Savings Restoration Plan" means the plan to be established by Resources pursuant to Section 5.03(b) which corresponds to the REI Savings Restoration Plan.

1.66 SEC. "SEC" means the United States Securities and Exchange Commission.

1.67 SEPARATION. "Separation" shall have the meaning set forth in the Separation Agreement.

1.68 SEPARATION AGREEMENT. "Separation Agreement" means the Master Separation Agreement between REI and Resources entered into as of December 31, 2000 of which this Agreement is an Exhibit.

1.69 SEPARATION DATE. "Separation Date" shall have the meaning set forth in the Separation Agreement.

1.70 SEVERANCE PLANS. "Severance Plans," when immediately preceded by "REI," means the severance pay plans established and maintained by REI. When immediately preceded by "Resources," "Severance Plans" means the severance pay plans established and maintained by Resources.

1.71 STOCK PLAN. "Stock Plan," when immediately preceded by "REI," means the LICP, the Houston Industries, Incorporated Stock Plan for Outside Directors, the Reliant Energy, Incorporated Business Unit Performance Share Plan, and the Reliant Energy, Incorporated and Subsidiaries Common Stock Participation Plan for Designated New Employees and Non-Officer Employees.

1.72 STOCK PURCHASE PLAN. "Stock Purchase Plan" means the Reliant Resources, Inc. Employee Stock Purchase Plan as established by Resources pursuant to Section 7.03.

1.73 SUBSIDIARY. "Subsidiary" shall have the meaning set forth in the Separation Agreement.

1.74 TAX ALLOCATION AGREEMENT. "Tax Allocation Agreement" means the Ancillary Agreement which is attached as an exhibit to the Separation Agreement.

1.75 UNION PLANS. "Union Plans," means all Plans maintained by REI or Resources for the benefit of certain of their bargaining unit employees.

ARTICLE II.

GENERAL PRINCIPLES

2.01 ASSUMPTION OF RESOURCES LIABILITIES. Except as specified otherwise in this Agreement, or as mutually agreed upon by Resources and REI from time to time, REI hereby assumes and agrees to pay, perform, fulfill and discharge, in accordance with their respective terms, subject to Section 9.02 and to the indemnification provisions of Section 2.02, all Liabilities to or relating to Resources Retired Employees, to the extent relating to, arising out of or resulting from former employment with any member of the REI Group and/or the Resources Group (including Liabilities arising under or relating to REI Plans and Resources

Plans). Except as specified otherwise in this Agreement, or as mutually agreed upon by Resources and REI from time to time, Resources hereby assumes and agrees to pay, perform, fulfill and discharge, in accordance with their respective terms, all of the following: (a) subject to Section 9.02 and to the indemnification provisions of Section 2.02, all Liabilities to or relating to Resources Employees, in each case relating to, arising out of or resulting from employment by any member of the REI Group before the Distribution Date, (including Liabilities arising under or relating to REI Plans and Resources Plans); (b) subject to Section 9.02 and to the indemnification provisions of Section 2.02, all other Liabilities to or relating to employees of any member of the Resources Group, to the extent relating to, arising out of or resulting from future, present or former employment with any member of the Resources Group (including Liabilities arising under or relating to REI Plans and Resources Plans); (c) subject to Section 9.02 and to the indemnification provisions of Section 2.02, all Liabilities relating to, arising out of or resulting from any other actual or alleged employment relationship with any member of the Resources Group; and (d) subject to Section 9.02 and to the indemnification provisions of Section 2.02, all other Liabilities relating to, arising out of or resulting from obligations, liabilities and responsibilities expressly assumed or retained by any member of the Resources Group or a Resources Plan, pursuant to this Agreement.

2.02 EMPLOYMENT LIABILITIES INDEMNIFICATION

(a) Indemnification by Resources. Except as otherwise provided in this Agreement, including Subsection 2.02(c), Resources shall, for itself and as agent for each member of the Resources Group, indemnify, defend (or, where applicable, pay the defense costs for) and hold harmless the REI Indemnitees (as such term is defined in the Separation Agreement) from and against any and all Employment Liabilities that any third party seeks to impose upon the REI Indemnitees, or which are imposed upon the REI Indemnitees, if and to the extent such Employment Liabilities relate to, arise out of or result from any of the following items (without duplication):

(i) any acts or omissions or alleged acts or omissions by or on behalf of any member or person employed by a member of the Resources Group in the conduct of the Resources Business;

(ii) any claim by an officer of any member of the Resources Group (who is an officer as of the IPO Closing Date) against any member or employee of any member of the REI Group except with respect to benefit obligations of Resources Employees assumed by REI pursuant to a specific provision of this Agreement; and

(iii) any breach by Resources or any member or person employed by a member of the

Resources Group of this Agreement, the Separation Agreement or any other Ancillary Agreement.

In the event that any member of the Resources Group makes a payment to the REI Indemnitees hereunder, and the Employment Liability on account of which such payment was made is subsequently diminished, either directly or through a third-party recovery, REI will promptly repay (or will procure a REI Indemnitee to promptly repay) such member of the Resources Group the amount by which the payment made by such member of the Resources Group exceeds the actual cost of the associated indemnified Employment Liability.

(b) Indemnification by REI. Except as otherwise provided in this Agreement, including Subsection 2.02(c), REI shall, for itself and as agent for each member of the REI Group, indemnify, defend (or, where applicable, pay the defense costs for) and hold harmless the Resources Indemnitees (as such term is defined in the Separation Agreement) from and against any and all Employment Liabilities that any third party seeks to impose upon the Resources Indemnitees, or which are imposed upon the Resources Indemnitees, if and to the extent such Employment Liabilities relate to, arise out of or result from any of the following items (without duplication):

(i) any acts or omissions or alleged acts or omissions by or on behalf of any member or person employed by a member of the REI Group in the conduct of the REI Business;

(ii) any claim by an officer of any member of the REI Group (who is an officer as of the IPO Closing Date) against any member or employee of any member of the Resources Group; and

(iii) any breach by REI or any member or person employed by a member of the REI Group of this Agreement, the Separation Agreement or any other Ancillary Agreement.

In the event that any member of the REI Group makes a payment to the Resources Indemnitees hereunder, and the Employment Liability on account of which such payment was made is subsequently diminished, either directly or through a third-party recovery, Resources will promptly repay (or will procure a Resources Indemnitee to promptly repay) such member of the REI Group the amount by which the payment made by such member of the REI Group exceeds the actual cost of the indemnified Employment Liability.

(c) Exceptions. In accordance with the current practice in effect as of the execution of the Agreement, with respect to claims for benefits or compensation, if an underlying act or omission as contemplated in Subsections 2.02(a) or 2.02(b) occurs and

such act or omission constitutes the principal basis for such a claim, then Subsection 2.02(a) or (b) shall apply, as applicable, to establish indemnification obligations. If, however, no specific act or omission occurs that is attributable to REI or Resources and the principal underlying basis for a claim for benefits or compensation involves plan administration or other similar systemic type activities related to maintenance of plans, notwithstanding Subsections 2.02(a) and (b), in accordance with the current practice in effect as of the execution of the Agreement, Resources and REI shall be responsible for their pro rata allocated share of costs to defend such claim. In addition, if a claim relates specifically to the transfer or other movement of employment between REI and Resources in connection with the Separation and to the employee benefit changes made in connection therewith, then notwithstanding Subsections 2.02(a) and (b), in accordance with the current practice in effect as of the execution of the Agreement, Resources and REI shall be responsible for their pro rata allocated share of costs to defend such claim.

(d) Relationship to Article III of Separation Agreement.

(i) Unless expressly modified in this Section 2.02, all other provisions of Article III of the Separation Agreement will apply to an indemnifiable claim.

(ii) Any claim which is not an Employment Liability will only be subject to the provisions of the Separation Agreement.

2.03 ESTABLISHMENT OF RESOURCES PLANS.

(a) Health and Welfare Plans and Retiree Medical. Except as specified otherwise in this Agreement, effective as of the Distribution Date or such other date(s) as REI and Resources may mutually agree, Resources shall establish the Resources Health and Welfare Plans. The foregoing Resources Health and Welfare Plans as in effect as of the Distribution Date shall be substantially comparable to the REI Plans as in effect on the Distribution Date; provided, however, that Resources shall not establish a substantially comparable retiree life or retiree medical program (except as may be required for certain, if any, Resources Union Employees) but shall, in its discretion, make available a group insurance arrangement through which eligible retired employees of the members of the Resources Group may purchase retiree medical insurance at group rates.

(b) Savings Plan and Fringe Benefits. Except as specified otherwise in this Agreement, effective as of the Distribution Date or such other date(s) as REI and Resources may mutually agree, Resources shall establish the Resources Savings Plan as more fully described in Article IV and the Resources Fringe Benefits as more fully described in Article VIII.

(c) Equity and Other Compensation. Except as specified otherwise in this Agreement, effective as of January 1, 2001, or such other date(s) as REI and Resources may mutually agree, Resources shall establish the Resources AICP, the Resources Stock Purchase Plan and the LTIP, and effective as of the Distribution Date or such other date(s) as REI and Resources may mutually agree, Resources shall establish such Plans as may be determined to be appropriate, including, without limitation, the Resources Deferred Compensation Plan, Resources Savings Restoration Plan, Resources Benefit Restoration Plan and Resources Executive Plans. The foregoing Resources Plans shall be substantially comparable to the REI Plans as in effect on the Distribution Date.

(d) Resources Under No Obligation to Maintain Plans. Except as specified otherwise in this Agreement, nothing in this Agreement shall preclude Resources, at any time from amending, merging, modifying, terminating, eliminating, reducing, or otherwise altering in any respect any Resources Plan, any benefit under any Resources Plan or any trust, insurance policy or funding vehicle related to any Resources Plan (to the extent permitted by law).

2.04 RESOURCES'S PARTICIPATION IN REI PLANS.

(a) Participation in REI Plans.

(i) Except as specified otherwise in this Agreement, or as REI and Resources may mutually agree, Resources shall adopt as a Participating Company the REI Plans in effect as of January 1, 2001, to the extent that Resources has not yet established substantially comparable Plans. Effective as of any date on or after January 1, 2001 and before the Distribution Date (or such other date as REI and Resources may mutually agree upon), any member of the Resources Group not described in the preceding sentence may, at its request and with the consent of REI and Resources, become a Participating Company in any or all of the REI Plans, to the extent that Resources has not yet established a substantially comparable Plan.

(ii) On and after the Distribution Date, Resources Retired Employees shall continue to participate in the REI Plans for which they are eligible as of the Distribution Date, including, but not limited to, the Retirement Plan, REI Savings Plan and any REI Plan as provided in Article V.

(b) REI's General Obligations as Plan Sponsor.

(i) To the extent that Resources is a Participating Company in any REI Plan(s), REI shall continue to administer, or cause to be administered, in accordance with their terms and applicable law, such REI Plan(s), and shall have the sole and absolute discretion and authority to interpret the REI Plan(s), as set forth therein. REI shall not, without first consulting with Resources, amend or terminate any material feature of any REI Plan in which Resources is a Participating Company, except to the extent such amendment or termination would not affect any benefits of Resources Employees under such Plan or as may be necessary or appropriate to comply with applicable law.

(ii) With regard to Resources Retired Employees participating in REI Plans after the Distribution Date, REI shall continue to administer, or cause to be administered, in accordance with their terms and applicable law, such REI Plans, and shall have sole and absolute discretion and authority to interpret such Plans or amend or terminate such Plans, as set forth therein.

(c) Resources's General Obligations as Participating Company. Resources shall perform with respect to its participation in the REI Plans, the duties of a Participating Company as set forth in each such Plan or any procedures adopted pursuant thereto, including (without limitation): (i) assisting in the administration of claims, to the extent requested by the claims administrator of the applicable REI Plan; (ii) cooperating fully with REI Plan auditors, benefit personnel and benefit vendors; (iii) preserving the confidentiality of all financial arrangements REI has or may have with any vendors, claims administrators, trustees or any other entity or individual with whom REI has entered into an agreement relating to the REI Plans; and (iv) preserving the confidentiality of participant information (including, without limitation, health information in relation to FMLA leaves) to the extent not specified otherwise in this Agreement.

(d) Termination of Participating Company Status. Except as specified otherwise in this Agreement or otherwise may be mutually agreed upon by REI and Resources, effective as of the Distribution Date or such other date as Resources establishes a substantially comparable Plan (as specified in Section 2.03 or otherwise in this Agreement), Resources shall automatically cease to be a Participating Company in the corresponding REI Plan.

2.05 TERMS OF PARTICIPATION BY RESOURCES EMPLOYEES IN RESOURCES PLANS.

(a) Non-Duplication of Benefits. As of the Distribution Date or such other date that applies to the particular Resources Plan, the separate Resources Plans shall be, with respect to employees of the Resources Group, in all respects the successors in interest to, and shall not provide benefits that duplicate benefits provided by, the corresponding REI Plans. REI and Resources shall mutually agree, if necessary, on methods and procedures, including amending the respective Plan documents, to prevent employees of the Resources Group from receiving duplicate benefits from the REI Plans and the Resources Plans.

(b) Service Credit. Except as specified otherwise in this Agreement, with respect to Resources Employees, each Resources Plan shall provide that all service, all compensation and all other benefit-affecting determinations that, as of the Distribution Date, were recognized under the corresponding REI Plan shall, as of the Distribution Date, receive full recognition and credit and be taken into account under such Resources Plan to the same extent as if such items occurred under such Resources Plan, except to the extent that duplication of benefits would result. The service crediting provisions shall be subject to any respectively applicable "service bridging," "break in service," "employment date," or "eligibility date" rules under the Resources Plans and the REI Plans.

2.06 FOREIGN PLANS. Resources intends to maintain all Foreign Plans in existence as of January 1, 2001 in its discretion in accordance with the applicable plan documents and applicable laws.

2.07 UNION PLANS. REI and/or Resources shall continue to maintain all Union Plans in existence as of January 1, 2001 up to and after the Distribution Date as required by the terms of the applicable collective bargaining agreements and in accordance with the terms of those plans and subject to collective bargaining. For example, but not by way of limitation, Resources will establish qualified plans which mirror the Retirement Plan and REI Savings Plan for the benefit of certain Resources Union Employees, and will assume the sponsorship of certain other tax qualified plans for the benefit of certain other Resources Union Employees.

2.08 RELIANT ENERGY TEGCO, INC. EMPLOYEES. Notwithstanding any provision of this Agreement to the contrary, effective as of January 1, 2001 through the Distribution Date, non-union employees of Reliant Energy Tegco, Inc., a wholly owned subsidiary of REI, shall participate in all employee benefit plans sponsored by REI and/or Resources in the same manner and to the same extent as such employees would participate in such plans if such employees were employed by a member of the Resources Group rather than a member of the REI Group.

2.09 VOLUNTARY EMPLOYEES' BENEFICIARY ASSOCIATIONS. REI shall continue to sponsor and shall assume all assets and Liabilities associated with and shall retain the Houston Industries Incorporated Group Welfare Benefits Trust Agreement (as amended and restated effective January 1, 1989), Houston Lighting and Power Company Union Retirees' Medical and Dental Benefits Trust Agreement (effective December 1, 1995), Houston Lighting and Power Company Non-Union Retirees' Medical and Dental Benefits Trust Agreement (effective December 1, 1995) and the Houston Lighting and Power Company Retirees' Life Insurance Benefits Trust Agreement (effective December 1, 1995).

ARTICLE III.

DEFINED BENEFIT PLAN

3.01 RESOURCES EMPLOYEES' PARTICIPATION IN RETIREMENT PLAN. Effective as of February 5, 2001, REI shall amend the Retirement Plan to provide that employees who become employed by any member of the Resources Group on or after February 5, 2001 shall not be eligible to participate in the Retirement Plan. Effective as of March 1, 2001, REI shall amend the Retirement Plan to provide that eligible employees of any member of the Resources Group shall be fully vested in their Cash Balance Accounts (as such term is defined in the Retirement Plan) under the Retirement Plan and to provide that such employees shall no longer participate in the Retirement Plan on and after such date. In addition, the Retirement Plan shall be amended to generally provide a transition benefit for certain eligible employees of the members of the Resources Group who, as of December 31, 2000, were participating in the Retirement Plan, were eligible for a Grandfathered Benefit under Section 7.6(a) of the Retirement Plan and generally had attained the age of 42 and completed at least five years of Vesting Service (as such term is defined in the Retirement Plan) under the Retirement Plan to reflect the loss, if any, of such participants' Grandfathered Benefit under Section 7.6(a) of the Retirement Plan and the value of such participants' retiree medical accounts. Such transition benefit, if any, will be added to each such eligible participant's Cash Balance Account under the Retirement Plan or the REI Benefit Restoration Plan to the extent the benefit limitations of the Code prevent such transition benefit from being paid under the Retirement Plan. Such transition benefit shall not include extra age and/or service which may be provided under an employment, severance or supplemental pension agreement with an employee of any member of the Resources Group. Effective as of the IPO Closing Date, REI shall assume all Liabilities to or relating to the employees of any member of the Resources Group and the Resources Retired Employees under the Retirement Plan. Notwithstanding the foregoing to the contrary, this Section 3.01 shall not apply to Resources Union Employees.

ARTICLE IV.

DEFINED CONTRIBUTION PLAN

4.01 RESOURCES SAVINGS PLAN. Effective as of March 1, 2001, the account balances of the employees of the members of the Resources Group who participate in the REI Savings Plan shall be fully vested, and Resources, as a Participating Company in the REI Savings Plan, shall be responsible for providing in cash and/or Resources Common Stock a fully vested employer matching contribution on up to 6% of each such employee's eligible covered compensation. In addition, Resources may provide a fully vested discretionary employer contribution at the end of each plan year based upon such employees' eligible covered compensation and/or a fully vested discretionary employer contribution each payroll period based upon the first $85,000 of each such employee's eligible covered compensation for the year 2001. Effective as of the Distribution Date, Resources shall establish, or cause to be established, a trust, which is intended to be qualified under Code Section 401(a), exempt from taxation under Code Section 501(a)(1), and forming the separate Resources Savings Plan. Except as provided in this Article IV, such Resources Savings Plan shall be substantially comparable to the REI Savings Plan as applicable to employees of members of the Resources Group immediately prior to the Distribution Date. As soon as reasonably practicable following the Distribution Date, REI shall cause to be determined for the REI Savings Plan the amount of assets to be transferred from the REI Savings Plan to the Resources Savings Plan. Such amount shall be equal to the greater of (a) the amount required under Code Section 414(l), or (b) the amount within the sub-account(s) within the Reliant Energy, Incorporated Savings Trust that has been separately maintained and accounted for on behalf of employees of the members of the Resources Group less the amount attributable to Resources Retired Employees. Notwithstanding the foregoing to the contrary, this Section 4.01 shall not apply to Resources Union Employees.

4.02 ESOP. On and after the Distribution Date, Resources Employees shall no longer participate in the ESOP, and the Resources Savings Plan shall not contain an ESOP. Therefore, the ESOP shall continue as a component of the REI Savings Plan. After the Distribution Date, the ESOP will hold shares of Resources Common Stock, and applicable law generally prohibits such plans from holding securities that are not "qualifying employer securities" within the meaning of Code Section 4975(e)(8) for more than 90 days after the Distribution Date unless an extension is granted by the IRS. Accordingly, REI will request that the IRS grant an extension of such 90-day period to such a time as the REI Savings Plan's independent fiduciary deems prudent and the IRS deems acceptable to allow the independent fiduciary to dispose of the Resources Common Stock received by the ESOP on account of the Distribution and to reinvest in qualifying employer securities in a manner consistent with the best interests of the ESOP participants. Notwithstanding the foregoing to the contrary, this Section 4.02 shall not apply to Resources Union Employees who may be eligible to participate in the ESOP.

4.03 REMA SAVINGS PLAN. Effective as of January 1, 2001, Resources shall assume the sponsorship of the REMA Savings Plan. Effective as of March 1, 2001, REI shall amend the REMA Savings Plan to provide the same benefit structure for eligible employees under the REMA Savings Plan as will be provided as of such date for eligible non-union

employees of the members of the Resources Group participating in the REI Savings Plan (as described in Section 4.01). As soon as practicable following the Distribution Date, Resources shall merge the REMA Savings Plan into the Resources Savings Plan .

4.04 RESOURCES RETIRED EMPLOYEES. Notwithstanding the above, account balances of Resources Retired Employees, if any, shall remain in the REI Savings Plan after the Distribution Date.

ARTICLE V.

EXECUTIVE AND OTHER PLANS

5.01 EXECUTIVE PLANS.

(a) Establishment of Resources Executive Plans. Effective as of the Distribution Date or such other date as REI and Resources may mutually agree, Resources shall establish the Resources Executive Plans which shall be substantially comparable to the REI Executive Plans. As of the Distribution Date, Resources shall assume all Liabilities to or relating to the Resources Employees under the REI Executive Plans, and REI shall transfer the split dollar life insurance policies under the Executive Life Insurance Plan attributable to such Resources Employees to Resources. As of the Distribution Date, REI shall assume all Liabilities to or relating to Resources Retired Employees under the REI Executive Plans.

(b) Participation in Executive Plans. Effective as of the Distribution Date or such other date as Resources establishes the Resources Executive Plans, eligible Resources Employees determined in accordance with the terms of the applicable plans shall only be eligible to participate in the Resources Executive Plans.

5.02 DEFERRED COMPENSATION PLAN.

(a) Establishment of Resources Deferred Compensation Plan. Effective as of the Distribution Date or such other date as REI and Resources may mutually agree, Resources shall establish the Resources Deferred Compensation Plan which shall be substantially comparable to the REI Deferred Compensation Plan. As of January 1, 2001, Resources shall assume all Liabilities to or relating to the Resources Employees under the REI Deferred Compensation Plan; provided, however, that REI shall transfer a cash amount equal to the cost of such Liabilities transferred to Resources as soon as practicable following the Distribution Date or such other date as REI and Resources may mutually agree. As of January 1, 2001, REI shall assume all Liabilities to or relating to Resources Retired Employees, and all corporate owned life insurance policies associated with the REI Deferred Compensation Plan shall remain at REI.

(b) Participation in Deferred Compensation Plan. Resources Employees who consent to an amendment to treat their employment with Resources as continued employment under the REI Deferred Compensation Plan shall not be treated as terminated employees under such Plan(s) as of the Distribution Date. Effective as of the Distribution Date or such other date as Resources establishes the Resources Deferred Compensation Plan, eligible Resources Employees determined in accordance with the terms of the Plan shall only be eligible to participate prospectively in the Resources Deferred Compensation Plan.

5.03 BENEFIT AND SAVINGS RESTORATION PLANS.

(a) Benefit Restoration Plan. Effective as of March 1, 2001, employees of the members of the Resources Group shall no longer accrue benefits under the REI Benefit Restoration Plan. Effective as of March 1, 2001, or such other date as REI and Resources may mutually agree, Resources shall establish a frozen Resources Benefit Restoration Plan which shall be substantially comparable to the REI Benefit Restoration Plan. As of March 1, 2001, Resources shall assume all Liabilities to or relating to the Resources Employees under the REI Benefit Restoration Plan (except Liabilities under the REI Benefit Restoration Plan associated with the transition benefit described in Section 3.01); provided, however, that REI shall transfer a cash amount equal to the cost of such Liabilities transferred to Resources as soon as practicable following the Distribution Date or such other date as REI and Resources may mutually agree. Also, as of March 1, 2001, Resources shall assume all Liabilities under the REI Benefit Restoration Plan associated with the transition benefit described in Section 3.01; provided, however, that REI shall transfer a cash amount equal to two-thirds (2/3) of the cost of such Liabilities transferred to Resources as soon as practicable following the Distribution Date or such other date as REI and Resources may mutually agree. As of March 1, 2001, REI shall assume all Liabilities to or relating to the Resources Retired Employees under the REI Benefit Restoration Plan; provided, however that Resources shall irrevocably and unconditionally guarantee, in the event that REI becomes insolvent, the due and punctual payment and satisfaction, when and as due, of all Liabilities relating to the REI Benefit Restoration Plan for all persons who have the status of retirees under the REI Benefit Restoration Plan as of the Distribution Date or such other date as REI and Resources may mutually agree. For purposes of this Section 5.03(a), the Liabilities under the REI Benefit Restoration Plan include any supplemental pension benefits provided under an employment, severance or supplemental pension agreement with (i) an employee of any member of the Resources Group and (ii) any person who has the status of a retiree under the REI Benefit Restoration Plan as of the Distribution Date.

(b) Savings Restoration Plan.

(i) Establishment of Resources Savings Restoration Plan. Effective as of March 1, 2001, or such other date as REI and Resources may mutually agree, Resources shall establish the Resources Savings Restoration Plan which shall be substantially comparable to the REI Savings Restoration Plan. As of March 1, 2001, Resources shall assume all Liabilities to or relating to the Resources Employees under the REI Savings Restoration Plan. As of March 1, 2001, REI shall assume all Liabilities to or relating to the Resources Retired Employees under the REI Savings Restoration Plan.

(ii) Participation in the Resources Savings Restoration Plan. Effective as of March 1, 2001, or such other date as Resources establishes the Resources Savings Restoration Plan, eligible Resources Employees determined in accordance with the terms of the applicable Plan shall only be eligible to participate in the Resources Savings Restoration Plan.

5.04 RABBI TRUSTS. Effective as of the Distribution Date, or such other date as REI and Resources may mutually agree, Resources may establish a Rabbi Trust, which shall be substantially similar to the Reliant Energy, Incorporated Executive Deferred Compensation Trust. Effective as of the Distribution Date, REI shall continue to sponsor and shall assume all assets and Liabilities relating to the NorAm Rabbi Trusts.

5.05 SEVERANCE PLANS. Resources shall establish such severance plans as it deems necessary in its discretion. The REI Severance Plans shall provide that no Resources Employee shall become eligible for severance benefits on account of Resources ceasing to be a Subsidiary of REI as of the Distribution Date.

ARTICLE VI

HEALTH AND WELFARE PLANS

6.01 ASSUMPTION OF HEALTH AND WELFARE PLAN LIABILITIES.

(a) General - Health and Welfare Plans. Each REI Health and Welfare Plan shall retain all Liabilities incurred through the Distribution Date or

such other date as REI and Resources may mutually agree under each such REI Health and Welfare Plan, whether or not claims are filed before the Distribution Date, by or on behalf of Resources Employees or their spouses or dependents. Resources shall indemnify each such plan against the pre-Distribution Date Liabilities by paying the current cost of coverage associated with such Resources Employees or their spouses or dependents, to the extent not already paid.

(b) Substantially Similar Self-Insured Plans. Any Health and Welfare Plan self-insured by REI and substantially similar to any Resources Health and Welfare Plan established as of the Distribution Date, or such other date as agreed upon by REI and Resources, shall cease to be responsible for Liabilities to or relating to Resources Employees under the REI Health and Welfare Plans as of the Distribution Date, and the corresponding Resources Health and Welfare Plans shall assume such Liabilities as of the Distribution Date.

(c) Retiree Life and Medical. Effective as of the IPO Closing Date, employees of the members of the Resources Group shall no longer be eligible to participate in REI's retiree life insurance plan and retiree medical plan, and REI shall assume all Liabilities under REI's retiree medical plan for certain eligible employees of the members of the Resources Group who as of such date have generally attained the age of 55 with at least 5 years of service after age 50 under such Plan, provided, however, that such employees shall not accrue any additional benefits under such Plan. Except as otherwise expressly provided above, no other employee of any member of the Resources Group shall be entitled to benefits under the REI retiree medical plan. Resources shall make available a non-subsidized group insurance arrangement through which eligible retired employees of the members of the Resources Group may purchase retiree medical insurance at group rates. Notwithstanding the foregoing to the contrary, Resources shall maintain any retiree medical and retiree life insurance for certain Resources Union Employees as may be required pursuant to Section 2.07.

6.02 CLAIMS FOR HEALTH AND WELFARE PLANS.

(a) Administration of REI Claims. REI shall administer claims incurred under the REI Health and Welfare Plans by Resources Employees before the Distribution Date, but only to the extent that Resources has not, before the Distribution Date, established and assumed administrative responsibility for a comparable Plan. Any determination made or settlements entered into by REI with respect to such claims shall be final and binding.

(b) Outsourcing of Claims by REI. REI shall have the right to engage a third party administrator, vendor, or insurance company to administer ("Outsource") claims incurred under the REI Health and Welfare Plans, including claims incurred by employees of the members of the Resources Group before the Distribution Date. REI may determine the manner and extent of such

Outsourcing, including the selection of one or more third party administrators, vendors, or insurance companies and the ability to transfer the liability for such claims to one or more independent insurance companies. REI has Outsourced administration of many REI Health and Welfare Plans, as set forth in Section 6.04 and the Schedule thereto.

(c) Outsourcing of Claims by Resources. REI shall use its commercially reasonable best efforts for and on behalf of Resources to negotiate for Outsourcing arrangements with its third party administrators, vendors, or insurance companies with comparable features to each of REI's current Outsourcing arrangements.

6.03 POST-DISTRIBUTION TRANSITIONAL ARRANGEMENTS.

(a) Continuance of Elections, Co-Payments and Maximum Benefits.

(i) As of the Distribution Date or such other date as REI and Resources may mutually agree, Resources shall cause the Resources Health and Welfare Plans to maintain substantially comparable coverage and contribution elections, if any, made by Resources Employees under the REI Health and Welfare Plans and apply such elections under the Resources Health and Welfare Plans for the remainder of the period or periods, if any, for which such elections are by their terms applicable. The transfer or other movement of employment between REI and Resources in connection with the Distribution shall constitute neither a "status change" under the REI Health and Welfare Plans or the Resources Health and Welfare Plans nor a "qualifying event," as defined under COBRA.

(ii) On and after the Distribution Date, Resources shall cause the Resources Health Plans to recognize and give credit for all benefits paid to Resources Employees under the REI Health Plans for (A) all amounts applied to deductibles, out of pocket maximums, co-payments and other applicable benefit coverage limits with respect to which such expenses have been incurred by Resources Employees under the REI Health Plans for the remainder of the calendar year in which the Distribution Date occurs and (B) all benefits paid to Resources Employees under the REI Health Plans for purposes of determining when such persons have reached their lifetime maximum benefits under the Resources Health Plans. Notwithstanding the above, Resources's obligations under this Subsection 6.03(a)(ii) shall be limited by the market availability of health insurance products or other arrangements satisfying the criteria described above. Resources shall use its

commercially reasonable best efforts to locate and engage the services of a vendor whose policies or other arrangements meet the requirements above.

(b) Flexible Benefits Plan. To the extent any Resources Employee contributed to an account under the REI Flexible Benefits Plan during the calendar year that includes the Distribution Date, then effective as of the Distribution Date, REI shall transfer to the Resources Flexible Benefits Plan the account balances of Resources Employees for such calendar year under the REI Flexible Benefits Plan, regardless of whether the account balance is positive or negative.

(c) HCFA Administration. As of the Distribution Date, Resources shall assume all Liabilities relating to, arising out of or resulting from claims verified by REI or Resources under the HCFA data match reports that relate to Resources Employees.

6.04 VENDOR AND INSURANCE ARRANGEMENTS. REI shall use its commercially reasonable best efforts for and on behalf of Resources to negotiate for, effective as of the Distribution Date or such other date as REI and Resources mutually agree upon: (a) third party ASO Contracts with comparable features and costs to the ASO Contracts entered into by REI, as set forth in Schedule 6.04(a) (the "ASO Contracts"); (b) Group Insurance Policies with comparable features and costs to the Group Insurance Policies entered into by REI, as set forth in Schedule 6.04(b) (the "Group Insurance Policies"); (c) HMO Agreements with comparable features and costs to the HMO Agreements entered into by REI, as set forth in Schedule 6.04(c) (the HMO Agreements"), and (d) competitive premium rates for all Resources Health and Welfare Plans. In each case, Resources shall, as of the Distribution Date or such other date as REI and Resources mutually agree upon, establish, adopt and/or implement acceptable contracts, agreements or arrangements. In accordance with Section 9.03, REI shall on or before the Distribution Date provide upon the request of Resources, copies of such contracts or successor arrangements thereto identified in Schedules 6.04(a), (b) and (c).

6.05 COBRA AND HIPPA. REI shall be responsible, through the Distribution Date, for compliance with the health care continuation coverage requirements of COBRA, the portability requirements under the Health Insurance Portability and Accountability Act of 1996 ("HIPPA") and the REI Health and Welfare Plans with respect to employees of the members of the Resources Group and qualified beneficiaries (as such term is defined under COBRA). REI shall provide all necessary notices, or cause the notices to be provided, as soon as administratively practical, but in no event later than required under COBRA. Resources shall be responsible for providing REI or its agents with all necessary employee change notices and related information for covered dependents, spouses, qualified beneficiaries (as such term is defined under COBRA), and alternate recipients pursuant to QMCSO, in accordance with applicable REI COBRA policies and procedures. As soon as administratively practicable after the Distribution Date, REI shall provide Resources, through hard copy, electronic format or such other mechanism as is appropriate under the circumstances, with a list of all qualified beneficiaries (as such term is defined under COBRA) that relate to the members of the Resources

Group and the relevant information pertaining to their coverage elections. Effective as of the Distribution Date, Resources shall be solely responsible for compliance with the health care continuation coverage requirements of COBRA and the portability requirements under HIPPA for the Resources Health and Welfare Plans for Resources Employees and their qualified beneficiaries (as such term is defined under COBRA).

6.06 LEAVE OF ABSENCE PROGRAMS AND FMLA.

(a) Allocation of Responsibilities After Distribution Date. Effective as of the Distribution Date, Resources shall establish the Resources Leave of Absence Programs and FMLA programs and shall be responsible for administering leaves of absence and complying with FMLA with respect to Resources Employees.

(b) Disclosure. As soon as administratively practicable after the Distribution Date, REI shall provide to Resources copies of all records pertaining to the leaves of absence and FMLA with respect to all Resources Employees to the extent such records have not been previously provided.

6.07 REI WORKERS' COMPENSATION PROGRAM.

(a) ADMINISTRATION OF CLAIMS.

(i) Through the Distribution Date or such other date as REI and Resources may mutually agree, REI shall continue to be responsible for the administration of all claims that (A) are, or have been, incurred under the REI WCP before the Distribution Date by employees of the Resources Group ("Resources WCP Claims"), and (B) have been historically administered by REI or its third party administrator. However, REI will advise Resources of and secure approval for any material changes to current policy or practice with respect to the administration of Resources WCP Claims.

(ii) Effective as of the Distribution Date or such other date as REI and Resources may mutually agree, Resources shall be responsible for the administration of all Resources WCP Claims.

(iii) Each party shall fully cooperate with the other with respect to the administration and reporting of Resources WCP Claims, the payment of Resources WCP Claims determined to be payable, and the transfer of the administration of any Resources WCP Claims to the other party.

(b) SELF-INSURANCE STATUS.

REI shall maintain and amend, as necessary, its certificates of self-insurance and any other applicable policies to include Resources until the Distribution Date, and Resources shall fully cooperate with REI in obtaining such amendments. REI shall use its commercially reasonable best efforts to obtain self-insurance status for workers' compensation for Resources effective as of the Distribution Date in those jurisdictions in which Resources conducts business, in which REI is self-insured, and where REI and Resources mutually agree that such status is beneficial to Resources. Resources hereby authorizes REI to take all actions necessary and appropriate on its behalf in order to obtain such self-insurance status. All costs incurred by REI in amending such certificates, including without limitation filing fees, adjustments of security and excess loss policies and amendments of safety programs, shall be shared pro rata by REI and Resources.

(c) INSURANCE POLICY.

(i) Effective as of the Distribution Date, in all states other than those states where Resources is to be self-insured pursuant to Subsection 6.07(b) above, REI shall use its commercially reasonable best efforts to negotiate for workers' compensation insurance policies on behalf of Resources from the issuing insurance companies (as set forth in the relevant portion of Schedule 6.04(b)) or different insurance companies which are comparable to the policies previously maintained by REI; provided that the retention under such Resources policies shall be as determined by Resources.

(ii) REI shall use its commercially reasonable best efforts to cause the premium rates for all workers' compensation insurance policies for both REI and Resources in effect for periods through the Distribution Date to be based on the aggregate number of employees covered under the workers' compensation insurance policies of both REI and Resources. Any premiums due under the separate workers' compensation insurance issued to Resources shall be payable by Resources.

ARTICLE VII.

EQUITY AND OTHER COMPENSATION

7.01 REI OPTIONS.

(a) Option Conversion. Outstanding REI Options granted prior to the year 2001 that are unexercised and unexpired as of the Distribution Date shall be replaced with two options, subject to specific country tax and legal requirements, one a New REI Option and one a Resources Option as follows. In general, a REI Option that qualifies as an incentive stock option under the Code will be replaced with a New REI Option and a Resources Option which will qualify as incentive stock options, provided, however, that in order for incentive stock options to remain qualified and retain their tax benefits under the Code, the adjustment formulas described below may be required to be altered. With respect to each New REI Option, (i) the number of shares of REI Common Stock subject to such New REI Option shall equal the number of shares of REI Common Stock subject to the REI Option immediately before the Distribution Date, and (ii) the per-share exercise price of such New REI Option shall equal the per-share exercise price of the REI Option immediately prior to the Distribution Date multiplied by 1 minus a fraction, the numerator of which is the Distribution Ratio multiplied by the Resources Stock Value and the denominator of which is the REI Stock Value. With respect to each Resources Option, (i) the number of shares of Resources Common Stock subject to such Resources Option, shall equal the number of shares of REI Common Stock subject to the REI Option immediately before the Distribution Date multiplied by the Distribution Ratio, and (ii) the per-share exercise price of such Resources Option shall equal the Resources Stock Value multiplied by a fraction, the numerator of which is the per-share exercise price of the REI Option immediately prior to the Distribution Date and the denominator of which is the REI Stock Value. The exercise price per share of each such New REI Option and Resources Option will be determined such that, immediately following the Distribution Date, the difference between the exercise price of each option and the fair market value of the shares underlying each option approximately equals, in the aggregate, the difference between the exercise price of each REI Option and the fair market value per share of REI Common Stock (with dividend) immediately prior to the Distribution Date. In addition, the ratio of the exercise price of the New REI Options to the fair market value of REI's Common Stock immediately after the Distribution Date, and the ratio of the exercise price of the Resources Options to the fair market value of Resources's Common Stock immediately after the Distribution Date, will both approximately equal the ratio of the exercise price of the REI Options to the fair market value of REI's Common Stock (with dividend) immediately prior to the Distribution Date. Employment with Resources will be treated as employment with REI for purposes of the New REI Options, and employment with REI will be treated as employment with Resources for purposes of the Resources Options. Other than the adjustments described in this Section 7.01(a), all other terms and conditions

applicable to the REI Options (including, but not limited to, the vesting schedule) shall remain applicable to the New REI Options and the Resources Options following the Distribution Date, and the Resources Options shall be issued pursuant to a separate mirror transition option plan adopted specifically for the purpose of issuing the Resources Options described in this Section 7.01.

(b) Certain Non-U.S. Optionees. Except as may otherwise be agreed upon by REI and Resources, this Section 7.01 shall govern the treatment of REI Options held by Non-U.S. Resources Employees. In the event it is determined that the local law applicable to any Non-U.S. Optionee requires a different treatment, REI and Resources shall take such steps as is required to comply with local law or may cash-out those Options that cannot reasonably be conformed.

7.02 REI RESTRICTED SHARES. Performance shares (or bookkeeping units representing such shares) outstanding under the LICP and the Reliant Energy, Incorporated Business Unit Performance Share Plan shall vest for the performance cycle ending December 31, 2000 according to the terms and conditions of the applicable Plan. Assuming the Distribution Date occurs during the calendar year 2001, the Plan administrator shall determine, as of the Distribution Date, the level at which the performance objectives have or would have been achieved through the end of the performance cycle ending December 31, 2001 and shall vest the outstanding performance shares for such cycle as of the Distribution Date as though such performance objectives were achieved at that level. As of the Distribution Date, the Plan administrator shall convert outstanding performance shares (or bookkeeping units representing such shares) for the performance cycle ending December 31, 2002 to a number of time-based restricted shares equal to the number of performance shares that would have vested if the performance objectives for the performance cycle were achieved at the maximum level. Such time based restricted shares shall vest if the participant holding such award remains continuously employed with Resources or REI through December 31, 2002. Holders of these and other time-based restricted shares granted prior to the year 2001 that are outstanding on the Distribution Date shall receive shares of Resources Common Stock (or bookkeeping units representing such shares) in the same ratio as REI shareholders, but such Resources Common Stock shall be subject to the same time-based vesting schedule and the other terms and conditions of the applicable Plan under which they were granted.

7.03 STOCK PURCHASE PLAN. Effective January 1, 2001, Resources shall establish a Stock Purchase Plan for the benefit of employees of the members of the Resources Group which shall be comparable to the plan set forth in Schedule 7.03.

7.04 RESOURCES LONG-TERM INCENTIVE PLAN. Effective on or before January 1, 2001, or such other date as REI and Resources may mutually agree, Resources shall establish the LTIP for the benefit of employees of the members of the Resources Group which shall be comparable to the plan set forth in Schedule 7.04. The LTIP is intended to comply with Code Section 162(m).

7.05 RESOURCES ANNUAL INCENTIVE COMPENSATION PLAN. Effective on or before January 1, 2001, or such other date as REI and Resources may mutually agree, Resources shall establish the Resources AICP for the benefit of employees of the members of the Resources Group which shall be comparable to the plan set forth in Schedule 7.05. The AICP is intended to comply with Code Section 162(m).

ARTICLE VIII.

FRINGE AND OTHER BENEFITS

8.01 FRINGE BENEFITS. Employees of the Resources Group shall continue to participate in REI's employee assistance program, educational assistance program, executive financial planning program and relocation program and shall continue to have access to the credit union, The Employee Association and the Wellness Activity Center (collectively, the "REI Fringe Benefits") through the Distribution Date or such other date as REI and Resources may mutually agree. Effective as of the Distribution Date, Resources shall establish the Resources Fringe Benefits which Resources deems appropriate in its sole discretion. Effective as of the Distribution Date, eligible Resources Employees determined in accordance with the terms of the applicable plans or programs shall only be eligible to participate in the Resources Fringe Benefits.

8.02 APPLIANCE LOANS. Effective as of the Distribution Date, Resources will purchase or cause to be purchased, for an amount equal to the outstanding principal amount thereof plus accrued and unpaid interest thereon through the Distribution Date, all outstanding loans on the Distribution Date made by REI to Resources Employees under any REI appliance purchase program. From and after the Distribution Date, REI shall have no further responsibility for such loans or for the administration of this program with respect to Resources Employees.

8.03 CHAIRMAN'S SCHOLARSHIP FUNDS. The chairman's scholarship funds shall remain at REI through and after the Distribution Date.

8.04 REI FOUNDATION. Effective as of January 1, 2001, sponsorship of the REI Foundation shall be transferred to Resources.

8.05 OTHER BENEFITS. To the extent that REI maintains, sponsors or provides other fringe benefits for its employees not specifically identified in Section 8.01, then REI shall, to the extent permitted by law, continue to make such benefits available to employees of the Resources Group on substantially similar terms and conditions as are offered to the employees of any member of the REI Group through the Distribution Date or such other date upon which Resources and REI mutually agree. Resources and REI agree to make commercially reasonable best efforts to mutually agree on whether, when, and on what terms any member of the Resources Group shall maintain, sponsor or offer fringe benefits.

ARTICLE IX.

9.01 TRANSITION SERVICES AGREEMENT. On or about the date hereof, REI and Resources shall enter into the Transition Services Agreement covering the provisions of various services to be provided by REI to Resources. The provisions of this Agreement shall be subject to the provisions of such Transition Services Agreement.

9.02 PAYMENT OF LIABILITIES, PLAN EXPENSES AND RELATED MATTERS.

(a) Shared Costs. Resources shall pay its share, as determined by REI in good faith, of any contributions made to any trust maintained in connection with a REI Plan while Resources is a Participating Company in any such REI Plan.

(b) Contributions to Trusts. With respect to REI Plans to which employees of Resources make contributions, REI shall use reasonable procedures to determine Resources Liabilities associated with such Plans, taking into account such contributions, settlements, refunds and similar payments.

(c) Administrative Expenses Not Chargeable to a Trust. To the extent not charged pursuant to this Article IX, and to the extent not otherwise agreed to by REI and Resources, and to the extent not chargeable to a trust established in connection with a REI Plan, Resources shall be responsible, through either direct payment or reimbursement to REI, for its allocable share of expenses incurred by REI in the administration of (i) the REI Plans while Resources participates in such Plans, and (ii) the Resources Plans, to the extent REI administers such Plans. For this purpose, Resources's allocable share of such expenses shall be calculated in accordance with current practice in effect as of the date of this Agreement.

9.03 SHARING OF PARTICIPANT INFORMATION. In accordance with the applicable provisions of the Separation Agreement, REI and Resources shall share, or cause to be shared, all participant information that is necessary or appropriate for the efficient and accurate administration of each of the REI Plans and the Resources Plans during the respective periods applicable to such Plans as Resources and REI may mutually agree. REI and Resources and their respective authorized agents shall, subject to applicable laws of confidentiality and data protection, be given reasonable and timely access to, and may make copies of, all information relating to the subjects of this Agreement in the custody of the other party or its agents, to the extent necessary or appropriate for such administration.

9.04 REPORTING AND DISCLOSURE COMMUNICATIONS TO PARTICIPANTS. While Resources is a Participating Company in the REI Plans, REI shall take, or cause to be taken, all actions necessary or appropriate to facilitate the distribution of all REI Plan-related communications and materials to employees, participants and beneficiaries, including (without limitation) summary plan descriptions and related summaries of material modification(s), summary annual reports, investment information, prospectuses, notices and enrollment material for the REI Plans. Resources shall provide all information needed by REI to

facilitate such REI Plan-related communications. Resources shall take, or cause to be taken, all actions necessary or appropriate to facilitate the distribution of all Resources Plan-related communications and materials to employees, participants and beneficiaries. Resources shall assist, and Resources shall cause each other applicable member of the Resources Group to assist, REI in complying with all reporting and disclosure requirements of ERISA, including the preparation of Form Series 5500 annual reports, for the REI Plans, where applicable.

9.05 AUDITS REGARDING VENDOR CONTRACTS. From the period beginning as of the Distribution Date or such other date as REI and Resources mutually agree upon and ending on such date as REI and Resources may mutually agree, REI and Resources and their duly authorized representatives shall have the right to conduct joint audits with respect to any vendor contracts that relate to both the REI Health and Welfare Plans and the Resources Health and Welfare Plans. The scope of such audits shall remain consistent with the current practices and all documents and other information currently made available for review shall continue to be made available. REI and Resources shall agree on the performance standards, audit methodology, auditing policy and quality measures, reporting requirements, and the manner in which costs incurred in connection with such audits will be shared.

9.06 BENEFICIARY DESIGNATIONS. Subject to Section 9.09, all beneficiary designations made by employees of the Resources Group for the REI Plans (other than the Retirement Plan, except to the extent Resources may be required to establish or assume the sponsorship of a retirement plan(s) pursuant to Section 2.07) shall be transferred to and be in full force and effect under the corresponding Resources Plans until such time, if ever, any such beneficiary designations are replaced or revoked by the employees of the Resources Group who made the beneficiary designations. All beneficiary designations made by Resources Retired Employees for the Resources Plans shall be transferred to and be in full force and effect under the corresponding REI Plans until such time, if ever, any such beneficiary designations are replaced or revoked by the Resources Retired Employees who made the beneficiary designations.

9.07 REQUESTS FOR IRS AND DOL OPINIONS. REI and Resources shall make such applications to regulatory agencies, including the IRS and DOL, as may be necessary or appropriate. Resources and REI shall cooperate fully with one another on any issue relating to the transactions contemplated by this Agreement for which REI and/or Resources elects to seek a determination letter or private letter ruling from the IRS or an advisory opinion from the DOL.

9.08 FIDUCIARY MATTERS. REI and Resources each acknowledge that actions contemplated to be taken pursuant to this Agreement may be subject to fiduciary duties or standards of conduct under ERISA or other applicable law, and no party shall be deemed to be in violation of this Agreement if such party fails to comply with any provisions hereof based upon such party's good faith determination that to do so would violate such a fiduciary duty or standard.

9.09 CONSENT OF THIRD PARTIES. If any provision of this Agreement is dependent on the consent of any third party (such as a vendor) and such consent is withheld, REI and Resources shall use their commercially reasonable best efforts to implement the applicable

provisions of this Agreement. If any provision of this Agreement cannot be implemented due to the failure of such third party to consent, REI and Resources shall negotiate in good faith to implement the provision in a mutually satisfactory manner.

9.10 TAX COOPERATION. In connection with the interpretation and administration of this Agreement, REI and Resources shall take into account the agreements and policies established pursuant to the Separation Agreement and the Tax Allocation Agreement.

9.11 PLAN RETURNS. Plan Returns shall be filed or caused to be filed by REI or Resources as the case may be in accordance with the principles established in the Tax Allocation Agreement. For purposes of this Section 9.11, "Plan Returns" means any return, report, certificate, form or similar statement or document required to be filed with a government agency with respect to an employee benefit plan governed by the ERISA, or a program governed by Section 6039D of the Code.

ARTICLE X.

EMPLOYMENT-RELATED MATTERS

10.01 TERMS OF RESOURCES EMPLOYMENT. Employees of the Resources Group shall be required to execute a new agreement regarding confidential information and proprietary developments in a form approved by Resources. In addition, nothing in the Separation Agreement, this Agreement, or any Ancillary Agreement should be construed to change the at-will status of any of the employees of any member of the REI Group or the Resources Group.

10.02 HR DATA SUPPORT SYSTEMS. REI shall provide human resources data support for employees of the members of the Resources Group in accordance with the terms of the Transition Services Agreement.

10.03 EMPLOYMENT OF EMPLOYEES WITH U.S. WORK VISAS. Resources will comply with all immigration laws and regulations of the Unites States of America as such laws and regulations applied to employees of any member of the REI Group in the United States of America pursuant to a work or training visa regardless of visa category. Resources expressly assumes all obligations, liabilities and undertakings arising from or under attestations made in each certified and effective Labor Condition Application filed by REI. Resources shall file amended petitions with the Immigration and Naturalization Service, as may be necessary or appropriate. In such cases, the foreign national employee will remain employed by a member of the REI Group and continue to participate in the REI Plans until such amended petitions have been approved.

10.04 CONFIDENTIALITY AND PROPRIETARY INFORMATION.

(a) No provision of the Separation Agreement or any Ancillary Agreement shall be deemed to release any individual for any violation of the REI non-competition guideline or any agreement or policy pertaining to confidential or proprietary information of any member of the REI Group or Resources Group,

or otherwise relieve any individual of his or her obligations under such non-competition guideline, agreement, or policy.

(b) Employee Agreements. As used in this Section 10.04(b), "Employee Agreement" means any employment, severance, supplemental pension agreement or confidentiality agreement, and any corresponding agreements executed by REI or Resources employees in connection with their employment. Nothing in this Agreement, the Separation Agreement or any other Ancillary Agreement shall be deemed to supercede any provision regarding the conduct of employees mandated by the Federal Energy Regulatory Commission or any other applicable regulatory authority.

(i) Survival of REI Employee Agreement Obligations and REI's Common Law Rights. The REI Employee Agreements of all Resources Employees and all former REI employees transferred to Resources on or before the Distribution Date shall remain in full force and effect according to their terms, and all Liabilities thereunder shall be assumed by Resources. Notwithstanding the foregoing to the contrary, none of the following acts committed by former REI or Resources employees within the scope of their Resources employment shall constitute a breach of such REI Employee Agreements: (i) the use or disclosure of Confidential Information (as that term is defined in the REI Employee Agreement) for or on behalf of Resources, if such disclosure is consistent with the assignment or license of rights, businesses and assets granted to Resources and restrictions imposed on Resources under the Separation Agreement, any other Ancillary Agreement or any other agreement between the parties, and (ii) the rendering of any services, directly or indirectly, to Resources to the extent such services are consistent with the assignment or license of rights, businesses and assets granted to Resources and the restrictions imposed on Resources under the Separation Agreement, any other Ancillary Agreement or any other agreement between the parties. Further, REI retains any rights it has under statute or common law with respect to actions by its former employees to the extent such actions are inconsistent with the assignment or license of rights, businesses and assets granted to Resources and restrictions imposed on Resources under the Separation Agreement, any other Ancillary Agreement or any other agreement between the parties.

(ii) Survival of Resources's Employee Agreement Obligations and Resources's Common Law Rights. The Resources Employee Agreements of all REI Employees and all former Resources employees transferred to REI on or before the Distribution Date shall remain in full force and effect according to

their terms; provided, however, that none of the following acts committed by former Resources or REI employees within the scope of their REI employment shall constitute a breach of such Resources Employee Agreements: (i) the use or disclosure of Confidential Information (as that term is defined in the REI Employee Agreement) for or on behalf of REI, if such disclosure is consistent with the rights, businesses and assets retained by REI and restrictions imposed on REI under the Separation Agreement, any other Ancillary Agreement or any other agreement between the parties, and (ii) the rendering of any services, directly or indirectly, to REI to the extent such services are consistent with the rights, businesses and assets retained by REI and the restrictions imposed on REI under the Separation Agreement, any other Ancillary Agreement or any other agreement between the parties. Further, Resources retains any rights it has under statute or common law with respect to actions by its former employees to the extent such actions are inconsistent with the rights, businesses and assets retained by REI and restrictions imposed on REI under the Separation Agreement, any other Ancillary Agreement or any other agreement between the parties.

(iii) Assignment, Cooperation for Compliance and Enforcement.

(A)(1) REI retains all rights under the REI Employee Agreements of all former REI employees necessary to permit REI to protect the rights and interests of REI, but hereby transfers and assigns to Resources its rights under the REI Employee Agreements of all former REI employees to the extent required to permit Resources to enjoin, restrain, recover damages from or obtain specific performance of the REI Employee Agreements or obtain other remedies against any employee who breaches his or her REI Employee Agreement, and to the extent necessary to permit Resources to protect its rights and interests.

(2) REI and Resources agree, at their own respective cost and expense, to use their reasonable efforts to cooperate as follows: (A) Resources shall advise REI of: (1) any violation(s) of the REI Employee Agreements by Resources or former REI employees, and (2) any violation(s) of the Resources Employee Agreements which affect REI's rights; and (B) REI shall advise Resources of any violation(s) of the REI Employee Agreements by current or former REI employees which affect Resources's rights; provided, however, that the foregoing obligations shall only apply to violation(s) which become known to an attorney within the legal department of the party obligated to provide notice thereof.

(3) REI and Resources each may separately enforce the REI Employee Agreements of Resources and former REI employees to the extent necessary to reasonably protect their respective interests, provided, however, that (i) Resources shall not commence any litigation relating thereto without first consulting with REI's General Counsel or his or her designee and (ii) REI shall not commence any litigation relating thereto against any former REI employee who is at the time an employee of the Resources Group without first consulting with Resources's General Counsel or his or her designee. If either party, in seeking to enforce any REI Employee Agreement, notifies the other party that it requires, or desires, the other party to join in such action, then the other party shall do so. In addition, if either party commences or becomes a party to any action to enforce a REI Employee Agreement of an employee of the Resources Group or former REI employee, the other party shall, whether or not it becomes a party to the action, cooperate with the other party by making available its files and employees who have information or knowledge relevant to the dispute, subject to appropriate measures to protect the confidentiality of any proprietary or confidential information that may be disclosed in the course of such cooperation or action and subject to any relevant privacy laws and regulations. Any such action shall be conducted at the expense of the party bringing the action and the parties shall agree on a case by case basis on compensation, if any, of the other party for the value of the time of such other party's employees as reasonably required in connection with the action.

(B)(1) Resources retains all rights under the Resources Employee Agreements of all former Resources employees necessary to permit Resources to protect the rights and interests of Resources, but hereby transfers and assigns to REI its rights under the Resources Employee Agreements of all former Resources employees to the extent required to permit REI to enjoin, restrain, recover damages from or obtain specific performance of the Resources Employee Agreements or obtain other remedies against any employee who breaches his or her Resources Employee Agreement, and to the extent necessary to permit REI to protect its rights and interests.

(2) REI and Resources agree, at their own respective cost and expense, to use their reasonable efforts to cooperate as follows: (A) REI shall advise Resources of: (1) any violation(s) of the Resources Employee Agreements by REI or former Resources employees, and (2) any violation(s) of the REI Employee Agreements which affect Resources's rights; and (B) Resources shall advise REI of any violations of the Resources Employee Agreements by current or former Resources employees which affect REI's rights; provided, however, that the foregoing obligations shall only apply to violations which become known

to an attorney within the legal department of the party obligated to provide notice thereof.

(3) REI and Resources each may separately enforce the REI Employee Agreements of REI and former Resources employees to the extent necessary to reasonably protect their respective interests, provided, however, that (i) REI shall not commence any litigation relating thereto without first consulting with Resources's General Counsel or his or her designee and (ii) Resources shall not commence any litigation relating thereto against any former Resources employee who is at the time a REI Employee without first consulting with REI's General Counsel or his or her designee. If either party, in seeking to enforce any Resources Employee Agreement, notifies the other party that it requires, or desires, the other party to join in such action, then the other party shall do so. In addition, if either party commences or becomes a party to any action to enforce a Resources Employee Agreement of a REI Employee or former Resources employee, the other party shall, whether or not it becomes a party to the action, cooperate with the other party by making available its files and employees who have information or knowledge relevant to the dispute, subject to appropriate measures to protect the confidentiality of any proprietary or confidential information that may be disclosed in the course of such cooperation or action and subject to any relevant privacy laws and regulations. Any such action shall be conducted at the expense of the party bringing the action and the parties shall agree on a case by case basis on compensation, if any, of the other party for the value of the time of such other party's employees as reasonably required in connection with the action.

(C) REI and Resources understand and acknowledge that matters relating to the making, performance, enforcement, assignment and termination of employee agreements are typically governed by the laws and regulations of the national, federal, state or local governmental unit where an employee resides, or where an employee's services are rendered, and that such laws and regulations may supersede or limit the applicability or enforceability of this Section 10.04. In such circumstances, REI and Resources agree to take action with respect to the employee agreements that best accomplishes the parties' objectives as set forth in this Section 10.04 and that is consistent with applicable law.

10.05 ACCRUED PAYROLL, BONUSES, PROFIT SHARING AND COMMISSIONS. Except as otherwise specified in an Ancillary Agreement, Resources shall be responsible for all Liabilities relating to, arising out of, or attributable to payroll, bonuses, profit sharing and commissions accrued by employees of Resources through the Distribution Date. REI and Resources shall agree on the manner and method of payment for all payroll, bonuses, profit sharing and commissions agreed to on behalf of employees who have been employed by Resources on or before the Distribution Date. REI shall provide or cause to be provided to Resources in the same manner as in effect on the date of this Agreement all payroll services as required in the Transition Services Agreement.

10.06 PAYROLL AND WITHHOLDING.

(a) Income Reporting, Withholding. REI shall perform in the same manner as in effect on the date of this Agreement the income reporting and withholding function under Resources's employer identification number for employees of the Resources Group and other service providers as required by the Transition Services Agreement.

(b) Delivery of, and Access to, Documents and Other Information. Concurrently with the Distribution Date, REI shall cause to be delivered to Resources, the employee information set forth on all IRS Forms W-4 executed by REI Employees designated as Resources Employees as of the Distribution Date. For the period ending on the Distribution Date (and for such additional period as REI and Resources may mutually agree), REI shall make reasonably available to Resources all forms, documents or information, no matter in what format stored, relating to compensation or payments made to any employee or service provider of Resources. Such information may include, but is not limited to, information concerning employee payroll deductions, payroll adjustments, records of time worked, tax records (e.g., IRS Forms W-2, W-4, 940 and 941), and information concerning garnishment of wages or other payments.

(c) Consistency of Tax Positions; Duplication. REI and Resources shall individually and collectively make commercially reasonable best efforts to avoid unnecessarily duplicated federal, state or local payroll taxes, insurance or workers' compensation contributions, or unemployment contributions arising on or after the Distribution Date. REI and Resources shall take consistent reporting and withholding positions with respect to any such taxes or contributions.

10.07 PERSONNEL AND PAY RECORDS. For the period beginning on the date of this Agreement and ending on the Distribution Date (and for such additional period as REI and Resources may mutually agree), REI shall make reasonably available to Resources for review and reproduction, subject to applicable laws on confidentiality and data protection, all current and historic forms, documents or information, no matter in what format stored, relating to pre-Distribution Date personnel and medical records. Such forms, documents or information may include, but is not limited to: (a) information regarding ranking or promotions of employees of the Resources Group; (b) the existence and nature of garnishment orders or other judicial or administrative actions or orders affecting an employee's or service provider's compensation; and (c) performance evaluations.

10.08 NON-TERMINATION OF EMPLOYMENT; NO THIRD-PARTY BENEFICIARIES. No provision of this Agreement, the Separation Agreement, or any Ancillary Agreement shall be construed to create any right, or accelerate entitlement, to any compensation or benefit whatsoever on the part of any Resources Employee or other future, present or former employee of REI or Resources under any REI Plan or Resources Plan or otherwise. Without limiting the generality of the foregoing: (a) except as otherwise provided in this agreement or applicable provisions of Plans, neither the Distribution nor the termination of the Participating Company status of Resources or any member of the Resources Group shall cause any employee to be deemed to have incurred a termination of employment; and (b) no transfer of employment between REI and Resources before the Distribution Date shall be deemed a termination of employment for any purpose hereunder.

ARTICLE XI.

GENERAL PROVISIONS

11.01 EFFECT IF IPO AND/OR DISTRIBUTION DOES NOT OCCUR. Subject to Section 11.08, if the IPO and/or Distribution does not occur, then all actions and events that are, under this Agreement, to be taken or occur effective as of the IPO Closing Date, and/or Distribution Date, or otherwise in connection with the IPO and/or Distribution, shall not be taken or occur except to the extent specifically agreed by Resources and REI.

11.02 RELATIONSHIP OF PARTIES. Nothing in this Agreement shall be deemed or construed by the parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the parties, the understanding and agreement being that no provision contained herein, and no act of the parties, shall be deemed to create any relationship between the parties other than the relationship set forth herein. This Agreement shall be binding upon and inure solely to the benefit of and be enforceable by each party and its respective successors and permitted assigns. Nothing in this Agreement, express or implied, is intended to or shall confer upon any other person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

11.03 AFFILIATED COMPANIES. Each of REI and Resources shall cause to be performed, and hereby guarantee the performance of, any and all actions of any and all members of the REI Group or the Resources Group, respectively.

11.04 INCORPORATION OF SEPARATION AGREEMENT PROVISIONS. If a dispute, claim or controversy results from or arises out of or in connection with this Agreement, the parties agree to use the procedures set forth in Article IX of the Separation Agreement in lieu of other available remedies, to resolve same. The provisions of Article IX (Arbitration and Dispute Resolution), and Sections 5.5 (Issuance of Stock), 10.2 (Further Instruments), 10.5 (Audit Rights), 10.8 (Governmental Approvals), 11.1 (Limitation of Liability), 11.5 (Notices), 11.7 (Binding Effect; Assignment) and 11.11 (Authority) of the Separation Agreement are hereby incorporated herein by reference, and unless otherwise expressly specified herein, such provisions shall apply as if fully set forth herein (references in this Section 11.04 to an "Article" or "Section" shall mean Articles or Sections of the Separation Agreement, and, except as expressly set forth herein, references in the material incorporated herein by reference shall be references to the Separation Agreement).

11.05 GOVERNING LAW. To the extent not preempted by applicable federal law, this Agreement shall be governed by, construed and interpreted in accordance with the laws of the State of Texas, irrespective of the choice of law principles of the State of Texas, as to all matters, including matters of validity, construction, effect, performance and remedies.

11.06 SEVERABILITY. If any term or other provision of this Agreement is determined to be invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible and in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the fullest possible extent.

11.07 AMENDMENT. The Boards of Directors of Resources and REI may mutually agree to amend the provisions of this Agreement at any time or times, either prospectively or retroactively, to such extent and in such manner as the Boards mutually deem advisable. Each Board may delegate its amendment power, in whole or in part, to one or more Persons or committees as it deems advisable. Accordingly, each Board hereby gives the chief executive officer of Resources and the chief executive officer of REI the full power and authority to mutually adopt an amendment to this Agreement (subject to each of their authority to amend Plans).

11.08 TERMINATION. This Agreement may be terminated and the Distribution abandoned at any time prior to the IPO Closing Date by REI in its sole discretion. This Agreement may be terminated at any time after the IPO Closing Date and before the Distribution Date by mutual consent of REI and Resources. In the event of termination pursuant to this Section, no party shall have any liability of any kind under this Agreement to the other party.

11.09 CONFLICT. In the event of any conflict between the provisions of this Agreement and the Separation Agreement, any Ancillary Agreement, or Plan, the provisions of this Agreement shall control.

11.10 COUNTERPARTS. This Agreement may be executed in two or more counterparts each of which shall be deemed to be an original, but all of which together shall constitute but one and the same Agreement.

IN WITNESS WHEREOF, each of the parties have caused this Employee Matters Agreement to be executed on its behalf by its officers thereunto duly authorized on the day and year first above written.

RELIANT ENERGY, INCORPORATED

By:/s/ David M. McClanahan

David M. McClanahan
Vice Chairman

RELIANT RESOURCES, INC.

By: /s/ R. S. Letbetter

R. S. Letbetter
Chairman, President and
Chief Executive Officer

EXHIBIT 10.6

RETAIL AGREEMENT

THIS RETAIL AGREEMENT (the "Agreement") is entered into as of December 31, 2000, by and between Reliant Energy, Incorporated ("REI"), a Texas corporation, and Reliant Resources, Inc. ("Resources"), a Delaware corporation, as an Ancillary Agreement pursuant to that certain Master Separation Agreement ("MSA") between REI and Resources, dated as of December 31, 2000, as follows:

1. Definitions. Unless otherwise defined herein, terms used herein which are defined in the MSA shall have the meanings ascribed to them in the MSA.

2. Scope of Agreement. In order to implement the Business Separation Plan, effective as of January 1, 2001, all retail electric functions performed by REI shall become the responsibility of Resources, and personnel performing those functions shall become employees of a member of the Resources Group as of that date. This Agreement sets forth the understanding of the parties regarding the transfer of those functions and personnel and regarding certain transition services to be performed between REI and Resources to implement the transfer of those functions until the Choice Date as defined in the MSA but which is currently expected to be January 1, 2002.

3. Customer Care Services.

3.1 Customer Care Personnel. On or before January 1, 2001, REI shall terminate from its employment and Reliant Energy Customer Care LLC ("Customer Care") shall employ those personnel of REI (including management and contractor personnel) who are then engaged in providing the following services for the Reliant Energy HL&P Division ("HL&P") (and, in the case of remittance processing services, REI's regulated gas utility divisions Entex and Arkla):

(a) Call Center services,

(b) Credit and Collections,

(c) Remittance processing, and

(d) Revenue accounting,

excepting only those certain individuals identified by REI to Resources as required to be retained by REI in order to prepare for the implementation similar functions on behalf of REI following Choice Date.

3.2 Equipment. As of January 1, 2001, REI shall contribute to Customer Care the remittance processing equipment described on

Schedule 2.2, which will be used by Customer Care to provide services to the REI Group.

In addition, REI does hereby grant to Customer Care the right and license to use its remaining remittance processing machine and other equipment of REI currently utilized in providing customer care services but which is not sold hereunder until such time as Customer Care ceases to provide services under this Agreement to REI with respect to retail electric customers. Customer Care shall utilize this machine as a backup for its processing, and shall be responsible for operation and maintenance costs associated with the machine until its rights to use such machine terminate.

Such right and license is granted to Customer Care on a no-cost basis, AS IS AND WITHOUT WARRANTY OR REPRESENTATION AND WITH ALL FAULTS.

3.3 Office Space. REI will lease to Customer Care approximately 150,000 square feet of office and equipment space currently occupied in space owned or leased by REI in order to perform services under this Agreement for the duration of services provided by Customer Care. Office services and other shared service support functions will be provided by REI to Customer Care pursuant to the terms of the Transition Services Agreement executed between REI and Resources contemporaneously with the MSA (the "Transition Services Agreement").

3.4 Other Services by REI. REI will continue to provide services for printing retail electric bills and inserting them for mailing. These services will be provided by REI personnel pursuant to the Transition Services Agreement. Following Choice Date, REI will continue to provide these services pursuant to the terms of the Transition Services Agreement to the member of the Resources Group succeeding to its retail electric customers.

3.5 Services Provided by Customer Care to HL&P. During the period from January 1, 2001 until Choice Date, Customer Care shall provide the services traditionally provided by the personnel transferred pursuant to Section 3.1 for REI and its regulated electric and gas distribution utility operations, including providing call center, credit and collections and revenue accounting services for HL&P and receiving and processing payments for HL&P, Arkla and Entex. Such services shall be provided with personnel hired by Customer Care from HL&P and other personnel hired or otherwise engaged by Customer Care to provide such services. Customer Care shall provide no services to other members of the Resources Group (except processing payments under the General Land Office contract for Reliant Energy Solutions, Inc. and with respect to customers purchasing from members of the Resources

Group under the retail pilot program provided for in the Utilities Code) or to third parties during the period services are provided under this section. The parties shall develop a mutually agreeable service level agreement regarding such services which will provide for levels of service generally consistent with those historically provided by HL&P and which, when developed, shall be attached hereto as Schedule 3.5. The parties recognize that Resources will need to train Customer Care personnel on its new systems that will be in place as of Choice Date. To that end, Resources shall be free to rotate its personnel into training after September 2001 provided that (i) Resources substitutes appropriate contractor personnel to ensure that customer service does not decline during the training period and (ii) the costs to HL&P during the training are not greater than costs would have been had the training rotations not been made.

3.6 Termination of Services. Services provided by Customer Care shall terminate at Choice Date, and Resources shall be free to provide these services to other business units of the Resources Group or to third parties.

3.7 Changes to Services. Customer Care agrees to add or delete specific services upon reasonable request from a member of the REI Group so long as they are generally within the scope of the services provided under this Section 3, provided that the costs of any increase or decrease in personnel or equipment required to implement such change are borne by the member of the REI Group requesting them.

3.8 Code of Conduct and Reporting Requirements. During the period Customer Care provides services related to retail electric customers of REI, all personnel of Customer Care shall continue to observe the Code of Conduct adopted for HL&P personnel, and management personnel of Customer Care shall report for operational and organizational purposes only to an Executive Vice President of Resources and not to any personnel of Resources who are engaged in providing unregulated retail electric service for any business in the Resources Group.

3.9 Charges for Services. For the services provided by Customer Care, members of the REI Group shall reimburse Customer Care for the fully allocated direct and indirect costs incurred by Customer Care to provide the services, and shall reimburse Customer Care for out-of-pocket expenditures to third parties incurred to perform services. Charges will be made on a basis that allocates such costs on a fair nondiscriminatory basis. It is understood that all salary and salary-related costs attributable to the personnel transferred to Customer Care from HL&P shall be borne by the REI Group for services prior to Choice Date.

3.10 Payment Terms. Charges and collections for services rendered pursuant to this Agreement shall continue to be made using the methodology and procedures for intracompany billing in use as of the date of this Agreement unless and until either party elects to discontinue such procedures, in which case Customer Care shall thereafter bill members of the REI Group receiving the services monthly for all charges pursuant to this Agreement and such members receiving the services shall pay Customer Care for all services within thirty days after receipt of an invoice therefor. Charges shall be supported by reasonable documentation (which may be maintained in electronic form), consistent with past practices. Late payments shall bear interest at the lesser of the prime rate announced by The Chase Manhattan Bank and in effect from time to time plus two percent (2%) per annum or the maximum non-usurious rate of interest permitted by applicable law.

3.11 Error Correction; True-ups; Accounting. Customer Care shall make adjustments to charges as required to reflect the discovery of errors or omissions in charges. Customer Care and REI shall conduct an annual true up process to adjust charges based on a reconciliation of differences in budgeted usage and costs with actual experience. It is the intent of the parties that such true-up process will be conducted using substantially the same process, procedures and methods of review as have been heretofore in effect among members of the REI Group. Services under this Agreement and charges therefor shall be subject to the provisions of Section 10.5 of the Separation Agreement (Audit Rights).

3.12 Severance Costs. Upon the termination of services provided by Customer Care, REI will reimburse Resources for the actual costs of severance incurred under a previously approved severance plan for personnel (i) who were hired by Customer Care from REI pursuant to this Agreement, (ii) who are terminated by Resources within 60 days after Customer Care terminates its services for REI (other than employees who are terminated during such period due to death, disability or cause) and (iii) who are not employed by a member of the REI Group within 30 days after their separation from the Resources Group. No severance costs shall be payable with respect to any personnel hired by any member of the Resources Group from REI other than personnel hired by Customer Care to perform services under this Section 3 of this Agreement. Nor shall REI be responsible for severance costs related to personnel initially hired by Customer Care from REI but who subsequently are transferred to employment by another member of the Resources Group prior to their termination from Resources.

3.13 Indemnification. REI agrees to defend, indemnify and hold Resources and Customer Care and their respective personnel harmless against liability on claims made by the personnel for whom REI has agreed to reimburse Resources for severance (the "Personnel") to the extent claims relate to: (i) the severance of the Personnel and their severance payments, (ii) employment of the Personnel with REI prior to their transfer to Customer Care (including their selection for transfer to Customer Care), (iii) policies and personnel of REI and (iv) benefits provided to the Personnel with respect to their employment with REI, including in such indemnity, indemnification against employment grievances, equal employment or sexual harassment charges or other employment related claims of the Personnel. As a condition for REI providing this indemnity, Resources and Customer Care agree to cooperate fully with REI on the defense of such claims and to provide REI with all information available to them and, to the extent within their control, witnesses necessary with respect to the defense of such claims. The compromise or settlement of any claims against Resources or Customer Care for which indemnity is provided by REI shall be the sole responsibility of REI, provided that any such compromise or settlement, unless Resources shall otherwise agree, shall include a full and unconditional release of Resources and Customer Care from liability and shall not impose injunctive relief or require admissions of fault or liability from Resources or Customer Care. This indemnity shall not extend to, and REI will not indemnify Resources against, claims related to employment grievances, equal employment or sexual harassment charges or other employment related claims made by the Personnel with respect to policies or conduct of Resources during the period the Personnel are employed by Customer Care; provided, however, that REI will on request of Resources assume the defense of Resources against any such claims which are asserted in conjunction with claims for which REI has agreed to indemnify Resources. Resources shall be responsible for and shall control the compromise or settlement of claims for which REI has not indemnified Resources.

4. Services After Choice Date. As of the Choice Date and thereafter, the electric retail customers of Reliant Energy HL&P will become customers of an unregulated Retail Electric Provider pursuant to the Utilities Code, and a member of the Resources Group which qualifies as a Retail Electric Provider will succeed to those customers who do not elect an alternative supplier. For those customers, all customer care functions will be assumed by a member of the Resources Group. Following Choice Date, Customer Care will provide no further services for REI to REI's electric customers, and REI will provide customer care functions related to its electric transmission and distribution functions from its own resources.

4.1 Services to Members of REI Group. Following Choice Date, Reliant Energy Retail Services LLC (Retail Services), or another member of the Resources Group providing customer services will, upon request, provide remittance processing services to the gas utilities which are members of the REI Group. Compensation for these services will be on the same basis as compensation paid to Customer Care for similar services prior to Choice Date. The members of the REI Group may terminate such services at any time upon ninety (90) days prior written notice, and in any event such services shall terminate as of January 1, 2004, unless continued under a separate agreement between the parties.

5. Limitation of Liability. Neither Resources nor Customer Care shall have any liability to any member of the REI Group with respect to its furnishing any of the services hereunder except for liabilities arising out of or resulting from the gross negligence or willful misconduct of Resources or any member of the Resources Group. Resources will indemnify, defend and hold harmless each member of the REI Group receiving services under this Agreement in respect of all such liabilities arising out of or resulting from such gross negligence or willful misconduct. Such indemnification obligation shall be a Liability of Resources for purposes of the MSA and the provisions of Article III of the MSA with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL RESOURCES OR ANY MEMBER OF THE RESOURCES GROUP HAVE ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, AND WHETHER OR NOT RESOURCES OR ANY MEMBER OF THE RESOURCES GROUP WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES. IN NO EVENT SHALL RESOURCES OR ANY MEMBER OF THE RESOURCES GROUP HAVE ANY LIABILITY HEREUNDER OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR FAILURE TO PERFORM, SERVICES IN AN AGGREGATE AMOUNT EXCEEDING THE TOTAL CHARGES PAID OR PAYABLE TO RESOURCES HEREUNDER.

REI shall indemnify and hold harmless Customer Care in respect of all Liabilities arising out of or resulting from Customer Care's furnishing or failing to furnish the services provided for in this Agreement, other than Liabilities arising out of or resulting from the gross negligence or willful misconduct of Customer Care or any other member of the Resources Group. The provisions of this indemnity shall apply only to losses which relate directly to the provision of services hereunder. Such indemnification obligation shall be a Liability of REI for purposes of the Separation Agreement and the provisions of Article III of the Separation Agreement with respect to indemnification shall govern with respect thereto. IN NO EVENT SHALL REI OR ANY MEMBER OF THE REI GROUP HAVE

ANY LIABILITY UNDER THIS AGREEMENT OR OTHERWISE ARISING OUT OF OR RESULTING FROM THE PERFORMANCE OF, OR THE FAILURE TO PERFORM, SERVICES FOR LOSS OF ANTICIPATED PROFITS BY REASON OF ANY BUSINESS INTERRUPTION, FACILITY SHUTDOWN OR NON-OPERATION, LOSS OF DATA OR OTHERWISE OR FOR ANY INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, WHETHER OR NOT CAUSED BY OR RESULTING FROM NEGLIGENCE, INCLUDING GROSS NEGLIGENCE, OR BREACH OF OBLIGATIONS HEREUNDER AND WHETHER OR NOT REI OR ANY MEMBER OF THE REI GROUP WAS INFORMED OF THE POSSIBILITY OF THE EXISTENCE OF SUCH DAMAGES.

6. Taxes. (a)(a) Each member of the REI Group receiving services under this Agreement shall bear all sales and use taxes, duties and other similar charges (and any related interest and penalties), imposed as a result of their receipt of services under this Agreement.

(b) Sales Tax Liability and Payment. Notwithstanding Section 6(a), each member of the REI Group that receives services under this Agreement shall be liable for and will indemnify and hold harmless each member of the Resources Group from all sales, use and similar taxes (plus any penalties, fines or interest thereon) (collectively, "Sales Taxes") assessed, levied or imposed by any governmental or taxing authority on the providing of services by a member of the Resources Group to a member of the REI Group. Resources shall collect from REI any Sales Tax that is due on the service it provides to a member of the REI Group and shall pay such Sales Tax so collected to the appropriate governmental or taxing authority.

7. Responsibility for Errors; Delays. Customer Care's sole responsibility to the member of the REI Group receiving the services:

(i) for errors or omissions in services, shall be to furnish correct information and/or adjustment in the services, at no additional cost or expense to the receiving company; provided, the receiving company must promptly advise Customer Care of any such error or omission of which it becomes aware after having used reasonable efforts to detect any such errors or omissions in accordance with the standard of care provided for in this Agreement; and provided, further, that the responsibility to furnish correct information or an adjustment of services at no additional cost or expense to the receiving company shall not be construed to require Customer Care to make any payment or incur any Liability for which it is not responsible, or with respect to which it is provided indemnity, under Section 5; and

(ii) for failure to deliver any service because of Impracticability, shall be to use commercially reasonable efforts, subject to the next sentence, to make the services available and/or to resume performing the services as promptly as reasonably practicable. Customer Care shall not be required to provide any service to the extent the performance of such service becomes "Impracticable" as a result of a cause or causes outside the reasonable control of Customer Care including

unfeasible technological requirements, or to the extent the performance of such services would require Customer Care to violate any applicable laws, rules or regulations or would result in the breach of any software license or other applicable contract in effect on the date of this Agreement.

8. Dispute Resolution. Any dispute arising under this Agreement among REI, Resources or a member of their respective groups shall be exclusively resolved under the dispute resolution provisions of Article IX of the MSA, and each party, for itself and all its Affiliates, hereby waives any right to seek judicial resolution of such disputes except for enforcement of an arbitration award made in accordance with such dispute resolution provisions.

9. Miscellaneous Provisions.

9.1 Amendments. This Agreement shall not be supplemented, amended or modified in any manner whatsoever (including by course of dealing or of performance or usage of trade) except in writing signed by the parties.

9.2 Successors and Assignments. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns. No party shall assign this Agreement or any rights herein without the prior written consent of the other party, which may be withheld for any or no reason.

9.3 Books and Records and Audit Rights. Maintenance of books and records relating to this Agreement and audit rights shall be as prescribed in the MSA.

9.4 Notices. Any notice, demand, offer, request or other communication required or permitted to be given by either party pursuant to the terms of this Agreement shall be in writing and shall be deemed effectively given the earlier of (i) when received, (ii) when delivered personally, (iii) one (1) business day after being delivered by facsimile (with receipt of appropriate confirmation), (iv) one (1) business day after being deposited with an overnight courier service or (v) four (4) days after being deposited in the U.S. mail, First Class with postage prepaid, and addressed to the attention of the party's General Counsel at the address of its principal executive office or such other address as a party may request by notifying the other in writing.

9.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas.

9.6 Headings. The various headings used in this Agreement are for convenience only and are not to be used in interpreting the text of the Articles or Sections in which they appear or to which they relate.

9.7 Severability. Wherever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law. If any portion of this Agreement is declared invalid for any reason, such declaration shall have no effect upon the remaining portions of this Agreement, which shall continue in full force and effect as if this Agreement had been executed with the invalid portions thereof deleted.

9.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument.

9.9 Rights of the Parties. Nothing expressed or implied in this Agreement is intended or will be construed to confer upon or give any person or entity, other than the Parties and their respective Subsidiaries and Affiliates, as the case may be, any rights or remedies under or by reason of this Agreement or any transaction contemplated thereby.

9.10 Waiver of Rights. The waiver by either party of any of its rights or remedies afforded hereunder or at law is without prejudice and shall not operate to waive any other rights or remedies which that party shall have available to it, nor shall such waiver operate to waive the party's rights to any remedies due to a future breach, whether of a similar or different nature. The failure or delay of a party in exercising any rights granted to it hereunder shall not constitute a waiver of any such right and that party may exercise that right at any time. Any single or partial exercise of any particular right by a party shall exhaust the same or constitute a waiver of any other right.

9.11 Entire Agreement. All understandings, representations, warranties and agreements, if any, heretofore existing between the parties regarding the subject matter hereof are merged into this Agreement, which fully and completely express the agreement of the parties with respect to the subject matter hereof.

9.12 No Sale, Transfer, Assignment. Neither REI nor any member of the REI Group may sell, transfer, assign or otherwise use the services provided hereunder, in whole or in part, for the benefit of any Person other than a member of the REI Group.

9.13 Resolution of Disputes. If a dispute, claim or controversy results from or arises out of or in connection with this Agreement or the performance of, or failure to perform, the services required to be provided hereunder, the parties agree to use the procedures set forth in Article IX of the MSA, in lieu of other available remedies, to resolve the same.

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective as of the date first written above.

RELIANT ENERGY, INCORPORATED

By /s/ David M. McClanahan

David M. McClanahan
Vice Chairman

RELIANT RESOURCES, INC.

By /s/ R. S. Letbetter

R. S. Letbetter
Chairman, President and
Chief Executive Officer

EXHIBIT 10.7

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of December 31, 2000, between Reliant Energy, Incorporated, a Texas corporation ("REI"), and Reliant Resources, Inc., a Delaware corporation (the "Company").

WHEREAS, REI is the owner of all of the shares of common stock, par value $.001 per share ("Common Stock"), of the Company outstanding on the date of this Agreement.

WHEREAS, as provided in Master Separation Agreement dated the date hereof between REI and the Company (the "Separation Agreement"), the Company, with the consent of REI, has determined to offer to the public (the "Public Offering") shares of Common Stock.

WHEREAS, in partial consideration for the consent of REI to the Public Offering by the Company, the Company has, among other things, agreed to grant to REI certain registration rights applicable to Registrable Securities (as defined below) held by REI.

WHEREAS, the parties hereto desire to enter into this Agreement to set forth the terms of such registration rights.

NOW, THEREFORE, upon the premises and based on the mutual promises herein contained, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

1. Certain Definitions. As used in this Agreement, the following initially capitalized terms shall have the following meanings:

(a) "Affiliate" means, with respect to any person, any other person who, directly or indirectly, is in control of, is controlled by or is under common control with the former person; and "control" (including the terms "controlling," "controlled by," and "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise.

(b) "Company Securities" has the meaning set forth in Section 3 hereof.

(c) "Exchangeable Securities" has the meaning set forth in Section 6 of this Agreement.

(d) "Fair Market Value" means, with respect to any security, (i) if the security is listed on a national securities exchange or authorized for quotation on a national market quotation system, the closing price, regular way, of the security on such exchange or quotation system, as the case may be, or if no such reported sale of the security shall have occurred on such date, on the next preceding date on which there was such a reported sale, or (ii) if the security is

not listed for trading on a national securities exchange or authorized for quotation on a national market quotation system, the average of the closing bid and asked prices as reported by the National Association of Securities Dealers Automated Quotation System or such other reputable entity or system engaged in the regular reporting of securities prices and on which such prices for such security are reported or, if no such prices shall have been reported for such date, on the next preceding date for which such prices were so reported, or (iii) if the security is not publicly traded, the fair market value of such security as determined by a nationally recognized investment banking or appraisal firm mutually acceptable to the Company and the Holders, the fair market value of whose Registrable Securities is to be determined.

(e) "Holder" means REI or any Permitted Transferee.

(f) "Initiating Holders" has the meaning set forth in Section 3 of this Agreement.

(g) "Other Holders" has the meaning set forth in Section 3 hereof.

(h) "Other Securities" has the meaning set forth in Section 3 hereof.

(i) "Other Voting Securities" means any options, rights, warrants or other securities convertible into or exchangeable for Voting Stock of the Company.

(j) "Permitted Transferee" has the meaning set forth in Section 11 hereof.

(k) "Person" means any individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, or other entity of whatever nature.

(l) "Registrable After-Acquired Securities" means any securities of the Company acquired by REI (or any permitted transferee).

(m) "Registrable Securities" means (i) all shares of Common Stock (as presently constituted) owned on the date hereof by REI, (ii) all Registrable After-Acquired Securities, (iii) any stock or other securities into which or for which such Common Stock or Registrable After-Acquired Securities may hereafter be changed, converted or exchanged, and (iv) any other securities issued to holders of such Common Stock or Registrable After-Acquired Securities (or such stock or other securities into which or for which such Common Stock or Registrable After-Acquired Securities are so changed, converted or exchanged) upon any reclassification, share combination, share subdivision, share dividend, merger, consolidation or similar transaction or event, provided that any such securities shall cease to be Registrable Securities when such securities are sold in any manner to a person who is not a Permitted Transferee.

(n) "Registration Expenses" means all out-of-pocket expenses incurred in connection with any registration of Registrable Securities pursuant to this Agreement including, without limitation, the following; (i) SEC filing fees; (ii) the fees, disbursements and expenses of the Company's counsel(s) and accountants in connection with the registration of the Registrable Securities to be disposed of; (iii) all expenses in connection with the preparation, printing and

filing of the registration statement, any preliminary prospectus or final prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to any Holders, underwriters and dealers and all expenses incidental to delivery of the Registrable Securities; (iv) the cost of printing or producing any underwriting agreement, agreement among underwriters, agreement between syndicates, selling agreement, blue sky or legal investment memorandum or other document in connection with the offering, sale or delivery of the Registrable Securities to be disposed of; (v) all expenses in connection with the qualification of the Registrable Securities to be disposed of for offering and sale under state securities laws, including the fees and disbursements of counsel for the underwriters in connection with such qualification and the preparation of any blue sky and legal investments surveys; (vi) the filing fees incident to securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Registrable Securities to be disposed of; (vii) transfer agents', depositaries' and registrars' fees and the fees of any other agent appointed in connection with such offering; (viii) all security engraving and security printing expenses, (ix) all fees and expenses payable in connection with the listing of the Registrable Securities on any securities exchange or inter-dealer quotation system; and (x) any one-time payment for directors and officers insurance directly related to such offering, provided the insurer provides a separate statement for such payment.

(o) "Rule 144" means Rule 144 promulgated under the Securities Act, or any successor rule to similar effect.

(p) "SEC" means the United States Securities and Exchange Commission.

(q) "Securities Act" means the Securities Act of 1933, as amended, or any successor statute.

(r) "Selling Expenses" means all underwriting discounts and commissions, selling concessions and stock transfer taxes applicable to the sale by the Holders of Registrable Securities pursuant to this Agreement and all fees and disbursements of any legal counsel, investment banker, accountant or other professional advisor retained by a Holder.

(s) "Selling Holder" has the meaning set forth in Section 5 hereof.

(t) "Transactional Deferral" has the meaning set forth in Section 2 of this Agreement.

(u) "Voting Stock" means shares of the Company's capital stock having the power under ordinary circumstances (and not merely upon the happening of a contingency) to vote in the election of directors of the Company.

2. Demand Registration.

(a) At any time prior to such time as the rights under this Section 2 terminate with respect to a Holder as provided in Section 2(e) hereof, upon written notice from such Holder in the manner set forth in Section 12(h) hereof requesting that the Company effect the registration under the Securities Act of any or all of the Registrable Securities held by such Holder, which notice shall specify the intended method or methods of disposition of such

Registrable Securities, the Company shall use its best efforts to effect, in the manner set forth in Section 5, the registration under the Securities Act of such Registrable Securities for disposition in accordance with the intended method or methods of disposition stated in such request (including in an offering on a delayed or continuous basis under Rule 415 (or any successor rule of similar effect) promulgated under the Securities Act), provided that:

(i) if, within 5 business days of receipt of a registration request pursuant to this Section 2(a), the Holder or Holders making such request are advised in writing that the Company has in good faith commenced the preparation of a registration statement for an underwritten public offering prior to receipt of the notice requesting registration pursuant to this Section 2(a) and the managing underwriter of the proposed offering has determined that in such firm's good faith opinion, a registration at the time and on the terms requested would materially and adversely affect the offering that is contemplated by the Company, the Company shall not be required to effect a registration pursuant to this Section 2(a) (a "Transactional Deferral") until the earliest of (A) the abandonment of such offering by the Company, (B) 60 days after receipt by the Holder or Holders requesting registration of the managing underwriter's written opinion referred to above in this clause (i), unless the registration statement for such offering has become effective and such offering has commenced on or prior to such 60th day, and (C) if the registration statement for such offering has become effective and such offering has commenced on or prior to such 60th day, the day on which the restrictions on the Holders contained in Section 10 hereof lapse, provided, however, that the Company shall not be permitted to delay a requested registration in reliance on this clause (i) more than once in any 12-month period;

(ii) if, while a registration request is pending pursuant to this Section 2(a), the Company determines, following consultation with and receiving advice from its legal counsel, that the filing of a registration statement would require the disclosure of material information that the Company has a bona fide business purpose for preserving as confidential and the disclosure of which the Company determines reasonably and in good faith would have a material adverse effect on the Company, the Company shall not be required to effect a registration pursuant to this Section 2(a) until the earlier of (A) the date upon which such material information is otherwise disclosed to the public or ceases to be material and (B) 90 days after the Company makes such determination;

(iii) the Company shall not be obligated to file a registration statement relating to a registration request pursuant to this Section 2: (A) prior to 180 days following the closing of the Public Offering, (B) within a period of 90 calendar days after the effective date of any other registration statement of the Company demanded pursuant to this Section 2(a), or (C) if such registration request is for a number of Registrable Securities having a Fair Market Value on the business day immediately preceding the date of such registration request of less than $100,000,000; and

(iv) the Company shall not be obligated to file a registration statement relating to a registration request pursuant to this Section 2: (A) in the case of a registration request by REI or any Permitted Transferee that has acquired, in the transaction in which it became a Permitted Transferee, at least a majority of the then issued and outstanding Voting Stock, on more than three occasions after such time as REI or such Permitted Transferee, as the case may be, owns less than a majority of the voting power of the outstanding capital stock of the Company (it being acknowledged that so long as REI or such Permitted Transferee owns a majority of the voting power of the outstanding capital stock of the Company, there shall be no limit to the number of occasions on which REI or such Permitted Transferee may exercise such rights), or (B) in the case of a Holder other than REI or a Permitted Transferee described in clause (A) above, on more than the number of occasions permitted such Holder in accordance with Section 11 hereof.

(b) Notwithstanding any other provision of this Agreement to the contrary:

(i) a registration requested by a Holder pursuant to this Section 2 shall not be deemed to have been effected (and, therefore, not requested for purposes of Section 2(a)), (A) unless the registration statement filed in connection therewith has become effective, (B) if after such registration statement has become effective, it becomes subject to any stop order, or there is issued an injunction or other order or decree of the SEC or other governmental agency or court for any reason other than a misrepresentation or an omission by such Holder, which injunction, order or decree prohibits or otherwise materially and adversely affects the offer and sale of the Registrable Securities so registered prior to the completion of the distribution thereof in accordance with the plan of distribution set forth in the registration statement or (C) if the conditions to closing specified in the purchase agreement or underwriting agreement entered into in connection with such registration are not satisfied by reason of some act, misrepresentation or omission by the Company and are not waived by the purchasers or underwriters; and

(ii) nothing herein shall modify a Holder's obligation to pay Registration Expenses, in accordance with Section 4 hereof, that are incurred in connection with any withdrawn registration requested by such Holder.

(c) In the event that any registration pursuant to this Section 2 shall involve, in whole or in part, an underwritten offering, Holders owning at least 50.1% of the Fair Market Value of the Registrable Securities to be registered in connection with such offering shall have the right to designate an underwriter reasonably satisfactory to the Company as the lead managing underwriter of such underwritten offering, and the Company shall have the right to designate one underwriter reasonably satisfactory to such Holders as a co-manager of such underwritten offering.

(d) The Company shall have the right to cause the registration of additional securities for sale for the account of any person (including the Company) in any registration of Registrable Securities requested by any Holder pursuant to Section 2(a) only to the extent the

managing underwriter or other independent marketing agent for such offering (if any) determines that, in its opinion, the additional securities proposed to be sold will not materially and adversely affect the offering and sale of the Registrable Securities to be registered in accordance with the intended method or methods of disposition then contemplated by such Holder. The rights of a Holder to cause the registration of additional Registrable Securities held by such Holder in any registration of Registrable Securities requested by another Holder pursuant to Section 2(a) shall be governed by the agreement of the Holders with respect thereto as provided in Section 11(a).

(e) The Company shall not be obligated to file a registration statement relating to a registration request by a Holder pursuant to this Section 2 from and after such time as such Holder first owns Registrable Securities representing (assuming for this purpose the conversion, exchange or exercise of all Registrable Securities then owned by such Holder that are convertible into or exercisable or exchangeable for Voting Stock of the Company) less than 10% of the then issued and outstanding Voting Stock of the Company.

3. Piggyback Registration. If the Company at any time proposes to register any of its Common Stock or any other of its securities (collectively, "Other Securities") under the Securities Act, whether or not for sale for its own account, in a manner which would permit registration of Registrable Securities for sale for cash to the public under the Securities Act, it will at such time give prompt written notice to each Holder of its intention to do so at least 10 business days prior to the anticipated filing date of the registration statement relating to such registration. Such notice shall offer each such Holder the opportunity to include in such registration statement such number of Registrable Securities as each such Holder may request. Upon the written request of any such Holder made within 5 business days after the receipt of the Company's notice (which request shall specify the number of Registrable Securities intended to be disposed of and the intended method of disposition thereof), the Company shall effect, in the manner set forth in Section 5, in connection with the registration of the Other Securities, the registration under the Securities Act of all Registrable Securities which the Company has been so requested to register, to the extent required to permit the disposition (in accordance with such intended methods thereof) of the Registrable Securities so requested to be registered, provided that:

(a) if at any time after giving written notice of its intention to register any securities and prior to the effective date of such registration, the Company shall determine for any reason not to register or to delay registration of such securities, the Company may, at its election, give written notice of such determination to the Holders and, thereupon, (A) in the case of a determination not to register, the Company shall be relieved of its obligation to register any Registrable Securities in connection with such registration and (B) in the case of a determination to delay such registration, the Company shall be permitted to delay registration of any Registrable Securities requested to be included in such registration for the same period as the delay in registering such other securities, but, in either such case, without prejudice to the rights of the Holders under Section 2;

(b) (i) if the registration referred to in the first sentence of this Section 3 is to be a registration in connection with an underwritten offering on behalf of either the Company or holders of securities (other than Registrable Securities) of the Company ("Other Holders"), and the managing underwriter for such offering advises the Company in writing that, in such firm's

opinion, such offering would be materially and adversely affected by the inclusion therein of Registrable Securities requested to be included therein because such Registrable Securities are not of the same type, class or series as the securities to be offered and sold in such offering on behalf of the Company and/or the Other Holders, the Company may exclude all such Registrable Securities from such offering provided that the Holder is permitted to substitute for the Registrable Securities so excluded an equal number of Registrable Securities of the same type, class or series as those being registered by the Company or the Other Holders, if and to the extent such Holder owns Registrable Securities of such type, class or series or can acquire Registrable Securities of such type, class or series upon exercise or conversion of other Registrable Securities; and

(ii) if the registration referred to in the first sentence of this Section 3 is to be a registration in connection with an underwritten primary offering on behalf of the Company, and the managing underwriter for such offering advises the Company in writing that, in such firm's opinion, such offering would be materially and adversely affected by the inclusion therein of the Registrable Securities requested to be included therein because the number or principal amount of such Registrable Securities, considered together with the number or principal amount of securities proposed to be offered by the Company, exceeds the aggregate number or principal amount of securities which, in such firm's opinion, can be sold in such offering without materially and adversely affecting the offering, the Company shall include in such registration: (1) first, all securities the Company proposes to sell for its own account ("Company Securities") and (2) second, the number or principal amount of Registrable Securities and securities, if any, requested to be included therein by Other Holders in excess of the number or principal amount of Company Securities which, in the opinion of such underwriter, can be so sold without materially and adversely affecting such offering (allocated pro rata among the Holders and the Other Holders on the basis of the number of securities (including Registrable Securities) requested to be included therein by each Holder and each such Other Holder); and

(iii) if the registration referred to in the first sentence of this Section 3 is to be a registration in connection with an underwritten secondary offering on behalf of Other Holders made pursuant to demand registration rights granted by the Company to such Other Holders (the "Initiating Holders"), and the managing underwriter for such offering advises the Company in writing that, in such firm's opinion, such offering would be materially and adversely affected by the inclusion therein of the Registrable Securities requested to be included therein because the number or principal amount of such Registrable Securities, considered together with the number or principal amount of securities proposed to be offered by the Initiating Holders, exceeds the aggregate number or principal amount of securities which, in such firm's opinion, can be sold in such offering without materially and adversely affecting the offering, the Company shall include in such registration; (1) first, to the extent the registration rights granted to an Initiating Holder permit it to exclude other securities from its registration on substantially the same basis as that set forth in the first sentence of Section 2(d) hereof, all securities any such Initiating Holder proposes to sell for its own account, and (2) second, the number or principal amount of additional securities (including Registrable Securities) that such managing underwriter advises can be sold without materially and adversely affecting such offering, allocated pro rata among any Other Holders to which clause (1) does not apply and the Holders on the basis of the number of securities (including Registrable Securities) requested to be included therein by each Holder and each such Other Holder,

(c) the Company shall not be required to effect any registration of Registrable Securities under this Section 3 incidental to the registration of any of its securities in connection with stock option or other executive or employee benefit or compensation plans of the Company;

(d) no registration of Registrable Securities effected under this Section 3 shall relieve the Company of its obligation to effect any registration of Registrable Securities required of the Company pursuant to Section 2 hereof; and

(e) the Company shall not be required to effect any registration of Registrable Securities under this Section for any Holder from and after such time as such Holder is able to dispose of all of its Registrable Securities within a three-month period pursuant to Rule 144.

4. Expenses. The Holders, on the one hand, by accepting Registrable Securities, and the Company, on the other hand, each agree to pay one-half of all Registration Expenses with respect to a registration pursuant to Section 2 hereof, provided that to the extent a registration pursuant to Section 2 includes the registration of shares for the Company or another person in connection therewith, the Company or such other person shall pay all incremental expenses of including such additional shares in the registration. The Holders' portion of any Registration Expenses shall be allocated among them pro rata based on each Holder's number or principal amount of Registrable Securities included in such offering. The Company agrees to pay all Registration Expenses with respect to a registration pursuant to Section 3 hereof. All Registration Expenses to be paid by the Holder shall be paid within 30 days of the delivery of a statement from the Company, such statements to be delivered not more frequently than once every 60 days. All internal expenses of the Company or a Holder in connection with any offering pursuant to this Agreement, including, without limitation, the salaries and expenses of officers and employees, including in-house attorneys, shall be borne by the party incurring them. All Selling Expenses of the Holders participating in any registration pursuant to this Agreement shall be borne by such Holders pro rata based on each Holder's number of Registrable Securities included in such registration.

5. Registration and Qualification. If and whenever the Company is required to use its best efforts to effect the registration of any Registrable Securities under the Securities Act as provided in Section 2 or 3 hereof, the Company, subject to Section 4 hereof, shall:

(a) prepare and file a registration statement under the Securities Act relating to the Registrable Securities to be offered as soon as practicable, but in no event later than 30 days (45 days if the applicable registration form is other than Form S-3) after the date notice is given, and use its best efforts to cause the same to become effective within 60 days after the date notice is given (90 days if the applicable registration form is other than Form S-3);

(b) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective with respect to the disposition of all Registrable Securities until the earlier of (i) such time as all of such Registrable Securities have been disposed of in accordance with the intended methods of disposition set forth in such registration statement and (ii) the expiration of nine months after such registration statement becomes

effective; provided, that such nine-month period shall be extended for such number of days that equals the number of days elapsing from (A) the date the written notice contemplated by paragraph (f) below is given by the Company to (B) the date on which the Company delivers to the Holders of Registrable Securities the supplement or amendment contemplated by paragraph (f) below; and provided further, that in the case of a registration to permit the exercise or exchange of Exchangeable Securities for, or the conversion of Exchangeable Securities into, Registrable Securities, the time limitation contained in clause (ii) above shall be disregarded to the extent that, in the written opinion of REI's counsel delivered to the Company, such Registrable Securities are required to be covered by an effective registration statement under the Securities Act at the time such Registrable Securities are issued upon exercise, exchange or conversion of Registrable Securities in order for such Registrable Securities to be freely tradeable by any person who is not an Affiliate of the Company or REI;

(c) furnish to the Holders and to any underwriter of such Registrable Securities such number of conformed copies of such registration statement and of each such amendment and supplement thereto (in each case including all exhibits), such number of copies of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the Securities Act, and such other documents, as the Holders or such underwriter may reasonably request in order to facilitate the public sale of the Registrable Securities, and a copy of any and all transmittal letters or other correspondence to, or received from, the SEC or any other governmental agency or self-regulatory body or other body having jurisdiction (including any domestic or foreign securities exchange) relating to such offering;

(d) use its best efforts to register or qualify all Registrable Securities covered by such registration statement under the securities or blue sky laws of such jurisdictions (domestic or foreign) as the Holders or any underwriter of such Registrable Securities shall request, and use its best efforts to obtain all appropriate registrations, permits and consents required in connection therewith, and do any and all other acts and things which may be necessary or advisable to enable the Holders or any such underwriter to consummate the disposition in such jurisdictions of its Registrable Securities covered by such registration statement; provided that the Company shall not for any such purpose be required to register or qualify generally to do business as a foreign corporation in any jurisdiction wherein it is not so qualified, or to subject itself to taxation in any such jurisdiction, or to consent to general service of process in any such jurisdiction;

(e) (i) use its best efforts to furnish an opinion of counsel for the Company addressed to the underwriters and each Holder of Registrable Securities included in such registration (each a "Selling Holder") and dated the date of the closing under the underwriting agreement (if any) (or if such offering is not underwritten, dated the effective date of the registration statement), and (ii) use its best efforts to furnish a "cold comfort" letter addressed to each Selling Holder, if permissible under applicable accounting practices, and signed by the independent public accountants who have audited the Company's financial statements included in such registration statement, in each such case covering substantially the same matters with respect to such registration statement (and the prospectus included therein) as are customarily covered in opinions of issuer's counsel and in accountants' letters delivered to underwriters in underwritten public offerings of securities and such other matters as the Selling Holders may

reasonably request and, in the case of such accountants' letter, with respect to events subsequent to the date of such financial statements;

(f) immediately notify the Selling Holders in writing (i) at any time when a prospectus relating to a registration pursuant to Section 2 or 3 hereof is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, and (ii) if any request by the SEC or any other regulatory body or other body having jurisdiction for any amendment of or supplement to any registration statement or other document relating to such offering, and in either such case (i) or (ii) at the request of the Selling Holders, subject to Section 4 hereof, prepare and furnish to the Selling Holders a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they arc made, not misleading;

(g) use its best efforts to list all such Registrable Securities covered by such registration on each securities exchange and inter-dealer quotation system on which the Common Stock is then listed, with expenses in connection therewith (not including any future periodic assessments or fees for such additional listing, which shall be paid by the Company) to be paid in accordance with Section 4 hereof;

(h) use its best efforts to list all Registrable Securities covered by such registration statement on any securities exchange or inter-dealer quotation system (in each case, domestic or foreign) not described in paragraph (g) above as the Selling Holders or any underwriter of such Registrable Securities shall request, and use its best efforts to obtain all appropriate registrations, permits and consents required in connection therewith, and to do any and all other acts and things which may be necessary or advisable to effect such listing; provided, however, that, (i) notwithstanding Section 4, the Holders of the Registrable Securities to be so listed shall pay all costs and expenses incurred by the Company in connection with such listing and (ii) the Company shall have no obligation to use its best efforts to so list Registrable Securities if in the good faith opinion of counsel for the Company such listing shall impose on the Company an ongoing material compliance obligation;

(i) to the extent reasonably requested by the lead or managing underwriters in connection with any underwritten offering, send appropriate officers of the Company to attend any "road shows" scheduled in connection with any such registration; and

(j) furnish for delivery in connection with the closing of any offering of Registrable Securities unlegended certificates representing ownership of the Registrable Securities being sold in such denominations as shall be requested by the Selling Holders or the underwriters.

6. Exchangeable Securities. REI shall be entitled, if it intends to offer any options, rights, warrants or other securities issued or to be issued by it or any other person that are exercisable or exchangeable for or convertible into any Registrable Securities ("Exchangeable Securities"), to register the Registrable Securities underlying such options, rights, warrants or other securities pursuant to (and subject to the limitations contained in) Section 2 of this Agreement.

7. Underwriting; Due Diligence.

(a) If requested by the underwriters for any underwritten offering of Registrable Securities pursuant to a registration requested under this Agreement, the Company shall enter into an underwriting agreement, with such underwriters for such offering, such agreement to contain such representations and warranties by the Company and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, indemnities and contribution substantially to the effect and to the extent provided in Section 8 hereof and the provision of opinions of counsel and accountants' letters to the effect and to the extent provided in Section 5(e) hereof. The Selling Holders on whose behalf the Registrable Securities are to be distributed by such underwriters shall be parties to any such underwriting agreement and the representations and warranties by, and the other agreements on the part of, the Company to and for the benefit of such underwriters, shall also be made to and for the benefit of such Selling Holders. Such underwriting agreement shall also contain such representations and warranties by the Selling Holders on whose behalf the Registrable Securities are to be distributed as are customarily contained in underwriting agreements with respect to secondary distributions. The Selling Holders may require that any additional securities included in an offering proposed by a Holder be included on the same terms and conditions as the Registrable Securities that are included therein.

(b) In the event that any registration pursuant to Section 3 shall involve, in whole or in part, an underwritten offering, the Company may require the Registrable Securities requested to be registered pursuant to Section 3 to be included in such underwritten offering on the same terms and conditions as shall be applicable to the other securities being sold through underwriters under such registration. If requested by the underwriters for such underwritten offering, the Selling Holders on whose behalf the Registrable Securities are to be distributed shall enter into an underwriting agreement with such underwriters, such agreement to contain such representations and warranties by the Selling Holders and such other terms and provisions as are customarily contained in underwriting agreements with respect to secondary distributions, including, without limitation, indemnities and contribution substantially to the effect and to the extent provided in Section 8 hereof. Such underwriting agreement shall also contain such representations and warranties by the Company and such other person or entity for whose account securities are being sold in such offering as are customarily contained in underwriting agreements with respect to secondary distributions.

(c) In connection with the preparation and filing of each registration statement registering Registrable Securities under the Securities Act, the Company shall give the Holders of such Registrable Securities and the Underwriters, if any, and their respective counsel and accountants, such reasonable and customary access to its banks and records and such

opportunities to discuss the business of the Company with its officers and the independent public accountants who have certified the Company's financial statements as shall be necessary, in the opinion of such Holders and such underwriters or their respective counsel, to conduct a reasonable investigation within the meaning of the Securities Act.

8. Indemnification and Contribution.

(a) In the case of each offering of Registrable Securities made pursuant to this Agreement, the Company agrees to indemnify and hold harmless each Holder, its officers and directors, each underwriter of Registrable Securities so offered and each person, if any, who controls any of the foregoing persons within the meaning of the Securities Act, from and against any and all claims, liabilities, losses, damages, expenses and judgments, joint of several, to which they or any of them may become subject, under the Securities Act or otherwise, including any amount paid in settlement of any litigation commenced or threatened, and shall promptly reimburse them, as and when incurred, for any reasonable legal or other expenses incurred by them in connection with investigating any claims and defending any actions, insofar as such losses, claims, damages, liabilities or actions shall arise out of, or shall be based upon, any untrue statement or alleged untrue statement of a material fact contained in the registration statement (or in any preliminary or final prospectus included therein) or any amendment thereof or supplement thereto, or in any document incorporated by reference therein, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that the Company shall not be liable to a particular Holder in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement, or any omission, if such statement or omission shall have been made in reliance upon and in conformity with information relating to such Holder furnished to the Company in writing by or on behalf of such Holder specifically for use in the preparation of the registration statement (or in any preliminary or final prospectus included therein) or any amendment thereof or supplement thereto. Such indemnity shall remain in full force and affect regardless of any investigation made by or on behalf of a Holder and shall survive the transfer of such securities. The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to each Holder, any of such Holder's directors or officers, underwriters of the Registrable Securities or any controlling person of the foregoing; provided, further, that this indemnity does not apply in favor of any underwriter or person controlling an underwriter (or if a Selling Holder offers Registrable Securities directly without an underwriter, the Selling Holder) with respect to any loss, liability, claim, damage or expense arising out of or based upon any untrue statement or alleged untrue statement or omission or alleged omission in any preliminary prospectus if a copy of a final prospectus was not sent or given by or on behalf of an underwriter (or the Selling Holder, if the Selling Holder offered the Registrable Securities directly without an underwriter) to the person asserting such loss, claim, damage, liability or action at or prior to the written confirmation of the sale of the Registrable Securities as required by the Securities Act and such untrue statement or omission had been corrected in such final prospectus.

(b) In the case of each offering made pursuant to this Agreement, each Holder of Registrable Securities included in such offering, by exercising its registration rights hereunder, agrees to indemnify and hold harmless the Company, its officers and directors and each person, if any, who controls any of the foregoing within the meaning of the Securities Act (and if

requested by the underwriters, each underwriter who participates in the offering and each person, if any, who controls any such underwriter within the meaning of the Securities Act), from and against any and all claims, liabilities, losses, damages, expenses and judgments, joint or several, to which they or any of them may become subject, under the Securities Act or otherwise, including any amount paid in settlement of any litigation commenced or threatened, and shall promptly reimburse them, as and when incurred, for any legal or other expenses incurred by them in connection with investigating any claim and defending any actions, insofar as any such losses, claims, damages, liabilities or actions shall arise out of, or shall be based upon, any untrue statement or alleged untrue statement of a material fact contained in the registration statement (or in any preliminary or final prospectus included therein) or any amendment thereof or supplement thereto, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that such untrue statement of a material fact is contained in, or such material fact is omitted from, information relating to such Holder furnished in writing to the Company by or on behalf of such Holder specifically for use in the preparation of such registration statement (or in any preliminary or final prospectus included therein). The foregoing indemnity is in addition to any liability which such Holder may otherwise have to the Company, any of its directors or officers, underwriters of the Registrable Securities or any controlling person of the foregoing; provided, however, that this indemnity does not apply in favor of any underwriter or person controlling an underwriter (or if the Company offers Registrable Securities directly without an underwriter, the Company) with respect to any loss, liability, claim, damage or expense arising out of or based upon any untrue statement or alleged untrue statement or omission or alleged omission in any preliminary prospectus if a copy of a final prospectus was not sent or given by or on behalf of an underwriter (or the Company, if the Company offered the Registrable Securities directly without an underwriter) to the person asserting such loss, claim, damage, liability or action at or prior to the written confirmation of the sale of the Registrable Securities as required by the Securities Act and such untrue statement or omission had been corrected in such final prospectus.

(c) Each party indemnified under Paragraph (a) or (b) of this Section 8 shall, promptly after receipt of notice of any claim or the commencement of any action against such indemnified party in respect of which indemnity may be sought, notify the indemnifying party in writing of the claim or the commencement thereof; provided that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party on account of the indemnity agreement contained in paragraph (a) or (b) of this Section 8, except to the extent the indemnifying party was materially prejudiced by such failure, and in no event shall relieve the indemnifying party from any other liability which it may have to such indemnified party. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein, and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel reasonably satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided that each indemnified party, its officers and directors, if any, and each person, if any, who controls such indemnified party within the meaning of the Securities

Act, shall have the right to employ separate counsel reasonably approved by the indemnifying party to represent them if the named parties to any action (including any impleaded parties) include both such indemnified party and an indemnifying party or an Affiliate of an indemnifying party, and such indemnified party shall have been advised by counsel a conflict may exist between such indemnified party and such indemnifying party or such Affiliate that makes representation by the same counsel inadvisable, and in that event the fees and expenses of one such separate counsel for all such indemnified parties shall be paid by the indemnifying party. An indemnified party will not enter into any settlement agreement which is not approved by the indemnifying party, such approval not to be unreasonably withheld. The indemnifying party may not agree to any settlement of any such claim or action which provides for any remedy or relief other than monetary damages for which the indemnifying party shall be responsible hereunder, without the prior written consent of the indemnified party, which consent shall not be unreasonably withheld. In any action hereunder as to which the indemnifying party has assumed the defense thereof with counsel reasonably satisfactory to the indemnified party, the indemnified party shall continue to be entitled to participate in the defense thereof, with counsel of its own choice, but, except as set forth above, the indemnifying party shall not be obligated hereunder to reimburse the indemnified party for the costs thereof. In all instances, the indemnified party shall cooperate fully with the indemnifying party or its counsel in the defense of such claim or action.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to herein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, in such proportion as shall be appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other with respect to the statements or omissions which resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the indemnifying party on the one hand or the indemnified party on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission, but not by reference to any indemnified party's stock ownership in the Company. In no event, however, shall a Holder be required to contribute in excess of the amount of the net proceeds received by such Holder in connection with the sale of Registrable Securities in the offering which is the subject of such loss, claim, damage or liability. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this paragraph shall be deemed to include, for purposes of this paragraph, any legal or other expenses reasonably incurred by such indemnifying party in connection with investigating or defending any such action or claim. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

9. Rule 144. The Company shall take such measures and file such information, documents and reports as shall be required by the SEC as a condition to the availability of Rule 144 (or any successor provision). The Company shall use its best efforts to cause all conditions

to the availability of Form S-3 (or any successor form thereto) under the Securities Act for the filing of registration statements under this Agreement to be met as soon as possible after the completion of the Public Offering.

10. Holdback.

(a) Each Holder agrees by the acquisition of Registrable Securities, if so required by the managing underwriter of any offering of equity securities by the Company, not to sell, make any short sale of, loan, grant any option for the purchase of, effect any public sale or distribution of or otherwise dispose of any Registrable Securities owned by such Holder, during the 30 days prior to and the 90 days after the registration statement relating to such offering has become effective (or such shorter period as may be required by the underwriter), except as part of such underwritten offering. Notwithstanding the foregoing sentence, each Holder subject to the foregoing sentence shall be entitled to sell during the foregoing period any securities of the Company owned by it in a private sale. The Company may legend and may impose stop transfer instructions on any certificate evidencing Registrable Securities relating to the restrictions provided for in this Section 10.

(b) The Company agrees, if so required by the managing underwriter of any offering of Registrable Securities, not to sell, make any short sale of, loan, grant any option for the purchase of (other than pursuant to employee benefit plans), effect any public sale or distribution of or otherwise dispose of any of its equity securities during the 30 days prior to and the 90 days after any underwritten registration pursuant to Section 2 or 3 hereof has become effective, except as part of such underwritten registration and except pursuant to registrations on Form S-4, S-8 or any successor or similar forms thereto.

11. Transfer of Registration Rights.

(a) A Holder may transfer all or any portion of its rights under this Agreement to any transferee of Registrable Securities that represent (assuming the conversion, exchange or exercise of all Registrable Securities so transferred that are convertible into or exercisable or exchangeable for the Company's Voting Stock) at least 20% of the then issued and outstanding Voting Stock of the Company (each, a "Permitted Transferee"); provided, however, that (i) with respect to any transferee of less than a majority but more than 30% of the then issued and outstanding Voting Stock, the Company shall not be obligated to file a registration statement pursuant to a registration request made by such transferee pursuant to Section 2 hereof on more than two occasions, and (ii) with respect to any transferee of 30% or less of the then issued and outstanding Voting Stock, the Company shall not be obligated to file a registration statement pursuant to a registration request made by such transferee pursuant to Section 2 hereof on more than one occasion. No transfer of registration rights pursuant to this Section shall be effective unless the Company has received written notice from the Holder of an intention to transfer at least 20 days prior to the Holder's entering into a binding agreement to transfer Registrable Securities (10 days in the event of an unsolicited offer). Such notice need not contain proposed terms or name a proposed Permitted Transferee. On or before the time of the transfer, the Company shall receive a written notice stating the name and address of any Permitted Transferee and identifying the number and/or aggregate principal amount of Registrable Securities with respect to which the rights under this Agreement are being transferred and the scope of the rights

so transferred. In connection with any such transfer, the term REI as used in this Agreement (other than in Section 2(a)(iv)) shall, where appropriate to assign the rights and obligations hereunder to such Permitted Transferee, be deemed to refer to the Permitted Transferee of such Registrable Securities. REI and any Permitted Transferees may exercise the registration rights hereunder in such priority, as among themselves, as they shall agree among themselves, and the Company shall observe any such agreements of which it shall have notice as provided above.

(b) After any such transfer, the transferring Holder shall retain its rights under this Agreement with respect to all other Registrable Securities owned by such transferring Holder.

(c) Upon the request of the transferring Holder, the Company shall execute an agreement with a Permitted Transferee substantially similar to this Agreement.

12. Miscellaneous.

(a) Injunctions. Each party acknowledges and agrees that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specific terms or was otherwise breached. Therefore, each party shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof in any court having jurisdiction, such remedy being in addition to any other remedy to which such party may be entitled at law or in equity.

(b) Severability. If any term or provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms and provisions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and each of the parties shall use its best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term or provision.

(c) Further Assurances. Subject to the specific terms of this Agreement, each of the parties hereto shall make, execute, acknowledge and deliver such other instruments and documents, and take all such other actions, as may be reasonably required in order to effectuate the purposes of this Agreement and to consummate the transactions contemplated hereby.

(d) Waivers, etc. Except as otherwise expressly set forth in this Agreement, no failure or delay on the part of either party in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. Except as otherwise expressly set forth in this Agreement, no modification or waiver of any provision of this Agreement nor consent to any departure therefrom shall in any event be effective unless the same shall be in writing and signed by an authorized officer of each of the parties, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

(e) Entire Agreement. This Agreement contains the final and complete understanding of the parties with respect to its subject matter. This Agreement supersedes all prior agreements and understandings between the parties, whether written or oral, with respect to the subject matter hereof. The paragraph headings contained in this Agreement are for reference purposes only, and shall not affect in any manner the meaning or interpretation of this Agreement

(f) Counterparts. For the convenience of the parties, this Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original but all of which together shall be one and the same instrument.

(g) Amendment. This Agreement may be amended only by a written instrument duly executed by an authorized officer of each of the parties.

(h) Notices. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to clause (ii) or (iii)), addressed as follows or sent by facsimile to the following number (or to such other address or facsimile number for a party as it shall have specified by like notice):

(i) if to REI, to:

Reliant Energy, Incorporated
1111 Louisiana Street
Houston, Texas
Attention: Chief Executive Officer

(ii) if to the Company, to

Reliant Resources, Inc.
1111 Louisiana Street
Houston, Texas
Attention: Chief Executive Officer

(iii) if to a Holder of Registrable Securities, to the name and address as the same appear in the security transfer books of the Company,

or to such other address as either party (or other Holders of Registrable Securities) may, from time to time, designate in a written notice in a like manner.

(i) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, WITHOUT REGARD TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF.

(j) Assignment. Except as specifically provided herein, the parties may not assign their rights under this Agreement. The Company may not delegate its obligations under this Agreement.

(k) Conflicting Agreements. The Company shall not hereafter grant any rights to any person to register securities of the Company, the exercise of which would conflict with the rights granted to the Holders of the Registrable Securities under this Agreement. The Company shall not hereafter grant to any person demand registration rights permitting it to exclude the Holders from including Registrable Securities in a registration on behalf of such person on a basis more favorable than that set forth in Section 2(d) hereof with respect to the Holders.

(l) Resolution of Disputes. If a dispute, claim or controversy results from or arises out of or in connection with this Agreement, the parties agree to use the procedures set forth in Article IX of the Separation Agreement, in lieu of other available remedies, to resolve the same.

IN WITNESS WHEREOF, REI and the Company have caused this Agreement to be duly executed by their authorized representative as of the date first above written.

RELIANT ENERGY, INCORPORATED

By: /s/ David M. McClanahan

David M. McClanahan
Vice Chairman

RELIANT RESOURCES, INC.

By: /s/ R. S. Letbetter

R. S. Letbetter
Chairman, President and
Chief Executive Officer

EXHIBIT 10.8

TAX ALLOCATION AGREEMENT

BY AND AMONG

RELIANT ENERGY, INCORPORATED

AND ITS AFFILIATED COMPANIES

AND

RELIANT RESOURCES, INC.

AND ITS AFFILIATED COMPANIES

TAX ALLOCATION AGREEMENT

THIS TAX ALLOCATION AGREEMENT (this "Agreement") is entered into as of December 31, 2000, by and among Reliant Energy, Incorporated ("REI"), a Texas corporation, each REI Affiliated Company (as defined below), Reliant Resources, Inc. ("UNREGCO"), a Delaware corporation, and each UNREGCO Affiliated Company (as defined below) in connection with the Restructuring and Spinoff (as defined below).

RECITALS

WHEREAS, REI is the common parent of an affiliated group of corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1986, as amended (the "Code"), which currently files a consolidated Federal Income Tax (as defined below) return, and which, together with other affiliated corporations, is a successor party to the Tax Sharing Agreement (as defined below);

WHEREAS, as set forth in the Master Separation Agreement entered into as of December 31, 2000 (the "Master Separation Agreement"), and subject to the terms and conditions thereof, REI, UNREGCO and each member of the REI Consolidated Group (as defined below) have determined it would be appropriate and desirable for REI to reorganize its operations to separate further its unregulated businesses from its regulated businesses (the "Restructuring"), and as part of such restructuring, as more fully discussed in the Master Separation Agreement, to form REGCO (as defined below) as the new holding company for REI's regulated businesses;

WHEREAS REI contemplates that as part of the Restructuring, REI will make an initial public offering (the "IPO") of UNREGCO common stock that will reduce REI's ownership of UNREGCO to not less than the amount required for REI to control UNREGCO within the meaning of Section 368(c) of the Code and, for REI to satisfy the stock ownership requirement of Section 1504(a)(2) of the Code with respect to the stock of UNREGCO;

WHEREAS subsequent to the IPO, REGCO will be formed and MERGERCO2, a transitory wholly-owned subsidiary of REGCO, has been or will be formed to merge with and into REI, with REI surviving as a wholly-owned subsidiary of REGCO;

WHEREAS, in connection with the Restructuring, REI will distribute its shares of UNREGCO common stock to REGCO (the "First Distribution") and REGCO will distribute all of its shares of UNREGCO common stock, on a pro rata basis, to the holders of the common stock of REGCO, subject to the terms and conditions of the Master Separation Agreement (the "Distribution");

WHEREAS, the First Distribution and the Distribution are intended to qualify as tax free distributions under Section 355 of the Code;

WHEREAS, upon the Distribution, UNREGCO and REGCO will cease to be members of the same affiliated group for Federal Income Tax purposes; and

WHEREAS, in contemplation of the Distribution the parties hereto have determined to enter into this Agreement, setting forth their agreement with respect to certain Tax matters.

NOW THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

SECTION 1. DEFINITIONS

1.1 In General. As used in this Agreement, the following capitalized terms shall have the following meanings:

"Adequate Assurances" means posting a bond or providing a letter of credit reasonably acceptable to the Indemnitee; provided, however, if the Indemnifying Party fails to post such bond or provide such letter of credit, the Indemnifying Party shall provide cash equal to the Indemnity Amount to the Indemnitee not less than thirty (30) days prior to the date on which such Tax would become due and payable by the Indemnitee.

"Audit" includes any audit, assessment of Taxes, other examination by any Tax Authority, proceeding, or appeal of such a proceeding relating to Taxes, whether administrative or judicial, including proceedings relating to competent authority determinations.

"Code" means the Internal Revenue Code of 1986, as amended, including interpretations issued thereunder through (i) Treasury Regulations, (ii) court decisions and (iii) revenue rulings, notices and other generally applicable pronouncements of the Service.

"Consolidated Group" means an affiliated group under Section 1504(a) of the Code that files a Consolidated Return.

"Consolidated Return" means any Tax Return with respect to Federal Income Taxes filed on a consolidated basis.

"Consolidated Return Regulations" means the Treasury Regulations promulgated under Chapter 6 of Subtitle A of the Code, including, as applicable, any predecessors or successors thereto.

"Consolidated Return Year" means any taxable year for which a Consolidated Return is filed.

"Consolidated State Tax" means any Tax incurred by a Legal Entity that is not a Federal Income Tax and that is filed on a combined, unitary, or consolidated basis.

"Consolidated State Tax Return" means a Tax Return filed with respect to a Consolidated State Tax liability.

"Control" means stock constituting a 50% or greater interest under Section 355(e) of the Code.

"DIT" means any "deferred intercompany transaction" or "intercompany transaction" within the meaning of the Treasury Regulations (or predecessors thereto).

"Distribution" has the meaning set forth in the Recitals to this Agreement.

"Distribution Date" means the date on which the Distribution is effective.

"Estimated Federal Installment Payment" has the meaning set forth in Section 4.1(c).

"Estimated UNREGCO State Installment Payment" has the meaning set forth in Section 4.1(e).

"Estimated REI State Installment Payment" has the meaning set forth in Section 4.1(d)(i).

"Excluded Adjustment Payments" means (i) an increase in Tax liability related to an UNREGCO Retained Tax liability as a result of a Redetermination, (ii) an increase in an UNREGCO Consolidated State Tax liability as a result of a Redetermination and (iii) an increase in Tax liability related to a Temporary Tax Adjustment.

"Federal Income Tax" means any Tax imposed under Subtitle A of the Code (including the Taxes imposed by Sections 11, 55, and 1201(a) of the Code and any Tax imposed on a Consolidated Group), and any interest, additions to Tax or penalties applicable or related thereto, and any other income-based U.S. federal Tax which is hereinafter imposed upon corporations.

"Federal Income Tax Return" means a Tax Return filed with respect to a Federal Income Tax liability.

"Filing Party" has the meaning set forth in Section 2.3(b) of this Agreement.

"Final Determination" means with respect to any issue (i) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order has become final and not subject to further appeal, (ii) a closing agreement (whether or not entered into under Section 7121 of the Code) or any other binding settlement agreement (whether or not with the Service) entered into in connection with or in contemplation of an administrative or judicial proceeding, or (iii) the completion of the highest level of administrative proceedings if a judicial contest is not or is no longer available. A "Final Determination" shall also include an agreement that the parties mutually designate as a Final Determination regarding any issue.

"First Distribution" has the meaning set forth in the Recitals to this Agreement.

"First Spinoff" means the separation of UNREGCO from REI through the First Distribution.

"Foreign Country" means any country, or political subdivision of a country, other than the United States of America.

"Foreign Legal Entity" means any Legal Entity that is organized under the laws of a Foreign Country.

"Income Taxes" means (1) any Tax based upon, measured by, or calculated with respect to (A) net income or profits (including any capital gains tax, minimum tax and any tax on items of Tax preference, but not including sales, use, real or personal property, gross or net receipts, transfer or similar taxes) or (B) multiple bases if one or more of the bases upon which such tax may be based, measured by, or calculated with respect to, is described in clause (A) above, or (2) any U.S. state or local income and/or franchise tax.

"Indemnified Liability" has the meaning set forth in Section 6.3.

"Indemnifying Party" has the meaning set forth in Section 6.2(d) of this Agreement.

"Indemnitee" has the meaning set forth in Section 6.2(d) of this Agreement.

"Indemnity Amount" has the meaning set forth in Section 6.5.

"Initial Private Letter Ruling" means the first private letter ruling issued by the Service to REI or its successor, REGCO, in connection with the First Spinoff and the Spinoff.

"Legal Entity" means a corporation, partnership, limited liability company or other legal entity under the corporation, partnership, limited liability company or other organizational laws of a state or other jurisdiction.

"Master Separation Agreement" has the meaning set forth in the Recitals to this Agreement.

"MERGERCO2" has the meaning set forth in the Recitals to this Agreement.

"Non-Filing Party" means with respect to a particular Tax Return (i) UNREGCO if the Legal Entity that filed such Tax Return was REI or a member of the REI Group (or as successors, REGCO or a member of the REGCO Group) or (ii) REI (or its successor REGCO) if the Legal Entity that filed such Tax Return was UNREGCO or a member of the UNREGCO Group.

"Non-Filing Party Responsible Taxes" has the meaning set forth in Section 7.3(a).

"Option Deduction Reallocation" has the meaning set forth in Section 5.4(h).

"Other Tax Item Refund" has the meaning set forth in Section 5.2(c).

"Post-Distribution Period" means any taxable period beginning after the Distribution Date.

"Pre-Distribution Period" means any taxable period ending on or prior to the Distribution Date.

"Pre-1997 Tax Liability" means the Tax liability of the former NorAm Energy Corp. and any Legal Entity that was in the same Consolidated Group as NorAm Energy Corp. prior to August 6, 1997, to the extent such Tax liability (i) relates to a Tax period ending on or before, or that includes, August 6, 1997, and (ii) relates to a Legal Entity that is or was a member (or whose successor is a member) of the UNREGCO Consolidated Group.

"Pro Forma UNREGCO Returns" has the meaning set forth in Section 2.4(a).

"Prohibited Act" has the meaning set forth in Section 6.2(c).

"Prohibited Transaction" has the meaning set forth in Section 6.2(b).

"Redetermination" means any redetermination that occurs as the result of an Audit by the Service (or the relevant state, local or foreign governmental authority), a claim for refund, an amended Tax Return or otherwise, and that is resolved by a Final Determination.

"Redetermination Interest" has the meaning set forth in Section 5.6(e).

"Redetermination Tax" has the meaning set forth in Section 5.6(e).

"REGCO" has the meaning set forth in the Recitals to this Agreement and is the Legal Entity referred to as Regco in the Master Separation Agreement.

"REGCO Affiliated Company" means at a given time any corporation that (i) would be a member of the affiliated group, as defined under Section 1504(a) of the Code, on the assumption that REGCO is the common parent of such affiliated group and (ii) is not a member of the UNREGCO Group.

"REGCO Consolidated Group" means with respect to a particular Tax period a Consolidated Group in which REGCO is the common parent for all or a portion of such Tax period.

"REGCO Group" means REGCO and each REGCO Affiliated Company.

"REI Affiliated Company" means at a given time any corporation that (i) would be a member of the affiliated group, as defined under Section 1504(a) of the Code, on the assumption that REI is the common parent of such affiliated group and (ii) is not a member of the UNREGCO Group.

"REI Consolidated Group" means with respect to a particular Tax period a Consolidated Group in which REI is the common parent for all or a portion of such Tax period.

"REI Consolidated State Tax" means a Consolidated State Tax for a particular Tax period for which REI or a member of the REI Group (or its successors REGCO or the

REGCO Group) has the legal obligation to file a Tax Return with respect to such Consolidated State Tax.

"REI Consolidated State Tax Return" means a Tax Return filed with respect to an REI Consolidated State Tax.

"REI Estimated UNREGCO State Installment Payment" has the meaning set forth in Section 4.1(e)(ii).

"REI Estimated UNREGCO State Installment Refund" has the meaning set forth in Section 4.1(e)(ii).

"REI Group" means REI and each REI Affiliated Company.

"REI Stock Award" means an award of stock options, restricted stock, performance shares or other equity-based award which is payable in, or measured based on the value of, the common stock of REI (or its successor REGCO).

"RES Temporary Tax Adjustment" means a Temporary Tax Adjustment that is caused as a result of a Redetermination that resulted in an increase or decrease to an item of income, deduction, gain or loss attributable to Reliant Energy Services, Inc.

"Restricted Period" means the period beginning two years before the Distribution Date and ending two years after the Distribution Date.

"Restructuring" has the meaning set forth in the Recitals to this Agreement.

"Restructuring Tax" means any Tax imposed as a result of the transactions contemplated by the Restructuring.

"Ruling Documents" means (1) the request for a ruling under Section 355 and various other sections of the Code, that have been or will be filed with the Service in connection with the First Spinoff or the Spinoff, together with any supplemental filings or ruling requests or other materials subsequently submitted on behalf of REI (or its successor, REGCO), its subsidiaries and shareholders to the Service, the appendices and exhibits thereto, and any rulings issued by the Service to REI in connection with the First Spinoff or the Spinoff or (2) any similar filings submitted to, or rulings issued by, any other Tax Authority in connection with the First Spinoff or the Spinoff.

"Separate State Tax" means any Tax incurred by a Legal Entity that is not a Federal Income Tax and that is filed on a separate company basis.

"Separate State Tax Return" means any Tax Return filed with respect to a Separate State Tax liability.

"Separate UNREGCO Tax Item" has the meaning set forth in Section 2.4(b).

"SFAS 109" has the meaning set forth in Section 5.6(b).

"Service" means the Internal Revenue Service.

"Spinoff" means the separation of UNREGCO from REGCO through the Distribution.

"Straddle Period" means any Tax period that begins before but ends after the Distribution Date.

"Subpart F Tax" has the meaning set forth in Section 5.4(g).

"Tax" includes any charges, fees, levies, imposts, duties, or other assessments of a similar nature, including income, alternative or add-on minimum, gross receipts, profits, lease, service, service use, wage, wage withholding, employment, workers compensation, business occupation, occupation, premiums, environmental, estimated, excise, employment, sales, use, transfer, license, payroll, franchise, severance, stamp, occupation, windfall profits, withholding, social security, unemployment, disability, ad valorem, estimated, highway use, commercial rent, capital stock, paid up capital, recording, registration, property, real property gains, value added, business license, custom duties, or other tax or governmental fee of any kind whatsoever, imposed or required to be withheld by any Tax Authority including any interest, additions to tax, or penalties applicable or related thereto.

"Tax Adjustment" has the meaning set forth in Section 5.6(a).

"Tax Authority" means any governmental authority or any subdivision, agency, commission or authority thereof or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of any Tax (including the Service).

"Tax Expert" means a partner specializing in Federal Income Tax matters at a nationally recognized law firm or a partner specializing in Federal Income Tax matters at a Big 5 accounting firm.

"Tax Item" means any item of income, gain, loss, deduction or credit, or other attribute that may have the effect of increasing or decreasing any Tax.

"Tax Law" means any federal, state, local or foreign law with respect to Taxes, including the Code and Treasury Regulations.

"Tax Return" means any return, report, certificate, form or similar statement or document (including, any related or supporting information or schedule attached thereto and any information return, amended Tax Return, claim for refund or declaration of estimated Tax) required to be supplied to, or filed with, a Tax Authority in connection with the determination, assessment or collection of any Tax or the administration of any laws, regulations or administrative requirements relating to any Tax.

"Tax Sharing Agreement" means the Tax Sharing Agreement, dated as of August 6, 1997, entered into by and among Houston Industries, Incorporated, NorAm Energy Corp., and Houston Industries Energy, Inc.

"Temporary Tax Adjustment" has the meaning set forth in Section 5.6(b).

"Temporary Tax Adjustment Balance" has the meaning set forth in Section 5.6(d).

"Temporary Tax Adjustment Payment" has the meaning set forth in Section 5.6(g).

"Temporary Tax Adjustment Payment Balance" has the meaning set forth in Section 5.6(f).

"Transition Services Agreement" refers to the agreement entered into between the parties as of December 31, 2000.

"Treasury Regulations" means the final, temporary and proposed income tax regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"UNREGCO" has the meaning set forth in the Recitals to this Agreement.

"UNREGCO Affiliated Company" means at a given time any corporation that would be a member of the affiliated group, as defined under Section 1504(a) of the Code, on the assumption that UNREGCO is the common parent of such affiliated group.

"UNREGCO Basket Interest" means UNREGCO Interest that is not UNREGCO Non-Basket Interest.

"UNREGCO Consolidated Group" means with respect to a particular Tax period a Consolidated Group in which UNREGCO is the common parent for all or a portion of such Tax period.

"UNREGCO Consolidated State Tax" means a Consolidated State Tax for a particular Tax period for which UNREGCO or a member of the UNREGCO Group has the legal obligation to file a Tax Return with respect to such Consolidated State Tax.

"UNREGCO Consolidated State Tax Return" means a Tax Return filed with respect to an UNREGCO Consolidated State Tax.

"UNREGCO Estimated Federal Installment Payment" has the meaning set forth in Section 4.1(c)(ii).

"UNREGCO Estimated Federal Installment Refund" has the meaning set forth in Section 4.1(c)(ii).

"UNREGCO Estimated REI State Installment Payment" has the meaning set forth in Section 4.1(d) (ii).

"UNREGCO Estimated REI State Installment Refund" has the meaning set forth in Section 4.1(d)(ii).

"UNREGCO Group" means UNREGCO and each UNREGCO Affiliated Company.

"UNREGCO Interest" has the meaning set forth in Section 5.6(h)(i).

"UNREGCO Non-Basket Interest" means UNREGCO Interest that relates to a Federal Income Tax that is incurred by the REI Consolidated Group (or successor REGCO Consolidated Group) for a Pre-Distribution Period or Straddle Period as a result of a Redetermination and that is related to a transaction that UNREGCO or an UNREGCO Affiliated Company entered into on or after January 1, 2001.

"UNREGCO Option Payment" means a payment UNREGCO is obligated to make to REI pursuant to Section 5.4(h) as a result of an Option Deduction Reallocation.

"UNREGCO Retained Tax Liability" means a Pre-1997 Tax Liability, an NOL Carryback Refund, or an Other Tax Item Refund.

"UNREGCO Stock Award" means an award of stock options, restricted stock, performance shares or other equity-based award which is payable in, or measured based on the value of, the common stock of UNREGCO.

1.2 Construction Principles. As used in this Agreement, the singular shall be deemed to include the plural and vice versa, and the captions and section headings are inserted for convenience of reference only and are not intended to have any significance for the interpretation of, or construction of, the provisions of this Agreement.

SECTION 2. PREPARATION AND FILING OF TAX RETURNS.

2.1 In General.

(a) (i) With respect to any Pre-Distribution Period and any Straddle Period, except as provided in Section 2.1(a)(ii), REI (or its successor REGCO) shall timely file or cause to be filed all Tax Returns required to be filed that include any member or members of the REI Group, the REGCO Group or the UNREGCO Group for any portion of such period; any such return that includes a member of the UNREGCO Group shall be subject to the reasonable review and approval of UNREGCO.

(ii) With respect to any Pre-Distribution Period and any Straddle Period, UNREGCO (on behalf of itself and each UNREGCO Affiliated Company) shall timely file or cause to be filed all Tax Returns for UNREGCO Consolidated State Taxes and for Separate State Taxes of UNREGCO or any UNREGCO Affiliated Company.

(b) REI (or its successor REGCO) shall timely file or cause to be filed any Tax Return required to be filed that includes any member of the REI Group or REGCO Group for any Post-Distribution Period. UNREGCO shall timely file or cause to be filed any Tax Return required to be filed that includes any member of the UNREGCO Group for any Post-Distribution Period.

(c) Notwithstanding this Section 2.1, for the term of the Transition Services Agreement, the allocation of responsibility for preparing Tax Returns between REI (or its successor REGCO) and UNREGCO shall be as set forth in the Transition Services Agreement.

2.2 Information and Cooperation.

(a) In addition to any obligation imposed elsewhere under this Agreement, REI, REGCO and UNREGCO shall provide each other all documents and information, and make available employees and officers of REI, REGCO and UNREGCO, as reasonably requested by the other party, on a mutually convenient basis during normal business hours, to aid the other party (i) in preparing any Tax Return described in Section 2.1 of this Agreement to the extent the information needed for completing such Tax Return relates to any Pre-Distribution Period or Straddle Period, (ii) in preparing any Tax Return required to be completed by REI (or its successor REGCO) under the Transition Services Agreement, (iii) to contest any Audit of any such Tax Return, (iv) to assist on a timely basis the other party to respond in a timely manner to requests for information or similar inquiries from the Public Utility Commission of Texas (or its successor) or a similar body from any other state in connection with a rate case (or similar proceeding) and (v) in preparing the notice in accordance with Section 5.6(e).

(b) In the case of any Tax Return for a Pre-Distribution Period or a Straddle Period described in Section 2.1 of this Agreement, REI (or its successor REGCO) will provide UNREGCO with a copy of that portion of each such Tax Return to the extent it relates to UNREGCO or any UNREGCO Affiliated Company, together with all related Tax accounting work papers, as soon as practicable after such Tax Return becomes available. In addition, REI (or its successor REGCO) will provide to employees of UNREGCO responsible for preparing a Tax Return of UNREGCO or any UNREGCO Affiliated Company for any Pre-Distribution Period, Straddle Period or Post-Distribution Period with access to any private letter rulings, together with any requests therefor and related documents and any other relevant information, as it relates to UNREGCO or an UNREGCO Affiliated Company for any period prior to the Distribution Date, and will provide UNREGCO with a copy of such rulings or documents to the extent that the issues discussed therein are relevant to UNREGCO or a UNREGCO Affiliated Company, not later than thirty (30) days after the receipt of a written request therefor.

(c) Notwithstanding any other provision of this Agreement, neither REI, any REI Affiliated Company, REGCO nor any REGCO Affiliated Company shall be required to provide UNREGCO or any UNREGCO Affiliated Company access to or copies of any information that relate to REI, any REI Affiliated Company, REGCO or any REGCO Affiliated Company unless it also relates to UNREGCO or an UNREGCO Affiliated Company. In the event that REI or REGCO determines that the provision of any information to UNREGCO or any UNREGCO Affiliated Company could be commercially detrimental, violate any law or agreement or waive any privilege that may be asserted under applicable law including, any privilege arising under or relating to the attorney-client relationship (including the attorney-client (including the protections under Section 7525 of the Code) and work product privileges), the accountant-client privilege, and any privilege relating to internal evaluation processes, the parties shall take all reasonable measures to permit the compliance with such obligations in a manner that avoids any such harm or consequence.

(d) Notwithstanding any other provision of this Agreement (except that nothing in this Section 2.2(d) shall be interpreted to prevent or relieve UNREGCO or any UNREGCO Affiliated Company from complying with Section 2.4), neither UNREGCO nor any UNREGCO Affiliated Company shall be required to provide REI, any REI Affiliated Company, REGCO or any REGCO Affiliated Company access to or copies of any information that relates to UNREGCO or any UNREGCO Affiliated Company unless it also relates to REI, any REI Affiliated Company, REGCO or any REGCO Affiliated Company. In the event that UNREGCO determines that the provision of any information to REI, any REI Affiliated Company, REGCO or any REGCO Affiliated Company could be commercially detrimental, violate any law or agreement or waive any privilege that may be asserted under applicable law including, any privilege arising under or relating to the attorney-client relationship (including the attorney-client (including the protections under Section 7525 of the Code) and work product privileges), the accountant-client privilege, and any privilege relating to internal evaluation processes, the parties shall take all reasonable measures to permit the compliance with such obligations in a manner that avoids any such harm or consequence.

2.3 Manner of Filing Tax Returns.

(a) REI (for itself and the REI Affiliated Companies), REGCO (for itself and REGCO Affiliated Companies) and UNREGCO (for itself and the UNREGCO Affiliated Companies) agree to file all Tax Returns for any Pre-Distribution Period and any Straddle Period, and to take all other actions in a manner consistent with the position that UNREGCO and the UNREGCO Affiliated Companies are part of the REI Consolidated Group for Federal Income Tax purposes for all Tax periods through and including the Distribution Date.

(b) Except as otherwise provided in this Section 2.3 and Section 2.4 of this Agreement, the party that is required to file a Tax Return under Section 2.1(a) or (b) of this Agreement (the "Filing Party") shall have the exclusive right to determine (1) the manner in which such Tax Return shall be prepared and filed, including the elections, methods of accounting, positions, conventions and principles of taxation to be used and the manner in which any Tax Item shall be reported, (2) whether any extensions may be requested, (3) the elections that will be made in such Tax Return, (4) whether any amended Tax Returns shall be filed, (5) whether any claims for refund shall be made, (6) whether any refunds shall be paid by way of refund or credited against any liability for the related Tax, and (7) whether to retain outside specialists to prepare such Tax Return, whom to retain for such purpose and the scope of any such retainer. Notwithstanding the foregoing, if UNREGCO requests REI (or its successor REGCO) to make a particular determination under this Section 2.3(b) with respect to a Tax Item of UNREGCO or an UNREGCO Affiliated Company, REI (or its successor REGCO) shall not unreasonably withhold its consent to such request.

2.4 Pro Forma UNREGCO Returns.

(a) Initial Preparation of Pro Forma UNREGCO Returns. For each taxable year for which an REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return is filed and UNREGCO or any UNREGCO Affiliated Company is a member of the REI Consolidated Group (or successor REGCO Group) for all or a portion of such taxable year, UNREGCO shall prepare (on its own behalf and on the behalf of each UNREGCO Affiliated

Company) a pro forma Federal Income Tax Return for UNREGCO and for each UNREGCO Affiliated Company (the "Pro Forma UNREGCO Returns") covering all of the taxable year or the portion of such taxable year in which UNREGCO or any UNREGCO Affiliated Company is a member of the REI Consolidated Group (or successor REGCO Group). The Pro Forma UNREGCO Returns shall be complete and accurate, and shall be in such form and include such information as shall be determined from time to time by REI (or its successor REGCO). The Pro Forma UNREGCO Returns shall be prepared in accordance with subsections (b) and (c) of this Section 2.4 and shall report the federal taxable income (including, for all purposes of this Agreement, alternative minimum taxable income) for such taxable year (or the portion thereof) that UNREGCO and each UNREGCO Affiliated Company would have reported if each such company had not been included in the Consolidated Return filed for the REI Consolidated Group (or successor REGCO Consolidated Group) with respect to such taxable year (or portion thereof) and all prior Pro Forma UNREGCO Returns filed after December 31, 2000, had been actual Tax Returns. The provisions of the Code that require consolidated calculations, including, without limitation, Sections 1201, 1211, 1212 and 1231, shall be applied separately to UNREGCO and each UNREGCO Affiliated Company, but with any simplifying conventions approved or suggested by the Tax Director of REI (or its successor REGCO). The Pro Forma UNREGCO Returns shall include gains and losses with respect to DITs if, and only if, and to the extent that, such gains or losses are actually restored and reflected on the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return.

(b) Standards for Positions Taken on Pro Forma UNREGCO Returns. UNREGCO shall prepare the Pro Forma UNREGCO Returns by reporting the Tax treatment of any item by utilizing such positions that, in UNREGCO's discretion, are appropriate for UNREGCO and each UNREGCO Affiliated Company; provided, that each position is more likely than not to be ultimately sustained; and provided further that the positions reflected other than positions which are Legal Entity specific in the context of an UNREGCO Tax Item within a Consolidated Return of REI (or its successor REGCO) ("Separate UNREGCO Tax Item") by UNREGCO on the Pro Forma UNREGCO Returns shall be consistent with the elections made and the positions reflected on the relevant portion of the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return (including carryovers or carrybacks of net operating losses, net capital losses, excess Tax credits or other Tax attributes from prior or subsequent taxable years). UNREGCO may utilize a position on the Pro Forma UNREGCO Returns that does not meet this standard but that does have a reasonable basis in law and in fact, but only if UNREGCO has obtained, after prior notice to and consultation with REI (or its successor REGCO), REI's (or its successor REGCO's) written consent to utilize such position on Pro Forma UNREGCO Returns for such taxable year. Except as otherwise required by Tax law and with respect to a Separate UNREGCO Tax Item, UNREGCO may not utilize a position on the Pro Forma UNREGCO Returns that is inconsistent with any position utilized on a Pro Forma UNREGCO Return or REI Consolidated Group Consolidated Return for a prior taxable year.

(c) Standards for Methods and Elections on Pro Forma UNREGCO Returns. The Pro Forma UNREGCO Returns shall reflect any elections made and Tax methods used by REI (or its successor REGCO) with respect to the REI's Consolidated Group (or successor REGCO's Consolidated Group) Consolidated Return (other than with respect to a Separate UNREGCO Tax Item) that in the sole and absolute discretion of REI (or its successor REGCO), but after prior good faith consultation with UNREGCO (if requested by the Tax Director of UNREGCO),

should be made, taken or used consistently by the REI Consolidated Group (or successor REGCO Group) in filing such Consolidated Return. UNREGCO may utilize any other election, method or simplifying convention subject to REI's (or its successor REGCO's) approval, which approval shall not be unreasonably withheld, in preparing the Pro Forma UNREGCO Returns. Notwithstanding the foregoing, UNREGCO may not utilize any election or Tax method in preparing the Pro Forma UNREGCO Returns for a taxable year that is inconsistent with any election, position or method utilized on a Pro Forma UNREGCO Return or REI Consolidated Return for a prior taxable year if the effect of such treatment is to allow a double deduction or benefit with respect to any item (or unless UNREGCO has eliminated such double deduction or benefit in a manner acceptable to REI (or its successor REGCO)).

(d) Delivery to REI of Pro Forma UNREGCO Returns; Assistance. UNREGCO will deliver to REI (or its successor REGCO) the Pro Forma UNREGCO Returns on or before August 1 of each year or later if mutually agreed. Appropriate personnel of UNREGCO or a UNREGCO Affiliated Company that are responsible for the preparation of the Pro Forma UNREGCO Returns shall be available upon reasonable notice to meet with appropriate personnel of REI (or successor REGCO) to discuss all aspects of such Tax Returns and upon request by REI (or its successor REGCO) shall furnish or make available for inspection any and all documents used in preparation of the Pro Forma UNREGCO Returns (documents relied upon by UNREGCO in ascertaining whether any position is more likely than not to be ultimately sustained or has a reasonable basis in law or in fact shall be furnished only to the principal Tax legal officer of REI (or its successor REGCO) under cover of the attorney-client privilege (including the protections under Section 7525 of the Code) and work product doctrine).

(e) Adjustment by REI of Pro Forma UNREGCO Returns. REI (or its successor REGCO), within 15 days of the due date of the REI Consolidated Group's (or successor REGCO Consolidated Group's) Consolidated Return (taking into account any extensions thereof that have been granted to REI (or its successor REGCO)) shall adjust the Pro Forma UNREGCO Returns, as appropriate (i) in accordance with the terms of this Agreement, (ii) consistent with the elections, methods of accounting, positions, conventions and principles of taxation (other than with respect to a Separate UNREGCO Tax Item) as reflected on the most recently filed prior Tax Returns of the REI Consolidated Group involving similar matters and (iii) after prior notice to and good faith consultation with UNREGCO, to correct any error of fact or law thereon or any error in mechanical calculation and any failure to reflect the principles set forth in this Section 2.4; provided, however, that if REI (or its successor REGCO) proposes an adjustment to a Pro Forma UNREGCO Return to which REI has not previously consented to under Section 2.4(b) and UNREGCO objects to such adjustment, REI (or its successor REGCO) and UNREGCO shall jointly select and pay a Tax Expert to render a legal opinion as to whether the position advocated by UNREGCO is more likely than not to be sustained. The adjustment proposed by REI (or its successor REGCO) will only be made if the legal opinion from a Tax Expert concludes that the position asserted by UNREGCO does not meet the more likely than not standard. Similarly, except as stated in the following sentence, any failure by REI (or its successor REGCO) to properly and fully adjust the Pro Forma Returns within the 15-day period set forth in this Section 2.4(e) shall not prevent REI (or its successor REGCO), in its sole and absolute discretion, but after prior good faith consultation with the Tax Director of UNREGCO, from making subsequent adjustments as circumstances warrant within the applicable statute of limitation (determined as if the Pro Forma UNREGCO Returns were actual Tax Returns that are

subject to any extensions that have been granted by REI (or its successor REGCO) with respect to the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return), nor relieve UNREGCO of liability for such adjustments. The adjustment described in the preceding sentence shall not be made if such adjustment would increase UNREGCO's obligations set forth in Section 5.2, Section 5.3, Section 5.4(h) or Section 5.6, in accordance with the procedures of this Section 2.4(e).

2.5 Agent.

(a) UNREGCO hereby irrevocably designates, and agrees to cause each UNREGCO Affiliated Company to so designate, REI (and its successor REGCO) as its sole and exclusive agent and attorney-in-fact to take such action (including execution of documents) as REI (and its successor REGCO), in its sole discretion, may deem appropriate in any and all matters (including Audits) relating to any Consolidated Return or Consolidated State Tax Return filed on a combined, unitary or consolidated basis described in Section 2.1(a) of this Agreement or Section 2.1(b) if the filing of such Tax Return is the responsibility of REI (or its successor REGCO) under the Transition Services Agreement; provided, however, that REI (and its successor REGCO) shall not exercise its rights as agent and attorney-in-fact in any manner that is inconsistent with the rights granted to UNREGCO under this Agreement, and nothing in this Section 2.5(a) shall limit the rights granted to UNREGCO under this Agreement.

(b) REI (or its successor REGCO) hereby irrevocably designates, and agrees to cause each REI Affiliated Company (or successor REGCO Affiliated Company) to so designate, UNREGCO as its sole and exclusive agent and attorney-in-fact to take such action (including execution of documents) as UNREGCO, in its sole discretion, may deem appropriate in any and all matters (including Audits) relating to any UNREGCO Consolidated State Tax Return described in Section 2.1(b) of this Agreement; provided, however, that UNREGCO shall not exercise its rights as agent and attorney-in-fact in any manner that is inconsistent with the rights granted to REI (or its successor REGCO) under this Agreement, and nothing in this Section 2.5(b) shall limit the rights granted to REI (or its successor REGCO) under this Agreement.

SECTION 3. REPRESENTATIONS AND COVENANTS.

3.1 REI Representations and Covenants. REI hereby represents, warrants and covenants that:

(a) REI will review the information and representations made in the Ruling Documents that will be submitted to the Service, and, REI covenants that all of such information or representations that relate to REI or any REI Affiliated Company, or the business or operations of either, will be true, correct and complete to REI's knowledge and will identify to UNREGCO any information or representations that are incorrect or incomplete.

(b) REI (or its successor REGCO) will not, and will cause each REI Affiliated Company (and REGCO will cause each REGCO Affiliated Company) not to, take any action, or fail or omit to take any action, that would cause any of the information or representations made in the Ruling Documents that relate to REI or any REI Affiliated Company (or as successors, REGCO or any REGCO Affiliated Company) or the business or operations of each, to be untrue,

regardless of whether such information or representations are included in the Initial Private Letter Ruling (or any supplemental ruling).

(c) REI covenants and agrees for itself and on behalf of REGCO to comply with the covenants set forth in this Section 3.1, and REI covenants and agrees to cause REGCO to expressly assume the obligations under this Agreement required to be performed by REI, REGCO, or any REGCO Affiliated Company.

3.2 UNREGCO Representations and Covenants. UNREGCO hereby represents, warrants, and covenants that:

(a) UNREGCO will review the information and representations made in the Ruling Documents that will be submitted to the Service, and UNREGCO covenants that all of such information or representations that relate to UNREGCO or any UNREGCO Affiliated Company, or the business or operations of either, will be true, correct and complete to UNREGCO's knowledge and will identify to REI (or its successor REGCO) any information or representations that are incorrect or incomplete.

(b) UNREGCO will not, and will cause each UNREGCO Affiliated Company not to, take any action, or fail or omit to take any action, that would cause any of the information or representations made in the Ruling Documents that relate to UNREGCO or any UNREGCO Affiliated Company or the business or operations of each, to be untrue, regardless of whether such information or representations are included in the Initial Private Letter Ruling (or any supplemental ruling).

SECTION 4. TAX ALLOCATION AND PAYMENTS.

4.1 In General. Except to the extent modified or supplemented herein, the Tax Sharing Agreement shall continue in full force and effect. The provisions of the Tax Sharing Agreement shall fix the rights and obligations of the parties as to the matters covered thereby.

(a) Except as provided to the contrary in Section 5.2, Section 5.3, Section 5.4(h) or Section 5.6, and except for any Restructuring Taxes for which REI or any REI Affiliated Company (or as successors, REGCO or any REGCO Affiliated Company) is liable under Section 5 of this Agreement,

(i) UNREGCO shall be responsible for, and shall indemnify and hold harmless REI (or its successor REGCO) against, any and all Taxes incurred by UNREGCO or the UNREGCO Group, in accordance with past practices and the principles set forth in the Tax Sharing Agreement, for any Pre-Distribution Period and Straddle Period.

(ii) REI (or its successor, REGCO) shall be responsible for, and shall indemnify and hold harmless UNREGCO against, any and all Taxes incurred by REI or any REI Affiliated Company (other than Taxes attributable to UNREGCO or any UNREGCO Affiliated Company) in accordance with past practices and the principles set forth in the Tax Sharing Agreement for any Pre-Distribution Period and Straddle Period.

(b) Except as provided to the contrary in Section 5.2, Section 5.3, Section 5.4(h) or Section 5.6, UNREGCO shall be responsible for all Taxes that relate to the UNREGCO Group with respect to any Post-Distribution Period and REGCO shall be responsible for all Taxes that relate to the REGCO Group with respect to any Post-Distribution Period.

(c) Estimated Federal Tax Payments.

(i) In the case of any Federal Income Taxes for any Pre-Distribution Period for the REI Consolidated Group (or successor REGCO Consolidated Group), UNREGCO (on behalf of itself and each UNREGCO Affiliated Company) shall provide to REI (or its successor REGCO) no later than 8 days prior to the due date for each payment of an installment of estimated Federal Income Taxes (as determined under Section 6655 of the Code or successor provision then in effect) of the REI Consolidated Group (or successor REGCO Consolidated Group) ("Estimated Federal Installment Payment") such information pertaining to UNREGCO or an UNREGCO Affiliated Company as is necessary for REI (or its successor REGCO) to compute the amount of such Estimated Federal Installment Payment.

(ii) On or before the due date of such Estimated Federal Installment Payment, REI (or its successor REGCO) shall inform UNREGCO of either (A) the amount ("UNREGCO Estimated Federal Installment Payment") that UNREGCO (on behalf of itself and each UNREGCO Affiliated Company) must pay REI (or its successor REGCO) with respect to such Estimated Federal Installment Payment, or (B) the amount ("UNREGCO Estimated Federal Installment Refund") REI (or its successor REGCO) must pay UNREGCO with respect to such Estimated Federal Installment Payment. REI (or its successor REGCO) shall compute the amount of each UNREGCO Estimated Federal Installment Payment or the UNREGCO Estimated Federal Installment Refund, as the case may be, so as to equal the portion of the Estimated Federal Installment Payment that is allocable to UNREGCO and the UNREGCO Affiliated Companies taking into account previous UNREGCO Estimated Federal Installment Payments and UNREGCO Estimated Federal Installment Refunds that have been made for the same Pre-Distribution Period. REI (or its successor REGCO) shall calculate the portion of each Estimated Federal Installment Payment of the REI Consolidated Group (or successor REGCO Consolidated Group) that is allocable to UNREGCO and the UNREGCO Affiliated Companies by (C) computing the sum of the estimated Federal Income Tax payments that UNREGCO and each UNREGCO Affiliated Company would have been required to pay if each of UNREGCO and each UNREGCO Affiliated Company had filed a Federal Income Tax Return on a separate company basis for such estimated Federal Income Tax period and (D) taking into account adjustments, if any, that are applicable on a Consolidated Return basis to the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return for such Pre-Distribution Period. UNREGCO shall pay REI (or its successor REGCO) the UNREGCO Estimated Federal Installment Payment within 24 hours after the due date of the Estimated Federal Installment Payment to which it relates, and REI (or its successor REGCO) shall pay UNREGCO the UNREGCO Estimated Federal Installment Refund within 24 hours after the due date of the Estimated Federal Installment Payment to which it relates.

(iii) If (A) the portion of the actual Federal Income Tax Liability of the REI Consolidated Group (or successor REGCO Consolidated Group) for a Pre-Distribution Period that is allocable, as determined by REI (or its successor REGCO) in accordance with the

Tax Sharing Agreement and consistent with the past practices utilized by the REI Tax Department in completing previous REI Consolidated Group Consolidated Returns, to UNREGCO and the UNREGCO Affiliated Companies exceeds (B)(I) the sum of the UNREGCO Estimated Federal Installment Payments for such Pre-Distribution Period less (II) the sum of the UNREGCO Estimated Federal Installment Refunds for such Pre-Distribution Period, then REI (or its successor REGCO) shall inform UNREGCO of the amount of such excess on or before the due date of the REI Consolidated Group (or successor REGCO Group) Consolidated Return (or successor REGCO Consolidated Group) for such Pre-Distribution Period. UNREGCO (on behalf of itself and each UNREGCO Affiliated Company) shall pay the amount of such excess to REI (or its successor REGCO) within 24 hours after the due date of the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return.

(iv) If (A) (I) the sum of the UNREGCO Estimated Federal Installment Payments for a Pre-Distribution period less (II) the sum of the UNREGCO Estimated Federal Installment Refunds for such Pre-Distribution period exceeds (B) the portion of the actual Federal Income Tax Liability of the REI Consolidated Group (or successor REGCO Consolidated Group) for such Pre-Distribution Period that is allocable, as determined by REI (or its successor REGCO) in accordance with the Tax Sharing Agreement and consistent with past practices utilized by the REI Tax Department in implementing previous REI Consolidated Group Returns, to UNREGCO and the UNREGCO Affiliated Companies, then REI (or its successor REGCO) shall pay the amount of such excess to UNREGCO within 24 hours after the due date of the Consolidated REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return for such Pre-Distribution Period.

(v) REI (or its successor REGCO) shall calculate the portion of the actual Federal Income Tax Liability of the REI Consolidated Group (or successor REGCO Consolidated Group) that is allocable to UNREGCO and the UNREGCO Affiliated Companies for Sections 4.1(c)(iii) and (iv) consistent with the UNREGCO Pro Forma Returns submitted in accordance with Section 2.4 and consistent with the principles set forth in the penultimate sentence of Section 4.1(c)(ii).

(d) Estimated Payments of REI Consolidated State Taxes.

(i) In the case of any REI Consolidated State Tax for any Pre-Distribution Period that includes a member of the UNREGCO Group, UNREGCO (on behalf of itself and each UNREGCO Affiliated Company) shall provide to REI (or its successor REGCO) no later than 8 days prior to the due date for each payment of an installment of REI Consolidated State Tax ("Estimated REI State Installment Payment") such information pertaining to UNREGCO or an UNREGCO Affiliated Company as is necessary for REI (or its successor REGCO) to compute the amount of such Estimated REI State Installment Payment.

(ii) On or before the due date of such Estimated REI State Installment Payment, REI shall inform UNREGCO of either (A) the amount ("UNREGCO Estimated REI State Installment Payment") that UNREGCO (on behalf of itself and each UNREGCO Affiliated Company) must pay REI (or its successor REGCO) with respect to such Estimated REI State Installment Payment, or (B) the amount ("UNREGCO Estimated REI State Installment Refund") REI (or its successor REGCO) must pay UNREGCO with respect to such Estimated REI State

Installment Payment. REI (or its successor REGCO) shall compute the amount of each UNREGCO Estimated REI State Installment Payment or UNREGCO Estimated REI State Installment Refund, as the case may be, so as to equal the portion of the Estimated REI State Installment Payment that is allocable to UNREGCO and the UNREGCO Affiliated Companies taking into account previous UNREGCO Estimated REI State Installment Payments and UNREGCO Estimated REI State Installment Refunds that have been made for the same Pre-Distribution Period. REI (or its successor REGCO) shall calculate the portion of each Estimated REI State Installment Payment that is allocable to UNREGCO and the UNREGCO Affiliated Companies by (C) computing the sum of the estimated REI Consolidated State Tax payments that UNREGCO and each UNREGCO Affiliated Company would have been required to pay if each of UNREGCO and each UNREGCO Affiliated Company had filed an REI Consolidated State Tax Return on a separate company basis for such estimated REI Consolidated State Tax period and (D) taking into account adjustments, if any, that are applicable on a Consolidated State Tax basis to the REI Consolidated State Tax Return for such Pre-Distribution Period. UNREGCO shall pay REI (or its successor REGCO) the UNREGCO Estimated REI State Installment Payment within 24 hours after the due date of the Estimated REI State Installment Payment to which it relates, and REI (or its successor REGCO) shall pay UNREGCO the UNREGCO Estimated REI State Installment Refund within 24 hours after the due date of the Estimated REI State Installment Payment to which it relates.

(iii) If (A) the portion of the actual REI Consolidated State Tax Liability for a Pre-Distribution Period that is allocable, as determined by REI (or its successor REGCO) in accordance with the Tax Sharing Agreement and consistent with the past practices utilized by the REI Tax Department in completing previous REI Consolidated State Tax Returns, to UNREGCO and the UNREGCO Affiliated Companies exceeds (B)(I) the sum of the UNREGCO Estimated REI State Installment Payments for such Pre-Distribution Period less (II) the sum of the UNREGCO Estimated REI State Installment Refunds for such Pre-Distribution Period, then UNREGCO (on behalf or itself and each UNREGCO Affiliated Company) shall pay the amount of such excess to REI (or its successor REGCO) within 24 hours after the due date of the REI Consolidated State Tax Return for such Pre-Distribution Period.

(iv) If (A) (I) the sum of the UNREGCO Estimated REI State Installment Payments for a Pre-Distribution period less (II) the sum of the UNREGCO Estimated REI State Installment Refunds for such Pre-Distribution period exceeds (B) the portion of the actual REI Consolidated State Tax Liability for such Pre-Distribution Period that is allocable, as determined by REI (or its successor REGCO) in accordance with the Tax Sharing Agreement and consistent with the past practices utilized by the REI Tax Department in completing previous REI Consolidated State Tax Returns, to UNREGCO and the UNREGCO Affiliated Companies, then REI (or its successor REGCO) shall pay the amount of such excess to UNREGCO within 24 hours after the due date of the REI Consolidated State Tax Return for such Pre-Distribution Period.

(v) For purposes of REI's (or its successor REGCO's) determination under Section 4.1(d) of the portion of the actual REI Consolidated State Tax liability that is allocable to UNREGCO and the UNREGCO Affiliated Companies, REI (or its successor REGCO) shall allocate the amount by which the net aggregate REI Consolidated State Tax liability for a particular Pre-Distribution Period is increased or decreased because a Legal Entity

included in the REI Consolidated State Tax Return created a nexus in a jurisdiction resulting in the imposition of an REI Consolidated State Tax by such jurisdiction that would not otherwise had been imposed but for such nexus either (A) completely to UNREGCO and the UNREGCO Affiliated Companies if such Legal Entity is a member of the UNREGCO Group or (B) completely to the members of the REI Group (or successor REGCO Group) if the Legal Entity is not a member of the UNREGCO Group.

(e) Estimated Payments of UNREGCO Consolidated State Taxes.

(i) In the case of any UNREGCO Consolidated State Tax for any Pre-Distribution Period that includes a member of the REI Group (or successor REGCO Group), REI on behalf of itself and each REI Affiliated Company (or its successors REGCO and each REGCO Affiliated Company) shall provide to UNREGCO no later than 8 days prior to the due date for each payment of an installment of UNREGCO Consolidated State Tax ("Estimated UNREGCO State Installment Payment") such information pertaining to REI (or its successor REGCO) or an REI Affiliated Company (or successor REGCO Affiliated Company) as is necessary for UNREGCO to compute the amount of such Estimated UNREGCO State Installment Payment.

(ii) On or before the due date of such Estimated UNREGCO State Installment Payment, UNREGCO shall inform REI (or its successor REGCO) of either (A) the amount ("REI Estimated UNREGCO State Installment Payment") that REI on behalf of itself and each REI Affiliated Company (or its successors REGCO and each REGCO Affiliated Company) must pay UNREGCO with respect to such Estimated UNREGCO State Installment Payment, or (B) the amount ("REI Estimated UNREGCO State Installment Refund") UNREGCO must pay REI with respect to such Estimated UNREGCO State Installment Payment. UNREGCO shall compute the amount of each REI Estimated UNREGCO State Installment Payment or the REI Estimated UNREGCO State Installment Refund, as the case may be, so as to equal the portion of the Estimated UNREGCO State Installment Payment that is allocable to REI and the REI Affiliated Companies (or as successors REGCO and the REGCO Affiliated Companies) taking into account previous REI Estimated UNREGCO State Installment Payments and REI Estimated UNREGCO State Installment Refunds that have been made for the same Pre-Distribution Period. UNREGCO shall calculate the portion of each Estimated UNREGCO State Installment Payment that is allocable to REI and the REI Affiliated Companies (or as successors REGCO and the REGCO Affiliated Companies) by (C) computing the sum of the estimated UNREGCO Consolidated State Tax payments that REI and the REI Affiliated Companies (or as successors REGCO and the REGCO Affiliated Companies) would have been required to pay if each of REI and each REI Affiliated Company (or as successors REGCO and each REGCO Affiliated Company) had filed an UNREGCO Consolidated State Tax Return on a separate company basis for such estimated UNREGCO Consolidated State Tax period and (D) taking into account adjustments, if any, that are applicable on a Consolidated State Tax basis to the UNREGCO Consolidated State Tax Return for such Pre-Distribution Period. REI (or its successor REGCO) shall pay UNREGCO the REI Estimated UNREGCO State Installment Payment within 24 hours after the due date of the UNREGCO Estimated REI State Installment Payment to which it relates, and UNREGCO shall pay REI the REI Estimated UNREGCO State Installment Refund within 24 hours after the due date of the Estimated UNREGCO State Installment Payment to which it relates.

(iii) If (A) the portion of the actual UNREGCO Consolidated State Tax Liability for a Pre-Distribution Period that is allocable, as determined by UNREGCO in accordance with the Tax Sharing Agreement and consistent with the past practices utilized by the UNREGCO Tax Department in completing previous UNREGCO Consolidated State Tax Returns, to REI and the REI Affiliated Companies (or as successors REGCO and the REGCO Affiliated Companies) exceeds (B)(I) the sum of the REI Estimated UNREGCO State Installment Payments for such Pre-Distribution Period less (II) the sum of the REI Estimated UNREGCO State Installment Refunds for such Pre-Distribution Period, then REI on behalf or itself and each REI Affiliated Company (or as successors, REGCO and each REGCO Affiliated Company) shall pay the amount of such excess to UNREGCO within 24 hours after the due date of the UNREGCO Consolidated State Tax Return for such Pre-Distribution Period.

(iv) If (A) (I) the sum of the REI Estimated UNREGCO State Installment Payments for a Pre-Distribution period less (II) the sum of the REI Estimated UNREGCO State Installment Refunds for such Pre-Distribution period exceeds (B) the portion of the actual UNREGCO Consolidated State Tax Liability for such Pre-Distribution Period that is allocable, as determined by UNREGCO in accordance with the Tax Sharing Agreement and consistent with the past practices utilized by the UNREGCO Tax Department in completing previous UNREGCO Consolidated State Tax Returns to REI, and the REI Affiliated Companies (or as successors, REGCO and the REGCO Affiliated Companies), then UNREGCO shall pay the amount of such excess to REI within 24 hours after the due date of the UNREGCO Consolidated State Tax Return for such Pre-Distribution Period.

(v) For purposes of UNREGCO's determination under Section 4.1(e) of the portion of the actual UNREGCO Consolidated State Tax liability that is allocable to REI and the REI Affiliated Companies (or as successors REGCO and the REGCO Affiliated Companies), UNREGCO shall allocate the amount by which the net aggregate UNREGCO Consolidated State Tax liability for a particular Pre-Distribution Period is increased or decreased because a Legal Entity included in the UNREGCO Consolidated State Tax Return created a nexus in a jurisdiction resulting in the imposition of an UNREGCO Consolidated State Tax by such jurisdiction that would not otherwise had been imposed but for such nexus either (A) completely to UNREGCO and the UNREGCO Affiliated Companies if such Legal Entity is a member of the UNREGCO Group or (B) completely to REI and the members of the REI Group (or successor REGCO Group) if the Legal Entity is not a member of the UNREGCO Group.

(f) Straddle Period Tax Payments.

(i) In the case of Federal Income Taxes for any Straddle Period of the REI Consolidated Group (or its successor REGCO Consolidated Group), UNREGCO (on its behalf and on behalf of each UNREGCO Affiliated Company) or REI (or its successor REGCO), as the case may be, shall pay to REI (or its successor REGCO) or UNREGCO, as the case may be, amounts (and at times) determined in accordance with the principles of Section 4.1(c) assuming that the relevant Tax period for purposes of applying Section 4.1(c) is the period that begins on the first day of the Straddle Period and ends on the Distribution Date. The actual Federal Income Tax Liability of UNREGCO and each UNREGCO Affiliated Company shall be determined in accordance with Section 2.4.

(ii) In the case of any REI Consolidated State Taxes for the Straddle Period, UNREGCO (on its behalf and on behalf of each UNREGCO Affiliated Company) shall pay an amount to REI (or its successor REGCO), or REI on its behalf and on behalf of each REI Affiliated Company (or its successor REGCO and each REGCO Affiliated Company) shall pay an amount to UNREGCO, as the case may be, amounts (and at times) determined in accordance with the principles of Section 4.1(d) assuming that the relevant Tax period for purposes of applying Section 4.1(d) is the period that begins on the first day of the Straddle Period and ends on the Distribution Date. The actual REI Consolidated State Tax liability attributable to UNREGCO and each UNREGCO Affiliated Company shall be determined in accordance with Section 2.4.

(iii) In the case of UNREGCO Consolidated State Taxes for the Straddle Period, REI on its behalf and on behalf of each REI Affiliated Company (or its successors REGCO and each REGCO Affiliated Company) shall pay an amount to UNREGCO, or UNREGCO shall pay an amount to REI (or its successor REGCO), as the case may be, amounts (and at times) determined in accordance with the principles of Section 4.1(e) assuming that the relevant Tax period for purposes of applying Section 4.1(e) is the period that begins on the first day of the Straddle Period and ends on the Distribution Date. The actual UNREGCO Consolidated State Tax liability of REI and each REI Affiliated Company (or its successor REGCO and each REGCO Affiliated Company) shall be determined in accordance with Section 2.4.

4.2 Payments of Tax to Tax Authorities.

(a) Federal Income Taxes. REI (or its successor REGCO) shall pay (or cause to be paid) to the Service when due the Federal Income Taxes, if any, of the REI Consolidated Group due and payable for the Pre-Distribution Periods and Straddle Periods. REI (or its successor REGCO) shall pay (or cause to be paid) to the Service when due all Federal Income Taxes, if any, of the REI Consolidated Group (or the successor REGCO Consolidated Group) due and payable for all Post-Distribution Periods. UNREGCO shall pay (or cause to be paid) to the Service when due all Federal Income Taxes, if any, of the UNREGCO Consolidated Group for all Post-Distribution Periods.

(b) State Taxes. REI (or its successor, REGCO) shall pay (or cause to be paid) to the appropriate Tax Authorities when due (i) all Separate State Taxes, if any, that relate to REI or an REI Affiliated Company (or its successors REGCO or a REGCO Affiliated Company) for any Pre-Distribution, Straddle Period or Post-Distribution Period and (ii) all REI Consolidated State Taxes, if any, for any Pre-Distribution Period, Straddle Period or Post-Distribution Period. UNREGCO shall pay (or cause to be paid) to the appropriate Tax Authorities when due (iii) all Separate State Taxes, if any, that relate to UNREGCO or an UNREGCO Affiliated Company for any Pre-Distribution Period, Straddle Period or Post-Distribution Period and (iv) all UNREGCO Consolidated State Taxes, if any, that relate to any Pre-Distribution Period, Straddle Period or Post-Distribution Period.

SECTION 5. ALLOCATION OF CERTAIN TAX ITEMS.

5.1 Liability for Restructuring Taxes. Except as otherwise provided by this Agreement, REI (or its successor REGCO) shall be responsible for any and all Restructuring Taxes.

5.2 NOLs; Carryforwards and Carrybacks.

(a) REGCO shall notify UNREGCO after the Distribution Date of any consolidated carryover item which may be partially or totally attributed to and carried over by a UNREGCO Affiliated Company and will notify UNREGCO of subsequent adjustments which may affect such carryover item.

(b) If (i) the UNREGCO Consolidated Group generates a net operating loss in a Post-Distribution Period that it requests in writing to REI (or its successor REGCO) be carried back to a Pre-Distribution Period or Straddle Period of the REI Consolidated Group (or successor REGCO Consolidated Group) and (ii) REI (or its successor REGCO) consents to such request, which consent shall not be unreasonably withheld, then REI (or its successor REGCO) shall amend the REI Consolidated Group Consolidated Return for such Pre-Distribution Period or Straddle Period seeking a refund of Tax for such net operating loss carryback ("NOL Carryback Refund"). Upon receipt of such refund, REI (or its successor REGCO) shall pay the amount of such refund to UNREGCO within 24 hours of REI's (or its successor REGCO's) receipt of such Tax refund. The preceding principles shall be equally applicable to a net operating loss generated in a Post-Distribution Period by the UNREGCO Group that can be carried back to an REI Consolidated State Tax Return for a Pre-Distribution Period or Straddle Period.

(c) To the extent the UNREGCO Consolidated Group generates any other Tax Item in a Post-Distribution Period that is required by the Code or Treasury Regulations to be carried back to a Pre-Distribution Period or Straddle Period, then REI (or its successor REGCO) shall amend the REI Consolidated Group Consolidated Return for such Pre-Distribution Period or Straddle Period seeking a refund of Tax relating to such Tax Item ("Other Tax Item Refund"). Upon receipt of such refund, REI (or its successor REGCO) shall pay the amount of such refund to UNREGCO within 24 hours of REI's (or its successor REGCO's) receipt of such Tax refund. The preceding principles shall be equally applicable to the carry back of any other Tax Item generated in a Post-Distribution Period by the UNREGCO Group to an REI Consolidated State Tax Return for a Pre-Distribution Period or Straddle Period.

5.3 Adjustments.

(a) In General. Except for increases or decreases to Tax subject to Section 5.3(b) or Section 5.3(c), if a Redetermination results in an increase or decrease to the Tax liability reported on an REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return or an REI Consolidated State Tax Return for a Pre-Distribution Period or the Straddle Period, then

(i) the amounts required to be paid between REI (or its successor REGCO) and UNREGCO pursuant to Section 4 shall not be recomputed for such taxable period

to take into account any such increase or decrease to the Tax that occurs as a result of such Redetermination,

(ii) payments previously made between REI (or its successor REGCO) and UNREGCO pursuant to Section 4 shall not be adjusted to take into account any such increase or decrease to the Tax that occurs as a result of such Redetermination,

(iii) REI (or its successor REGCO) shall be liable for and shall pay to the appropriate Tax Authority when due any increase in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination,

(iv) REI (or its successor REGCO) shall indemnify and hold UNREGCO harmless from any increase in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination,

(v) UNREGCO shall not be liable for and shall not pay any increase in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination,

(vi) REI (or its successor REGCO) shall be entitled to, and shall retain, all refunds related to any decrease in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination,

(vii) UNREGCO shall not be entitled to, and shall not retain, any refund related to any decrease in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination and

(viii) with respect to increases or decreases in Tax related to an Option Deduction Reallocation or to a Temporary Tax Adjustment, REI (or its successor REGCO) and UNREGCO shall have the payment obligations to the other as set forth in Section 5.4(h) or Section 5.6, respectively.

(b) UNREGCO Retained Tax Liability Exception. For an increase or decrease to the Tax reported on an REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return or an REI Consolidated State Tax Return for a Pre-Distribution Period or a Straddle Period that occurs as a result of a Redetermination and that relates to an UNREGCO Retained Tax Liability:

(i) Increases to Tax. REI (or its successor REGCO) shall pay to the appropriate Tax Authority when due all increases in Tax for such Pre-Distribution Period or Straddle Period that occur as a result of such Redetermination, and

(A) within 15 days of making any payment under Section 5.3(b)(i), REI shall provide UNREGCO notice of the amounts of payment to be made between UNREGCO and REI (or its successor REGCO) of UNREGCO's allocable share of the Tax under Section 4 after the amounts required to be paid pursuant to Section 4 are recomputed, and

(B) within 15 days of receiving the notice referred to in Section 5.3(i)(A), UNREGCO shall pay REI (or its successor REGCO) an amount equal to the increase, if any, in UNREGCO's allocable share of Tax under Section 4 referred to in Section 5.3(b)(i)(A).

(C) If UNREGCO disagrees with an item of information provided on the notice referred to in Section 5.3(b)(i)(A), UNREGCO may invoke the resolution procedures of Section 8.3.

(ii) Decreases to Tax. REI (or its successor REGCO) shall not be entitled to, and shall not retain, any refund related to any decrease in tax liability for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination, and shall, within 15 days of receiving such refund, pay such amount to UNREGCO.

(c) UNREGCO Consolidated State Tax Exception. If a Redetermination results in an increase or decrease to the Tax reported on a UNREGCO Consolidated State Tax Return for a Pre-Distribution Period or a Straddle Period, then

(i) the amounts required to be paid between REI (or its successor REGCO) and UNREGCO pursuant to Section 4 shall not be recomputed for such taxable period to take into account any such increase or decrease to the Tax that occurs as a result of such Redetermination,

(ii) payments previously made between REI (or its successor REGCO) and UNREGCO pursuant to Section 4 shall not be adjusted to take into account any such increase or decrease to the Tax that occurs as a result of such Redetermination,

(iii) UNREGCO shall be liable for and shall pay to the appropriate Tax Authority when due any increase in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination,

(iv) UNREGCO shall indemnify and hold REI (or its successor REGCO) harmless from any increase in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination,

(v) REI (or its successor REGCO) shall not be liable for and shall not pay any increase in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination,

(vi) UNREGCO shall be entitled to, and shall retain, all refunds related to any decrease in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination,

(vii) REI (or its successor REGCO) shall not be entitled to, and shall not retain, any refund related to any decrease in Tax for such Pre-Distribution Period or Straddle Period that occurs as a result of such Redetermination and

(viii) with respect to increases or decreases in Tax related to an Option Reallocation Deduction or to a Temporary Tax Adjustment, REI (or its successor REGCO) and

UNREGCO shall have the payment obligations to the other as set forth in Section 5.4(h) or Section 5.6, respectively.

(d) Characterization of Redetermination Payment. A payment by UNREGCO to REI (or its successor REGCO) pursuant to this Section 5.3, Section 5.4(h) or Section 5.6 shall be treated as a distribution under Section 301 of the Code by UNREGCO to REI at a time when UNREGCO and REI filed a Consolidated Tax Return. A payment by REI (or its successor REGCO) to UNREGCO pursuant to this Section 5.3 shall be treated as a nontaxable contribution by REI to the capital of UNREGCO at a time when UNREGCO and REI filed a Consolidated Tax Return.

5.4 Allocation of Tax Items.

(a) General Rule. Except to the extent another provision of this Agreement provides to the contrary, all Tax computations (1) for Tax periods ending on the Distribution Date and (2) the immediate following Tax period of UNREGCO or any UNREGCO Affiliated Company, shall be made pursuant to the principles of Section 1.1502-76(b) of the Treasury Regulations or of a corresponding provision under the laws of other jurisdictions, as determined by REI (or its successor, REGCO), taking into account all reasonable suggestions made by UNREGCO with respect thereto.

(b) Earnings and Profits. Within one hundred eighty (180) days after receipt of a written request by UNREGCO, REGCO will advise UNREGCO in writing of the allocation of earnings and profits of REGCO pursuant to Section 312(h) of the Code as a result of the Distribution. If UNREGCO disagrees with such allocation, UNREGCO may invoke the resolution procedures of Section 8.3.

(c) Overall Foreign Loss and Separate Limitation Loss. Within sixty (60) days after the filing of the Federal Income Tax Return for the REI Consolidated Group (or its successor REGCO Consolidated Group) for the taxable year that includes the Distribution Date REI (or its successor REGCO) shall advise UNREGCO in writing of the allocation, consistent with the provisions of Treasury Regulation Section 1.1502-9, between REI (or its successor REGCO) and UNREGCO of the overall foreign loss and separate limitation loss as of the Distribution Date; provided, however that REI (or its successor REGCO) shall provide UNREGCO with estimates of such amounts as reasonably requested by UNREGCO. If UNREGCO disagrees with such allocation, UNREGCO may invoke the resolution procedures of Section 8.3.

(d) Alternative Minimum Tax Items. Within sixty (60) days of the filing of the Federal Income Tax Return for the REI Consolidated Group (or its successor REGCO Consolidated Group) for the taxable year that includes the Distribution Date, REI (or its successor REGCO) will advise UNREGCO in writing of the allocation, consistent with Proposed Treasury Regulation Section 1.1502-55 (and any subsequently finalized regulations) between REI (or its successor REGCO) and UNREGCO of the consolidated positive adjusted current earnings adjustment as of the Distribution Date; provided, however, that REI (or its successor REGCO) shall provide UNREGCO with estimates of such amount as reasonably requested by UNREGCO. If UNREGCO disagrees with such allocation, UNREGCO may invoke the

resolution procedures of Section 8.3. REI (or its successor REGCO) shall also provide UNREGCO with estimates of other alternative minimum Tax items as reasonably requested by UNREGCO.

(e) Other Tax Item Allocations. The allocation of any other Tax Item shall be made by REI (or its successor REGCO) either (i) in accordance with applicable sections of the Code or Treasury Regulations, or (ii) if no section of the Code or applicable Treasury Regulations provides for an allocation of such Tax Item, in accordance with an equitable method mutually agreed to in good faith by the parties. REI (or its successor REGCO) shall advise UNREGCO in writing of any such allocation within 60 days after the filing of the Federal Income Tax Return for the REI Consolidated Group (or its successor REGCO Consolidated Group) for the taxable year that includes the Distribution Date. If UNREGCO disagrees with such allocation, UNREGCO may invoke the resolution procedures of Section 8.3.

(f) DITs. REI (or its successor REGCO) shall apply the Consolidated Return Regulations and the Consolidated Returns filed by the REI Consolidated Group (or successor REGCO Consolidated Group) pursuant to this Agreement or the Tax Sharing Agreement, respectively, to determine the timing of the recognition of Tax Items with respect to DITs and to determine which Consolidated Group (and which member thereof) shall bear the Tax benefit or burden of such Tax Items, and each Consolidated Group shall be responsible for the Tax Items recognized by its respective members with respect to any DITs. REI (or its successor REGCO) shall advise UNREGCO in writing of any such determination within 60 days after the filing of the Federal Income Tax Return for the REI Consolidated Group (or its successor REGCO Consolidated Group) for the taxable year that includes the Distribution Date. If UNREGCO disagrees with such determinations, UNREGCO may invoke the resolution procedures of Section 8.3.

(g) Subpart F. Notwithstanding any provision of this Agreement to the contrary, to the extent the UNREGCO Consolidated Group must pay Tax attributable to a Subpart F inclusion ("Subpart F Tax") under the Code that is taken into account as a result of a Tax arising in the UNREGCO Consolidated Group Consolidated Tax Return for the taxable year that begins on the day after the Distribution Date (or in a later taxable year if there is a deficit in earnings and profits that defers such Subpart F Tax to a taxable year after the taxable year that begins on the day after the Distribution Date), REI (or its successor REGCO) shall pay to UNREGCO a percentage of the Subpart F Tax equal to the percentage of days of the 12-month Tax period to which such Subpart F Tax relates based on the number of days in such 12-month Tax period before the Distribution Date bears to the total days in such 12-month Tax period that includes the Distribution Date, but only to the extent that the Subpart F Tax issue relates to an income inclusion that is attributable to an item that accrued ratably (utilizing principles similar to those of the ratable allocation election of Treasury Regulation Section 1.1502-76(b)(2)(ii)(D), adjusting for extraordinary items similar to those set forth in Treasury Regulation Section 1.1502-76(b)(2)(ii)(C)) over the 12-month Tax period. Within 15 days after the filing of the Tax Return for the taxable year that begins on the day after the Distribution Date (or such later taxable year if there is a deficit in earnings and profits that defers such Subpart F Tax to a taxable year after the taxable year that begins on the day after the Distribution Date), UNREGCO shall notify REI (or its successor REGCO) in writing as to the amount of payment, if any, REI (or its successor REGCO) owes to UNREGCO under the preceding sentence. REI (or its successor

REGCO) shall pay UNREGCO such amount within 15 days of receiving such notice. If REI (or its successor REGCO) disagrees with such amount, REI (or its successor REGCO) may invoke the resolution procedures of Section 8.3.

(h) Stock Awards. Any deduction attributable to (i) the vesting or exercise after the Distribution Date of an UNREGCO Stock Award or REI Stock Award under Section 83(h) of the Code or Treasury Regulation Section 1.83-6 or (ii) a disqualifying disposition with respect to either an UNREGCO Stock Award or REI Stock Award under Section 421(b) of the Code shall be claimed on the Consolidated Return of the REI Consolidated Group (or successor REGCO Consolidated Group) in the case of an REI Stock Award and on the Consolidated Return of the UNREGCO Consolidated Group in the case of an UNREGCO Stock Award. In any case in which as a result of a Redetermination the allocation described in the preceding sentence of this Section 5.4(h) is not sustained and the REI Consolidated Group (or successor REGCO Consolidated Group) or the UNREGCO Consolidated Group, as the case may be, is allocated a deduction as a result of a Redetermination contrary to the provisions of this Section 5.4(h) ("Option Deduction Reallocation"), then UNREGCO on behalf of the UNREGCO Consolidated Group or REI (or successor REGCO) on behalf of the REI Consolidated Group (or successor REGCO Consolidated Group), as the case may be, shall pay to the other a sum, in cash, equal to the sum of (i) the amount of the deduction allocated contrary to the first sentence of this Section 5.4(h) multiplied by the sum of (A) the highest marginal Tax rate as provided under Section 11 of the Code and (B) 2.925% and (ii) interest and/or penalties, if any, that are included as part of the Redetermination. If the REI Consolidated Group (or successor REGCO Consolidated Group) or the UNREGCO Consolidated Group, as the case may be, receives a deduction as a result of an Option Deduction Reallocation, then REI (or its successor REGCO) or UNREGCO, as the case may be, shall inform UNREGCO or REI (or its successor REGCO), as the case may be, within 15 days of receiving such deduction the amount of such payment that REI (or its successor REGCO) or UNREGCO, as the case may be, is obligated to pay to UNREGCO or REI or its successor REGCO), as the case may be, pursuant to the preceding sentence. REI (or its successor REGCO) or UNREGCO, as the case may be, shall pay such amount to UNREGCO or REI (or its successor REGCO), as the case may be, within 15 days after it provides notice of such amount. If UNREGCO or REI (or its successor REGCO), as the case may be, does not agree with such amount, UNREGCO or REI (or its successor REGCO), as the case may be, may invoke the resolution procedures of Section 8.3. REI (or its successor REGCO) and the REI Affiliated Companies (or the successor REGCO Affiliated Companies) shall indemnify and hold harmless UNREGCO and the UNREGCO Affiliated Companies, and UNREGCO and the UNREGCO Affiliated Companies shall indemnify and hold harmless REI (or its successor REGCO) and the REI Affiliated Companies (or the successor REGCO Affiliated Companies), from and against any Taxes, penalties or interest required to be paid as a result of the breach by REI (or its successor REGCO) and the REI Affiliated Companies (or the successor REGCO Affiliated Companies) or UNREGCO and the UNREGCO Affiliated Companies, as the case may be, of any obligation under this Section 5.4(h). Further, if, due to any change in applicable law or regulations or the interpretation thereof by any court of law or other governing body having jurisdiction subsequent to the date of this Agreement, performance of this Section 5.4(h) shall become impracticable or impossible, the parties hereto shall use their best efforts to find an alternative means to achieve the same or substantially the same result as that contemplated by this Section 5.4(h).

5.5 Foreign Taxes. Notwithstanding any provision of this Agreement to the contrary, this Agreement shall not apply to Taxes that are imposed by a Foreign Country on a Foreign Legal Entity.

5.6 Temporary Tax Adjustments.

(a) Tax Adjustment. Upon a Redetermination of an REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return Tax for a Pre-Distribution Period or the Straddle Period and subject to Section 5.6(h), a "Tax Adjustment" is caused if such Redetermination results in any increase or decrease to the amount of an item of income or of deduction, gain, or loss as compared to the amount of such item reported on the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Tax Return.

(b) Temporary Tax Adjustment. Subject to Section 5.6(h), a Tax Adjustment is a "Temporary Tax Adjustment" if such Tax Adjustment

(i) constitutes a temporary difference or a tax carryforward under paragraphs 3(c), 8(b), or 13 of Statement of Financial Accounting Standard 109 ("SFAS 109");

(ii) is expected, at the time of such Redetermination, to result in a corresponding and offsetting decrease or increase to the amount of an item of income or of deduction, gain or loss as compared to the amount of such item that would otherwise have been expected (but for the Redetermination) to have been recognized by the UNREGCO Consolidated Group during a Post-Distribution Period;

(iii) does not relate to the income tax basis of a nondepreciable, nonamortizable or nondepletable asset or to the basis of stock of any company (whether domestic or foreign) in which UNREGCO holds an equity interest irrespective of the application of paragraph 34 of SFAS 109; and

(iv) does not relate to a Pre-1997 Tax Liability or an Option Deduction Reallocation.

(c) Value of Tax Adjustment and of Temporary Tax Adjustment. The value of a Tax Adjustment equals the product of

(i) the amount of the increase or decrease to the item of income, deduction, gain or loss as compared to the amount of such item reported on the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Tax Return and

(ii) (A) if such Tax Adjustment is not an RES Temporary Tax Adjustment, the highest marginal Federal Income Tax rate applicable to corporations in effect during the Pre-Distribution Period or Straddle Period to which the Redetermination that produced such Tax Adjustment relates

(B) if such Tax Adjustment is an RES Temporary Tax Adjustment, the sum of

(I) 2% and

(II) the highest marginal Federal Income Tax rate applicable to corporations in effect during the Pre-Distribution Period or Straddle Period to which the Redetermination that produced such Tax Adjustment relates.

A Tax Adjustment that constitutes an (i) increase to an item of expense or loss as compared to the amount of such item reported on the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Tax Return or a (ii) decrease to an item of income or gain as compared to the amount of such item reported on the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Tax Return shall constitute a negative amount. A Tax Adjustment that constitutes a (i) decrease to an item of expense or loss as compared to the amount of such item reported on the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Tax Return or an (ii) increase to an item of income or gain as compared to the amount of such item reported on the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Tax Return shall constitute a positive amount. The value of a Temporary Tax Adjustment equals its value as a Tax Adjustment.

(d) Temporary Tax Adjustment Balance.

(i) At any given time, the "Temporary Tax Adjustment Balance" equals the sum of the values of the Temporary Tax Adjustments that have been caused by Redeterminations of the REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return for a Pre-Distribution Period or Straddle Period.

(ii) For purposes of computing the Temporary Tax Adjustment Balance pursuant to this Section 5.6(d),

(A) positive values and negative values shall offset one another and

(B) the Temporary Tax Adjustment Balance may be a negative amount.

(e) Notice. Within 15 days after each Redetermination of an REI Consolidated Group (or successor REGCO Consolidated Group) Consolidated Return relating to a Pre-Distribution Period or Straddle Period, REI (or its successor REGCO) shall provide written notice to UNREGCO setting forth

(i) a brief description of each Tax Adjustment caused by such Redetermination,

(ii) whether each enumerated Tax Adjustment is a Temporary Tax Adjustment,

(iii) the value of each Temporary Tax Adjustment and the identification of the taxable year to which the Temporary Tax Adjustment relates,

(iv) the value of the Temporary Tax Adjustment Balance at the time such notice is prepared, including the effect of the Temporary Tax Adjustment related to the Redetermination with respect to such notice,

(v) the value of the Temporary Tax Adjustment Payment Balance at the time such notice is prepared, including the effect of the Temporary Tax Adjustment related to the Redetermination with respect to such notice,

(vi) the amount of additional Federal Income Tax (excluding interest and penalties) that the REI Consolidated Group (or successor REGCO Consolidated Group) must pay, or the amount of Federal Income Tax (excluding interest and penalties) that is refunded to the REI Consolidated Group (or successor REGCO Consolidated Group), for each taxable year (collectively, "Redetermination Tax") that applies to such Redetermination,

(vii) the amount of interest that the REI Consolidated Group (or successor REGCO Consolidated Group) must pay (represented as a positive amount), or the amount of interest that is refunded to the REI Consolidated Group (or successor REGCO Consolidated Group) (represented as a negative amount), for each taxable year (collectively, "Redetermination Interest") that applies to such Redetermination,

(viii) the portion of Redetermination Interest for each taxable year that applies to such Redetermination that constitutes UNREGCO Basket Interest and UNREGCO Non-Basket Interest, and

(ix) the amount of any payment that one party is obligated to pay the other pursuant to Section 5.6(g) or 5.6(h) after applying Section 5.6(e)(iii)-(viii).

If UNREGCO disagrees with any item on such notice, UNREGCO may invoke the resolution procedures of Section 8.3.

(f) Temporary Tax Adjustment Payment Balance.

(i) At any given time, the "Temporary Tax Adjustment Payment Balance" equals the sum of the values of the payments that have been made pursuant to Section 5.6(g).

(ii) The value of a payment that is made pursuant to Section 5.6(g) equals the amount of the payment.

(iii) A payment from UNREGCO to REI (or its successor REGCO) pursuant to Section 5.6(g) shall be treated as a positive amount, and a payment from REI (or its successor REGCO) to UNREGCO pursuant to Section 5.6(g) shall be treated as a negative amount.

(iv) For purposes of computing the Temporary Tax Adjustment Payment Balance pursuant to this Section 5.6(g),

(A) positive values and negative values shall offset one another and

(B) the Temporary Tax Adjustment Payment Balance may be a negative amount.

(g) Temporary Tax Adjustment Payment. Within 15 days after REI (or its successor REGCO) provides a notice pursuant to Section 5.6(e), REI (or its successor REGCO) shall make a payment to UNREGCO, or UNREGCO shall make a payment (the "Temporary Tax Adjustment Payment") to REI (or its successor REGCO), as the case may be, in an amount such that after the value of such Temporary Tax Adjustment Payment is added to the existing Temporary Tax Adjustment Payment Balance, the following is true:

(i) if the Temporary Tax Adjustment Balance is less than negative one million ($-1,000,000), then the Temporary Tax Adjustment Payment Balance equals the amount, represented by a negative value, by which the Temporary Tax Adjustment Balance is less than negative one million ($-1,000,000),

(ii) if the Temporary Tax Adjustment Balance equals an amount greater than or equal to negative one million ($-1,000,000) and less than or equal to positive fifteen million ($15,000,000), then the Temporary Tax Adjustment Payment Balance equals zero and

(iii) if the Temporary Tax Adjustment Balance equals an amount that is greater than positive fifteen million ($15,000,000), then the Temporary Tax Adjustment Payment Balance equals the amount by which the Temporary Tax Adjustment Balance is greater than positive fifteen million ($15,000,000).

Exhibit 1 illustrates examples of calculations under Section 5.6.

(h) Interest Payments.

(i) UNREGCO Interest. For each taxable year that applies to a Redetermination relating to a Pre-Distribution Period or Straddle Period of the REI Consolidated Group (or successor REGCO Consolidated Group), the portion of Redetermination Interest that constitutes UNREGCO Interest shall be determined as follows:

(A) if the sum of the values of the Temporary Tax Adjustments for a taxable year are negative and if the sum of the values of the Tax Adjustments (ignoring the value of the Temporary Tax Adjustments) for such taxable year are positive, then

(I) if the Redetermination Interest is a positive amount, no amount of such Redetermination Interest constitutes UNREGCO Interest, and

(II) if the Redetermination Interest is a negative amount, all of such Redetermination Interest constitutes UNREGCO Interest.

(B) if the sum of the values of the Temporary Tax Adjustments for a taxable year are positive and if the sum of the values of the Tax Adjustments (ignoring the value of the Temporary Tax Adjustments) for such taxable year are negative, then

(I) if the Redetermination Interest is a positive amount, all of such Redetermination Interest constitutes UNREGCO Interest, and

(II) if the Redetermination Interest is a negative amount, none of such Redetermination Interest constitutes UNREGCO Interest.

(C) if the sum of the values of the Temporary Tax Adjustments for a taxable year are positive and if the sum of the values of the Tax Adjustments (ignoring the value of the Temporary Tax Adjustments) for such taxable year are positive, then

(I) if the Redetermination Interest is a positive amount, then UNREGCO Interest equals the product of (1) the value of the Redetermination Interest and (2) the absolute value of the quotient of the sum of the values of Temporary Tax Adjustments for such taxable year divided by the Redetermination Tax for such taxable year, and

(II) if the Redetermination Interest is a negative amount, then none of such Redetermination Interest constitutes UNREGCO Interest.

(D) if the sum of the values of the Temporary Tax Adjustments for a taxable year are negative and if the sum of the values of the Tax Adjustments (ignoring the value of the Temporary Tax Adjustments) for such taxable year are negative, then

(I) if the Redetermination Interest is a positive amount, then none of such Redetermination Interest constitutes UNREGCO Interest, and

(II) if the Redetermination Interest is a negative amount, then UNREGCO Interest equals the product of (1) the value of the Redetermination Interest and (2) the absolute value of the quotient of the sum of the values of Temporary Tax Adjustments for such taxable year divided by the Redetermination Tax for such taxable year.

(ii) UNREGCO Basket Interest. UNREGCO Basket Interest shall constitute a Temporary Tax Adjustment, regardless of whether the conditions of Section 5.6(a) or (b) are met. The value of UNREGCO Basket Interest equals the amount of such UNREGCO Basket Interest. UNREGCO Basket Interest that represents a portion of the Redetermination Interest that the REI Consolidated Group (or successor REGCO Consolidated Group) paid shall be treated as a positive amount, and UNREGCO Basket Interest that represents a portion of the Redetermination Interest that the REI Consolidated Group (or successor REGCO Consolidated Group) received as a refund shall be treated as a negative amount.

(iii) UNREGCO Non-Basket Interest.

(A) UNREGCO Non-Basket Interest shall not constitute a Temporary Tax Adjustment. The value of UNREGCO Non-Basket Interest equals the amount of such UNREGCO Non-Basket Interest. UNREGCO Non-Basket Interest that represents a portion

of the Redetermination Interest that the REI Consolidated Group (or successor REGCO Consolidated Group) paid shall be treated as a positive amount, and UNREGCO Non-Basket Interest that represents a portion of the Redetermination Interest that the REI Consolidated Group (or successor REGCO Consolidated Group) received as a refund shall be treated as a negative amount.

(B) Within 15 days after REI (or its successor REGCO) provides a notice pursuant to Section 5.6(e), then

(I) if the value of the UNREGCO Non-Basket Interest for a taxable year that applies to the Redetermination is positive, UNREGCO shall make a payment to REI (or its successor REGCO) equal to the value of the UNREGCO Non-Basket Interest for such taxable year, and

(II) if the value of the UNREGCO Non-Basket Interest for a taxable year that applies to the Redetermination is negative, REI (or its successor REGCO) shall make a payment to REI (or its successor REGCO) equal to the absolute value of the UNREGCO Non-Basket Interest for such taxable year.

5.7 Continuing Covenants. REI (for itself and each REI Affiliated Company), REGCO (for itself and each REGCO Affiliated Company) and UNREGCO (for itself and each UNREGCO Affiliated Company) agree (1) not to take any action reasonably expected to result in a new or changed Tax Item that is detrimental, and (2) to take any action reasonably requested by the other party that would reasonably be expected to result in a new or changed Tax Item that produces a benefit or avoids a detriment, provided that such action does not result in any additional cost not fully compensated for by the requesting party. The parties hereby acknowledge that the preceding sentence is not intended to limit, and therefore shall not apply to, the rights of the parties with respect to matters otherwise covered by this Agreement.

SECTION 6. INDEMNIFICATION PROVISIONS.

6.1 General Indemnification. UNREGCO and each UNREGCO Affiliated Company shall jointly and severally indemnify REI, each REI Affiliated Company, REGCO, each REGCO Affiliated Company and their respective directors, officers and employees, and hold them harmless from and against any and all Taxes for which UNREGCO or any UNREGCO Affiliated Company is liable under this Agreement and any loss, cost, damage or expense, including reasonable attorneys' fees and costs, that is attributable to, or results from, the failure of UNREGCO, any UNREGCO Affiliated Company or any of their respective directors, officers, or employees to make any payment required to be made under this Agreement. REI, each REI Affiliated Company, REGCO and each REGCO Affiliated Company shall jointly and severally indemnify UNREGCO, each UNREGCO Affiliated Company and their respective directors, officers and employees, and hold them harmless from and against any and all Taxes for which REGCO or any REGCO Affiliated Company is liable under this Agreement and any loss, cost, damage or expense, including reasonable attorneys' fees and costs, that is attributable to, or results from the failure of REI, any REI Affiliated Company, REGCO any REGCO Affiliated Company or any of their directors, officers or employees to make any payment required to be made under this Agreement.

6.2 Spinoff Indemnification.

(a) In General. Notwithstanding anything herein or in the Tax Sharing Agreement to the contrary, the provisions of this Section 6 shall govern all matters among the parties hereto related to an Indemnified Liability (as defined in Section 6.3 below) and an Indemnity Amount (as defined in Section 6.5 below).

(b) Continued Conduct of Business. During the Restricted Period, each of REI, each REI Affiliated Entity, REGCO, each REGCO Affiliated Entity, UNREGCO and each UNREGCO Affiliated Entity agree that it (i) will not cause or permit to be caused a change in its Control (ii) nor cease the active conduct of its trade or business within the meaning of Section 355(b) of the Code to the extent the existence of such trade or business was necessary to a conclusion reached by the Service in the Initial Private Letter Ruling, unless expressly required or permitted pursuant to the Master Separation Agreement or unless, for actions after the Distribution Date, REI (or its successor REGCO) or UNREGCO first obtains, and permits the other party (UNREGCO or REI (or its successor REGCO), as the case may be) to review, a supplemental ruling from the Service, that such action or non-action referred to in this Section 6.2(b), will not affect the qualification of the First Spinoff and the Spinoff under Section 355 of the Code.

(c) Ruling Requirement for Major Transactions Undertaken during the Restricted Period. During the Restricted Period, REI, REGCO, and UNREGCO will not enter into any of the following transactions, or enter into any other transaction ("Prohibited Transaction") which, by itself or in the aggregate, may cause the First Distribution or Distribution to be treated as part of a plan pursuant to which one or more persons acquire directly or indirectly stock representing Control of REI, REGCO or UNREGCO, as the case may be, within the meaning of Code Section 355(e):

(i) merge or consolidate with or into any other corporation;

(ii) liquidate or partially liquidate (within the meaning of such terms as defined in Section 346 and Section 302, respectively, of the Code);

(iii) sell or transfer all or substantially all its assets (within the meaning of Rev. Proc. 77-37, 1977-2 C.B. 568) in a single transaction or series of related transactions;

(iv) redeem or otherwise repurchase any of REGCO or UNREGCO's capital stock; or

(v) make any change in its equity structure (including stock issuances, pursuant to the exercise of options or otherwise, option grants, the adoption of, or authorization of shares under a stock option plan, capital contributions or acquisition but not including the Distribution),

(actions (i), (ii), (iii), (iv) and (v) and the Prohibited Transactions are collectively referred to as the "Prohibited Acts"), unless expressly required or permitted pursuant to the Master Separation Agreement or unless for actions after the Distribution Date, REI (or its successor REGCO) or UNREGCO first obtains, and permits the other party (UNREGCO or REGCO, as the case may

be) to review, a supplemental ruling from the Service, that such transaction, and any transaction related thereto, will not affect the qualification of the First Spinoff and the Spinoff under Section 355 of the Code.

(d) Indemnification Obligation. If REI, REGCO or UNREGCO breaches any representations set forth in Section 3 of this Agreement or takes any action or enters into any agreement to take any action, including, without limitation, any breach of Sections 6.2(b) and (c), and the First Spinoff or Spinoff shall fail to qualify under Section 355 of the Code as a result of such action or actions, then such party (the "Indemnifying Party") shall indemnify and hold harmless the other party against any and all federal, state and local taxes, interest, penalties and additions to Tax imposed upon or incurred by REI, the REI Consolidated Group, REGCO, the REGCO Consolidated Group, UNREGCO or the UNREGCO Consolidated Group, as the case may be, (each such party an "Indemnitee") as a result of the failure of the First Spinoff or the Spinoff to so qualify to the extent provided herein.

6.3 Indemnified Liability - First Spinoff and Spinoff. For purposes of this Agreement, the term "Indemnified Liability" means any liability imposed upon or incurred by (1) REI, any member of the REI Group, REGCO or any member of the REGCO Group for which REI, REGCO or any other member of the REI Group or REGCO Group is indemnified and held harmless under Section 6.2, or (2) UNREGCO or any member of the UNREGCO Group, for which UNREGCO or any other member of the UNREGCO Group is indemnified and held harmless under Section 6.2, but in either case (1) or (2) shall not refer to the amount of such liability.

6.4 Amount of Indemnified Liability for Income Taxes - First Spinoff and Spinoff. The amount of an Indemnified Liability for a federal or state Tax incurred by an Indemnitee based on or determined with reference to income shall be deemed to be the amount of Tax computed by multiplying (i) the taxing jurisdiction's highest effective Tax rate applicable to Indemnitee for the character of the Tax Item subject to Tax as a result of the failure of the First Spinoff and/or Spinoff to qualify under Section 355 of the Code for the taxable period in which the First Spinoff and/or Spinoff occurs, times (ii) the gain or income of Indemnitee which is subject to Tax in the taxing jurisdiction as a result of the failure of the First Spinoff and/or Spinoff to qualify under Section 355 of the Code, and (iii) in the case of a state, times the percentage representing the extent to which such gain or income is apportioned or allocated to such state; provided, however, that in the case of a state Tax determined as a percentage of Federal Income Tax liability, the amount of Indemnified Liability shall be deemed to be the amount of Tax computed by multiplying (x) that state's highest effective rate applicable to Indemnitee for the character of the Tax Item subject to Tax as a result of the failure of the First Spinoff and/or Spinoff to qualify under Section 355 of the Code for the taxable period in which the First Spinoff and/or Spinoff occurs, times (y) the amount of deemed Federal Income Tax (whether or not incurred) imposed upon Indemnitee from the failure of the First Spinoff and/or Spinoff to qualify under Section 355 of the Code computed in accordance with this Section 6.4, times (z) the percentage representing the extent to which the gain or income required to be recognized on the First Spinoff and/or Spinoff is apportioned to such state.

6.5 Indemnity Amount - First Spinoff and Spinoff. With respect to any Spinoff Indemnified Liability, the amount which the Indemnifying Party shall pay to Indemnitee

as indemnification (the "Indemnity Amount") shall be the sum of (i) the amount of the Indemnified Liability, as determined under Section 6.4, (ii) any penalties and interest imposed with respect to the Indemnified Liability and (iii) an amount such that when the sum of the amounts set forth in clauses (i), (ii) and this clause (iii) of this Section 6.5 are reduced by all Taxes imposed as a result of the receipt of such sum, (taking into account any related current credits or deductions payable by the Indemnitee or any of its Affiliated Companies under any law or governmental authority) the reduced amount is equal to the sum of the amounts set forth in clauses (i) and (ii) of this Section 6.5.

6.6 Indemnity Alternate Remedy - First Spinoff and Spinoff. Each of REI (or its successor REGCO) and UNREGCO, recognizes that any failure by it or any REI Affiliated Company (or REGCO Affiliated Company) or UNREGCO Affiliated Company to comply with its obligations under this Section 6 may result in additional Taxes which could cause irreparable harm to REI (or its successor REGCO) and its shareholders, the REI Affiliated Companies (or REGCO Affiliated Companies), and/or UNREGCO and the UNREGCO Affiliated Companies, and that such entities may be inadequately compensated by monetary damages for such failure. Accordingly, if (A) (i) a party shall fail to comply with any obligation under this Section 6 which would be reasonably foreseeable to result in any additional Taxes, and (ii) such party shall fail to provide the other party with a written legal opinion of a Tax Expert that the failure to comply with such obligation will not result in any increase in Taxes of REGCO and its shareholders, any REI Affiliated Company (or REGCO Affiliated Company), UNREGCO or any UNREGCO Affiliated Company, as the case may be, and such opinion is provided to such party for its review and approval, which approval will not be unreasonably withheld, or if (B) it is probable in the written legal opinion of a Tax Expert that the failure by such party to comply with any such obligation under this Section 6 will result in an Indemnified Liability under this Agreement and the Indemnifying Party fails to provide Adequate Assurances to the Indemnitee of its ability to pay the Indemnity Amount under this Agreement, then REI (or its successor REGCO) or UNREGCO, as the case may be, shall be entitled to injunctive relief in addition to all other remedies.

6.7 Indemnity Payments.

(a) In General. Except as otherwise provided under this Agreement, to the extent that the Indemnifying Party has an indemnification or payment obligation to the Indemnitee pursuant to this Agreement, the Indemnitee shall provide the Indemnifying Party with its calculation of the amount of such indemnification payment. Such calculation shall provide sufficient detail to permit the Indemnifying Party to reasonably understand the calculations. All indemnification payments shall be made to the Indemnitee or to the appropriate Tax Authority as specified by the Indemnitee within the time prescribed for payment in this Agreement, or if no period is prescribed, within thirty (30) days after delivery by the Indemnitee to the Indemnifying Party of written notice of a payment, or if such liability is contested pursuant to Section 7.3 of this Agreement, within thirty (30) days of the incurrence of such an amount based on a Final Determination, together with a computation of the amounts due. Any disputes with respect to indemnification payments shall be resolved in accordance with Section 8.11 below.

(b) Electronic Payments. Any payment required under this Agreement in an amount in excess of one million dollars ($1,000,000.00) shall be made by electronic funds transfer of immediately available funds.

6.8 Prompt Performance. All actions required to be taken by any party under this Agreement shall be performed within the time prescribed for performance in this Agreement, or if no period is prescribed, such actions shall be performed promptly.

6.9 Interest. Payments pursuant to this Agreement that are not made within the period prescribed in Section 6.7(a) shall bear interest for the period from and including the date immediately following the last date of the period through and including the date of payment at a per annum rate equal to the prime rate as published in The Wall Street Journal on the date of determination, plus two percent (2%). Such interest will be payable at the same time as the payment to which it relates and shall be calculated on the basis of a year of 365 days and the actual number of days for which due.

6.10 Tax Records. The parties to this Agreement hereby agree to retain and provide on proper demand by any Taxing Authority (subject to any applicable privileges) the books, records, documentation and other information relating to any Tax Return until the later of (a) the expiration of the applicable statute of limitations (giving effect to any extension, waiver or mitigation thereof), (b) the date specified in an applicable records retention agreement entered into with the Service and (c) in the event any claim is made under this Agreement for which such information is relevant, until a Final Determination with respect to such claim. Notwithstanding the prior sentence, no party may destroy any such records without the approval of all other parties to this Agreement.

SECTION 7. AUDITS AND CONTEST RIGHTS.

7.1 In General

(a) Upon the termination of UNREGCO and the UNREGCO Affiliated Companies as members of the REI Consolidated Group, the Tax Sharing Agreement and this Agreement shall apply with respect to any period (or portion thereof) in which the income of the terminating member is included in an REI Consolidated Return. Subject to Section 2.2(c) of this Agreement, the terminating member shall cooperate and provide reasonable access to books, records and other information needed in connection with Audits, administrative proceedings, litigation and other similar matters related to periods in which the member was a member of the REI Consolidated Group.

(b) Except as otherwise provided in this Agreement, the respective Filing Party shall have the right to control, contest, and represent the interests of REI, any REI Affiliated Company, REGCO, any REGCO Affiliated Company, UNREGCO or any UNREGCO Affiliated Company in any Audit relating to any Tax Return that the Filing Party is responsible for filing under Section 2.1 of this Agreement and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Audit. Except as otherwise provided in this Agreement, the Filing Party's rights shall extend to any

matter pertaining to the management and control of an Audit, including execution of waivers, choice of forum, scheduling of conferences and the resolution of any Tax Item.

7.2 Notice. If, after the date of this Agreement, REI (or any REI Affiliated Company), REGCO (or any REGCO Affiliated Company) or UNREGCO (or any UNREGCO Affiliated Company) receives written notice of, or relating to, an Audit from a Tax Authority that asserts, proposes or recommends a deficiency, claim or adjustment that, if sustained, could result in a Redetermination of Taxes for which the other party is responsible under this Agreement, then the party receiving such notice shall provide a copy of such notice to such other party within ten (10) days of receipt thereof.

7.3 Contests.

(a) If any Tax Authority asserts, proposes or recommends a deficiency, claim or adjustment that, if sustained, could lead to a Redetermination that (i) could result in Taxes for which the Non-Filing Party is responsible under this Agreement, (ii) could result in an increased Tax liability for the Non-Filing Party for future Tax periods or (iii) could result in a payment obligation for the Non-Filing Party under this Agreement (collectively, "Non-Filing Party Responsible Taxes"), then upon request by the Non-Filing Party, the Filing Party shall contest, or continue to contest, any deficiency, claim or adjustment and the Filing Party shall keep the Non-Filing Party informed in a timely manner reasonably in advance of all actions taken or proposed to be taken by the Filing Party in connection with such deficiency, claim or adjustment.

(b) In the case of an Audit with respect to any Tax Item for which a Redetermination could result in Non-Filing Party Responsible Taxes, the Filing Party shall:

(1) in the case of any material correspondence or filing submitted to the Tax Authority or any judicial authority that relates to the merits of such deficiency, claim or adjustment (i) reasonably in advance of such submission, but subject to applicable time constraints imposed by such Tax Authority or judicial authority, provide the Non-Filing Party with a draft copy of the portion of such correspondence or filing that relates to such deficiency, claim or adjustment, (ii) incorporate, subject to applicable time constraints imposed by such Tax Authority or judicial authority and the review and approval by the Filing Party, the Non-Filing Party's comments and changes on such draft copy of such correspondence or filing, and (iii) provide the Non-Filing Party with a final copy of the portion of such correspondence or filing that relates to such deficiency, claim or adjustment;

(2) provide the Non-Filing Party with notice reasonably in advance of, and the Non-Filing Party shall have the right to attend, any meetings with the Tax Authority (including meetings with examiners) or hearings or proceedings before any judicial authority to the extent they relate to such deficiency, claim or adjustment; and

(3) at the Filing Party's reasonable request (or upon the Filing Party's consent to a request by the Non-Filing Party, which consent shall not be

unreasonably withheld), the Non-Filing Party shall assume responsibility for (i) contesting and presenting the merits with respect to any deficiency, claim or adjustment that, if sustained, would result in Non-Filing Party Responsible Taxes, or (ii) resolving, settling or agreeing to any such deficiency, claim or adjustment. Any such request (or consent) by the Filing Party shall be subject to the Non-Filing Party's continued compliance with the conditions of Section 7.4 of this Agreement and to such other conditions as the Filing Party and Non-Filing Party reasonably agree.

7.4 Limitations.

(a) In General. Except with respect to a deficiency, claim or adjustment that relates to a Redetermination that could result in Non-Filing Party Responsible Taxes, the Filing Party shall have no obligation to contest, or to continue to contest, any deficiency, claim or adjustment in accordance with Section 7.3, and the Non-Filing Party shall have no right to control or participate under Section 7.3 of this Agreement unless:

(I) the Non-Filing Party shall have agreed to be bound by a Final Determination of such deficiency, claim or adjustment;

(II) the Non-Filing Party shall have agreed to pay, and shall be currently paying, all reasonable out of pocket costs and expenses incurred by the Filing Party to contest such deficiency, claim or assessment including reasonable outside attorneys', accountants' and investigatory fees and disbursements;

(III) the Non-Filing Party shall have advanced to the Filing Party, on an interest-free basis (and with no additional net after-Tax cost to the Filing Party), the amount of Tax in controversy (but not in excess of the lesser of (A) the amount of Tax for which the Non-Filing Party could be liable under this Agreement or (B) the amounts actually expended by the Filing Party for this item) to the extent necessary for the contest to proceed in the forum selected by the Non-Filing Party;

(IV) the Non-Filing Party shall have provided to the Filing Party all documents and information, and shall have made available employees and officers of the Non-Filing Party, as may be necessary, useful or reasonably required by the Filing Party in contesting such deficiency, claim or adjustment; and

(V) the contest of such deficiency, claim or adjustment shall involve no material danger of the sale, forfeiture or loss of, or the creation of any lien on, any asset of the Filing Party (except if the Non-Filing Party shall have adequately bonded such lien or otherwise made provision to protect the interests of the Filing Party in a manner reasonably satisfactory to the Filing Party).

(b) Settlement. Notwithstanding Section 7.4(a), the Filing Party, with respect to Tax Returns that it is responsible for filing under Section 2.1, may resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with any Audit of such Tax Returns, if, with respect to any Non-Filing Party Responsible Taxes, the Filing Party has provided the Non-Filing Party with a reasonable opportunity to review a copy of that portion

of the settlement or compromise proposal which relates to the claim for which the Filing Party is seeking indemnification hereunder; provided, that if (a) the Filing Party fails to provide the Non-Filing Party such a reasonable opportunity to review such portion of such proposal, or (b) after such reasonable opportunity to review such proposal the Non-Filing Party in writing reasonably withholds its consent to all or part of such settlement or compromise proposal, then, the Non-Filing Party shall not be obligated to indemnify the Filing Party hereunder to the extent of the amount attributable to the loss to which such settlement or compromise relates as to which the Non-Filing Party has reasonably withheld its consent, or with respect to any other loss for which a successful contest is foreclosed because of such settlement or compromise as to which the Non-Filing Party has reasonably withheld its consent. If the Filing Party effects a settlement or compromise of such contest, notwithstanding that the Non-Filing Party has reasonably withheld its consent thereto, the Filing Party shall repay to the Non-Filing Party such amounts that the Non-Filing Party advanced pursuant to Section 7.4(a)(3) hereof as relate to such claim, to the extent that the Non-Filing Party has reasonably withheld its consent to the settlement or compromise thereof (together with interest at the prime rate as published in the Wall Street Journal on any such amount paid by the Non-Filing Party from the date paid by Lessee to the date repaid by the Filing Party).

(c) Waiver. Notwithstanding any other provision of this Section 7.4, the Filing Party may resolve, settle, or agree to any deficiency, claim or adjustment for any taxable period if the Filing Party waives it right to indemnity, if any, with respect to such Tax Item. In such event, the Filing Party shall promptly reimburse the Non-Filing Party for all amounts previously advanced by the Non-Filing Party to the Filing Party in connection with such deficiency, claim or adjustment under Section 7.4(a)(3) of this Agreement. In addition, the Filing Party shall reimburse the Non-Filing Party for any Tax Detriment that directly results from the settlement of such deficiency, claim or adjustment. No waiver by the Filing Party under this Section 7.4(c) with respect to any deficiency, claim or adjustment relating to any single Tax Item, position, issue or transaction or relating to any single Tax for any one taxable period shall operate as a waiver with respect to any other deficiency, claim or adjustment.

7.5 Failure to Notify, Etc. The failure of the Filing Party promptly to notify the Non-Filing Party of any matter relating to a particular Tax for a taxable period or to take any action specified in Section 7.3 of this Agreement shall not relieve the Non-Filing Party of any liability and/or obligation which it may have to the Filing Party under this Agreement with respect to such Tax for such taxable period except to the extent that the Non-Filing Party's rights hereunder are materially prejudiced by such failure and in no event shall such failure relieve the Non-Filing Party of any other liability and/or obligation which it may have to the Filing Party.

7.6 Remedies. Except as otherwise provided in this Agreement, the parties hereby agree that the sole and exclusive remedy for a breach by the Filing Party of the Filing Party's obligations to the Non-Filing Party with respect to a deficiency, claim or adjustment relating to the redetermination of a Tax Item of the Non-Filing Party for a taxable period shall first be a reduction in the amount that would otherwise be payable by the Non-Filing Party for such taxable period and then an increase in amount that would otherwise be payable by the Filing Party for such taxable period, in either case because of the breach. The parties further agree that no claim against the Filing Party and no defense to the Non-Filing Party's liabilities to the Filing Party under this Agreement shall arise from the resolution by the Filing Party of any deficiency,

claim or adjustment relating to the Redetermination of any Tax Item of the Filing Party for which the Non-Filing Party is not liable under this Agreement.

SECTION 8. MISCELLANEOUS.

8.1 Effectiveness. This Agreement shall become effective as of January 1, 2001.

8.2 Renegotiation for Delayed Distribution. If the Distribution does not occur on or before December 31, 2001, REI (or its successor REGCO) and UNREGCO shall negotiate any changes to this Agreement that may be necessary in light of the fact that the Distribution did not occur in 2001.

8.3 Resolution Procedures.

(a) If another section of this Agreement grants to REI (or its successor REGCO) or to UNREGCO the right to invoke the resolution procedures of this Section 8.3 to disagree with an amount, allocation, characterization or other item of information provided to it by the other party and if within 15 days of receiving notice of such amount, allocation, characterization or other item of information, REI (or its successor REGCO) or UNREGCO, as the case may be, invokes the resolution procedures of this Section 8.3 by sending written notice to the other party, then

(i) the parties shall jointly select a Tax Expert to determine the correct amount, allocation or other information that is in dispute,

(ii) the parties shall share the costs of such Tax Expert equally,

(iii) the parties agree to be bound by the decision reached by the Tax Expert,

(iv) the due date of a payment based on or equal to an amount, allocation or other information that is being determined by the Tax Expert pursuant to this Section 8.3(a) shall be extended to the date that is 5 days after the Tax Expert renders a decision as to the correct amount, allocation, characterization or other item of information and

(v) if the otherwise applicable due date of payment is extended pursuant to Section 8.3(a)(iv), then the party making such payment shall add to the amount of such payment (as determined in accordance with the determination by the Tax Expert under this Section 8.3(a)) interest for the period of such extension. The amount of interest that accrues during such extension period shall be computed in accordance with the procedures set forth in Section 6.9.

(b) If another section of this Agreement grants to REI (or its successor REGCO) or to UNREGCO, as the case may be, the right to invoke the resolution procedures of this Section 8.3 to disagree with an amount, allocation, characterization or other item of information provided to it by the other party and REI (or its successor REGCO) or UNREGCO, as the case may be, does not invoke the resolution procedures of this Section 8.3 within 15 days of receiving

notice of such amount, allocation, characterization or other item of information, then the amount, allocation, characterization or other item of information provided to REI (or its successor REGCO) or to UNREGCO by the other party shall be deemed conclusive and correct as between REI (or its successor REGCO) and UNREGCO.

8.4 Notices. Unless expressly provided herein, all notices, claims, certificates, requests, demands and other communications hereunder shall be in writing and shall be deemed to be duly given (i) when personally delivered or (ii) if mailed registered or certified mail, postage prepaid, return receipt requested, on the date the return receipt is executed or the letter refused by the addressee or its agent or (iii) if sent by overnight courier which delivers only upon the signed receipt of the addressee, on the date the receipt acknowledgment is executed or refused by the addressee or its agent or (iv) if sent by facsimile or other generally accepted means of electronic transmission, on the date confirmation of transmission is received (provided that a copy of any notice delivered pursuant to this clause (iv) shall also be sent pursuant to clause (ii) or (iii)), addressed to the attention of the addressee's General Counsel at the address of its principal executive office or to such other address or facsimile number for a party as it shall have specified by like notice.

8.5 Changes in Law.

(a) Any reference to a provision of the Code or a law of another jurisdiction shall include a reference to any applicable successor provision or law.

(b) If, due to any change in applicable law or regulations or their interpretation by any court of law or other governing body having jurisdiction subsequent to the date of this Agreement, performance of any provision of this Agreement or any transaction contemplated thereby shall become impracticable or impossible, the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such provision.

8.6 Binding Effect; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives and successors, and nothing in this Agreement, express or implied, is intended to confer upon any other Person any rights or remedies of any nature whatsoever under or by reason of this Agreement. This Agreement may not be assigned by any party hereto.

8.7 Affiliated Companies. REI (or as successors, REGCO and any REGCO Affiliated Company) shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any REI or REGCO Affiliated Company, and UNREGCO shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any UNREGCO Affiliated Company.

8.8 Authorization, Etc. Each of the parties hereto hereby represents and warrants that it has the power and authority to execute, deliver and perform this Agreement, that this Agreement has been duly authorized by all necessary corporate action on the part of such party, that this Agreement constitutes a legal, valid and binding obligation of each such party and

that the execution, delivery and performance of this Agreement by such party does not contravene or conflict with any provision of law or of its charter or bylaws or any agreement, instrument or order binding on such party.

8.9 Entire Agreement. This Agreement contains the entire agreement among the parties hereto with respect to the subject matter hereof.

8.10 Governing Law; Jurisdiction. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Texas as to all matters regardless of the law that might otherwise govern under the principles of conflicts of law applicable thereto.

8.11 Dispute Resolution. Except for disputes, controversies or claims within the scope of Section 8.3, the resolution of any and all disputes arising from or in connection with this Agreement shall be governed by and settled in accordance with the provisions of Article IX of the Master Separation Agreement.

8.12 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

8.13 Severability. If any term, provision, covenant, or restriction of this Agreement is held by a court of competent jurisdiction (or an arbitrator or arbitration panel) to be invalid, void, or unenforceable, the remainder of the terms, provisions, covenants, and restrictions set forth herein shall remain in full force and effect, and shall in no way be affected, impaired, or invalidated. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants, and restrictions without including any of such which may be hereafter declared invalid, void, or unenforceable. In the event that any such term, provision, covenant or restriction is held to be invalid, void or unenforceable, the parties hereto shall use their best efforts to find and employ an alternate means to achieve the same or substantially the same result as that contemplated by such terms, provisions, covenant, or restriction.

8.14 No Third Party Beneficiaries. This Agreement is solely for the benefit of REI, REI Affiliated Companies, REGCO, the REGCO Affiliated Companies, UNREGCO and the UNREGCO Affiliated Companies. This Agreement should not be deemed to confer upon third parties any remedy, claim, liability, reimbursement, cause of action or other rights in excess of those existing without this Agreement.

8.15 Waivers, Etc. No failure or delay on the part of the parties in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, preclude any other or further exercise thereof or the exercise of any other right or power. No modification or waiver of any provision of this Agreement nor consent to any departure by the parties therefrom shall in any event be effective unless the same shall be in writing.

8.16 Setoff. All payments to be made by any party under this Agreement may be netted against payments due to such party under this Agreement, but otherwise shall be made without setoff, counterclaim or withholding, all of which are hereby expressly waived.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by a duly authorized officer as of the date first above written.

RELIANT ENERGY, INCORPORATED
On behalf of Itself and Its Affiliated Companies

By: /s/ David M. McClanahan

David M. McClanahan
Vice Chairman

RELIANT RESOURCES, INC.
On behalf of Itself and Its Affiliated Companies

By: /s/ R. S. Letbetter

R. S. Letbetter
Chairman, President and
Chief Executive Officer

EXHIBIT 12.REI

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(THOUSANDS OF DOLLARS)

	THREE MONTHS ENDED MARCH 31, 2001
Income from continuing operations	$ 208,222
Income taxes for continuing operations	110,150
Capitalized interest	(16,918)
	301,454
Fixed charges, as defined:	
Interest	177,952
Capitalized interest	16,918
Distribution on trust preferred securities	13,900
Interest component of rentals charged to operating expense	8,786
Total fixed charges	217,556
Earnings, as defined	$ 519,010
Ratio of earnings to fixed charges	2.39

EXHIBIT 12.RERC

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(THOUSANDS OF DOLLARS)

	THREE MONTHS ENDED MARCH 31, 2001
Income from continuing operations	$ 80,357
Income taxes for continuing operations	58,828
Capitalized interest	(302)
	138,883
Fixed charges, as defined:	
Interest expense	38,134
Capitalized interest	302
Distribution on trust preferred securities	7
Interest component of rentals charged to operating expense	2,747
Total fixed charges	41,190
Earnings, as defined	$ 180,073
Ratio of earnings to fixed charges	4.37

EXHIBIT 99.REI

RELIANT ENERGY, INCORPORATED

ITEMS INCORPORATED BY REFERENCE

ITEMS INCORPORATED BY REFERENCE FROM THE RELIANT ENERGY FORM 10-K

o ITEM 3. LEGAL PROCEEDINGS.

(a) RELIANT ENERGY.

For a description of certain legal and regulatory proceedings affecting Reliant Energy, see Notes 4, 14(g), 14(h) and 14(i) to our consolidated financial statements, which notes are incorporated herein by reference.

o ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

Our earnings for the past three years are not necessarily indicative of our future earnings and results. The level of our future earnings depends on numerous factors including:

- state and federal legislative, as well as international regulatory developments, including deregulation, re-regulation and restructuring of the electric utility industry and changes in or application of environmental and other laws and regulations to which we are subject,

- the timing of the implementation of our Business Separation Plan,

- industrial, commercial and residential growth in our service territories,

- our pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities,

- state, federal and other rate regulations in the United States and in foreign countries in which we operate or into which we might expand our operations,

- the timing and extent of changes in commodity prices and interest rates,

- weather variations and other natural phenomena,

- our ability to cost-effectively finance and refinance,

- the determination of the amount of our Texas generating assets' stranded costs and the recovery of these costs,

- the ability to consummate and the timing of the consummation of acquisitions and dispositions,

- the performance of our generation projects undertaken,

- the successful operation of deregulating power markets, including the resolution of the crisis in the California market, and

- risks incidental to our overseas operations, including the effects of fluctuations in foreign currency exchange rates.

In order to adapt to the increasingly competitive environment, we continue to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, dispositions of currently owned businesses, as well as developing new generation projects, products, services and customer strategies.

BUSINESS SEPARATION AND RESTRUCTURING

In anticipation of electric deregulation in Texas, and pursuant to the Legislation, we submitted a business separation plan in January 2000 to the Texas Utility Commission. Pursuant to the Business Separation Plan, we will restructure our businesses into two separate publicly traded companies in order to separate our unregulated businesses from our rate-regulated businesses. Reliant Resources holds substantially all of our unregulated businesses. We expect Reliant Resources will conduct the Offering in 2001. Also, we anticipate that the Regulated Holding Company will conduct the Distribution within 12 months of the completion of the Offering, subject to receipt of a favorable tax ruling and other regulatory approvals. For additional information regarding the Business Separation Plan and the Restructuring, please read "Business -- Our Business -- Restructuring" in Item 1 of this Form 10-K and Note 4(b) to our consolidated financial statements.

We have sought a ruling from the Internal Revenue Service that the Distribution will be tax-free to the Regulated Holding Company and its shareholders. At this time, we do not have a ruling from the Internal Revenue Service regarding the tax treatment of the Distribution. If we do not obtain a favorable tax ruling, the Distribution is not likely to be made in the expected time frame or, perhaps, at all. In order for the Distribution to be tax-free, various requirements must be met, including ownership by its parent of at least 80% of all classes of Reliant Resources' outstanding capital stock at the time of the Distribution.

Additionally, in connection with the Distribution, Reliant Energy plans to restructure its remaining businesses to achieve a public utility holding company structure and to register the Regulated Holding Company as a public utility holding company under the 1935 Act. Creation of the Regulated Holding Company will require the approval of Reliant Energy's shareholders. For additional information regarding the Regulated Holding Company, please read "Business -- Our Business -- Restructuring" in Item 1 of this Form 10-K and Note 4(b) to our consolidated financial statements. The Restructuring will also require the approval of the Louisiana Public Service Commission and the Nuclear Regulatory Commission. We cannot assure you that those approvals will be obtained. After the Restructuring, the Regulated Holding Company will become a registered public utility holding company under the 1935 Act.

COMPETITIVE, REGULATORY AND OTHER FACTORS AFFECTING OUR ELECTRIC OPERATIONS

Competition and Deregulation. In June 1999, the Texas legislature adopted the Legislation, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail competition. Retail pilot projects for up to 5% of each utility's load in all customer classes will begin in June 2001 and retail electric competition for all other customers will begin on January 1, 2002. Our retail operations will be conducted by indirect wholly owned subsidiaries of Reliant Resources. Under the market framework established by the Legislation, we will initially be required to sell electricity to Houston area residential and small commercial customers at a specified price, which is referred to in the Legislation as the "price to beat," whereas other retail electric providers will be allowed to sell electricity to these same customers at any price. We will not be permitted to offer electricity to these customers at a price other than the price to beat until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers, as applicable, within the affiliated transmission and distribution utility's certificated service territory, as of January 1, 2002, is committed to be served by other retail electric providers. In addition, as long as we continue to provide retail service, the Legislation requires us to make the price to beat available to residential and small commercial customers in Reliant Energy HL&P's service territory through January 1, 2007. Because we will not be able to compete for residential and small commercial customers on the basis of price in Reliant Energy HL&P's service area, and because we expect that the retail market framework established by the Legislation will encourage competition from new retail electric providers, we could lose a significant number of these customers to other providers. When the pilot projects begin in June 2001, and until full retail electric competition begins, the Legislation provides that 5% of our customers may elect to purchase electricity from other retail electric providers. Our affiliated retail electric providers cannot participate in the pilot projects in Reliant Energy HL&P's service area. Reliant Energy HL&P will collect from retail electric providers the rates approved from its Wires Case to cover the cost of providing transmission and distribution service and any other non-bypassable charges.

Generally, retail electric providers will procure or buy electricity from the wholesale generators at unregulated rates, sell electricity at retail to their customers and pay the transmission and distribution utility a regulated tariffed rate for delivering the electricity to their customers. The results of our retail electric operations will be largely dependent upon the amount of gross margin, or "headroom," available in the "price to beat." The available headroom will equal the difference between the price to beat and the sum of the charges, fees and transmission and distribution utility rate approved by the Texas Utility Commission and the price we pay for power to meet our price to beat load. The larger the amount of headroom, the more incentive new market entrants should have to provide retail electric services in Reliant Energy HL&P's service territory. The Texas Utility Commission's regulations allow us to adjust our price to beat fuel factor based on the percentage change in the price of natural gas. In addition, we may also request an adjustment as a result of changes in our price of purchased energy. In such a request, we may adjust the fuel factor to the extent necessary to restore the amount of headroom that existed at the time our initial price to beat fuel factor was set by the Texas Utility Commission. We may not request that our price to beat be adjusted more than twice a year. Currently, we do not know nor can we estimate the amount of headroom in our initial price to beat or in the initial price to beat for the affiliated retail electric provider in each other Texas retail electric market. Similarly, we cannot estimate with any certainty the magnitude and frequency of the adjustments required, if any, and the eventual impact of such adjustments on the amount of headroom.

In preparation for this competition, we expect to make significant changes in the electric utility operations currently conducted through Reliant Energy HL&P. For additional information regarding these changes, the Legislation, retail competition, its application to our Electric Operations segment and the "price to beat," please read "Business -- Our Business -- Deregulation and Competition," "-- Restructuring," "-- Electric Operations" and "Business -- Regulation -- State and Local Regulations -- Texas -- Electric Operations -- The Legislation" in Item 1 of this Form 10-K and Note 4 to our consolidated financial statements.

Also, market volatility in the price of fuel for our generation operations, as well as in the price of purchased power, could have an effect on our cost to generate or acquire power. For additional information regarding commodity prices and supplies, please read "-- Competitive, Regulatory and Other Factors Affecting Our Wholesale Energy Operations -- Price Volatility."

Other Regulatory Factors. Pursuant to the Legislation, Reliant Energy HL&P will be entitled to recover its stranded costs (i.e., the excess of net book value of generation assets, as defined by the Legislation, over the market value of those assets) and its regulatory assets related to generation. The Legislation prescribes specific methods for determining the amount of stranded costs and the details for their recovery. However, during the base rate freeze period from 1999 through 2001, earnings above the utility's authorized rate of return formula may be applied in a manner to accelerate depreciation of generation related plant assets for regulatory purposes. In addition, depreciation expense for transmission and distribution related assets may be redirected to generation assets for regulatory purposes during that period. The Legislation also provides for Reliant Energy HL&P, or a special purpose entity, to issue securitization bonds for the recovery of generation related regulatory assets and a portion of stranded costs. Any stranded costs not recovered through the sale of securitization bonds may be recovered through a non-bypassable charge to transmission and distribution customers. For additional information regarding these securitization bonds, please read "-- Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Securitization."

The Texas Utility Commission recently stated on record that it would consider requiring electric utilities to reverse the amount of redirected depreciation and accelerated depreciation previously taken if in its estimation the utility has overmitigated its stranded costs. The reversal could occur through a lower rate for the transmission and distribution utility and/or through credits contained in the transmission and distribution utility's rate. Any order requiring the reversal of these amounts would likely be included in the Texas Utility Commission proceeding establishing the initial rate of the transmission and distribution utility or in the case of our Electric Operations segment, the Wires Case. We do not expect the final transmission and distribution rate in the Wires Case to be established until August 2001. For more information regarding the Wires Case, see "Business -- Regulation -- State and Local Regulations -- Texas -- Electric Operations -- Rate Case."

At June 30, 1999, we performed an impairment test of Reliant Energy HL&P's previously regulated electric generation assets pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), on a plant specific basis. Under SFAS No. 121, an asset is considered impaired, and should be written down to fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. For assets that are impaired pursuant to SFAS No. 121, we determined the fair value for each generating plant by estimating the net present value of future cash inflows and outflows over the estimated life of each plant. The difference between fair value and net book value was recorded as a reduction in the current book value. We determined that $797 million of electric generation assets were impaired as of June 30, 1999. Of these amounts, $745 million related to the South Texas Project and $52 million related to two gas-fired generation plants. The Legislation provides for recovery of this impairment through regulated cash flows during the transition period and through non-bypassable charges to transmission and distribution customers. As such, a regulatory asset has been recorded for an amount equal to the impairment loss. We recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing regulatory accounting of $221 million in the third and fourth quarters of 1999 and $329 million in 2000. We expect to fully amortize this regulatory asset as it is recovered from regulated cash flows in 2001.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, Reliant Energy HL&P must finalize and reconcile stranded costs (as defined by the Legislation) in a filing with the Texas Utility Commission. Any positive difference between the regulatory net book value and the fair market value of the generation assets (as defined by the Legislation) will be collected through future non-bypassable charges. Any over-mitigation of stranded costs may be refunded through future non-bypassable charges. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges. Because generally accepted accounting principles require us to estimate fair market values on a plant-by-plant basis in advance of the final reconciliation, the financial impacts of the Legislation with respect to the final determination of stranded costs in 2004 are subject to material changes. Factors affecting such change may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events occur that make the recovery of all or a portion of the regulatory assets associated with the generation plant impairment loss and other assets created from discontinuance of regulatory accounting pursuant to the Legislation no longer probable, we will write off the corresponding balance of these assets as a non-cash charge against earnings. One of the results of discontinuing the application of regulatory accounting for the generation operations is the elimination of the regulatory accounting effects of excess deferred income taxes and investment tax credits related to these operations. We believe it is probable that some parties will seek to return these amounts to ratepayers and, accordingly, we have recorded an offsetting liability.

In accordance with the Legislation, beginning on January 1, 2002, and ending at December 31, 2003, any difference between market power prices received in the generation capacity auction and the Texas Utility Commission's earlier estimates of those market prices will be included in the 2004 stranded costs true-up. The Texas Utility Commission's estimate serves as a preliminary identification of stranded costs for recovery through securitization. This component of the true-up is intended to ensure that neither the customers nor we are disadvantaged economically as a result of the two-year transition period by providing this pricing structure.

Since the time of our original impairment calculation in June 1999 when we discontinued application of SFAS No. 71 for our generation operations, natural gas prices have risen 295% from June 1999 to December 31, 2000 resulting in increases in estimated market prices for power during 2002 and 2003. Generally, for Reliant Energy HL&P's generation portfolio, sustained increases in natural gas prices result in an increase in the fair value of Reliant Energy HL&P's generation portfolio, due to our mix of lower variable cost of electric generation. Therefore, as electric power prices increase, the amount of our estimated stranded costs decline and the estimate of our 2002 and 2003 capacity true-up amounts which may be owed to customers increases.

For additional information regarding the impairment of regulatory assets and electric generating plant and equipment as well as the recovery of stranded costs, please read Note 4(a) to our consolidated financial statements. For additional information regarding our filings to recover under-recovered fuel costs, please read Note 4(d) to our consolidated financial statements.

Other. For additional information regarding litigation over franchise fees, please read Note 14(g) to our consolidated financial statements.

COMPETITIVE, REGULATORY AND OTHER FACTORS AFFECTING OUR WHOLESALE ENERGY OPERATIONS

Competition. As of December 31, 2000, our Wholesale Energy business segment owned and operated 9,231 MW of electric generation assets that serve wholesale energy markets located in the Mid-Atlantic, Southwest and Midcontinent regions of the United States and the states of Florida and Texas. Competitive factors affecting the results of operations of these generation assets include new market entrants and construction by others of more efficient generation assets.

The wholesale power industry has numerous competitors, some of which may have more operating experience, more acquisition and development experience, larger staffs and/or greater financial resources than we do. Like us, many of our competitors are seeking attractive opportunities to acquire or develop power generation facilities, both in the United States and abroad. This competition may adversely affect our ability to make investments or acquisitions.

Also, industry restructuring requires or encourages the disaggregation of many vertically-integrated utilities into separate generation, transmission and distribution, and retail businesses. As a result, a significant number of additional competitors could become active in the wholesale power generation segment of our industry.

Furthermore, other competitors operate power generation projects in the regions where we have invested in electric generation assets. While demand for electric energy services is generally increasing throughout the United States, the rate of construction and development of new, more efficient electric generation facilities may exceed increases in demand in some regional electric markets. Although local permitting and siting issues often reduce the risk of a rapid growth in supply of generation capacity in any particular region, projects are likely to be built over time. The commencement of commercial operation of these new facilities in the regional markets where we have facilities will likely increase the competitiveness of the wholesale power market in those regions, which could have a material effect on our business and lower the value of some of our electric generation assets.

Finally, our trading, marketing, power origination and risk management operations compete with other energy merchants based on the ability to aggregate supplies at competitive prices from different sources and locations and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities. These operations also compete against other energy marketers on the basis of their relative skills, financial position and access to credit sources. This competitive factor reflects the tendency of energy customers, wholesale energy suppliers and transporters to seek financial guarantees and other assurances that their energy contracts will be satisfied. As pricing information becomes increasingly available in the energy trading and marketing business and as deregulation in the electricity markets continues to accelerate, we anticipate that our trading, marketing, power origination and risk management operations will experience greater competition and downward pressure on per-unit profit margins.

Regulation. The regulatory environment applicable to the electric power industry has recently undergone substantial changes as a result of restructuring initiatives at both the state and federal levels. These initiatives have had a significant impact on the nature of the industry and the manner in which its participants conduct their business. Our Wholesale Energy segment has targeted the deregulating wholesale and retail segments of the electric power industry created by these initiatives. These changes are ongoing and we cannot predict the future development of deregulation in these markets or the ultimate effect that this changing regulatory environment will have on our business.

Moreover, existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us or our facilities, and future changes in laws and regulations may have a detrimental effect on our business. Certain restructured markets, particularly California, have recently experienced supply problems and price volatility. These supply problems and volatility have been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some markets, including California (please read "-- California" below), proposals have been made by governmental agencies and/or other interested parties to slow the pace of deregulation or to re-regulate areas of these markets that have previously been deregulated. If the current trend towards competitive restructuring of the wholesale and retail power markets is reversed, discontinued or delayed, the business growth prospects of our Wholesale Energy segment would be slowed and the financial outlook for our existing positions could be impacted.

If RTOs are established as envisioned by FERC Order 2000, "rate pancaking," or multiple transmission charges that apply to a single point-to-point delivery of energy, will be eliminated within a region, and wholesale transactions within the region, and between regions will be facilitated. The end result could be a more competitive, transparent market for the sale of energy and a more economic and efficient use and allocation of resources. For additional information regarding FERC Order 2000 affecting these RTOs, please read "Business -- Regulation -- Federal Energy Regulatory Commission" in Item 1 of this Form 10-K.

Price Volatility. Our Wholesale Energy business segment sells electricity from our non-Texas power generation facilities into the spot market or other competitive power markets or on a contractual basis. Our Wholesale Energy business segment is not guaranteed any rate of return on our capital investments through mandated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity and fuel in our regional markets and other competitive markets. These market prices may fluctuate substantially over relatively short periods of time. In addition, the FERC, which has jurisdiction over wholesale power rates, as well as independent system operators that oversee some of these markets, may impose price limitations, bidding rules and other mechanisms to address some of the volatility in these markets. Most of our Wholesale Energy business segment's domestic power generation facilities purchase fuel under short-term contracts or on the spot market. Fuel prices may also be volatile, and the price we can obtain for power sales may not change at the same rate as changes in fuel costs. These factors could have an adverse impact on our revenues and results of operations.

Volatility in market prices for fuel and electricity may result from:

- weather conditions,
- seasonality,
- electricity usage,
- illiquid markets,
- transmission or transportation constraints or inefficiencies,
- availability of competitively priced alternative energy sources,
- demand for energy commodities,
- natural gas, crude oil and refined products, and coal production levels,
- natural disasters, wars, embargoes and other catastrophic events, and
- federal, state and foreign energy and environmental regulation and legislation.

Trading, Marketing, Power Origination and Risk Management Operations. To lower our Wholesale Energy business segment's financial exposure related to commodity price fluctuations, its trading, marketing, power origination and risk management operations routinely enter into contracts to hedge a portion of its purchase and sale commitments, weather positions, fuel requirements and inventories of natural gas, coal, crude oil and refined products, and other commodities. As part of this strategy, our Wholesale Energy business segment routinely utilizes fixed-price forward physical purchase and sales contracts, futures, financial swaps

and option contracts traded in the over-the-counter markets or on exchanges. However, our Wholesale Energy business segment does not expect to cover the entire exposure of its assets or its positions to market price volatility and the coverage will vary over time. To the extent our Wholesale Energy business segment has unhedged positions, fluctuating commodity prices can impact our financial results and financial position, either favorably or unfavorably.

At times, our Wholesale Energy business segment has open trading positions in the market, within established guidelines, resulting from the management of its trading portfolio. To the extent open trading positions exist, fluctuating commodity prices can impact our financial results and financial position, either favorably or unfavorably.

The risk management procedures our Wholesale Energy business segment has in place may not always be followed or may not always work as planned. As a result of these and other factors, we cannot predict with precision the impact that our risk management decisions may have on our businesses, operating results or financial position. Although our Wholesale Energy business segment devotes a considerable amount of management effort to these issues, their outcome is uncertain.

Our trading, marketing, power origination and risk management operations are also exposed to the risk that counterparties who owe it money or physical commodities, such as energy or gas, as a result of market transactions will not perform their obligations. Should the counterparties to these arrangements fail to perform, our trading, marketing, power origination and risk management operations might be forced to acquire alternative hedging arrangements or replace the underlying commitment at then-current market prices. In this event, our trading, marketing, power origination and risk management operations might incur additional losses to the extent of amounts, if any, already paid to the counterparties.

California. During the summer and fall of 2000, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreases in net electric imports, structural market flaws including over-reliance on the electric spot market, and limitations on supply as a result of maintenance and other outages. Although wholesale prices increased, California's deregulation legislation kept retail rates frozen below 1996 levels. This caused two of California's public utilities, which are our customers based on our deliveries to the Cal PX and the Cal ISO, to amass billions of dollars of uncollected wholesale power costs and to ultimately default in January and February 2001 on payments owed for wholesale power purchased through the Cal PX and from the Cal ISO.

As of December 31, 2000, we were owed $101 million by the Cal PX and $181 million by the Cal ISO. In the fourth quarter of 2000, we recorded a pre-tax provision of $39 million against receivable balances related to energy sales in the California market. From January 1, 2001 through February 28, 2001, we have collected $105 million of these receivable balances. As of March 1, 2001, we were owed a total of $358 million by the Cal ISO, the Cal PX, the CDWR and California Energy Resources Scheduling for energy sales in the California wholesale market from the fourth quarter of 2000 through February 28, 2001. Management will continue to assess the collectibility of these receivables based on further developments affecting the California electricity market and the market participants described herein. Additional provisions to the allowance may be warranted in the future.

In response to the filing of a number of complaints challenging the level of wholesale prices, the FERC initiated a staff investigation and issued an order on December 15, 2000 implementing a series of wholesale market reforms, including an interim price review procedure for prices above a $150/MWh "breakpoint" on sales to the Cal ISO and through the Cal PX. The order does not prohibit sales above the "breakpoint," but the seller is subject to weekly reporting and monitoring requirements. For each reported transaction, potential refund liability extends for a period of 60 days following the date any such transaction is reported to the FERC. On March 9, 2001, the FERC issued a further order establishing a proxy market clearing price of $273/MWh for January 2001, and on March 16, 2001 the FERC issued a further order adjusting the proxy market clearing price to $430/MWh for February 2001. New market monitoring and mitigation measures to replace the $150/MWh breakpoint and reporting obligation are being developed by the FERC to take effect on May 1, 2001.

In the FERC's March 9 and March 16 orders, the FERC outlined criteria for determining amounts subject to possible refund based on the proxy market clearing price for January and February 2001 and indicated that approximately $12 million of the $125 million charged by us in January 2001 in California to the Cal ISO and the Cal PX and approximately $7 million of the $47 million charged by us in February 2001 in California to the Cal ISO and the Cal PX were subject to possible refunds. In the March 9 and March 16 orders, the FERC set forth procedures for challenging possible refund obligations. Because we believe that there is cost or other justification for prices charged above the proxy market clearing prices established in the March 9 and March 16 orders, we intend to pursue such a challenge with respect to our potential refund amounts identified in such orders. Any refunds we may ultimately be obligated to pay are to be credited against unpaid amounts owed to us for our sales in the Cal PX or to the Cal ISO. The December 15 order established that a refund condition would be in place for the period beginning October 2, 2000 through December 31, 2002. The December 15 order also eliminated the requirement that California's public utilities sell all of their generation into and purchase all of their power from the Cal PX and directed that the Cal PX wholesale tariffs be terminated effective April 2001. The Cal PX has since suspended its day-ahead and day-of markets and filed for bankruptcy protection on March 9, 2001. Motions for rehearing have been filed on a number of issues related to the December 15 order and such motions are still pending before the FERC.

In addition to the FERC investigation discussed above, several state and other federal regulatory investigations and complaints have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action. In California, the California Public Utilities Commission, the California Electricity Oversight Board, the California Bureau of State Audits and the California Office of the Attorney General all have separate ongoing investigations into the high prices and their causes. None of these investigations have been completed and no findings have been made in connection with any of them.

Despite the market restructuring ordered under the December 15 order, the California public utilities have continued to accrue unrecovered wholesale costs. As a result, the credit ratings of two of these public utilities were severely downgraded to below investment grade in January 2001. As their credit lines became unavailable, the two utilities defaulted on payments due to the Cal PX and the Cal ISO, which operate financially as pass-through entities, coordinating payments from buyers and sellers of electricity. As a result, the Cal PX and Cal ISO were not able to pay final invoices to market participants totaling over $1 billion.

The default of two of California's public utilities on amounts owed the Cal PX and the Cal ISO for purchased power has further exacerbated the current crisis in the California wholesale markets and resulted in substantial uncollected receivables owed to us by the Cal ISO and the Cal PX. The Cal PX's efforts to recover the available collateral of the utilities, in the form of block forward contracts, have been frustrated by the emergency acts of California's Governor, who seized control of the contracts upon the expiration of temporary restraining orders prohibiting such action. Although obligated to pay reasonable value for the contracts, the state of California has not yet made any payment for the contracts. Various actions have been filed challenging the Governor's ability to seize these contracts.

Upon the default of the two utilities of amounts due to the Cal PX, the Cal PX issued "charge-backs" allocating the utilities' defaults to the other market participants. Proceedings were brought both in federal court and at the FERC seeking a suspension of the charge-backs and challenging the reasonableness of the Cal PX's actions. The Cal PX has since agreed to a preliminary injunction suspending any of its charge-back activities in order to allow the FERC to address the charge-back issues. Amounts owed to us were debited in invoices by the Cal PX for charge-backs in the amount of $29 million and, on February 14, 2001, we filed our own lawsuit against the Cal PX in the United States District Court for the Central District of California, seeking a recovery of those amounts and a stay of any further charge-backs by the Cal PX. The filing of bankruptcy by the Cal PX will automatically stay for some period the various court and administrative cases against the Cal PX.

The two defaulting utilities have both filed lawsuits challenging the refusal of state regulators to allow wholesale power costs to be passed through to retail customers under the "filed rate doctrine." The filed rate doctrine provides that wholesale power costs approved by the FERC are entitled to be recovered through rates.

Additionally, to address the failing financial condition of the two defaulting utilities and the utilities' potential bankruptcy, the California Legislature passed emergency legislation, effective January 18, 2001 and February 2, 2001, appropriating funds to be used by the CDWR for the purchase of wholesale electricity on behalf of the utilities and authorizing the sale of bonds to fund future purchases under long-term power contracts with wholesale generators. The CDWR began the process of soliciting bids from generators for long-term contracts and continued the purchasing of short-term power contracts. No bonds have yet been issued by the CDWR to support long-term power purchases or to provide credit support for short-term purchases.

As noted above, two of California's public utilities have defaulted in their payment obligations to the Cal PX and the Cal ISO as a result of the refusal of state regulators to allow them to recover their wholesale power costs. This refusal by state regulators has also caused the utilities to default on numerous other financial obligations, which could result in either the voluntary or involuntary bankruptcy of the utilities. While a bankruptcy filing would result in further post-petition purchases of wholesale electricity being considered administrative expenses of the debtor, a substantial delay could be experienced in the payment of pre-petition receivables pending the confirmation of a reorganization plan. The California Legislature is currently considering legislation under which a state entity would be formed to purchase and operate a substantial share of the transmission lines in California in an effort to provide cash to the utilities and thereby avoid potential bankruptcy filings by the utilities. A number of the creditors for the two California public utilities have indicated, however, that unless California moves quickly with such a plan, an involuntary bankruptcy filing may be made by one or more of such creditors.

Because California's power reserves remain at low levels, in part as a result of the lack of creditworthy buyers of power given the defaults of the California utilities, the Cal ISO has relied on emergency dispatch orders requiring generators to provide at the Cal ISO's direction all power not already under contract. The power supplied to the Cal ISO has been used to meet the needs of the customers of the utilities, even though two of those utilities do not have the credit required to receive such power and may be unable to pay for it. We have contested the obligation to provide power under these circumstances. The Cal ISO sought a temporary restraining order compelling us to continue to comply with the emergency dispatch orders despite the utilities' defaults. Although the payment issue is still disputed, on February 21, 2001, we and the CDWR entered into a contract expiring March 23, 2001 for the purchase of all of our available capacity not already under contract and the litigation has been temporarily stayed. The CDWR is current in its payments under this contract, but we are still owed $108 million for power provided in compliance with the emergency dispatch orders for the six weeks prior to the agreement. Depending on the outcome of the court proceedings initiated by the Cal ISO seeking to enjoin us from ceasing power deliveries to the Cal ISO, we may be forced to continue selling power without the guarantee of payment.

Additionally, we are seeking a prompt FERC determination that the Cal ISO is not complying with the credit provisions of its tariff and a related order of the FERC issued on February 14, 2001, requiring the Cal ISO not to make purchases in the real time market unless a creditworthy purchaser is responsible for such purchases.

For additional information regarding the situation in California, please read "Business -- Wholesale Energy -- Power Generation Operations -- Southwest Region" and "Business -- Regulation -- State and Local Regulations -- California" in Item 1 of this Form 10-K, "-- Results of Operations by Business Segment -- Wholesale Energy -- 2000 Compared to 1999," as well as Notes 14(g) and 14(h) to our consolidated financial statements.

COMPETITIVE, REGULATORY AND OTHER FACTORS AFFECTING OUR EUROPEAN ENERGY OPERATIONS

Competition. The European energy market is highly competitive. In addition, over the next several years, we expect an increasing consolidation of the participants in the European generating market.

Our European wholesale operations compete in the Netherlands, primarily against the three other largest Dutch generating companies, various cogenerators of electric power, various alternate sources of power and non-Dutch generators of electric power, primarily from France and Germany. In 2000, UNA and the three other largest Dutch generating companies supplied approximately 50% of the electricity consumed in the

Netherlands. Smaller Dutch producers supplied about 25% of the consumed electricity, and the remainder was imported. At present, the Dutch electricity system has three operational interconnection points with Germany and two interconnection points with Belgium. There are also a number of projects that are at various stages of development and that may increase the number of interconnections in the future (post 2005) including interconnections with Norway and the United Kingdom. The Belgian interconnections are used to import electricity from France, but a larger portion of Dutch electricity imports comes from Germany.

Our European trading and marketing operations will also be subject to increasing levels of competition. As of December 31, 2000, there were 32 trading and marketing companies registered with the Amsterdam Power Exchange. Competition among power generators for customers is intense, and we expect competition to increase with the deregulation of the market. Please read "-- Regulation." The primary elements of competition affecting both the generation and trading and marketing operations of our European Energy business segment are price, credit support, and supply and delivery reliability.

Deregulation. The Dutch electricity market was opened to limited wholesale and retail competition on January 1, 1999 as retail competition for large industrial customers began. The Dutch wholesale electric market was completely opened to competition on January 1, 2001. Consistent with our expectations at the time we made the acquisition, we anticipate that our European Energy business segment may experience a significant decline in gross margin in 2001 attributable to the deregulation of the market and termination of an agreement with the other Dutch generators and the Dutch distributors. The next customer segment, composed primarily of commercial customers, will be liberalized by 2002. The remainder of the market, mainly residential, will be open to competition by 2003. The timing of these market openings is subject to change, however, at the discretion of the Dutch Minister of Economic Affairs. In addition, the results of our European Energy segment will be negatively impacted beginning in 2002 due to the imposition of a standard Dutch corporate income tax rate, which is currently 35%, on the income of UNA. In 2000 and prior years, UNA's Dutch corporate income tax rate was zero percent.

Other. Another factor that could have a significant impact on the Dutch energy industry, including the operations of our European Energy business segment, is the ultimate resolution of stranded costs issues in the Netherlands. Prior to 2001, UNA and the other Dutch generators sold their generating output through the coordinating body for the Dutch electricity generating sector, B.V. Nederlands Elektriciteit Administratiekantor (NEA). Over the years, NEA has incurred "stranded" costs as a result of, among other things, a perceived need to cover anticipated shortages in energy production supply. NEA stranded costs consist primarily of investments in alternative energy sources and fuel and power purchase contracts currently estimated to be uneconomical. Legislation has been approved by the Dutch parliament which would transfer the liability for the stranded costs from NEA to its four shareholders, one of which is UNA. For information regarding this legislation, please read Note 14(i) to our consolidated financial statements.

In connection with our acquisition of UNA, the selling shareholders of UNA agreed to indemnify UNA for some stranded costs in an amount not to exceed NLG 1.4 billion ($599 million based on an exchange rate of 2.34 NLG per U.S. dollar as of December 31, 2000), which may be increased in some circumstances at our option up to NLG 1.9 billion ($812 million). Of the total consideration we paid for the shares of UNA, NLG 900 million ($385 million) has been placed by the selling shareholders under the direction of the Dutch Minister of Economic Affairs in an escrow account to secure the indemnity obligations by the former shareholders of UNA. Although our management believes that the indemnity provision will be sufficient to fully satisfy UNA's ultimate share of any stranded costs obligation, this judgment is based on numerous assumptions regarding the ultimate outcome and timing of the resolution of the stranded cost issue, the former shareholders' timely performance of their obligations under the indemnity arrangement, and the amount of stranded costs, which at present is not determinable. Any shortfall in the indemnity provision could have a material adverse effect on our results of operations.

Our European operations are subject to various risks incidental to investing or operating in foreign countries. These risks include economic risks, such as fluctuations in currency exchange rates, restrictions on the repatriation of foreign earnings and/or restrictions on the conversion of local currency earnings into U.S. dollars. For example, we estimate that the impact of the devaluation of the Euro relative to the

U.S. dollar during 2000 negatively impacted U.S. dollar net income in the amount of approximately $8 million.

Impact of Currency Fluctuations on Company Earnings. For information about our exposure through our investment in Europe to losses resulting from fluctuations in currency rates, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

COMPETITIVE AND OTHER FACTORS AFFECTING RERC OPERATIONS

Natural Gas Distribution. Our Natural Gas Distribution business segment competes primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other gas distributors and marketers also compete directly with our Natural Gas Distribution business segment for gas sales to end-users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass our Natural Gas Distribution business segment's facilities and market, sell and/or transport natural gas directly to commercial and industrial customers.

Generally, the regulations of the states in which our Natural Gas Distribution business segment operates allow us to pass through changes in the costs of natural gas to our customers through purchased gas adjustment provisions in rates. There is, however, an inherent timing difference between our purchases of natural gas and the ultimate recovery of these costs. Consequently, we may incur additional "carrying" costs as a result of this timing difference and the resulting, temporary under-recovery of our purchased gas costs. To a large extent, these additional carrying costs are not recovered from our customers.

Pipelines and Gathering. Our Pipelines and Gathering segment competes with other interstate and intrastate pipelines in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service. Our Pipelines and Gathering segment competes indirectly with other forms of energy available to its customers, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability of energy and pipeline capacity, the level of business activity, conservation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in areas we serve and the level of competition for transportation and storage services. Since FERC Order No. 636, REGT's and MRT's commodity sales activity has been minimal. Commodity transactions are usually related to system management activity which we have been able to manage with little exposure. We have not been nor do we anticipate to be, negatively impacted from the recent price levels and the tightening of supply. In addition, competition for our gathering operations is impacted by commodity pricing levels in its markets because these prices influence the level of drilling activity in those markets.

Natural Gas Pipeline Company of America has proposed, and is soliciting customers for a 30" pipeline paralleling MRT's East Line in Illinois to a point 17 miles East of St. Louis Metro, with a proposed in-service date of June 2002. MRT has renewed or is engaged in negotiations to renew service agreements under multi-year terms, including service and potential expansion needs along MRT's existing East Line in Illinois. Our Pipelines and Gathering business segment derives approximately 14% of its revenues from its contract with Laclede, which has been under an annual evergreen term provision since 1999. In the event we are not able to renegotiate a long-term extension to the contract with Laclede, and Laclede engages another pipeline for the transportation services it currently obtains from us, the operating and financial results of our Pipelines and Gathering business segment would be materially adversely affected.

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding our exposure to risk as a result of fluctuations in commodity prices and derivative instruments, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

INDEXED DEBT SECURITIES (ZENS) AND OUR AOL TIME WARNER INVESTMENT

For information on our indexed debt securities and our investment in AOL Time Warner common stock, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K and Note 8 to our consolidated financial statements.

ENVIRONMENTAL EXPENDITURES

We are subject to numerous environmental laws and regulations, which require us to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment. For additional information regarding environmental contingencies, please read Note 14(g) to our consolidated financial statements.

Clean Air Act Expenditures. We expect the majority of capital expenditures associated with environmental matters to be incurred by our Electric Operations and Wholesale Energy business segments in connection with emission limitations for NOx under the Clean Air Act, or to enhance operational flexibility under Clean Air Act requirements. In 2000, emission reduction requirements for NOx were finalized for our electric generating facilities in Texas and the Mid-Atlantic region. We currently estimate that up to $534 million will be required to comply with the requirements through the end of 2003, with an estimated $215 million to be incurred in 2001. The Texas regulations require additional reductions that must be completed by March 2007. Estimates for the Texas units for the period 2004 through 2007 have not been defined, but could be up to $230 million. We are currently litigating the economic and technical viability of the Texas post-2004 reduction requirements, but cannot predict the outcome of this litigation. In addition, the Legislation created a program mandating air emissions reductions for some generating facilities of our Electric Operations segment. The Legislation provides for stranded costs recovery for costs associated with this obligation incurred before May 1, 2003. For additional information regarding the Legislation, please read Note 4(a) to our consolidated financial statements. Additional NOx emission controls for our generating units located in California may result in expenditures of up to $30 million through 2002. For additional information regarding environmental regulation of air emissions, please read "Business -- Environmental Matters -- Air Emissions" in Item 1 of this Form 10-K.

Site Remediation Expenditures. From time to time we have received notices from regulatory authorities or others regarding our status as a potentially responsible party in connection with sites found to require remediation due to the presence of environmental contaminants. Based on currently available information, we believe that remediation costs will not materially affect our financial position, results of operations or cash flows. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to our estimates. For information about specific sites that are the subject of remediation claims, please read Note 14(g) to our consolidated financial statements and Note 9(c) to RERC's consolidated financial statements.

Water, Mercury and Other Expenditures. As discussed under "Business -- Environmental Matters -- Water Issues" in Item 1 of this Form 10-K, regulatory authorities are in the process of implementing regulations and quality standards in connection with the discharge of pollutants into waterways. Once these regulations and quality standards are enacted, we will be able to determine if our operations are in compliance, or if we will have to incur costs in order to comply with the quality standards and regulations. Until that time, however, we are not able to predict the amount of these expenditures, if any. To date, however, our expenditures associated with respect to permits, registrations and authorizations for operation of facilities under the statutes regulating the discharge of pollutants into surface water have not been material. With regard to mercury remediation and other environmental matters, such as the disposal of solid wastes, our expenditures have not been, and are not expected to be material, based on our experiences and that of others in our industries. Please read "Business -- Environmental Matters -- Mercury Contamination" and "-- Other" in Item 1 of this Form 10-K.

OTHER CONTINGENCIES

For a description of other legal and regulatory proceedings affecting us, please read Notes 4 and 14 to our consolidated financial statements and Note 9 to RERC's consolidated financial statements.

ITEMS INCORPORATED BY REFERENCE FROM THE RELIANT ENERGY 10-K NOTES

o (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(f) Regulatory Assets.

The Company applies the accounting policies established in Statement of Financial Accounting Standards (SFAS) No. 71 (SFAS No. 71) to the accounts of transmission and distribution operations of Reliant Energy HL&P and the utility operations of Natural Gas Distribution and to some of the accounts of Pipelines and Gathering. For information regarding Reliant Energy HL&P's electric generation operations' discontinuance of the application of SFAS No. 71 in 1999 and the effect on its regulatory assets and the Texas Electric Choice Plan (Legislation), see Note 4(a).

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 1999 and 2000.

	DECEMBER 31,	
	1999	2000
	(IN MILLIONS)	
Recoverable impaired plant costs, net	$ 587	$ 281
Recoverable electric generation related regulatory assets, net	952	1,385
Regulatory tax liability, net	(45)	(49)
Unamortized loss on reacquired debt	69	66
Other long-term assets/liabilities	(14)	6
Total	$1,549	$1,689

Included in the above table are $191 million and $237 million of regulatory liabilities recorded as other long-term liabilities in the Company's Consolidated Balance Sheets as of December 31, 1999 and 2000, respectively, which primarily relate to the recovery of fuel costs as of December 31, 1999, and gains on nuclear decommissioning trust funds, regulatory tax liabilities and excess deferred income taxes as of December 31, 1999 and 2000.

Under a "deferred accounting" plan authorized by the Public Utility Commission of Texas (Texas Utility Commission), Electric Operations was permitted for regulatory purposes to accrue carrying costs in the form of allowance for funds used during construction (AFUDC) on its investment in the South Texas Project Electric Generating Station (South Texas Project) and to defer and capitalize depreciation and other operating costs on its investment after commercial operation until these costs were reflected in rates. In addition, the Texas Utility Commission authorized Electric Operations to defer allowable costs (including return) for future recovery. Pursuant to SFAS No. 92, "Regulated Enterprises -- Accounting for Phase-in Plans," the Company deferred these costs. These costs are included in recoverable electric generation related regulatory assets. The amortization of all deferred plant costs (which totaled $26 million for 1998) is included in the Company's Statements of Consolidated Operations as depreciation and amortization expense. Pursuant to the Legislation, see Note 4(a), the Company discontinued amortizing deferred plant costs effective January 1, 1999.

In 1998, 1999 and 2000, the Company, as permitted by the 1995 rate case settlement (Rate Case Settlement), also amortized $4 million, $22 million and $11 million, respectively, of its investment in lignite reserves associated with a canceled generating station. The investment in these reserves was fully amortized during 2000.

For additional information regarding recoverable impaired plant costs and recoverable electric generation related assets and the related amortization during 1999 and 2000, see Notes 2(g) and 4(a).

If, as a result of changes in regulation or competition, the Company's ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, "Regulated Enterprises Accounting for the Discontinuation of Application of SFAS No. 71" (SFAS No. 101) and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS No. 121), the Company would be required to write off or write down these regulatory assets and liabilities. In addition, the Company would be required to determine any impairment to the carrying costs of plant and inventory assets.

o (3) BUSINESS ACQUISITIONS

(a) Reliant Energy Mid-Atlantic Power Holdings, LLC.

On May 12, 2000, a subsidiary of the Company purchased entities owning electric power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having an aggregate net generating capacity of approximately 4,262 megawatts (MW). With the exception of development entities that were sold to another subsidiary of the Company in July 2000, the assets of the entities acquired are held by Reliant Energy Mid-Atlantic Power Holdings, LLC (REMA). The purchase price for the May 2000 transaction was $2.1 billion, subject to post-closing adjustments which management does not believe will be material. The Company accounted for the acquisition as a purchase with assets and liabilities of REMA reflected at their estimated fair values. On a preliminary basis, the Company's fair value adjustments related to the acquisition primarily included adjustments in property, plant and equipment, air emissions regulatory allowances, materials and supplies inventory, environmental reserves and related deferred taxes. The air emissions regulatory allowances of $153 million are being amortized on a units-of-production basis as utilized. The excess of the purchase price over the fair value of net assets acquired of $7 million was recorded as goodwill and is being amortized over 35 years. The Company expects to finalize these fair value adjustments no later than May 2001, based on valuation reports of property, plant and equipment and intangible assets, and does not anticipate additional material modifications to the preliminary adjustments. Funds for the acquisition of REMA were made available through commercial paper borrowings by a finance subsidiary, which borrowings were supported by bank credit facilities.

The net purchase price of REMA was allocated and the fair value adjustments to the seller's book value are as follows (in millions):

	PURCHASE PRICE ALLOCATION	FAIR VALUE ADJUSTMENTS
Current assets	$ 75	$ (37)
Property, plant and equipment	1,941	670
Goodwill	7	(144)
Other intangibles	153	(10)
Other assets	4	(4)
Current liabilities	(45)	(8)
Other liabilities	(38)	(14)
	$2,097	$ 453

Adjustments to property, plant and equipment, other intangibles, which includes air emissions regulatory allowances, and environmental reserves included in other liabilities are based primarily on valuation reports prepared by independent appraisers and consultants.

In August 2000, the Company entered into separate sale/leaseback transactions with each of three owner-lessors for the Company's 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, acquired as part of the REMA acquisition. As lessee, the Company leases an interest in each facility from each owner-lessor under a facility lease agreement. As consideration for

the sale of the Company's interest in the facilities, the Company received $1.0 billion in cash. The Company used the $1.0 billion of sale proceeds to repay commercial paper referred to above.

The Company's results of operations include the results of REMA only for the period beginning May 12, 2000. Prior to November 24, 1999, the acquired entities' operations were fully integrated with, and their results of operations were consolidated into, the regulated electric utility operations of a prior owner of the facilities. In addition, prior to November 24, 1999, the electric output of the facilities was sold based on rates set by regulatory authorities and is not indicative of REMA's future results. The following table presents selected actual financial information and unaudited pro forma information for 1999 and 2000, as if the acquisition had occurred on November 24, 1999 and January 1, 2000, as applicable. Pro forma information prior to November 24, 1999 would not be meaningful since historical financial results of the business and the revenue generating activities underlying that period as described above are substantially different from the wholesale generation activities that REMA has been engaged in after November 24, 1999. Pro forma amounts also give effect to the sale and leaseback of interests in three of the REMA generating plants, which were consummated in August 2000.

	YEAR ENDED DECEMBER 31,			
	1999		2000	
	ACTUAL	UNAUDITED PRO FORMA	ACTUAL	UNAUDITED PRO FORMA
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$15,223	$15,253	$29,339	$29,506
Income from continuing operations before extraordinary items	1,674	1,664	771	762
Net income attributable to common stockholders	1,482	1,472	447	438
Basic earnings per share from continuing operations before extraordinary items	5.87	5.84	2.71	2.68
Diluted earnings per share from continuing operations before extraordinary items	5.85	5.82	2.68	2.65
Basic earnings per share	5.20	5.16	1.57	1.54
Diluted earnings per share	5.18	5.15	1.56	1.53

These unaudited pro forma results, based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the amounts that would have resulted if the acquisition of the REMA entities had occurred on November 24, 1999 and January 1, 2000, as applicable. Purchase-related adjustments to the results of operations include the effects on depreciation and amortization, interest expense and income taxes.

(b) N.V. UNA.

Effective October 7, 1999, the Company acquired N.V. UNA (UNA), a Dutch electric generation company, for a total net purchase price, payable in Dutch Guilders (NLG), of $1.9 billion based on an exchange rate on October 7, 1999 of 2.06 NLG per U.S. dollar. The aggregate purchase price paid in 1999 by the Company consisted of $833 million in cash. On March 1, 2000, under the terms of the acquisition agreement, the Company funded the remaining purchase obligation for $982 million. The business purchase obligation was recorded in the Company's Consolidated Balance Sheet as of December 31, 1999, based on the exchange rate on December 31, 1999, of 2.19 NLG per U.S. dollar. A portion ($596 million) of the business purchase obligation was classified as a non-current liability, as this portion of the obligation was financed with a three-year term loan facility obtained in the first quarter of 2000.

The Company recorded the UNA acquisition under the purchase method of accounting, with assets and liabilities of UNA reflected at their estimated fair values. As outlined in the table below, the Company's fair value adjustments related to the acquisition of UNA primarily included increases in property, plant and equipment, long-term debt, severance liabilities, post-employment benefit liabilities and deferred foreign taxes. Additionally, a $19 million receivable was recorded in connection with the acquisition as the selling

shareholders agreed to reimburse UNA for some obligations incurred prior to the purchase of UNA. Adjustments to property, plant and equipment are based primarily on valuation reports prepared by independent appraisers and consultants. The excess of the purchase price over the fair value of net assets acquired of $897 million was recorded as goodwill and will be amortized on a straight-line basis over 30 years. The Company finalized these fair value adjustments during September 2000. The Company finalized a severance plan (UNA Plan) in connection with the UNA acquisition in September 2000 (commitment date) and in accordance with EITF 95-3 "Recognition of Liabilities in Connection with a Purchase Business Combination," recorded this liability of $19 million in the third quarter of 2000. Payments under the UNA Plan will be primarily made in mid-2001.

In connection with the acquisition of UNA, the Company developed a comprehensive business process reengineering and employee severance plan intended to make UNA competitive in the deregulated Dutch electricity market that began January 1, 2001. The UNA Plan's initial conceptual formulation was initiated prior to the acquisition of UNA in October 1999. The finalization of the UNA Plan was approved and completed in September 2000. The Company identified 195 employees who will be involuntarily terminated in UNA's following functional areas: plant operations and maintenance, procurement, inventory, general and administrative, legal, finance and support. The Company has notified all employees identified under the severance component of the UNA Plan that they are subject to involuntary termination and that the majority of terminations will occur over a period not to exceed twelve months from the date of finalization of the UNA Plan. The termination benefits under the UNA Plan are governed by UNA's Social Plan, a collective bargaining agreement between UNA and its various representative labor unions signed in 1998. The Social Plan provides defined benefits for involuntarily severed employees, depending upon age, tenure and other factors, and was agreed to by the management of UNA as a result of the anticipated deregulation of the Dutch electricity market. The Social Plan is still in force and binding on the current management of the Company and UNA. The Company is currently executing the UNA Plan as of the date of these Consolidated Financial Statements.

The net purchase price of UNA was allocated and the fair value adjustments to the seller's book value are as follows (in millions):

	PURCHASE PRICE ALLOCATION	FAIR VALUE ADJUSTMENTS
Current assets	$ 229	$ 19
Property, plant and equipment	1,899	719
Goodwill	897	897
Current liabilities	(336)	--
Deferred taxes	(81)	(81)
Long-term debt	(422)	(87)
Other long-term liabilities	(244)	(35)
	$1,942	$1,432

The following table presents selected actual financial information for 1998 and 1999, and unaudited pro forma information for 1998 and 1999, as if the acquisition of UNA had occurred on January 1, 1998 and 1999, respectively. The unaudited pro forma results are based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the consolidated results that would have resulted if the acquisition of UNA had occurred on January 1, 1998 and 1999, as applicable. Purchase related adjustments to results of operations include amortization of goodwill,

interest expense and the effects on depreciation and amortization of the assessed fair value of some of UNA's net assets and liabilities.

	YEAR ENDED DECEMBER 31,			
	1998		1999	
	ACTUAL	UNAUDITED PRO FORMA	ACTUAL	UNAUDITED PRO FORMA
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$11,230	$12,062	$15,223	$15,704
Income from continuing operations before extraordinary item	(278)	(227)	1,674	1,648
Net (loss) income attributable to common stockholders	(141)	(90)	1,482	1,455
Basic earnings per share from continuing operations before extraordinary item	(0.98)	(0.80)	5.87	5.78
Diluted earnings per share from continuing operations before extraordinary item	(0.98)	(0.80)	5.85	5.76
Basic earnings per share	(0.50)	(0.32)	5.20	5.11
Diluted earnings per share	(0.50)	(0.32)	5.18	5.09

o (4) REGULATORY MATTERS

(a) Texas Electric Choice Plan and Discontinuance of SFAS No. 71 for Electric Generation Operations.

In June 1999, the Texas legislature adopted the Legislation, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition. Retail pilot projects for up to 5% of each utility's load in all customer classes will begin in June 2001, and retail electric competition for all other customers will begin on January 1, 2002. In preparation for that competition, the Company expects to make significant changes in the electric utility operations it conducts through its electric utility division, Reliant Energy HL&P. In addition, the Legislation requires the Texas Utility Commission to issue a number of new rules and determinations in implementing the Legislation.

The Legislation defines the process for competition and creates a transition period during which most utility rates are frozen at rates not in excess of their present levels. The Legislation provides for utilities to recover their generation related stranded costs and regulatory assets (as defined in the Legislation).

Retail Choice. Under the Legislation, on January 1, 2002, retail customers of most investor owned electric utilities in Texas will be entitled to purchase their electricity from any of a number of "retail electric providers," which will have been certified by the Texas Utility Commission. Retail electric providers will not own or operate generation assets and their sales rates will not be subject to traditional cost-of-service rate regulation. Retail electric providers that are affiliates of electric utilities may compete substantially statewide for these sales, but rates they charge within the affiliated electric utility's traditional service territory are subject to some limitations at the outset of retail choice, as described below. The Texas Utility Commission will prescribe regulations governing quality, reliability and other aspects of service from retail electric providers. Transactions between the regulated utility and its current and future competitive affiliates are subject to regulatory scrutiny and must comply with a code of conduct established by the Texas Utility Commission. The code of conduct governs interactions among employees of regulated and current and future unregulated affiliates as well as the exchange of information between these affiliates. The Company intends to compete in the Texas retail market and, as a result, has certified two of its subsidiaries as retail electric providers.

Unbundling. By January 1, 2002, electric utilities in Texas such as Reliant Energy HL&P will restructure their businesses in order to separate power generation, transmission and distribution, and retail activities into different units. Pursuant to the Legislation, the Company submitted a plan in January 2000 that was later amended to accomplish the required separation (the Business Separation Plan). For additional information regarding the Business Separation Plan, see Note 4(b). The transmission and distribution

business will continue to be subject to cost-of-service rate regulation and will be responsible for the delivery of electricity to retail customers.

Generation. Power generators will sell electric energy to wholesale purchasers, including retail electric providers, at unregulated rates beginning January 1, 2002. To facilitate a competitive market, each power generation company affiliated with a transmission and distribution utility will be required to sell at auction 15% of the output of its installed generating capacity. The first auction will be held on or before September 1, 2001 for power delivered after January 1, 2002. This obligation continues until January 1, 2007 unless before that date the Texas Utility Commission determines at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial load in the electric utility's service area is being served by retail electric providers other than the affiliated retail electric provider. See Note 4(b) for information regarding the capacity auctions and the effect of the Business Separation Plan on the Company. The Legislation also creates a program mandating air emissions reductions for non-permitted generating facilities. The Company anticipates that any stranded costs associated with this obligation incurred before May 1, 2003 will be recoverable through the stranded costs recovery mechanisms contained in the Legislation.

Rates. Base rates charged by Reliant Energy HL&P on September 1, 1999 will be frozen until January 1, 2002. Pursuant to Texas Utility Commission regulations, effective January 1, 2002, retail rates charged to residential and small commercial customers by the utility's affiliated retail electric provider will be reduced by 6% from the average rates (on a bundled basis) in effect on January 1, 1999 (adjusted for fuel charges). That reduced rate will be known as the "price to beat" and will be charged by the affiliated retail electric provider to residential and small commercial customers in the utility's service area who have not elected service from another retail electric provider. The affiliated retail electric provider may not offer different rates to residential or small commercial customer classes in the utility's service area until the earlier of the date the Texas Utility Commission determines that 40% of power consumed by that class in the affiliated transmission and distribution utility's service area is being served by non-affiliated retail electric providers or January 1, 2005. In addition, the affiliated retail electric provider must make the price to beat available to eligible consumers until January 1, 2007.

Stranded Costs. Reliant Energy HL&P will be entitled to recover its stranded costs (i.e., the excess of net book value of generation assets (as defined by the Legislation) over the market value of those assets) and its regulatory assets related to generation. The Legislation prescribes specific methods for determining the amount of stranded costs and the details for their recovery. However, during the base rate freeze period from 1999 through 2001, earnings above the utility's authorized return formula will be applied in a manner to accelerate depreciation of generation related plant assets for regulatory purposes. In addition, depreciation expense for transmission and distribution related assets may be redirected to generation assets for regulatory purposes during that period.

The Texas Utility Commission has recently stated on record that it would consider requiring electric utilities to reverse the amount of redirected depreciation and accelerated depreciation previously taken if in its estimation the utility has overmitigated its stranded costs. The reversal could occur through a lower rate for the transmission and distribution utility and/or through credits contained in the transmission and distribution utility's rate. Any order requiring the reversal of these amounts would likely be included in the Texas Utility Commission proceeding establishing the initial rate of the transmission and distribution utility. The Company does not expect the final Reliant Energy HL&P transmission and distribution rate to be established until August 2001. For information regarding redirected depreciation, see "Accounting" in this Note 4(a).

The Legislation provides for Reliant Energy HL&P, or a special purpose entity, to issue securitization bonds for the recovery of generation related regulatory assets and a portion of stranded costs. These bonds will be sold to third parties and will be amortized through non-bypassable charges to transmission and distribution customers. Any stranded costs not recovered through the securitization bonds will be recovered through a non-bypassable charge to transmission and distribution customers. Costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a non-bypassable charge to transmission and distribution customers. For

further discussion of the effect of the Business Separation Plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

In May 2000, the Texas Utility Commission issued a financing order to the Company authorizing the issuance of transition bonds in an amount not to exceed $740 million plus actual up-front qualified costs. Payments on the transition bonds will be made out of funds derived from non-bypassable transition charges to Reliant Energy HL&P's transmission and distribution customers. The offering of the transition bonds will be registered under the Securities Act of 1933 and is expected to be consummated during 2001.

Capacity Auction True-up. In accordance with the Legislation, beginning on January 1, 2002, and ending when the true-up proceeding is completed, any difference between market power prices received in the generation capacity auction and the Texas Utility Commission's earlier estimates of those market prices will be included in the 2004 stranded costs true-up, as further discussed below. This component of the true-up is intended to ensure that neither the customers nor the Company are disadvantaged economically as a result of the two-year transition period by providing this pricing structure. For information regarding the effect of the Business Separation Plan on the generation capacity auctions, see Note 4(b).

Accounting. Historically, Reliant Energy HL&P has applied the accounting policies established in SFAS No. 71. In general, SFAS No. 71 permits a company with cost-based rates to defer some costs that would otherwise be expensed to the extent that it meets the following requirements: (a) its rates are regulated by a third-party; (b) its rates are cost-based; and (c) there exists a reasonable assumption that all costs will be recoverable from customers through rates. When a company determines that it no longer meets the requirements of SFAS No. 71, pursuant to SFAS No. 101 and SFAS No. 121, it is required to write off regulatory assets and liabilities unless some form of recovery continues through rates established and collected from remaining regulated operations. In addition, such company is required to determine any impairment to the carrying costs of deregulated plant and inventory assets in accordance with SFAS No. 121.

In July 1997, the EITF reached a consensus on Issue No. 97-4, "Deregulation of the Pricing of Electricity -- Issues Related to the Application of FASB Statements No. 71, Accounting for the Effects of Certain Types of Regulation, and No. 101, Regulated Enterprises Accounting for the Discontinuation of Application of FASB Statement No. 71" (EITF No. 97-4). EITF No. 97-4 concluded that a company should no longer apply SFAS No. 71 to a segment which is subject to a deregulation plan at the time the deregulation legislation or enabling rate order contains sufficient detail for the utility to reasonably determine how the plan will affect the segment to be deregulated. In addition, EITF No. 97-4 requires that regulatory assets and liabilities be allocated to the applicable portion of the electric utility from which the source of the regulated cash flows will be derived.

The Company believes that the Legislation provides sufficient detail regarding the deregulation of the Company's electric generation operations to require it to discontinue the use of SFAS No. 71 for those operations. Effective June 30, 1999, the Company applied SFAS No. 101 to Reliant Energy HL&P's electric generation operations. Reliant Energy HL&P's transmission and distribution operations continue to meet the criteria of SFAS No. 71.

In 1999, the Company evaluated the effects that the Legislation would have on the recovery of its generation related regulatory assets and liabilities. The Company determined that a pre-tax accounting loss of $282 million existed because it believes only the economic value of its generation related regulatory assets (as defined by the Legislation) will be recovered. Therefore, the Company recorded a $183 million after-tax extraordinary loss in the fourth quarter of 1999. If events were to occur that made the recovery of some of the remaining generation related regulatory assets no longer probable, the Company would write off the remaining balance of such assets as a non-cash charge against earnings. Pursuant to EITF No. 97-4, the remaining recoverable regulatory assets will not be written off and will become associated with the transmission and distribution portion of the Company's electric utility business. For details regarding Reliant Energy HL&P's regulatory assets, see Note 2(f).

At June 30, 1999, the Company performed an impairment test of its previously regulated electric generation assets pursuant to SFAS No. 121 on a plant specific basis. Under SFAS No. 121, an asset is

considered impaired, and should be written down to fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. For assets that are impaired pursuant to SFAS No. 121, the Company determined the fair value for each generating plant by estimating the net present value of future cash inflows and outflows over the estimated life of each plant. The difference between fair value and net book value was recorded as a reduction in the current book value. The Company determined that $797 million of electric generation assets were impaired as of June 30, 1999. Of these amounts, $745 million related to the South Texas Project and $52 million related to two gas-fired generation plants. The Legislation provides for recovery of this impairment through regulated cash flows during the transition period and through non-bypassable charges to transmission and distribution customers. As such, a regulatory asset has been recorded for an amount equal to the impairment loss and is included on the Company's Consolidated Balance Sheets as a regulatory asset. The Company recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing SFAS No. 71 of $221 million in the third and fourth quarters of 1999 and $329 million in 2000. The Company expects to fully amortize this regulatory asset as it is recovered from regulated cash flows in 2001.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, Reliant Energy HL&P must finalize and reconcile stranded costs (as defined by the Legislation) in a filing with the Texas Utility Commission. Any positive difference between the regulatory net book value and the fair market value of the generation assets (as defined by the Legislation) will be collected through future non-bypassable charges. Any over-mitigation of stranded costs may be refunded through future non-bypassable charges. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges. Because generally accepted accounting principles require the Company to estimate fair market values on a plant-by-plant basis in advance of the final reconciliation, the financial impacts of the Legislation with respect to the final determination of stranded costs in 2004 are subject to material changes. Factors affecting such change may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events occur that make the recovery of all or a portion of the regulatory assets associated with the generation plant impairment loss and other assets created from discontinuance of SFAS No. 71 pursuant to the Legislation no longer probable, the Company will write off the corresponding balance of these assets as a non-cash charge against earnings. One of the results of discontinuing the application of SFAS No. 71 for the generation operations is the elimination of the regulatory accounting effects of excess deferred income taxes and investment tax credits related to these operations. The Company believes it is probable that some parties will seek to return these amounts to ratepayers and accordingly, the Company has recorded an offsetting liability.

In order to reduce potential exposure to stranded costs related to generation assets, Reliant Energy HL&P redirected $195 million and $99 million of depreciation in 1998 and for the six months ended June 30, 1999, respectively, from transmission and distribution related plant assets to generation assets for regulatory and financial reporting purposes. This redirection was in accordance with the Company's Transition Plan. See Note 4(c) for additional information regarding the Transition Plan. The Legislation provides that depreciation expense for transmission and distribution related assets may be redirected to generation assets during the base rate freeze period from 1999 through 2001. For regulatory purposes, the Company has continued to redirect transmission and distribution depreciation to generation assets. Beginning June 30, 1999, redirected depreciation expense cannot be recorded by the electric generation operations portion of Reliant Energy HL&P for financial reporting purposes as this portion of electric operations is no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000, $99 million and $218 million in depreciation expense, respectively, has been redirected from transmission and distribution for regulatory purposes and has been established as an embedded regulatory asset included in transmission and distribution related plant and equipment balances. As of December 31, 1999 and 2000, the cumulative amount of redirected depreciation for regulatory purposes is $393 million and $611 million, respectively.

The Company has reviewed its long-term purchase power contracts and fuel contracts for potential loss in accordance with SFAS No. 5, "Accounting for Contingencies" and Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing." Based on projections of future market prices for wholesale electricity, the analysis indicated no loss recognition is appropriate at this time.

Other Accounting Policy Changes. As a result of discontinuing SFAS No. 71, the accounting policies discussed below related to Electric Operations' generation operations have been changed effective July 1, 1999. Allowance for funds used during construction will no longer be accrued on generation related construction projects. Instead, interest will be capitalized on these projects in accordance with SFAS No. 34, "Capitalization of Interest Cost."

Previously, in accordance with SFAS No. 71, Reliant Energy HL&P deferred the premiums and expenses that arose when long-term debt was redeemed and amortized these costs over the life of the new debt. If no new debt was issued, these costs were amortized over the remaining original life of the retired debt. Effective July 1, 1999, costs resulting from the retirement of debt attributable to the generation operations of Reliant Energy HL&P will be recorded in accordance with SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," unless these costs will be recovered through regulated cash flows. In that case, these costs will be deferred and recorded as a regulatory asset by the entity through which the source of the regulated cash flows will be derived.

(b) Business Separation Plan.

General. As required by the Legislation, Reliant Energy submitted the Business Separation Plan in 2000 to the Texas Utility Commission. The Business Separation Plan was later amended to provide for the restructuring of the Company's businesses into two separate and publicly traded companies in order to separate its unregulated businesses from its regulated businesses. In December 2000, the plan was approved by the Texas Utility Commission. Reliant Resources holds Reliant Energy's unregulated businesses, including the Wholesale Energy segment, European Energy segment, communications business, eBusiness group, new ventures group and retail electric business. As further described below, Reliant Energy will undergo a restructuring of the Company's corporate organization to achieve a holding company structure. This holding company will hold primarily what are currently Reliant Energy's rate-regulated businesses. Reliant Resources expects to conduct the Offering in 2001. After the Offering, Reliant Energy will own approximately 80% of Reliant Resources common stock. Reliant Energy expects the Offering to be followed by a distribution to Reliant Energy's or its successor's shareholders of the remaining common stock of Reliant Resources within 12 months of the Offering (the Distribution Date).

The Offering and the Distribution are subject to further corporate approvals, market and other conditions, and government actions, including receipt of a favorable Internal Revenue Service ruling that the Distribution would be tax-free to Reliant Energy or its successor and its shareholders for U.S. federal income tax purposes, as applicable. There can be no assurance that the Offering and the Distribution will be completed as described or within the time periods outlined above.

Restructuring of Regulated Entities. Under the Business Separation Plan, Reliant Energy will restructure its regulated operations into a holding company structure in which a new corporate entity (Regulated Holding Company) will be formed as the parent with the Company's regulated businesses as subsidiaries. This Regulated Holding Company is expected to own (a) the Company's electric transmission and distribution operations, (b) its natural gas distribution businesses, (c) initially, its regulated electric generating assets in Texas, (d) its interstate pipelines, gas gathering and pipeline services operations, and (e) its interests in energy companies in Latin America until disposition of these investments (see Note 19). In these Notes, references to Reliant Energy in connection with events occurring or the performance of agreements after the restructuring generally refer to the Regulated Holding Company.

In connection with the formation of the new holding company for regulated businesses, Reliant Energy expects to transfer the stock of all of its subsidiaries to the new holding company and will transfer its regulated electric generating assets in Texas to an indirect wholly owned partnership (Texas Genco) until the stranded costs associated with those assets are valued in 2004. At that time, Reliant Resources will have the right to

exercise an option to acquire those assets, as further discussed below. As a result of the stock and asset transfers described above, Reliant Energy will become solely a transmission and distribution company, with its other businesses becoming subsidiaries of the new holding company. Reliant Energy expects that the regulated holding company will be required to assume all of Reliant Energy's debt other than its first mortgage bonds, which would remain with Reliant Energy. The indebtedness of some wholly owned financing subsidiaries is expected to be refinanced by the regulated holding company by the end of 2002.

Reliant Energy has made and will continue to make internal asset and stock transfers intended to allocate the assets and liabilities of Reliant Energy in accordance with regulatory requirements and as contemplated by the Business Separation Plan. Forms of each of the intercompany agreements described below have been prepared and will be entered into by Reliant Energy and Reliant Resources prior to the Offering.

Aspects of the restructuring of Reliant Energy's regulated businesses are subject to the approval of Reliant Energy's shareholders and lenders and approvals from the SEC under the Public Utility Holding Company Act and from the United States Nuclear Regulatory Commission (NRC). There can be no assurance that the restructuring of the Company's regulated businesses will be completed as described above.

Agreements Related to Texas Generating Assets. Pursuant to the Business Separation Plan, Reliant Energy expects to cause Texas Genco to either issue and sell in an initial public offering or to distribute to its shareholders no more than 20% of the common stock of Texas Genco by June 30, 2002. In connection with the separation of its unregulated businesses from its regulated businesses, Reliant Energy will grant Reliant Resources an option to purchase all of the shares of capital stock of Texas Genco that will be owned by Reliant Energy after the initial public offering or distribution. The Texas Genco option may be exercised between January 10, 2004 and January 24, 2004. The per share exercise price under the option will be the average daily closing price on the national exchange for publicly held shares of common stock of Texas Genco for the 30 consecutive trading days with the highest average closing price during the 120 trading days immediately preceding January 10, 2004, plus a control premium, up to a maximum of 10%, to the extent a control premium is included in the valuation determination made by the Texas Utility Commission relating to the market value of Texas Genco's common stock equity. The exercise price is also subject to adjustment based on the difference between the per share dividends paid during the period there is a public ownership interest in Texas Genco and Texas Genco's per share earnings during that period. If the disposition to the public of common stock of Texas Genco is by means of a primary or secondary public offering, the public offering may be of as little as 17% (rather than 19%) of Texas Genco's outstanding common stock, in which case Reliant Energy will have the right to subsequently reduce its interest to a level not less than 80%. Reliant Resources will agree that if it exercises the Texas Genco Option and purchases the shares of Texas Genco common stock, Reliant Resources will also purchase all notes and other receivables from Texas Genco then held by Reliant Energy, at their principal amount plus accrued interest. Similarly, if Texas Genco holds notes or receivables from the Company, Reliant Resources will assume those obligations in exchange for a payment to Reliant Resources by the Company of an amount equal to the principal plus accrued interest.

Exercise of the Texas Genco option by Reliant Resources will be subject to various regulatory approvals, including Hart-Scott-Rodino antitrust clearance and Nuclear Regulatory Commission license transfer approval. The option will be exercisable only if Reliant Energy or its successor distributes all of the shares of Reliant Resources common stock it owns to its shareholders.

The Texas Genco option agreement will require Reliant Energy to take commercially reasonable action as may be appropriate to cause Texas Genco to have a capital structure appropriate, in the judgment of Reliant Energy's Board of Directors, for the satisfactory marketing of Texas Genco common stock in an initial public offering or to establish a satisfactory trading market for Texas Genco common stock following a distribution of shares to Reliant Energy's shareholders. It also will contain covenants relating to the operation of the Texas Genco assets prior to the exercise or expiration of the option and require that Reliant Energy maintain ownership of all equity of Texas Genco until exercise or expiration of the Texas Genco option, subject to the initial public offering or distribution obligation.

Reliant Resources will provide engineering and technical support services and environmental, safety and industrial health services to support the operations and maintenance of Texas Genco's facilities. Reliant

Resources will also provide systems, technical, programming and consulting support services and hardware maintenance (but excluding plant-specific hardware) necessary to provide dispatch planning, dispatch and settlement and communication with the independent system operator. The fees charged for these services will be designed to allow Reliant Resources to recover its fully allocated direct and indirect costs and reimbursement of out-of-pocket expenses. Expenses associated with capital investment in systems and software that benefit both the operation of Texas Genco's facilities and Reliant Resources' facilities in other regions will be allocated on an installed megawatt basis. The term of the technical services agreement will begin at the Distribution Date. The term of this agreement will end on the first to occur of (a) the closing date of the Reliant Resources' Texas Genco option, (b) Reliant Energy's sale of Texas Genco, or all or substantially all of the assets of Texas Genco, if Reliant Resources does not exercise the Texas Genco option, or (c) December 31, 2004, provided the Texas Genco option is not exercised. Texas Genco may extend the term of this agreement until December 31, 2005.

Pursuant to the Legislation, Texas Genco will be required to sell at auction 15% of the output of its installed generating capacity beginning January 1, 2002. The first auction will be held on or before September 1, 2001 for power delivered after January 1, 2002. This obligation continues until January 1, 2007, unless before that date the Texas Utility Commission determines that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial customers in the Reliant Energy HL&P traditional service area is being served by retail electric providers other than subsidiaries of Reliant Resources. Texas Genco plans to auction all of its remaining output during the time period prior to Reliant Resources' exercise of the Texas Genco option. Pursuant to the Business Separation Plan, Reliant Resources is entitled to purchase, at prices established in these auctions, up to 50% of the remaining capacity, energy and ancillary services auctioned by Texas Genco.

When Texas Genco is organized, it will become the beneficiary of the decommissioning trust that has been established to provide funding for decontamination and decommissioning of a nuclear electric generation station in which Reliant Energy owns a 30.8% interest (see Note 6). The master separation agreement will provide that Reliant Energy will collect through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trust, and will pay the amounts to Texas Genco. Texas Genco will in turn be required to deposit these amounts received from Reliant Energy into the decommissioning trust. Upon decommissioning of the facility, in the event funds from the trust are inadequate, Reliant Energy will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to Reliant Energy's ratepayers.

Retail Agreement between Reliant Energy and Reliant Resources. Under a retail agreement, Reliant Resources will provide customer service call center operations, credit and collections and revenue reporting services for Reliant Energy's electric utility division and receiving and processing payments for the accounts of Reliant Energy's electric utility division and two of Reliant Energy's natural gas distribution divisions. Reliant Energy will provide the office space and equipment for Reliant Resources to perform these services. These services will terminate on January 1, 2002. The charges Reliant Energy will pay Reliant Resources for these services are generally intended to allow Reliant Resources to recover its fully allocated costs of providing the services, plus out-of-pocket costs and expenses.

Service Agreements between Reliant Energy and Reliant Resources. Reliant Resources plans to enter into agreements with Reliant Energy under which Reliant Energy will provide Reliant Resources, on an interim basis, with various corporate support services (including accounting, finance, investor relations, planning, legal, communications, governmental and regulatory affairs and human resources), information technology services and other previously shared services such as corporate security, facilities management, accounts receivable, accounts payable and payroll, office support services and purchasing and logistics.

These arrangements will continue after the Offering under a transition services agreement providing for their continuation until December 31, 2004, or, in the case of some corporate support services, until the

Distribution Date. The charges Reliant Resources will pay Reliant Energy for these services are generally intended to allow Reliant Energy to recover its fully allocated costs of providing the services, plus out-of-pocket costs and expenses. In each case, Reliant Resources will have the right to terminate categories of services at an earlier date.

Pursuant to a lease agreement, Reliant Energy will lease Reliant Resources office space in its headquarters building in Houston, Texas for an interim period.

Other Agreements. In connection with the separation of Reliant Resources' businesses from those of Reliant Energy, Reliant Resources will also enter into other agreements providing, among other things, for mutual indemnities and releases with respect to Reliant Resources' respective businesses and operations, matters relating to corporate governance, matters relating to responsibility for employee compensation and benefits, and allocation of tax liabilities. In addition, Reliant Resources and Reliant Energy will enter into various agreements relating to ongoing commercial arrangements, including among other things the leasing of optical fiber and related maintenance activities, rights to build fiber networks along existing rights of way, and the provision of local exchange telecommunications and data services in the greater Houston metropolitan area and long distance telecommunications services.

Reliant Energy will agree that $1.9 billion of intercompany indebtedness owed by Reliant Resources and its subsidiaries prior to the closing of the Offering will be converted into equity as a capital contribution to Reliant Resources.

(c) Transition Plan.

In June 1998, the Texas Utility Commission issued an order in Docket No. 18465 approving the Company's Transition Plan filed by Reliant Energy HL&P in December 1997. The Transition Plan included base rate credits to residential customers of 4% in 1998 and an additional 2% in 1999. Commercial customers whose monthly billing is 1,000 kva or less were entitled to receive base rate credits of 2% in each of 1998 and 1999. The Company implemented the Transition Plan effective January 1, 1998.

(d) Reliant Energy HL&P Filings.

As of December 31, 2000, Reliant Energy HL&P had recorded as a regulatory asset under-recovered fuel cost of $558 million. In two separate filings in 2000, Reliant Energy HL&P filed and received approval to implement a fuel surcharge to collect the under recovery of fuel expenses, as well as to adjust the fuel factor to compensate for significant increases in the price of natural gas.

On March 15, 2001, Reliant Energy HL&P filed to revise its fuel factor and address the Company's undercollected fuel costs of $389 million, which is the accumulated amount since September 2000 through February 2001 plus estimates for March and April, 2001. Reliant Energy HL&P is requesting to revise its fixed fuel factor to be implemented with the May 2001 billing cycle and has proposed to defer the collection of the $389 million until the 2004 stranded costs true-up proceeding, discussed in Note 4(a) above.

o (5) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Price Risk Management and Trading Activities.

The Company offers energy price risk management services primarily related to natural gas, electric power and other energy related commodities. The Company provides these services by utilizing a variety of derivative financial instruments, including (a) fixed and variable-priced physical forward contracts, (b) fixed and variable-priced swap agreements, (c) options traded in the over-the-counter financial markets and (d) exchange-traded energy futures and option contracts (Trading Derivatives). Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between industry pricing publications or exchange quotations.

The Company applies mark-to-market accounting for all of its energy trading, marketing and price risk management operations. Accordingly, these Trading Derivatives are recorded at fair value with realized and unrealized gains (losses) recorded as a component of revenues. The recognized, unrealized balances are included in price risk management assets/liabilities.

The notional quantities, maximum terms and the estimated fair value of Trading Derivatives at December 31, 1999 and 2000 are presented below (volumes in billions of British thermal units equivalent (Bbtue) and dollars in millions):

	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
1999			
Natural gas	1,278,953	1,251,319	9
Electricity	242,868	239,452	10
Oil and other	285,251	286,521	3
2000			
Natural gas	1,876,358	1,868,597	17
Electricity	526,556	523,942	6
Oil and other	52,820	42,380	2

	FAIR VALUE		AVERAGE FAIR VALUE(1)	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
1999				
Natural gas	$ 581	$ 564	$ 550	$ 534
Electricity	122	91	96	74
Oil and other	193	206	183	187
	$ 896	$ 861	$ 829	$ 795
2000				
Natural gas	$4,059	$4,054	$2,058	$2,038
Electricity	1,115	1,087	601	561
Oil and other	39	39	63	70
	$5,213	$5,180	$2,722	$2,669

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(1) Computed using the ending balance of each quarter.

In addition to the fixed-price notional volumes above, the Company also has variable-priced agreements, as discussed above, totaling 2,147,173 Bbtue and 3,004,336 Bbtue as of December 31, 1999 and 2000, respectively. Notional amounts reflect the commodity volumes underlying the transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure the Company's exposure to market or credit risks.

All of the fair values shown in the table above at December 31, 1999 and 2000, have been recognized in income. The Company estimated the fair value as of December 31, 1999 and 2000, using quoted prices where available and other valuation techniques when market data was not available, for example in illiquid markets. For financial instruments for which quoted prices are not available, the Company utilizes alternative pricing methodologies, including, but not limited to, extrapolation of forward pricing curves using historically reported data from illiquid pricing points. These same pricing techniques are used to evaluate a contract prior to taking the position. The prices and fair values are subject to significant changes based on changing market conditions.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum and average terms disclosed herein are not indicative of likely future cash flows, as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market

conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

In addition to the risk associated with price movements, credit risk is also inherent in the Company's risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The following table shows the composition of the total price risk management assets of the Company as of December 31, 1999 and 2000.

	DECEMBER 31, 1999		DECEMBER 31, 2000	
	INVESTMENT GRADE(1)	TOTAL	INVESTMENT GRADE(1)	TOTAL
		(IN MILLIONS)		
Energy marketers	$202	$230	$2,507	$2,709
Financial institutions	90	159	1,159	1,296
Gas and electric utilities	220	221	511	586
Oil and gas producers	31	31	500	599
Industrials	3	4	78	89
Others	174	263	--	--
Total	$720	908	$4,755	5,279
Credit and other reserves		(12)		(66)
Energy price risk management assets(2)		$896		$5,213

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(1) "Investment Grade" is primarily determined using publicly available credit ratings along with the consideration of credit support (such as parent company guarantees) and collateral, which encompass cash and standby letters of credit.

(2) As of December 31, 2000, the Company had credit risk exposure to three investment-grade counterparties that each represented greater than 5% of price risk management assets. This information excludes some offsetting contracts that either require or permit net settlement with non-trading transactions not included in price risk management assets. The Company's resulting net credit risk exposure to these three counterparties is below 5% of price risk management assets.

(b) Non-Trading Activities.

To reduce the risk from market fluctuations in the revenues derived from the sale of electric power and natural gas and related transportation, the Company enters into futures transactions, forward contracts, swaps and options (Energy Derivatives) in order to hedge some expected purchases of electric power and natural gas and sales of electric power and natural gas (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements and to protect natural gas distribution earnings against unseasonably warm weather during peak gas heating months, although usage to date for this purpose has not been material. The Company applies hedge accounting for its derivative financial instruments utilized in non-trading activities. Unrealized changes in the market value of Energy Derivatives utilized as hedges are not generally recognized in the Company's Statements of Consolidated Operations until the underlying hedged transaction occurs. Once it becomes probable that an anticipated transaction will not occur, the Company recognizes deferred gains and losses. In general, the financial impact of transactions involving these Energy Derivatives is included in the Company's Statements of Consolidated Operations under the captions (a) fuel expenses, in the case of natural gas transactions, (b) purchased power, in the case of electric power purchase transactions, and (c) revenues, in the case of electric power sales transactions. Cash flows resulting from these transactions in Energy Derivatives are included in the Company's Statements of Consolidated Cash Flows in the same category as the item being hedged.

In connection with the Company's acquisition of UNA in 1999, the Company entered into call option agreements with several banks to hedge the impact of foreign exchange movements on the Dutch guilder. These call options provided the right, but not the obligation, to purchase NLG 695 million from specific banks at specific strike prices. The total premium paid, classified as other expense on the Company's Statement of Consolidated Operations, for all of the options that were to expire on October 26, 1999, was $8 million. On October 12, 1999, the Company sold the remaining value in the call options for $0.6 million. The proceeds were reflected in the Company's results of operations as a reduction of other expense.

As of December 31, 1999 and 2000, the Company had outstanding foreign currency swaps for 258 million and Euros 671 million, respectively (approximately $228 million and $632 million), terminating in September 2000 and January 2001, respectively. The Company also issued Euro-denominated debt, maturing in March and June 2001. The foreign currency swaps and Euro-denominated debt hedge the Company's net investment in UNA. In January 2001, the Company entered into foreign currency swaps for Euros 671 million (approximately $633 million) to replace the foreign currency swaps that expired in January 2001. These foreign currency swaps terminate in January 2002. In January and March 2001, the Company entered into foreign currency forward contracts for Euros 159 million (approximately $150 million) to adjust the hedge of its net investment in UNA. These forward contracts expire in January 2002. The Company records changes in the value of the hedging instruments and debt as foreign currency translation adjustments as a component of stockholders' equity and accumulated other comprehensive loss. The effectiveness of the hedging instruments can be measured by the net change in foreign currency translation adjustments attributed to the net investment in UNA. These amounts generally offset amounts recorded in stockholders' equity as adjustments resulting from translation of the hedged investment into U.S. dollars. As of December 31, 1999 and 2000, the net carrying value of the currency swaps was a $6 million receivable and $62 million obligation, respectively, and was recorded in other current assets and other current liabilities in the Company's Consolidated Balance Sheets.

During 2000, European Energy entered into financial instruments to purchase approximately $120 million to hedge future fuel purchases payable in U.S. dollars. As of December 31, 2000, the fair value of these financial instruments was a $6 million liability. Unrealized changes in the market value of these financial instruments are not recognized in the Company's Statements of Consolidated Operations until the underlying hedged transaction occurs.

For transactions involving either Energy Derivatives or foreign currency derivatives, hedge accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated as a hedge at its inception. Additionally, the derivatives must be expected to result in financial impacts that are inversely correlated to those of the item(s) to be hedged. This correlation, a measure of hedge effectiveness, is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied.

At December 31, 1999, the Company was a fixed-price payor and a fixed-price receiver in Energy Derivatives covering 33,108 Bbtu and 5,481 Bbtu of natural gas, respectively. At December 31, 2000, the Company was a fixed-price payor and a fixed-price receiver in Energy Derivatives covering 198,001 Bbtu and 22,874 Bbtu of natural gas, respectively, and 486 Bbtu and zero Bbtu of oil, respectively. In addition to the fixed-price notional volumes above, the Company also has variable-priced agreements totaling 44,958 Bbtu and 174,900 Bbtu of natural gas at December 31, 1999 and 2000, respectively. The weighted average maturity of these instruments is less than two years.

The notional amount is intended to be indicative of the Company's level of activity in these derivatives. However, the amounts at risk are significantly smaller because, in view of the price movement correlation required for hedge accounting, changes in the market value of these derivatives generally are offset by changes in the value associated with the underlying physical transactions or in other derivatives. When Energy Derivatives are closed out in advance of the underlying commitment or anticipated transaction, however, the market value changes may not offset due to the fact that price movement correlation ceases to exist when the

positions are closed, as further discussed above. Under these circumstances, gains (losses) are deferred and recognized as a component of income when the underlying hedged item is recognized in income.

The average maturity discussed above and the fair value discussed in Note 15 are not necessarily indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(c) Trading and Non-trading -- General Policy.

In addition to the risk associated with price movements, credit risk is also inherent in the Company's risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The Company has off-balance sheet risk to the extent that the counterparties to these transactions may fail to perform as required by the terms of each contract. In order to minimize this risk, the Company enters into these contracts primarily with counterparties having a minimum investment grade index rating, i.e. a Standard & Poor's or Moody's rating of BBB- or Baa3, respectively. For long-term arrangements, the Company periodically reviews the financial condition of these firms in addition to monitoring the effectiveness of these financial contracts in achieving the Company's objectives. If the counterparties to these arrangements fail to perform, the Company would seek to compel performance at law or otherwise obtain compensatory damages. The Company might be forced to acquire alternative hedging arrangements or be required to replace the underlying commitment at then-current market prices. In this event, the Company might incur additional losses to the extent of amounts, if any, already paid to the counterparties. For information regarding credit risk related to the California wholesale electricity market, see Note 14(h).

The Company's policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

The Company has established a Risk Oversight Committee, comprised of corporate and business segment officers that oversees all commodity price and credit risk activities, including the Company's trading, marketing, power origination and risk management activities. The committee's duties are to establish the Company's commodity risk policies, allocate risk capital within limits established by the Company's Board of Directors, approve trading of new products and commodities, monitor risk positions and ensure compliance with the Company's risk management policies and procedures and trading limits established by the Company's Board of Directors.

o (8) INDEXED DEBT SECURITIES (ACES AND ZENS) AND AOL TIME WARNER SECURITIES

(a) Original Investment in Time Warner Securities.

On July 6, 1999, the Company converted its 11 million shares of Time Warner Inc. (TW) convertible preferred stock (TW Preferred) into 45.8 million shares of Time Warner common stock (TW Common). Prior to the conversion, the Company's investment in the TW Preferred was accounted for under the cost method at a value of $990 million in the Company's Consolidated Balance Sheets. The TW Preferred was redeemable after July 6, 2000, had an aggregate liquidation preference of $100 per share (plus accrued and unpaid dividends), was entitled to annual dividends of $3.75 per share until July 6, 1999 and was convertible by the Company. The Company recorded pre-tax dividend income with respect to the TW Preferred of $21 million in 1999 prior to the conversion and $41 million in 1998. Effective on the conversion date, the shares of TW Common were classified as trading securities under SFAS No. 115 and an unrealized gain was recorded in the amount of $2.4 billion ($1.5 billion after-tax) to reflect the cumulative appreciation in the fair value of the Company's investment in Time Warner securities.

(b) ACES.

In July 1997, in order to monetize a portion of the cash value of its investment in TW Preferred, the Company issued 22.9 million of its unsecured 7% Automatic Common Exchange Securities (ACES) having an original principal amount of $1.052 billion and maturing July 1, 2000. The market value of ACES was indexed to the market value of TW Common. On the July 1, 2000 maturity date, the Company tendered 37.9 million shares of TW Common to fully settle its obligations in connection with its unsecured 7% ACES having a value of $2.9 billion.

(c) ZENS.

On September 21, 1999, the Company issued approximately 17.2 million of its 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of $1.0 billion. The original principal amount per ZENS will increase each quarter to the extent that the sum of the quarterly cash dividends and the interest paid during a quarter on the reference shares attributable to one ZENS is less than $.045, so that the annual yield to investors from the date the Company issued the ZENS to the date of computation of the contingent principal amount is not less than 2.309%. At maturity the holders of the ZENS will receive in cash the higher of the original principal amount of the ZENS (subject to adjustment as discussed above) or an amount based on the then-current market value of TW Common, or other securities distributed with respect to TW Common (one share of TW Common and such other securities, if any, are referred to as reference shares). Each ZENS has an original principal amount of $58.25 (the closing market price of the TW Common on September 15, 1999) and is exchangeable at any time at the option of the holder for cash equal to 95% (100% in some cases) of the market value of the reference shares attributable to one ZENS. The Company pays interest on each ZENS at an annual rate of 2% plus the amount of any quarterly cash dividends paid in respect of the quarterly interest period on the reference shares attributable to each ZENS. Subject to some conditions, the Company has the right to defer interest payments from time to time on the ZENS for up to 20 consecutive quarterly periods. As of December 31, 2000, no interest payments on the ZENS had been deferred.

On January 11, 2001, TW and America Online, Inc. combined to form AOL Time Warner Inc. (AOL TW). As a result of the combination each share of TW Common was converted into 1.5 shares of AOL TW Common Stock (AOL TW Common) and the Company now holds 25.8 million shares of AOL TW Common. As a result of the combination, the reference shares attributable to one ZENS is 1.5 shares of AOL TW Common.

The Company used $537 million of the net proceeds from the offering of the ZENS to purchase 9.2 million shares of TW Common, which are classified as trading securities under SFAS No. 115. Unrealized gains and losses resulting from changes in the market value of the TW Common are recorded in the Company's Statements of Consolidated Operations.

Prior to January 1, 2001, an increase above $58.25 (subject to some adjustments) in the market value per share of TW Common resulted in an increase in the Company's liability for the ZENS. However, as the market value per share of TW Common declined below $58.25 (subject to some adjustments), the liability for the ZENS did not decline below the original principal amount. As of December 31, 1999 and 2000, the market value of TW Common was $72.31 and $52.24, respectively. Therefore, during 2000, the Company recorded a pre-tax net unrealized loss on its investment in TW Common and its obligation on its indexed debt securities of $103 million.

Prior to the purchase of additional shares of TW Common on September 21, 1999, the Company owned approximately 8 million shares of TW Common that were in excess of the 38 million shares needed to economically hedge its ACES obligation. For the period from July 6, 1999 to the ZENS issuance date, losses (due to the decline in the market value of the TW Common during such period) on these 8 million shares were $122 million ($79 million after-tax). The 8 million shares of TW Common combined with the additional 9.2 million shares purchased are expected to be held to facilitate the Company's ability to meet its obligation under the ZENS.

The following table sets forth summarized financial information regarding the Company's investment in TW securities and the Company's ACES and ZENS obligations.

	TW INVESTMENT	ACES	ZENS
	(IN MILLIONS)		
Balance at December 31, 1997	$ 990	$ 1,174	
Loss on indexed debt securities	--	1,176	
Balance at December 31, 1998	990	2,350	
Issuance of indexed debt securities	--	--	$1,000
Purchase of TW Common	537	--	--
Loss on indexed debt securities	--	388	241
Gain on TW Common	2,452	--	--
Balance at December 31, 1999	3,979	2,738	1,241
Loss (Gain) on indexed debt securities	--	139	(241)
Loss on TW Common	(205)	--	--
Settlement of ACES	(2,877)	(2,877)	--
Balance at December 31, 2000	$ 897	$ --	$1,000

Upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation is bifurcated into a debt component and a derivative component (the holder's option to receive the appreciated value of AOL TW Common at maturity). The derivative component is valued at fair value and determines the initial carrying value assigned to the debt component ($121 million) as the difference between the original principal amount of the ZENS ($1.0 billion) and the fair value of the derivative component at issuance ($879 million). Effective January 1, 2001 the debt component is recorded at its accreted amount of $122 million and the derivative component is recorded at its current fair value of $788 million, as a current liability, resulting in a transition adjustment pre-tax gain of $90 million. The transition adjustment gain will be reported in the first quarter of 2001 as the effect of a change in accounting principle. Subsequently, the debt component will accrete through interest charges at 17.5% up to the minimum amount payable upon maturity of the ZENS in 2029, approximately $1.1 billion, and changes in the fair value of the derivative component will be recorded in the Company's Statements of Consolidated Operations. Changes in the fair value of the AOL TW Common held by the Company should substantially offset changes in the fair values of the derivative component of the ZENS.

o (14) COMMITMENTS AND CONTINGENCIES

(a) Capital and Environmental Commitments.

The Company has various commitments for capital and environmental expenditures. The Wholesale Energy segment has entered into commitments associated with various non-rate regulated electric generating projects, including commitments for the purchase of combustion turbines aggregating $436 million. In addition, the Wholesale Energy segment has options to purchase additional generating equipment for a total estimated cost of $544 million for future generating projects.

The Company anticipates investing up to $711 million in capital and other special project expenditures between 2001 and 2005 for environmental compliance. The Company anticipates expenditures to be as follows (in millions):

2001	$217
2002	259
2003	80
2004	76
2005	79
Total	$711

(b) Fuel and Purchased Power.

Reliant Energy HL&P is a party to several long-term coal, lignite and natural gas contracts, which have various quantity requirements and durations. Minimum payment obligations for coal and transportation agreements that extend through 2011 are approximately $280 million in 2001, $281 million in 2002 and $274 million in 2003. Purchase commitments related to lignite mining and lease agreements, natural gas purchases and storage contracts, and purchased power are not material to the operations of the Company. Currently, Reliant Energy HL&P is allowed recovery of these costs through base rates for electric service. As of December 31, 2000, some of these contracts are above market. The Company anticipates that stranded costs associated with these obligations will be recoverable through the stranded costs recovery mechanisms contained in the Legislation. For information regarding the Legislation, see Note 4(a).

REMA is a party to several long-term fuel supply contracts which have various quantity requirements and durations. Minimum payment obligations under these agreements that extend through 2004 are as follows as of December 31, 2000 (in millions):

2001	$ 85
2002	66
2003	29
2004	14
Total	$194

The Company's other long-term fuel supply commitments which have various quantity requirements and durations are not considered material either individually or in the aggregate to the Company's results of operations or cash flows.

(c) Lease Commitments.

In August 2000, the Company entered into separate sale/leaseback transactions with each of three owner-lessors for the Company's respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, acquired in the REMA acquisition. As lessee, the Company leases an interest in each facility from each owner-lessor under a facility lease agreement. The equity interests in all the subsidiaries of REMA are pledged as collateral for REMA's lease obligations. In addition, the subsidiaries have guaranteed the lease obligations. The lease documents contain some restrictive covenants that restrict REMA's ability to, among other things, make dividend distributions unless REMA satisfies various conditions. The covenant restricting dividends would be suspended if the direct or indirect parent of REMA, meeting specified criteria, guarantees the lease obligations. The Company will make lease payments through 2029. The lease terms expire in 2034.

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2000, which primarily relate to the REMA leases mentioned above. Other non-cancelable long-term operating leases principally consist of rental agreements for building space, data processing equipment and vehicles, including major work equipment.

	REMA SALE-LEASE OBLIGATION	OTHER	TOTAL
	(IN MILLIONS)		
2001	$ 259	$ 16	$ 275
2002	137	10	147
2003	77	8	85
2004	84	6	90
2005	75	6	81
2006 and beyond	1,188	36	1,224
Total	$1,820	$ 82	$1,902

Total lease expense for all operating leases was $10 million, $13 million and $46 million during 1998, 1999 and 2000, respectively.

(d) Cross Border Leases.

During the period from 1994 through 1997, under cross border lease transactions, UNA leased several of its power plants and related equipment and turbines to non-Netherlands based investors (the head leases) and concurrently leased the facilities back under sublease arrangements with remaining terms as of December 31, 2000, of 1 to 24 years. UNA utilized proceeds from the head lease transactions to prepay its sublease obligations and to provide a source for payment of end of term purchase options and other financial undertakings. The initial sublease obligations totaled $2.4 billion of which $1.7 billion remained outstanding as of December 31, 2000. These transactions involve UNA providing to a foreign investor an ownership right in (but not necessarily title to) an asset, with a leaseback of that asset. The net proceeds to UNA of the transactions were recorded as a deferred gain and are currently being amortized to income over the lease terms. At December 31, 1999 and 2000, the unamortized deferred gain on these transactions totaled $87 million and $77 million, respectively. The power plants, related equipment and turbines remain on the financial statements of UNA and continue to be depreciated.

UNA is required to maintain minimum insurance coverages, perform minimum annual maintenance and, in specified situations, post letters of credit. UNA's shareholder is subject to some restrictions with respect to the liquidation of UNA's shares. In the case of early termination of these contracts, UNA would be contingently liable for some payments to the sublessors, which at December 31, 2000, are estimated to be $274 million. Starting in March 2000, UNA was required by some of the lease agreements to obtain standby letters of credit in favor of the sublessors in the event of early termination. The amount of the required letters of credit was $274 million as of December 31, 2000. Commitments for these letters of credit have been obtained as of December 31, 2000.

(e) Naming Rights to Houston Sports Complex.

In October 2000, the Company acquired the naming rights for the new football stadium for the Houston Texans, the National Football League's newest franchise. In addition, the naming rights cover the entertainment and convention facilities included in the stadium complex. The agreement extends for 32 years. In addition to naming rights, the agreement provides the Company with significant sponsorship rights. The aggregate cost of the naming rights will be approximately $300 million. During the fourth quarter of 2000, the Company incurred an obligation to pay $12 million in order to secure the long-term commitment and for the initial advertising of which $10 million was expensed in the Company's Statement of Consolidated Operations in 2000. Starting in 2002, when the new stadium is operational, the Company will pay $10 million each year through 2032 for annual advertising under this agreement.

(f) Transportation Agreement.

A subsidiary of RERC Corp. had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) that contemplated that this subsidiary would transfer to ANR an interest in some of RERC Corp.'s pipeline and related assets. As of December 31, 1999 and 2000, the Company had recorded $41 million in other long-term liabilities in the Company's Consolidated Balance Sheets to reflect the Company's obligation to ANR for the use of 130 Mmcf/day of capacity in some of the Company's transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to ANR. The ANR Agreement will terminate in 2005 with a refund of $36 million.

(g) Legal, Environmental and Other Regulatory Matters.

LEGAL MATTERS.

Reliant Energy HL&P Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy HL&P's service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly

owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. Plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. Because the franchise ordinances at issue affecting Reliant Energy HL&P expressly impose fees only on its own receipts and only from sales of electricity for consumption within a city, the Company regards all of plaintiffs' allegations as spurious and is vigorously contesting the case. The plaintiffs' pleadings asserted that their damages exceeded $250 million. The 269th Judicial District Court for Harris County granted partial summary judgment in favor of Reliant Energy dismissing all claims for franchise fees based on sales tax collections. Other motions for partial summary judgment were denied. A six-week jury trial of the original claimant cities (but not the class of cities) ended on April 4, 2000 (three cities case). Although the jury found for Reliant Energy on many issues, they found in favor of the original claimant cities on three issues, and assessed a total of $4 million in actual and $30 million in punitive damages. However, the jury also found in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began.

The trial court in the three cities case granted most of Reliant Energy's motions to disregard the jury's findings. The trial court's rulings reduced the judgment to $1.7 million, including interest, plus an award of $13.7 million in legal fees. In addition, the trial court granted Reliant Energy's motion to decertify the class and vacated its prior orders certifying a class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

The extent to which issues in the three cities case may affect the claims of the other cities served by Reliant Energy HL&P cannot be assessed until judgments are final and no longer subject to appeal. However, the trial court's rulings disregarding most of the jury's findings are consistent with Texas Supreme Court opinions over the past decade. The Company estimates the range of possible outcomes for the plaintiffs to be between zero and $17 million inclusive of interest and attorneys' fees.

The three cities case has been appealed. The Company believes that the $1.7 million damage award resulted from serious errors of law and that it will be set aside by the Texas appellate courts. In addition, the Company believes that because of an agreement between the parties limiting fees to a percentage of the damages, reversal of the award of $13.7 million in attorneys' fees in the three cities case is probable.

California Wholesale Market. Reliant Energy and Reliant Energy Services, Inc. have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. RERC Corp. has also been named as a defendant on one of the lawsuits. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(b)), Reliant Resources will agree to indemnify RERC Corp. for any damages arising under this lawsuit, and will agree to indemnify Reliant Energy for damages arising under any of these lawsuits, and may elect to defend these lawsuits at Reliant Resources' own expense. Three of these lawsuits were filed in the Superior Court of the State of California, San Diego County; two were filed in the Superior Court in San Francisco County. While the plaintiffs allege various violations by the defendants of state antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity during all or portions of 2000, costs of suit and attorneys' fees. In one of the cases the plaintiffs allege aggregate damages of over $4 billion. Defendants have filed petitions to remove the cases to federal court. Furthermore, defendants have filed a motion with the Panel on Multidistrict Litigation seeking transfer and consolidation of all the cases. These lawsuits have only recently been filed. Therefore, the ultimate outcome of the lawsuits cannot be predicted with any degree of certainty at this time. However, the Company does not believe, based on its analysis to date of the claims asserted in these lawsuits and the underlying facts, that resolution of these lawsuits will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

ENVIRONMENTAL MATTERS.

Manufactured Gas Plant Sites. RERC Corp. and its subsidiaries (RERC) and its predecessors operated a manufactured gas plant (MGP) adjacent to the Mississippi River in Minnesota, formerly known as Minneapolis Gas Works (MGW) until 1960. RERC has substantially completed remediation of the main site other than ongoing water monitoring and treatment. The manufactured gas was stored in separate holders. RERC is negotiating clean-up of one such holder. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, RERC believes that two were neither owned nor operated by RERC. RERC believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 1999 and 2000, RERC had accrued $19 million and $17 million, respectively, for remediation of the Minnesota sites. At December 31, 2000, the estimated range of possible remediation costs was $8 million to $36 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

Other Minnesota Matters. At December 31, 1999 and 2000, RERC had recorded accruals of $1 million and $2 million, respectively (with a maximum estimated exposure of approximately $13 million and $17 million at December 31, 1999 and 2000, respectively), for other environmental matters in Minnesota for which remediation may be required.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. The Company has received notices from the United States Environmental Protection Agency and others regarding its status as a potentially responsible party (PRP) for other sites. Based on current information, the Company has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Mercury Contamination. The Company's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by the Company at some sites in the past, and the Company has conducted remediation at sites found to be contaminated. Although the Company is not aware of additional specific sites, it is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by the Company and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, the Company believes that the costs of any remediation of these sites will not be material to the Company's financial position, results of operations or cash flows.

REMA Ash Disposal Site Closures and Site Contaminations. Under the agreement to acquire REMA (see Note 3(a)), the Company became responsible for liabilities associated with ash disposal site closures and site contamination at the acquired facilities in Pennsylvania and New Jersey prior to a plant closing, except for the first $6 million of remediation costs at the Seward Generating Station. A prior owner retained liabilities associated with the disposal of hazardous substances to off-site locations prior to November 24, 1999. As of December 31, 2000, REMA has liabilities associated with six ash disposal site closures and six site investigations and environmental remediations. The Company has recorded its estimate of these environmental liabilities in the amount of $36 million as of December 31, 2000. The Company expects approximately $13 million will be paid over the next five years.

UNA Asbestos Abatement and Soil Remediation. Prior to the Company's acquisition of UNA (see Note 3(b)), UNA had a $25 million obligation primarily related to asbestos abatement, as required by Dutch law, and soil remediation at six sites. During 2000, the Company initiated a review of potential environmental matters associated with UNA's properties. UNA began remediation in 2000 of the properties identified to have exposed asbestos and soil contamination, as required by Dutch law and the terms of some leasehold

agreements with municipalities in which the contaminated properties are located. All remediation efforts are to be fully completed by 2005. As of December 31, 2000, the estimated undiscounted liability for this asbestos abatement and soil remediation was $24 million.

Other. From time to time the Company has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, the Company has been named as a defendant in litigation related to such sites and in recent years has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

OTHER MATTERS. The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

(h) California Wholesale Market Uncertainty.

During the summer and fall of 2000, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreases in net electric imports, structural market flaws including over-reliance on the electric spot market, and limitations on supply as a result of maintenance and other outages. Although wholesale prices increased, California's deregulation legislation kept retail rates frozen below 1996 levels. This caused two of California's public utilities, which are the Company's customers based on its deliveries to the Cal PX and the Cal ISO, to amass billions of dollars of uncollected wholesale power costs and to ultimately default in January and February 2001 on payments owed for wholesale power purchased through the Cal PX and from the Cal ISO.

As of December 31, 2000, the Company was owed $101 million by the Cal PX and $181 million by the Cal ISO. In the fourth quarter of 2000, the Company recorded a pre-tax provision of $39 million against receivable balances related to energy sales in the California market. From January 1, 2001 through February 28, 2001, the Company has collected $105 million of these receivable balances. As of March 1, 2001, the Company was owed a total of $358 million by the Cal ISO, the Cal PX, the California Department of Water Resources (CDWR) and California Energy Resource Scheduling, for energy sales in the California wholesale market from the fourth quarter of 2000 through February 28, 2001. Management will continue to assess the collectibility of these receivables based on further developments affecting the California electricity market and the market participants described herein. Additional provisions to the allowance may be warranted in the future.

In response to the filing of a number of complaints challenging the level of wholesale prices, the FERC initiated a staff investigation and issued an order on December 15, 2000 implementing a series of wholesale market reforms, including an interim price review procedure for prices above a $150/MWh "breakpoint" on sales to the Cal ISO and through the Cal PX. The order does not prohibit sales above the "breakpoint," but the seller is subject to weekly reporting and monitoring requirements. For each reported transaction, potential refund liability extends for a period of 60 days following the date any such transaction is reported to the FERC. On March 9, 2001, the FERC issued a further order establishing a proxy market

clearing price of $273/MWh for January 2001, and on March 16, 2001 the FERC issued a further order adjusting the proxy market clearing price to $430/MWh for February 2001. New market monitoring and mitigation measures to replace the $150/MWh breakpoint and reporting obligation are being developed by the FERC to take effect on May 1, 2001.

In the FERC's March 9 and March 16 orders, the FERC outlined criteria for determining amounts subject to possible refund based on the proxy market clearing price for January and February 2001 and indicated that approximately $12 million of the $125 million charged by the Company in January 2001 in California to the Cal ISO and the Cal PX and approximately $7 million of the $47 million charged by the Company in February 2001 in California to the Cal ISO and the Cal PX were subject to possible refunds. In the March 9 and March 16 orders, the FERC set forth procedures for challenging possible refund obligations. Because the Company believes that there is cost or other justification for prices charged above the proxy market clearing prices established in the March 9 and March 16 orders, the Company intends to pursue such a challenge with respect to the Company's potential refund amounts identified in such orders. Any refunds the Company may ultimately be obligated to pay are to be credited against unpaid amounts owed to the Company for its sales in the Cal PX or to the Cal ISO. The December 15 order established that a refund condition would be in place for the period beginning October 2, 2000 through December 31, 2002. The December 15 order also eliminated the requirement that California's public utilities sell all of their generation into and purchase all of their power from the Cal PX and directed that the Cal PX wholesale tariffs be terminated effective April 2001. The Cal PX has since suspended its day-ahead and day-of markets and filed for bankruptcy protection on March 9, 2001. Motions for rehearing have been filed on a number of issues related to the December 15 order and such motions are still pending before the FERC.

In addition to the FERC investigation discussed above, several state and other federal regulatory investigations and complaints have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action. In California, the California Public Utilities Commission, the California Electricity Oversight Board, the California Bureau of State Audits and the California Office of the Attorney General all have separate ongoing investigations into the high prices and their causes. None of these investigations have been completed and no findings have been made in connection with any of them.

Despite the market restructuring ordered under the December 15 order, the California public utilities have continued to accrue unrecovered wholesale costs. As a result, the credit ratings of two of these public utilities were severely downgraded to below investment grade in January 2001. As their credit lines became unavailable, the two utilities defaulted on payments due to the Cal PX and the Cal ISO, which operate financially as pass-through entities, coordinating payments from buyers and sellers of electricity. As a result, the Cal PX and Cal ISO were not able to pay final invoices to market participants totaling over $1 billion.

The default of two of California's public utilities on amounts owed the Cal PX and the Cal ISO for purchased power has further exacerbated the current crisis in the California wholesale markets and resulted in substantial uncollected receivables owed to the Company by the Cal ISO and the Cal PX. The Cal PX's efforts to recover the available collateral of the utilities, in the form of block forward contracts, have been frustrated by the emergency acts of California's Governor, who seized control of the contracts upon the expiration of temporary restraining orders prohibiting such action. Although obligated to pay reasonable value for the contracts, the state of California has not yet made any payment for the contracts. Various actions have been filed challenging the Governor's ability to seize these contracts.

Upon the default of the two utilities of amounts due to the Cal PX, the Cal PX issued "charge-backs" allocating the utilities' defaults to the other market participants. Proceedings were brought both in federal court and at the FERC seeking a suspension of the charge-backs and challenging the reasonableness of the Cal PX's actions. The Cal PX has since agreed to a preliminary injunction suspending any of its charge-back activities in order to allow the FERC to address the charge-back issues. Amounts owed to the Company were debited in invoices by the Cal PX for charge-backs in the amount of $29 million and, on February 14, 2001, the Company filed its own lawsuit against the Cal PX in the United States District Court for the Central District of California, seeking a recovery of those amounts and a stay of any further charge-backs by the Cal

PX. The filing of bankruptcy by the Cal PX will automatically stay for some period the various court and administrative cases against the Cal PX.

The two defaulting utilities have both filed lawsuits challenging the refusal of state regulators to allow wholesale power costs to be passed through to retail customers under the "filed rate doctrine". The filed rate doctrine provides that wholesale power costs approved by the FERC are entitled to be recovered through rates. Additionally, to address the failing financial condition of the two defaulting utilities and the utilities' potential bankruptcy, the California Legislature passed emergency legislation, effective January 18, 2001 and February 2, 2001, appropriating funds to be used by the CDWR for the purchase of wholesale electricity on behalf of the utilities and authorizing the sale of bonds to fund future purchases under long-term power contracts with wholesale generators. The CDWR began the process of soliciting bids from generators for long-term contracts and continued the purchasing of short-term power contracts. No bonds have yet been issued by the CDWR to support long-term power purchases or to provide credit support for short-term purchases.

As noted above two of California's public utilities have defaulted in their payment obligations to the Cal PX and the Cal ISO as a result of the refusal of state regulators to allow them to recover their wholesale power costs. This refusal by state regulators has also caused the utilities to default on numerous other financial obligations, which could result in either the voluntary or involuntary bankruptcy of the utilities. While a bankruptcy filing would result in further post-petition purchases of wholesale electricity being considered administrative expenses of the debtor, a substantial delay could be experienced in the payment of pre-petition receivables pending the confirmation of a reorganization plan. The California Legislature is currently considering legislation under which a state entity would be formed to purchase and operate a substantial share of the transmission lines in California in an effort to provide cash to the utilities and thereby avoid potential bankruptcy filings by the utilities. A number of the creditors for the two California public utilities have indicated, however, that unless California moves quickly with such a plan, an involuntary bankruptcy filing may be made by one or more of such creditors.

Because California's power reserves remain at low levels, in part as a result of the lack of creditworthy buyers of power given the defaults of the California utilities, the Cal ISO has relied on emergency dispatch orders requiring generators to provide at the Cal ISO's direction all power not already under contract. The power supplied to the Cal ISO has been used to meet the needs of the customers of the utilities, even though two of those utilities do not have the credit required to receive such power and may be unable to pay for it. The Company has contested the obligation to provide power under these circumstances. The Cal ISO sought a temporary restraining order compelling the Company to continue to comply with the emergency dispatch orders despite the utilities' defaults. Although the payment issue is still disputed, on February 21, 2001, the Company and the CDWR entered into a contract expiring March 23, 2001 for the purchase of all of the Company's available capacity not already under contract and the litigation has been temporarily stayed. The CDWR is current in its payments under this contract, but the Company is still owed $108 million for power provided in compliance with the emergency dispatch orders for the six weeks prior to the agreement. Depending on the outcome of the court proceedings initiated by the Cal ISO seeking to enjoin us from ceasing power deliveries to the Cal ISO, the Company may be forced to continue selling power without the guarantee of payment.

Additionally, the Company is seeking a prompt FERC determination that the Cal ISO is not complying with the credit provisions of its tariff and a related order of the FERC issued on February 14, 2001, requiring the Cal ISO not to make purchases in the real time market unless a creditworthy purchaser is responsible for such purchases.

(i) Indemnification of Stranded Costs.

The stranded costs in the Dutch electricity market are considered to be the liabilities, uneconomical contractual commitments, and other costs associated with obligations entered into by the coordinating body for the Dutch electricity generating sector, N.V. Samenwerkende elecktriciteits-produktiebedrijven (SEP), plus some district heating contracts with some municipalities in Holland. As of December 29, 2000, SEP changed its name to BV Nederlands Elektriciteit Administratiekantoor.

SEP was incorporated as the coordinating body for four of the large-scale Dutch electricity generation companies, including UNA, which currently has an equity interest in SEP of 25%. Among other things, SEP prior to 2001 owned and managed the dispatch for the national transmission grid, coordinated the fuel supply, managed the import and the export of electricity, and settled production costs for the electricity generation companies.

Under the Cooperation Agreement (OvS Agreement), UNA and the other Dutch generators agreed to sell their generating output through SEP. Over the years, SEP incurred stranded costs as a result of a perceived need to cover anticipated shortages in energy production supply. SEP stranded costs consist primarily of investments in alternative energy sources and fuel and power purchase contracts currently estimated to be uneconomical.

In December 2000, the Dutch parliament adopted legislation, The Electricity Production Sector Transitional Arrangements Act (Transition Act), allocating to the Dutch generation sector, including UNA, financial responsibility for various stranded costs contracts and other liabilities of SEP. The Transition Act also authorizes the government to purchase from SEP at least a majority of the shares in the Dutch national transmission grid company. The legislation became effective in all material respects on January 1, 2001.

The Transition Act allocates financial responsibility to the individual Dutch generators based on their average share in the costs and revenues under the OvS Agreement during the past ten years. UNA's allocated share of these costs has been set at 22.5%. In particular, the Transition Act allocates to the four Dutch generation companies, including UNA, financial responsibility for SEP's obligations to purchase electricity and gas under an import gas supply contract and three electricity import contracts. The gas import contract expires in 2015 and provides for gas imports aggregating 2.283 billion cubic meters per year. The three electricity contracts have the following capacities and terms: (a) 300 MW through 2005, (b) 600 MW through 2005 and (c) 600 MW through 2002 and 750 MW through 2009. The generators have the option of assuming their pro rata interests in the contracts or, subject to the assignment terms of the contracts, selling their interests to third parties.

The Transition Act provides that, subject to the approval of the European Commission, the Dutch government will make financial compensations to the Dutch generation sector for the out of market costs associated with two stranded cost items: an experimental coal facility and district heating contracts.

The four Dutch generation companies and SEP are in discussions with the Dutch Ministry of Economic Affairs regarding the implementation of the Transition Act. The parties have reached an agreement in principle with the Dutch Ministry of Economic Affairs regarding the compensation to be paid to SEP for the national transmission grid company. The proposed compensation amount is NLG 2.55 billion (approximately $1.1 billion based on an exchange rate of 2.34 NLG per U.S. dollar as of December 31, 2000). Although the Transition Act clarifies many issues regarding the anticipated resolution of the stranded costs debate in the Netherlands, there remain considerable uncertainties regarding the exact manner in which the Transition Act will be implemented and the potential for third parties to challenge the Transition Act on legal and constitutional grounds.

In connection with the acquisition of UNA, the selling shareholders of UNA agreed to indemnify UNA for some stranded costs in an amount not to exceed NLG 1.4 billion (approximately $599 million based on an exchange rate of 2.34 NLG per U.S. dollar as of December 31, 2000), which may be increased in some circumstances at the option of the Company up to NLG 1.9 billion (approximately $812 million). Of the total consideration paid by the Company for the shares of UNA, NLG 900 million (approximately $385 million) has been placed by the selling shareholders in an escrow account under the direction of the Dutch Ministry of Economic Affairs to secure the indemnity obligations. Although the Company's management believes that the indemnity provision will be sufficient to fully satisfy UNA's ultimate share of any stranded costs obligation, this judgment is based on numerous assumptions regarding the ultimate outcome and timing of the resolution of the stranded cost issue, the former shareholders' timely performance of their obligations under the indemnity arrangement, and the amount of stranded costs which at present is not determinable.

(j) Operations Agreement with City of San Antonio.

As part of the 1996 settlement of certain litigation claims asserted by the City of San Antonio with respect to the South Texas Project, the Company entered into a 10-year joint operations agreement under which the Company and the City of San Antonio, acting through the City Public Service Board of San Antonio (CPS), share savings resulting from the joint dispatching of their respective generating assets in order to take advantage of each system's lower cost resources. In January 2000, the contract term was extended for three years and is expected to terminate in 2009. Under the terms of the joint operations agreement entered into between CPS and Electric Operations, the Company has guaranteed CPS minimum annual savings of $10 million up to a total cumulative savings of $150 million over the term of the agreement. It is anticipated that the cumulative obligation will be met in the first quarter of 2001. In 1998, 1999 and 2000, savings generated for CPS' account were $14 million, $14 million and $60 million, respectively. Through December 31, 2000, cumulative savings generated for CPS' account were $124 million.

(k) Nuclear Insurance.

The Company and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $9.3 billion as of December 31, 2000. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. The Company and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on the Company's financial condition, results of operations and cash flows.

(l) Nuclear Decommissioning.

The Company contributes $14.8 million per year to a trust established to fund its share of the decommissioning costs for the South Texas Project. For a discussion of the accounting treatment for the securities held in the Company's nuclear decommissioning trust, see Note 2(l). In July 1999, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $363 million. While the current and projected funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Legislation, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a non-bypassable charge to transmission and distribution customers. For information regarding the effect of the Business Separation Plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

o (20) SUBSEQUENT EVENTS

(a) Credit Facilities.

Between December 2000 and March 2001, Reliant Resources entered into eleven bilateral credit facilities with financial institutions, which provide for an aggregate of $1.6 billion in committed credit. The facilities became effective subsequent to December 31, 2000 and expire on October 2, 2001. Concurrent with the effectiveness of these facilities, $500 million of the facilities of a financing subsidiary were canceled. Interest rates on the borrowings are based on LIBOR plus a margin, a base rate or a rate determined through a bidding

process. These facilities contain various business and financial covenants requiring Reliant Resources to, among other things, maintain a ratio of net debt to the sum of net debt, subordinated affiliate debt and shareholders' equity not to exceed 0.60 to 1.00. These covenants are not anticipated to materially restrict Reliant Resources from borrowing funds or obtaining letters of credit under these facilities. The credit facilities are subject to commitment and usage fees that are calculated based on the amount of the facility and/or the amounts outstanding under the facilities, respectively.

(b) RERC Corp. Debt Issuance.

In February 2001, RERC Corp. issued $550 million of unsecured notes that bear interest at 7.75% per year and mature in February 2011. Net proceeds to RERC Corp. were $545 million. RERC Corp. used the net proceeds from the sale of the notes to pay a $400 million dividend to Reliant Energy, and for general corporate purposes. Reliant Energy used the $400 million proceeds from the dividend for general corporate purposes, including the repayment of short-term borrowings.

(c) Florida Tolling Arrangement.

In the first quarter 2001, the Company entered into tolling arrangements with a third party to purchase the right to utilize and dispatch electric generating capacity of approximately 1,100 MW. This electricity is expected to be generated by two gas-fired, simple-cycle peaking plants, with fuel oil backup, to be constructed by the tolling partner in Florida, which are anticipated to be completed by the summer of 2002, at which time the Company will commence tolling payments.

EXHIBIT 99.RERC

RELIANT ENERGY RESOURCES CORP.

ITEMS INCORPORATED BY REFERENCE

ITEMS INCORPORATED BY REFERENCE FROM THE RELIANT ENERGY FORM 10-K

o ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

Our earnings for the past three years are not necessarily indicative of our future earnings and results. The level of our future earnings depends on numerous factors including:

- state and federal legislative, as well as international regulatory developments, including deregulation, re-regulation and restructuring of the electric utility industry and changes in or application of environmental and other laws and regulations to which we are subject,

- the timing of the implementation of our Business Separation Plan,

- industrial, commercial and residential growth in our service territories,

- our pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities,

- state, federal and other rate regulations in the United States and in foreign countries in which we operate or into which we might expand our operations,

- the timing and extent of changes in commodity prices and interest rates,

- weather variations and other natural phenomena,

- our ability to cost-effectively finance and refinance,

- the determination of the amount of our Texas generating assets' stranded costs and the recovery of these costs,

- the ability to consummate and the timing of the consummation of acquisitions and dispositions,

- the performance of our generation projects undertaken,

- the successful operation of deregulating power markets, including the resolution of the crisis in the California market, and

- risks incidental to our overseas operations, including the effects of fluctuations in foreign currency exchange rates.

In order to adapt to the increasingly competitive environment, we continue to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, dispositions of currently owned businesses, as well as developing new generation projects, products, services and customer strategies.

BUSINESS SEPARATION AND RESTRUCTURING

In anticipation of electric deregulation in Texas, and pursuant to the Legislation, we submitted a business separation plan in January 2000 to the Texas Utility Commission. Pursuant to the Business Separation Plan, we will restructure our businesses into two separate publicly traded companies in order to separate our unregulated businesses from our rate-regulated businesses. Reliant Resources holds substantially all of our unregulated businesses. We expect Reliant Resources will conduct the Offering in 2001. Also, we anticipate that the Regulated Holding Company will conduct the Distribution within 12 months of the completion of the

Offering, subject to receipt of a favorable tax ruling and other regulatory approvals. For additional information regarding the Business Separation Plan and the Restructuring, please read "Business -- Our Business -- Restructuring" in Item 1 of this Form 10-K and Note 4(b) to our consolidated financial statements.

We have sought a ruling from the Internal Revenue Service that the Distribution will be tax-free to the Regulated Holding Company and its shareholders. At this time, we do not have a ruling from the Internal Revenue Service regarding the tax treatment of the Distribution. If we do not obtain a favorable tax ruling, the Distribution is not likely to be made in the expected time frame or, perhaps, at all. In order for the Distribution to be tax-free, various requirements must be met, including ownership by its parent of at least 80% of all classes of Reliant Resources' outstanding capital stock at the time of the Distribution.

Additionally, in connection with the Distribution, Reliant Energy plans to restructure its remaining businesses to achieve a public utility holding company structure and to register the Regulated Holding Company as a public utility holding company under the 1935 Act. Creation of the Regulated Holding Company will require the approval of Reliant Energy's shareholders. For additional information regarding the Regulated Holding Company, please read "Business -- Our Business -- Restructuring" in Item 1 of this Form 10-K and Note 4(b) to our consolidated financial statements. The Restructuring will also require the approval of the Louisiana Public Service Commission and the Nuclear Regulatory Commission. We cannot assure you that those approvals will be obtained. After the Restructuring, the Regulated Holding Company will become a registered public utility holding company under the 1935 Act.

COMPETITIVE, REGULATORY AND OTHER FACTORS AFFECTING OUR ELECTRIC OPERATIONS

Competition and Deregulation. In June 1999, the Texas legislature adopted the Legislation, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail competition. Retail pilot projects for up to 5% of each utility's load in all customer classes will begin in June 2001 and retail electric competition for all other customers will begin on January 1, 2002. Our retail operations will be conducted by indirect wholly owned subsidiaries of Reliant Resources. Under the market framework established by the Legislation, we will initially be required to sell electricity to Houston area residential and small commercial customers at a specified price, which is referred to in the Legislation as the "price to beat," whereas other retail electric providers will be allowed to sell electricity to these same customers at any price. We will not be permitted to offer electricity to these customers at a price other than the price to beat until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers, as applicable, within the affiliated transmission and distribution utility's certificated service territory, as of January 1, 2002, is committed to be served by other retail electric providers. In addition, as long as we continue to provide retail service, the Legislation requires us to make the price to beat available to residential and small commercial customers in Reliant Energy HL&P's service territory through January 1, 2007. Because we will not be able to compete for residential and small commercial customers on the basis of price in Reliant Energy HL&P's service area, and because we expect that the retail market framework established by the Legislation will encourage competition from new retail electric providers, we could lose a significant number of these customers to other providers. When the pilot projects begin in June 2001, and until full retail electric competition begins, the Legislation provides that 5% of our customers may elect to purchase electricity from other retail electric providers. Our affiliated retail electric providers cannot participate in the pilot projects in Reliant Energy HL&P's service area. Reliant Energy HL&P will collect from retail electric providers the rates approved from its Wires Case to cover the cost of providing transmission and distribution service and any other non-bypassable charges.

Generally, retail electric providers will procure or buy electricity from the wholesale generators at unregulated rates, sell electricity at retail to their customers and pay the transmission and distribution utility a regulated tariffed rate for delivering the electricity to their customers. The results of our retail electric operations will be largely dependent upon the amount of gross margin, or "headroom," available in the "price to beat." The available headroom will equal the difference between the price to beat and the sum of the charges, fees and transmission and distribution utility rate approved by the Texas Utility Commission and the price we pay for power to meet our price to beat load. The larger the amount of headroom, the more incentive

new market entrants should have to provide retail electric services in Reliant Energy HL&P's service territory. The Texas Utility Commission's regulations allow us to adjust our price to beat fuel factor based on the percentage change in the price of natural gas. In addition, we may also request an adjustment as a result of changes in our price of purchased energy. In such a request, we may adjust the fuel factor to the extent necessary to restore the amount of headroom that existed at the time our initial price to beat fuel factor was set by the Texas Utility Commission. We may not request that our price to beat be adjusted more than twice a year. Currently, we do not know nor can we estimate the amount of headroom in our initial price to beat or in the initial price to beat for the affiliated retail electric provider in each other Texas retail electric market. Similarly, we cannot estimate with any certainty the magnitude and frequency of the adjustments required, if any, and the eventual impact of such adjustments on the amount of headroom.

In preparation for this competition, we expect to make significant changes in the electric utility operations currently conducted through Reliant Energy HL&P. For additional information regarding these changes, the Legislation, retail competition, its application to our Electric Operations segment and the "price to beat," please read "Business -- Our Business -- Deregulation and Competition," "-- Restructuring," "-- Electric Operations" and "Business -- Regulation -- State and Local Regulations -- Texas -- Electric Operations -- The Legislation" in Item 1 of this Form 10-K and Note 4 to our consolidated financial statements.

Also, market volatility in the price of fuel for our generation operations, as well as in the price of purchased power, could have an effect on our cost to generate or acquire power. For additional information regarding commodity prices and supplies, please read "-- Competitive, Regulatory and Other Factors Affecting Our Wholesale Energy Operations -- Price Volatility."

Other Regulatory Factors. Pursuant to the Legislation, Reliant Energy HL&P will be entitled to recover its stranded costs (i.e., the excess of net book value of generation assets, as defined by the Legislation, over the market value of those assets) and its regulatory assets related to generation. The Legislation prescribes specific methods for determining the amount of stranded costs and the details for their recovery. However, during the base rate freeze period from 1999 through 2001, earnings above the utility's authorized rate of return formula may be applied in a manner to accelerate depreciation of generation related plant assets for regulatory purposes. In addition, depreciation expense for transmission and distribution related assets may be redirected to generation assets for regulatory purposes during that period. The Legislation also provides for Reliant Energy HL&P, or a special purpose entity, to issue securitization bonds for the recovery of generation related regulatory assets and a portion of stranded costs. Any stranded costs not recovered through the sale of securitization bonds may be recovered through a non-bypassable charge to transmission and distribution customers. For additional information regarding these securitization bonds, please read "-- Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Securitization."

The Texas Utility Commission recently stated on record that it would consider requiring electric utilities to reverse the amount of redirected depreciation and accelerated depreciation previously taken if in its estimation the utility has overmitigated its stranded costs. The reversal could occur through a lower rate for the transmission and distribution utility and/or through credits contained in the transmission and distribution utility's rate. Any order requiring the reversal of these amounts would likely be included in the Texas Utility Commission proceeding establishing the initial rate of the transmission and distribution utility or in the case of our Electric Operations segment, the Wires Case. We do not expect the final transmission and distribution rate in the Wires Case to be established until August 2001. For more information regarding the Wires Case, see "Business -- Regulation -- State and Local Regulations -- Texas -- Electric Operations -- Rate Case."

At June 30, 1999, we performed an impairment test of Reliant Energy HL&P's previously regulated electric generation assets pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), on a plant specific basis. Under SFAS No. 121, an asset is considered impaired, and should be written down to fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. For assets that are impaired pursuant to SFAS No. 121, we determined the fair value for each generating plant by estimating the net present value of future cash inflows and outflows over the estimated life of each plant. The difference between fair value and net book value was recorded as a reduction in the current

book value. We determined that $797 million of electric generation assets were impaired as of June 30, 1999. Of these amounts, $745 million related to the South Texas Project and $52 million related to two gas-fired generation plants. The Legislation provides for recovery of this impairment through regulated cash flows during the transition period and through non-bypassable charges to transmission and distribution customers. As such, a regulatory asset has been recorded for an amount equal to the impairment loss. We recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing regulatory accounting of $221 million in the third and fourth quarters of 1999 and $329 million in 2000. We expect to fully amortize this regulatory asset as it is recovered from regulated cash flows in 2001.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, Reliant Energy HL&P must finalize and reconcile stranded costs (as defined by the Legislation) in a filing with the Texas Utility Commission. Any positive difference between the regulatory net book value and the fair market value of the generation assets (as defined by the Legislation) will be collected through future non-bypassable charges. Any over-mitigation of stranded costs may be refunded through future non-bypassable charges. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges. Because generally accepted accounting principles require us to estimate fair market values on a plant-by-plant basis in advance of the final reconciliation, the financial impacts of the Legislation with respect to the final determination of stranded costs in 2004 are subject to material changes. Factors affecting such change may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events occur that make the recovery of all or a portion of the regulatory assets associated with the generation plant impairment loss and other assets created from discontinuance of regulatory accounting pursuant to the Legislation no longer probable, we will write off the corresponding balance of these assets as a non-cash charge against earnings. One of the results of discontinuing the application of regulatory accounting for the generation operations is the elimination of the regulatory accounting effects of excess deferred income taxes and investment tax credits related to these operations. We believe it is probable that some parties will seek to return these amounts to ratepayers and, accordingly, we have recorded an offsetting liability.

In accordance with the Legislation, beginning on January 1, 2002, and ending at December 31, 2003, any difference between market power prices received in the generation capacity auction and the Texas Utility Commission's earlier estimates of those market prices will be included in the 2004 stranded costs true-up. The Texas Utility Commission's estimate serves as a preliminary identification of stranded costs for recovery through securitization. This component of the true-up is intended to ensure that neither the customers nor we are disadvantaged economically as a result of the two-year transition period by providing this pricing structure.

Since the time of our original impairment calculation in June 1999 when we discontinued application of SFAS No. 71 for our generation operations, natural gas prices have risen 295% from June 1999 to December 31, 2000 resulting in increases in estimated market prices for power during 2002 and 2003. Generally, for Reliant Energy HL&P's generation portfolio, sustained increases in natural gas prices result in an increase in the fair value of Reliant Energy HL&P's generation portfolio, due to our mix of lower variable cost of electric generation. Therefore, as electric power prices increase, the amount of our estimated stranded costs decline and the estimate of our 2002 and 2003 capacity true-up amounts which may be owed to customers increases.

For additional information regarding the impairment of regulatory assets and electric generating plant and equipment as well as the recovery of stranded costs, please read Note 4(a) to our consolidated financial statements. For additional information regarding our filings to recover under-recovered fuel costs, please read Note 4(d) to our consolidated financial statements.

Other. For additional information regarding litigation over franchise fees, please read Note 14(g) to our consolidated financial statements.

COMPETITIVE, REGULATORY AND OTHER FACTORS AFFECTING OUR WHOLESALE ENERGY OPERATIONS

Competition. As of December 31, 2000, our Wholesale Energy business segment owned and operated 9,231 MW of electric generation assets that serve wholesale energy markets located in the Mid-Atlantic, Southwest and Midcontinent regions of the United States and the states of Florida and Texas. Competitive factors affecting the results of operations of these generation assets include new market entrants and construction by others of more efficient generation assets.

The wholesale power industry has numerous competitors, some of which may have more operating experience, more acquisition and development experience, larger staffs and/or greater financial resources than we do. Like us, many of our competitors are seeking attractive opportunities to acquire or develop power generation facilities, both in the United States and abroad. This competition may adversely affect our ability to make investments or acquisitions.

Also, industry restructuring requires or encourages the disaggregation of many vertically-integrated utilities into separate generation, transmission and distribution, and retail businesses. As a result, a significant number of additional competitors could become active in the wholesale power generation segment of our industry.

Furthermore, other competitors operate power generation projects in the regions where we have invested in electric generation assets. While demand for electric energy services is generally increasing throughout the United States, the rate of construction and development of new, more efficient electric generation facilities may exceed increases in demand in some regional electric markets. Although local permitting and siting issues often reduce the risk of a rapid growth in supply of generation capacity in any particular region, projects are likely to be built over time. The commencement of commercial operation of these new facilities in the regional markets where we have facilities will likely increase the competitiveness of the wholesale power market in those regions, which could have a material effect on our business and lower the value of some of our electric generation assets.

Finally, our trading, marketing, power origination and risk management operations compete with other energy merchants based on the ability to aggregate supplies at competitive prices from different sources and locations and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities. These operations also compete against other energy marketers on the basis of their relative skills, financial position and access to credit sources. This competitive factor reflects the tendency of energy customers, wholesale energy suppliers and transporters to seek financial guarantees and other assurances that their energy contracts will be satisfied. As pricing information becomes increasingly available in the energy trading and marketing business and as deregulation in the electricity markets continues to accelerate, we anticipate that our trading, marketing, power origination and risk management operations will experience greater competition and downward pressure on per-unit profit margins.

Regulation. The regulatory environment applicable to the electric power industry has recently undergone substantial changes as a result of restructuring initiatives at both the state and federal levels. These initiatives have had a significant impact on the nature of the industry and the manner in which its participants conduct their business. Our Wholesale Energy segment has targeted the deregulating wholesale and retail segments of the electric power industry created by these initiatives. These changes are ongoing and we cannot predict the future development of deregulation in these markets or the ultimate effect that this changing regulatory environment will have on our business.

Moreover, existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us or our facilities, and future changes in laws and regulations may have a detrimental effect on our business. Certain restructured markets, particularly California, have recently experienced supply problems and price volatility. These supply problems and volatility have been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some markets, including California (please read "-- California" below), proposals have been made by governmental agencies and/or other interested parties to slow the pace of deregulation or to re-regulate areas of these markets that have previously been deregulated. If the current trend towards competitive restructuring of the wholesale and

retail power markets is reversed, discontinued or delayed, the business growth prospects of our Wholesale Energy segment would be slowed and the financial outlook for our existing positions could be impacted.

If RTOs are established as envisioned by FERC Order 2000, "rate pancaking," or multiple transmission charges that apply to a single point-to-point delivery of energy, will be eliminated within a region, and wholesale transactions within the region, and between regions will be facilitated. The end result could be a more competitive, transparent market for the sale of energy and a more economic and efficient use and allocation of resources. For additional information regarding FERC Order 2000 affecting these RTOs, please read "Business -- Regulation -- Federal Energy Regulatory Commission" in Item 1 of this Form 10-K.

Price Volatility. Our Wholesale Energy business segment sells electricity from our non-Texas power generation facilities into the spot market or other competitive power markets or on a contractual basis. Our Wholesale Energy business segment is not guaranteed any rate of return on our capital investments through mandated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity and fuel in our regional markets and other competitive markets. These market prices may fluctuate substantially over relatively short periods of time. In addition, the FERC, which has jurisdiction over wholesale power rates, as well as independent system operators that oversee some of these markets, may impose price limitations, bidding rules and other mechanisms to address some of the volatility in these markets. Most of our Wholesale Energy business segment's domestic power generation facilities purchase fuel under short-term contracts or on the spot market. Fuel prices may also be volatile, and the price we can obtain for power sales may not change at the same rate as changes in fuel costs. These factors could have an adverse impact on our revenues and results of operations.

Volatility in market prices for fuel and electricity may result from:

- weather conditions,
- seasonality,
- electricity usage,
- illiquid markets,
- transmission or transportation constraints or inefficiencies,
- availability of competitively priced alternative energy sources,
- demand for energy commodities,
- natural gas, crude oil and refined products, and coal production levels,
- natural disasters, wars, embargoes and other catastrophic events, and
- federal, state and foreign energy and environmental regulation and legislation.

Trading, Marketing, Power Origination and Risk Management Operations. To lower our Wholesale Energy business segment's financial exposure related to commodity price fluctuations, its trading, marketing, power origination and risk management operations routinely enter into contracts to hedge a portion of its purchase and sale commitments, weather positions, fuel requirements and inventories of natural gas, coal, crude oil and refined products, and other commodities. As part of this strategy, our Wholesale Energy business segment routinely utilizes fixed-price forward physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets or on exchanges. However, our Wholesale Energy business segment does not expect to cover the entire exposure of its assets or its positions to market price volatility and the coverage will vary over time. To the extent our Wholesale Energy business segment has unhedged positions, fluctuating commodity prices can impact our financial results and financial position, either favorably or unfavorably.

At times, our Wholesale Energy business segment has open trading positions in the market, within established guidelines, resulting from the management of its trading portfolio. To the extent open trading

positions exist, fluctuating commodity prices can impact our financial results and financial position, either favorably or unfavorably.

The risk management procedures our Wholesale Energy business segment has in place may not always be followed or may not always work as planned. As a result of these and other factors, we cannot predict with precision the impact that our risk management decisions may have on our businesses, operating results or financial position. Although our Wholesale Energy business segment devotes a considerable amount of management effort to these issues, their outcome is uncertain.

Our trading, marketing, power origination and risk management operations are also exposed to the risk that counterparties who owe it money or physical commodities, such as energy or gas, as a result of market transactions will not perform their obligations. Should the counterparties to these arrangements fail to perform, our trading, marketing, power origination and risk management operations might be forced to acquire alternative hedging arrangements or replace the underlying commitment at then-current market prices. In this event, our trading, marketing, power origination and risk management operations might incur additional losses to the extent of amounts, if any, already paid to the counterparties.

California. During the summer and fall of 2000, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreases in net electric imports, structural market flaws including over-reliance on the electric spot market, and limitations on supply as a result of maintenance and other outages. Although wholesale prices increased, California's deregulation legislation kept retail rates frozen below 1996 levels. This caused two of California's public utilities, which are our customers based on our deliveries to the Cal PX and the Cal ISO, to amass billions of dollars of uncollected wholesale power costs and to ultimately default in January and February 2001 on payments owed for wholesale power purchased through the Cal PX and from the Cal ISO.

As of December 31, 2000, we were owed $101 million by the Cal PX and $181 million by the Cal ISO. In the fourth quarter of 2000, we recorded a pre-tax provision of $39 million against receivable balances related to energy sales in the California market. From January 1, 2001 through February 28, 2001, we have collected $105 million of these receivable balances. As of March 1, 2001, we were owed a total of $358 million by the Cal ISO, the Cal PX, the CDWR and California Energy Resources Scheduling for energy sales in the California wholesale market from the fourth quarter of 2000 through February 28, 2001. Management will continue to assess the collectibility of these receivables based on further developments affecting the California electricity market and the market participants described herein. Additional provisions to the allowance may be warranted in the future.

In response to the filing of a number of complaints challenging the level of wholesale prices, the FERC initiated a staff investigation and issued an order on December 15, 2000 implementing a series of wholesale market reforms, including an interim price review procedure for prices above a $150/MWh "breakpoint" on sales to the Cal ISO and through the Cal PX. The order does not prohibit sales above the "breakpoint," but the seller is subject to weekly reporting and monitoring requirements. For each reported transaction, potential refund liability extends for a period of 60 days following the date any such transaction is reported to the FERC. On March 9, 2001, the FERC issued a further order establishing a proxy market clearing price of $273/MWh for January 2001, and on March 16, 2001 the FERC issued a further order adjusting the proxy market clearing price to $430/MWh for February 2001. New market monitoring and mitigation measures to replace the $150/MWh breakpoint and reporting obligation are being developed by the FERC to take effect on May 1, 2001.

In the FERC's March 9 and March 16 orders, the FERC outlined criteria for determining amounts subject to possible refund based on the proxy market clearing price for January and February 2001 and indicated that approximately $12 million of the $125 million charged by us in January 2001 in California to the Cal ISO and the Cal PX and approximately $7 million of the $47 million charged by us in February 2001 in California to the Cal ISO and the Cal PX were subject to possible refunds. In the March 9 and March 16 orders, the FERC set forth procedures for challenging possible refund obligations. Because we believe that there is cost or other justification for prices charged above the proxy market clearing prices established in the

March 9 and March 16 orders, we intend to pursue such a challenge with respect to our potential refund amounts identified in such orders. Any refunds we may ultimately be obligated to pay are to be credited against unpaid amounts owed to us for our sales in the Cal PX or to the Cal ISO. The December 15 order established that a refund condition would be in place for the period beginning October 2, 2000 through December 31, 2002. The December 15 order also eliminated the requirement that California's public utilities sell all of their generation into and purchase all of their power from the Cal PX and directed that the Cal PX wholesale tariffs be terminated effective April 2001. The Cal PX has since suspended its day-ahead and day-of markets and filed for bankruptcy protection on March 9, 2001. Motions for rehearing have been filed on a number of issues related to the December 15 order and such motions are still pending before the FERC.

In addition to the FERC investigation discussed above, several state and other federal regulatory investigations and complaints have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action. In California, the California Public Utilities Commission, the California Electricity Oversight Board, the California Bureau of State Audits and the California Office of the Attorney General all have separate ongoing investigations into the high prices and their causes. None of these investigations have been completed and no findings have been made in connection with any of them.

Despite the market restructuring ordered under the December 15 order, the California public utilities have continued to accrue unrecovered wholesale costs. As a result, the credit ratings of two of these public utilities were severely downgraded to below investment grade in January 2001. As their credit lines became unavailable, the two utilities defaulted on payments due to the Cal PX and the Cal ISO, which operate financially as pass-through entities, coordinating payments from buyers and sellers of electricity. As a result, the Cal PX and Cal ISO were not able to pay final invoices to market participants totaling over $1 billion.

The default of two of California's public utilities on amounts owed the Cal PX and the Cal ISO for purchased power has further exacerbated the current crisis in the California wholesale markets and resulted in substantial uncollected receivables owed to us by the Cal ISO and the Cal PX. The Cal PX's efforts to recover the available collateral of the utilities, in the form of block forward contracts, have been frustrated by the emergency acts of California's Governor, who seized control of the contracts upon the expiration of temporary restraining orders prohibiting such action. Although obligated to pay reasonable value for the contracts, the state of California has not yet made any payment for the contracts. Various actions have been filed challenging the Governor's ability to seize these contracts.

Upon the default of the two utilities of amounts due to the Cal PX, the Cal PX issued "charge-backs" allocating the utilities' defaults to the other market participants. Proceedings were brought both in federal court and at the FERC seeking a suspension of the charge-backs and challenging the reasonableness of the Cal PX's actions. The Cal PX has since agreed to a preliminary injunction suspending any of its charge-back activities in order to allow the FERC to address the charge-back issues. Amounts owed to us were debited in invoices by the Cal PX for charge-backs in the amount of $29 million and, on February 14, 2001, we filed our own lawsuit against the Cal PX in the United States District Court for the Central District of California, seeking a recovery of those amounts and a stay of any further charge-backs by the Cal PX. The filing of bankruptcy by the Cal PX will automatically stay for some period the various court and administrative cases against the Cal PX.

The two defaulting utilities have both filed lawsuits challenging the refusal of state regulators to allow wholesale power costs to be passed through to retail customers under the "filed rate doctrine." The filed rate doctrine provides that wholesale power costs approved by the FERC are entitled to be recovered through rates. Additionally, to address the failing financial condition of the two defaulting utilities and the utilities' potential bankruptcy, the California Legislature passed emergency legislation, effective January 18, 2001 and February 2, 2001, appropriating funds to be used by the CDWR for the purchase of wholesale electricity on behalf of the utilities and authorizing the sale of bonds to fund future purchases under long-term power contracts with wholesale generators. The CDWR began the process of soliciting bids from generators for long-term contracts and continued the purchasing of short-term power contracts. No bonds have yet been issued by the CDWR to support long-term power purchases or to provide credit support for short-term purchases.

As noted above, two of California's public utilities have defaulted in their payment obligations to the Cal PX and the Cal ISO as a result of the refusal of state regulators to allow them to recover their wholesale power costs. This refusal by state regulators has also caused the utilities to default on numerous other financial obligations, which could result in either the voluntary or involuntary bankruptcy of the utilities. While a bankruptcy filing would result in further post-petition purchases of wholesale electricity being considered administrative expenses of the debtor, a substantial delay could be experienced in the payment of pre-petition receivables pending the confirmation of a reorganization plan. The California Legislature is currently considering legislation under which a state entity would be formed to purchase and operate a substantial share of the transmission lines in California in an effort to provide cash to the utilities and thereby avoid potential bankruptcy filings by the utilities. A number of the creditors for the two California public utilities have indicated, however, that unless California moves quickly with such a plan, an involuntary bankruptcy filing may be made by one or more of such creditors.

Because California's power reserves remain at low levels, in part as a result of the lack of creditworthy buyers of power given the defaults of the California utilities, the Cal ISO has relied on emergency dispatch orders requiring generators to provide at the Cal ISO's direction all power not already under contract. The power supplied to the Cal ISO has been used to meet the needs of the customers of the utilities, even though two of those utilities do not have the credit required to receive such power and may be unable to pay for it. We have contested the obligation to provide power under these circumstances. The Cal ISO sought a temporary restraining order compelling us to continue to comply with the emergency dispatch orders despite the utilities' defaults. Although the payment issue is still disputed, on February 21, 2001, we and the CDWR entered into a contract expiring March 23, 2001 for the purchase of all of our available capacity not already under contract and the litigation has been temporarily stayed. The CDWR is current in its payments under this contract, but we are still owed $108 million for power provided in compliance with the emergency dispatch orders for the six weeks prior to the agreement. Depending on the outcome of the court proceedings initiated by the Cal ISO seeking to enjoin us from ceasing power deliveries to the Cal ISO, we may be forced to continue selling power without the guarantee of payment.

Additionally, we are seeking a prompt FERC determination that the Cal ISO is not complying with the credit provisions of its tariff and a related order of the FERC issued on February 14, 2001, requiring the Cal ISO not to make purchases in the real time market unless a creditworthy purchaser is responsible for such purchases.

For additional information regarding the situation in California, please read "Business -- Wholesale Energy -- Power Generation Operations -- Southwest Region" and "Business -- Regulation -- State and Local Regulations -- California" in Item 1 of this Form 10-K, "-- Results of Operations by Business Segment -- Wholesale Energy -- 2000 Compared to 1999," as well as Notes 14(g) and 14(h) to our consolidated financial statements.

COMPETITIVE, REGULATORY AND OTHER FACTORS AFFECTING OUR EUROPEAN ENERGY OPERATIONS

Competition. The European energy market is highly competitive. In addition, over the next several years, we expect an increasing consolidation of the participants in the European generating market.

Our European wholesale operations compete in the Netherlands, primarily against the three other largest Dutch generating companies, various cogenerators of electric power, various alternate sources of power and non-Dutch generators of electric power, primarily from France and Germany. In 2000, UNA and the three other largest Dutch generating companies supplied approximately 50% of the electricity consumed in the Netherlands. Smaller Dutch producers supplied about 25% of the consumed electricity, and the remainder was imported. At present, the Dutch electricity system has three operational interconnection points with Germany and two interconnection points with Belgium. There are also a number of projects that are at various stages of development and that may increase the number of interconnections in the future (post 2005) including interconnections with Norway and the United Kingdom. The Belgian interconnections are used to import electricity from France, but a larger portion of Dutch electricity imports comes from Germany.

Our European trading and marketing operations will also be subject to increasing levels of competition. As of December 31, 2000, there were 32 trading and marketing companies registered with the Amsterdam Power Exchange. Competition among power generators for customers is intense, and we expect competition to increase with the deregulation of the market. Please read "-- Regulation." The primary elements of competition affecting both the generation and trading and marketing operations of our European Energy business segment are price, credit support, and supply and delivery reliability.

Deregulation. The Dutch electricity market was opened to limited wholesale and retail competition on January 1, 1999 as retail competition for large industrial customers began. The Dutch wholesale electric market was completely opened to competition on January 1, 2001. Consistent with our expectations at the time we made the acquisition, we anticipate that our European Energy business segment may experience a significant decline in gross margin in 2001 attributable to the deregulation of the market and termination of an agreement with the other Dutch generators and the Dutch distributors. The next customer segment, composed primarily of commercial customers, will be liberalized by 2002. The remainder of the market, mainly residential, will be open to competition by 2003. The timing of these market openings is subject to change, however, at the discretion of the Dutch Minister of Economic Affairs. In addition, the results of our European Energy segment will be negatively impacted beginning in 2002 due to the imposition of a standard Dutch corporate income tax rate, which is currently 35%, on the income of UNA. In 2000 and prior years, UNA's Dutch corporate income tax rate was zero percent.

Other. Another factor that could have a significant impact on the Dutch energy industry, including the operations of our European Energy business segment, is the ultimate resolution of stranded costs issues in the Netherlands. Prior to 2001, UNA and the other Dutch generators sold their generating output through the coordinating body for the Dutch electricity generating sector, B.V. Nederlands Elektriciteit Administratiekantor (NEA). Over the years, NEA has incurred "stranded" costs as a result of, among other things, a perceived need to cover anticipated shortages in energy production supply. NEA stranded costs consist primarily of investments in alternative energy sources and fuel and power purchase contracts currently estimated to be uneconomical. Legislation has been approved by the Dutch parliament which would transfer the liability for the stranded costs from NEA to its four shareholders, one of which is UNA. For information regarding this legislation, please read Note 14(i) to our consolidated financial statements.

In connection with our acquisition of UNA, the selling shareholders of UNA agreed to indemnify UNA for some stranded costs in an amount not to exceed NLG 1.4 billion ($599 million based on an exchange rate of 2.34 NLG per U.S. dollar as of December 31, 2000), which may be increased in some circumstances at our option up to NLG 1.9 billion ($812 million). Of the total consideration we paid for the shares of UNA, NLG 900 million ($385 million) has been placed by the selling shareholders under the direction of the Dutch Minister of Economic Affairs in an escrow account to secure the indemnity obligations by the former shareholders of UNA. Although our management believes that the indemnity provision will be sufficient to fully satisfy UNA's ultimate share of any stranded costs obligation, this judgment is based on numerous assumptions regarding the ultimate outcome and timing of the resolution of the stranded cost issue, the former shareholders' timely performance of their obligations under the indemnity arrangement, and the amount of stranded costs, which at present is not determinable. Any shortfall in the indemnity provision could have a material adverse effect on our results of operations.

Our European operations are subject to various risks incidental to investing or operating in foreign countries. These risks include economic risks, such as fluctuations in currency exchange rates, restrictions on the repatriation of foreign earnings and/or restrictions on the conversion of local currency earnings into U.S. dollars. For example, we estimate that the impact of the devaluation of the Euro relative to the U.S. dollar during 2000 negatively impacted U.S. dollar net income in the amount of approximately $8 million.

Impact of Currency Fluctuations on Company Earnings. For information about our exposure through our investment in Europe to losses resulting from fluctuations in currency rates, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

COMPETITIVE AND OTHER FACTORS AFFECTING RERC OPERATIONS

Natural Gas Distribution. Our Natural Gas Distribution business segment competes primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other gas distributors and marketers also compete directly with our Natural Gas Distribution business segment for gas sales to end-users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass our Natural Gas Distribution business segment's facilities and market, sell and/or transport natural gas directly to commercial and industrial customers.

Generally, the regulations of the states in which our Natural Gas Distribution business segment operates allow us to pass through changes in the costs of natural gas to our customers through purchased gas adjustment provisions in rates. There is, however, an inherent timing difference between our purchases of natural gas and the ultimate recovery of these costs. Consequently, we may incur additional "carrying" costs as a result of this timing difference and the resulting, temporary under-recovery of our purchased gas costs. To a large extent, these additional carrying costs are not recovered from our customers.

Pipelines and Gathering. Our Pipelines and Gathering segment competes with other interstate and intrastate pipelines in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service. Our Pipelines and Gathering segment competes indirectly with other forms of energy available to its customers, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability of energy and pipeline capacity, the level of business activity, conservation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in areas we serve and the level of competition for transportation and storage services. Since FERC Order No. 636, REGT's and MRT's commodity sales activity has been minimal. Commodity transactions are usually related to system management activity which we have been able to manage with little exposure. We have not been nor do we anticipate to be, negatively impacted from the recent price levels and the tightening of supply. In addition, competition for our gathering operations is impacted by commodity pricing levels in its markets because these prices influence the level of drilling activity in those markets.

Natural Gas Pipeline Company of America has proposed, and is soliciting customers for a 30" pipeline paralleling MRT's East Line in Illinois to a point 17 miles East of St. Louis Metro, with a proposed in-service date of June 2002. MRT has renewed or is engaged in negotiations to renew service agreements under multi-year terms, including service and potential expansion needs along MRT's existing East Line in Illinois. Our Pipelines and Gathering business segment derives approximately 14% of its revenues from its contract with Laclede, which has been under an annual evergreen term provision since 1999. In the event we are not able to renegotiate a long-term extension to the contract with Laclede, and Laclede engages another pipeline for the transportation services it currently obtains from us, the operating and financial results of our Pipelines and Gathering business segment would be materially adversely affected.

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding our exposure to risk as a result of fluctuations in commodity prices and derivative instruments, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

INDEXED DEBT SECURITIES (ZENS) AND OUR AOL TIME WARNER INVESTMENT

For information on our indexed debt securities and our investment in AOL Time Warner common stock, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K and Note 8 to our consolidated financial statements.

ENVIRONMENTAL EXPENDITURES

We are subject to numerous environmental laws and regulations, which require us to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment. For additional information regarding environmental contingencies, please read Note 14(g) to our consolidated financial statements.

Clean Air Act Expenditures. We expect the majority of capital expenditures associated with environmental matters to be incurred by our Electric Operations and Wholesale Energy business segments in connection with emission limitations for NOx under the Clean Air Act, or to enhance operational flexibility under Clean Air Act requirements. In 2000, emission reduction requirements for NOx were finalized for our electric generating facilities in Texas and the Mid-Atlantic region. We currently estimate that up to $534 million will be required to comply with the requirements through the end of 2003, with an estimated $215 million to be incurred in 2001. The Texas regulations require additional reductions that must be completed by March 2007. Estimates for the Texas units for the period 2004 through 2007 have not been defined, but could be up to $230 million. We are currently litigating the economic and technical viability of the Texas post-2004 reduction requirements, but cannot predict the outcome of this litigation. In addition, the Legislation created a program mandating air emissions reductions for some generating facilities of our Electric Operations segment. The Legislation provides for stranded costs recovery for costs associated with this obligation incurred before May 1, 2003. For additional information regarding the Legislation, please read Note 4(a) to our consolidated financial statements. Additional NOx emission controls for our generating units located in California may result in expenditures of up to $30 million through 2002. For additional information regarding environmental regulation of air emissions, please read "Business -- Environmental Matters -- Air Emissions" in Item 1 of this Form 10-K.

Site Remediation Expenditures. From time to time we have received notices from regulatory authorities or others regarding our status as a potentially responsible party in connection with sites found to require remediation due to the presence of environmental contaminants. Based on currently available information, we believe that remediation costs will not materially affect our financial position, results of operations or cash flows. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to our estimates. For information about specific sites that are the subject of remediation claims, please read Note 14(g) to our consolidated financial statements and Note 9(c) to RERC's consolidated financial statements.

Water, Mercury and Other Expenditures. As discussed under "Business -- Environmental Matters -- Water Issues" in Item 1 of this Form 10-K, regulatory authorities are in the process of implementing regulations and quality standards in connection with the discharge of pollutants into waterways. Once these regulations and quality standards are enacted, we will be able to determine if our operations are in compliance, or if we will have to incur costs in order to comply with the quality standards and regulations. Until that time, however, we are not able to predict the amount of these expenditures, if any. To date, however, our expenditures associated with respect to permits, registrations and authorizations for operation of facilities under the statutes regulating the discharge of pollutants into surface water have not been material. With regard to mercury remediation and other environmental matters, such as the disposal of solid wastes, our expenditures have not been, and are not expected to be material, based on our experiences and that of others in our industries. Please read "Business -- Environmental Matters -- Mercury Contamination" and "-- Other" in Item 1 of this Form 10-K.

OTHER CONTINGENCIES

For a description of other legal and regulatory proceedings affecting us, please read Notes 4 and 14 to our consolidated financial statements and Note 9 to RERC's consolidated financial statements.

ITEMS INCORPORATED BY REFERENCE FROM THE
RELIANT ENERGY RESOURCE CORP. FORM 10-K

o ITEM 3. LEGAL PROCEEDINGS

(b) RERC CORP.

For a description of certain legal and regulatory proceedings affecting RERC, see Notes 9(c) and 9(d) to RERC's consolidated financial statements, which notes are incorporated herein by reference.

o ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF RERC AND ITS CONSOLIDATED SUBSIDIARIES

The following narrative and analysis should be read in combination with the consolidated financial statements and notes of Reliant Energy Resources Corp. (RERC Corp.) and its subsidiaries (collectively, RERC) contained in Item 8 of the Form 10-K of RERC Corp.

RELIANT ENERGY RESOURCES CORP.

Because RERC Corp. is a wholly owned subsidiary of Reliant Energy, Incorporated (Reliant Energy), RERC's determination of reportable segments considers the strategic operating units under which Reliant Energy manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. Reliant Energy has identified the following reportable segments: Electric Operations, Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy, European Energy, and Other Operations. Of these segments, the following operations have historically been conducted by RERC:

- Natural Gas Distribution,

- Pipelines and Gathering,

- Wholesale Energy (which includes wholesale energy trading, marketing, power origination and risk management services in North America but excludes the operations of Reliant Energy Power Generation, Inc., an indirect wholly owned subsidiary of Reliant Energy),

- European Energy (which includes the energy trading and marketing operations initiated in the fourth quarter of 1999 in the Netherlands and other countries in Europe but excludes N.V. UNA, a Dutch power company), and

- Certain Other Operations.

On July 27, 2000, Reliant Energy announced its intention to divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. In August 2000, Reliant Energy formed Reliant Resources, Inc. (Reliant Resources) to own and operate a substantial portion of Reliant Energy's unregulated operations and to offer no more than 20% of Reliant Resources' common stock in an initial public offering (Offering). Reliant Energy expects the Offering to be followed by a distribution to Reliant Energy's or its successor's shareholders of the remaining common stock of Reliant Resources within twelve months after the Offering.

On December 31, 2000, RERC Corp. transferred all of the outstanding capital stock of Reliant Energy Services International, Inc. (RESI), Arkla Finance Corporation (Arkla Finance) and Reliant Energy Europe Trading & Marketing, Inc. (RE Europe Trading), all of which were wholly owned subsidiaries of RERC Corp., to Reliant Resources (collectively, Stock Transfer). Both RERC Corp. and Reliant Resources are wholly owned subsidiaries of Reliant Energy. As a result of the Stock Transfer, RESI, Arkla Finance and RE Europe Trading each became a wholly owned subsidiary of Reliant Resources.

Also, on December 31, 2000, a wholly owned subsidiary of Reliant Resources merged with and into Reliant Energy Services, Inc. (Reliant Energy Services), a wholly owned subsidiary of RERC Corp., with

Reliant Energy Services as the surviving corporation (Merger). As a result of the Merger, Reliant Energy Services became a wholly owned subsidiary of Reliant Resources. As consideration for the Stock Transfer and the Merger, Reliant Resources paid $94 million to RERC Corp.

Reliant Energy Services, together with RESI and RE Europe Trading, conduct the Wholesale Energy segment's trading, marketing, power origination and risk management business and operations of Reliant Energy. Arkla Finance is a company that holds an investment in marketable equity securities.

RERC Corp. has guaranteed or indemnified the performance of a portion of the obligations of Reliant Energy's trading, marketing, power origination and risk management businesses. Some of these guarantees and indemnities are for fixed amounts, others have a fixed maximum amount and others do not specify a maximum amount. Pursuant to the master separation agreement, Reliant Resources will agree to indemnify RERC Corp. for any amounts RERC Corp. pays under these guarantees and indemnities.

The Stock Transfer and the Merger are part of Reliant Energy's previously announced restructuring. RERC is reporting the results of RE Europe Trading as discontinued operations for all periods presented in the consolidated financial statements in accordance with Accounting Principles Board Opinion No. 30. For additional information regarding the operating results of the entities transferred to Reliant Resources, please read Note 13 to RERC's consolidated financial statements.

RERC Corp. meets the conditions specified in General Instruction I (1)(a) and (b) to Form 10-K and is thereby permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies specified therein. Accordingly, RERC Corp. has omitted from this Combined Form 10-K the information called for by Item 4 (submission of matters to a vote of security holders), Item 10 (directors and executive officers), Item 11 (executive compensation), Item 12 (security ownership of certain beneficial owners and management) and Item 13 (certain relationships and related party transactions) of Form 10-K. In lieu of the information called for by Item 6 (selected financial data) and Item 7 (management's discussion and analysis of financial condition and results of operations) of Form 10-K, RERC Corp. has included the following Management's Narrative Analysis of the Results of Operations to explain material changes in the amount of revenue and expense items of RERC between 1998, 1999 and 2000. Reference is hereby made to Item 1 (Business), Item 2 (Properties), Item 3 (Legal Proceedings), Item 5 (Market for Reliant Energy's and RERC Corp's Common Equity and Related Stockholder Matters), Item 7A (Quantitative and Qualitative Disclosures about Market Risk) and Item 9 (Changes in and Disagreements with Accountants on Accounting and Financial Disclosure) of this Combined Form 10-K for additional information regarding RERC required by the reduced disclosure format of General Instruction I to Form 10-K.

CONSOLIDATED RESULTS OF OPERATIONS

RERC's results of operations are affected by seasonal fluctuations in the demand for natural gas and price movements of energy commodities. RERC's results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates charged by RERC, competition in RERC's various business operations, debt service costs and income tax expense. For a discussion of some other factors that may affect RERC's future earnings please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Business Separation and Restructuring," "-- Competitive and Other Factors Affecting RERC Operations" and "-- Environmental Expenditures" in Item 7 of Reliant Energy's 2000 Form 10-K.

The following table sets forth selected financial and operating data for the years ended December 31, 1998, 1999 and 2000, followed by a discussion of significant variances in period-to-period results:

SELECTED FINANCIAL RESULTS

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
	(IN MILLIONS)		
Operating Revenues	$ 6,758	$ 10,543	$ 22,659
Operating Expenses	(6,448)	(10,242)	(22,327)
Operating Income	310	301	332
Interest Expense, net	(111)	(119)	(143)
Distribution on Trust Preferred Securities	(1)	--	--
Other Income, net	8	11	2
Income Tax Expense	(112)	(89)	(93)
Income from Continuing Operations	94	104	98
Loss from Discontinued Operations	--	(4)	(24)
Net Income	$ 94	$ 100	$ 74

2000 Compared to 1999. RERC's net income for 2000 was $74 million compared to net income of $100 million in 1999. The $26 million decrease in net income was primarily due to:

- a decline in operating income of the Natural Gas Distribution segment,

- an after-tax impairment loss of $17 million on marketable equity securities classified as "available-for-sale" incurred in 2000 by the Other Operations segment,

- increased third-party interest expense primarily resulting from higher levels of short-term borrowings and long-term debt during 2000 compared to 1999, and

- increased start-up costs of the European trading and marketing operations in 2000 included in loss from discontinued operations.

The above items were partially offset by improved operating results from the Wholesale Energy segment's trading and marketing operations in North America, increased operating income from the Pipelines and Gathering segment, increased interest income earned on margin deposits on energy trading activities and income resulting from a tax refund in 2000.

During 2000, RERC incurred a pre-tax impairment loss of $27 million on marketable equity securities classified as "available-for-sale" by the Other Operations segment. Management's determination to recognize this impairment resulted from a combination of events occurring in 2000 related to this investment. These events affecting the investment included changes occurring in the investment's senior management, announcement of significant restructuring charges and related downsizing for the entity, reduced earnings estimates for this entity by brokerage analysts and the bankruptcy of a competitor of the investment in the first quarter of 2000. These events, coupled with the stock market value of RERC's investment in these securities continuing to be below RERC's cost basis, caused management to believe the decline in fair value to be other than temporary. This investment is held by Arkla Finance which was transferred to Reliant Resources effective December 31, 2000.

Operating income increased in 2000 by $31 million, or 10%, from 1999. The increase was primarily due to significantly improved operating margins (revenues less natural gas and purchased power expenses) from the Wholesale Energy segment's trading and marketing activity in the western U.S. market (primarily California and Nevada), increased operating margins (revenues less natural gas expenses) from the Natural Gas

Distribution segment and increased gathering and processing revenues from the Pipelines and Gathering segment. These items were partially offset by increased operating expenses, including:

- costs incurred in connection with non-rate regulated retail natural gas business activities outside RERC's established market areas, which have been discontinued,

- additional provisions against receivable balances resulting from the implementation of a new billing system for Reliant Energy Arkla,

- increased costs associated with higher staffing levels to support increased sales and expanded trading and marketing efforts,

- increased depreciation expenses of the Natural Gas Distribution segment, and

- increased benefit expense related to an updated actuarial valuation of employee benefit plans.

RERC's operating revenues for 2000 were $22.7 billion compared to $10.5 billion for 1999. The $12.2 billion, or 115%, increase was primarily due to the increase in the Wholesale Energy segment's trading and marketing revenues from increased trading volumes for power and natural gas, as well as higher sale prices for these commodities.

RERC's operating expenses for 2000 were $22.3 billion compared to $10.2 billion in 1999. The $12.1 billion, or 118%, increase was primarily due to an increase in volumes and cost of purchased power and natural gas, as discussed above. Other operating expenses also increased due to the increase in expenses discussed above.

RERC's effective tax rate in 2000 was 49% compared to 46% in 1999. This increase was primarily due to an increase in state income taxes in 2000 as compared to 1999.

RERC is reporting the results of RE Europe Trading as discontinued operations for all periods presented in RERC's consolidated financial statements in accordance with Accounting Principles Board Opinion No. 30. For additional information, please read Note 13 to RERC's consolidated financial statements. The European Energy segment was created in the fourth quarter of 1999 with the acquisition of N.V. UNA by a subsidiary of Reliant Energy. Beginning in the second half of 2000, the European Energy segment's trading and marketing operations began participating in the emerging wholesale energy trading and marketing industry in Northwest Europe. Losses from discontinued operations in 1999 and 2000 are primarily related to start-up costs for the European trading and marketing operations. For additional information regarding the operating results of the other entities transferred to Reliant Resources, please read Note 13 to RERC's consolidated financial statements.

1999 Compared to 1998. RERC's net income for 1999 was $100 million compared to net income of $94 million in 1998. The $6 million increase was primarily due to:

- a significant increase in operating margins of the Wholesale Energy segment's trading and marketing operations, and

- a decrease in RERC's effective tax rate.

The above items were partially offset by decreased earnings in the Natural Gas Distribution and Pipelines and Gathering segments and increased general insurance liability expense.

Although results of the Wholesale Energy segment's trading and marketing operations significantly improved, it continues to incur higher operating expenses relating to staffing and personnel to support its increased sales and marketing efforts.

Operating income decreased in 1999 by $9 million, or 3%, from 1998. The decline was primarily due to increased operating expenses, in particular employee benefit expenses at the Natural Gas Distribution and Pipelines and Gathering segments and increased general liability insurance expense. The decline was partially offset by increased operating income of the Wholesale Energy segment's trading and marketing operations.

RERC's operating revenues for 1999 were $10.5 billion compared to $6.8 billion for 1998. The $3.7 billion, or 56%, increase was primarily due to increased wholesale trading and marketing revenues from increased trading volumes for power, natural gas and oil, as well as higher sale prices for these commodities.

RERC's operating expenses for 1999 were $10.2 billion compared to $6.4 billion in 1998. The $3.8 billion, or 59%, increase was primarily attributable to an increase in volumes and cost of purchased power, natural gas and oil, as discussed above. In addition, operating expenses also increased due to:

- increased employee benefit expenses for the Natural Gas Distribution and Pipelines and Gathering segments,

- increased operating expenses to support increased sales and marketing of the Wholesale Energy segment's trading and marketing operations (as discussed above), and

- increased general insurance liability expense.

RERC's effective tax rate in 1999 was 46% compared to 54% in 1998. This decrease was primarily due to a decrease in state income taxes in 1999 as compared to 1998.

NEW ACCOUNTING PRONOUNCEMENTS

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations -- New Accounting Pronouncements" in Item 7 of Reliant Energy's 2000 Form 10-K, which section is incorporated by reference herein, and Note 2(q) to RERC's consolidated financial statements, for discussion of new accounting issues that affect RERC.

ITEMS INCORPORATED BY REFERENCE FROM THE RELIANT ENERGY 10-K NOTES

o (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(f) Regulatory Assets.

RERC applies the accounting policies established in Statement of Financial Accounting Standards (SFAS) No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) to the accounts of the utility operations of Natural Gas Distribution and MRT. As of December 31, 1999 and 2000, RERC had recorded $4 million and $5 million, respectively, of net regulatory assets.

If, as a result of changes in regulation or competition, RERC's ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, "Regulated Enterprises Accounting for the Discontinuation of Application of SFAS No. 71" (SFAS No. 101) and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS No. 121), RERC would be required to write off or write down these regulatory assets and liabilities. In addition, RERC would be required to determine any impairment to the carrying costs of plant and inventory assets.

o (4) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Price Risk Management and Trading Activities.

Historically, RERC offered energy price risk management services primarily related to natural gas, electric power and other energy related commodities, through Reliant Energy Services. As discussed in Note 1, effective December 31, 2000, Reliant Energy Services is no longer a part of RERC. RERC provided these services by utilizing a variety of derivative financial instruments, including (a) fixed and variable-priced physical forward contracts, (b) fixed and variable-priced swap agreements, (c) options traded in the over-the-counter financial markets and (d) exchange-traded energy futures and option contracts (Trading Derivatives). Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require

payments to, or receipts of payments from, counterparties based on the differential between industry pricing publications or exchange quotations.

RERC applied mark-to-market accounting for all of its energy trading, marketing and price risk management operations. Accordingly, these Trading Derivatives are recorded at fair value with realized and unrealized gains (losses) recorded as a component of revenues. The recognized, unrealized balances are included in price risk management assets/liabilities.

The notional quantities, maximum terms and estimated fair value of Trading Derivatives at December 31, 1999 are presented below (volumes in billions of British thermal units equivalent (Bbtue) and dollars in millions):

	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
1999			
Natural gas	1,278,953	1,251,319	9
Electricity	242,868	239,452	10
Oil and other	285,251	286,521	3

	FAIR VALUE		AVERAGE FAIR VALUE(1)	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
1999				
Natural gas	$581	$564	$550	$534
Electricity	122	91	96	74
Oil and other	193	206	183	187
	$896	$861	$829	$795

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(1) Computed using the ending balance of each quarter.

In addition to the fixed-price notional volumes above, RERC also had variable-priced agreements, as discussed above, totaling 2,147,173 Bbtue as of December 31, 1999. Notional amounts reflect the commodity volumes underlying the transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure RERC's exposure to market or credit risks.

All of the fair values shown in the table above at December 31, 1999, have been recognized in income. RERC estimated the fair value as of December 31, 1999, using quoted prices where available and other valuation techniques when market data was not available, for example in illiquid markets. For financial instruments for which quoted prices are not available, RERC utilized alternative pricing methodologies, including, but not limited to, extrapolation of forward pricing curves using historically reported data from illiquid pricing points. These same pricing techniques were used to evaluate a contract prior to taking the position.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum and average terms disclosed herein are not indicative of likely future cash flows, as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and RERC's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

In addition to the risk associated with price movements, credit risk was also inherent in RERC's risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual

obligations by a counterparty. The following table shows the composition of the total price risk management assets of RERC as of December 31, 1999.

	DECEMBER 31, 1999	
	INVESTMENT GRADE(1)	TOTAL
	(IN MILLIONS)	
Energy marketers	$202	$230
Financial institutions	90	159
Gas and electric utilities	220	221
Oil and gas producers	31	31
Industrials	3	4
Others	174	263
Total	$720	908
Credit and other reserves		(12)
Energy price risk management assets		$896

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(1) "Investment Grade" is primarily determined using publicly available credit ratings along with the consideration of credit support (such as parent company guarantees) and collateral, which encompass cash and standby letters of credit.

(b) Non-trading Activities.

To reduce the risk from market fluctuations in the revenues derived from the sale of natural gas and related transportation, RERC enters into futures transactions, forward contracts, swaps and options (Energy Derivatives) in order to hedge some expected purchases of natural gas and sales of natural gas (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements and to protect natural gas distribution earnings against unseasonably warm weather during peak gas heating months, although usage to date for this purpose has not been material. RERC applies hedge accounting for its derivative financial instruments utilized in non-trading activities. Unrealized changes in the market value of Energy Derivatives utilized as hedges are not generally recognized in RERC's Statements of Consolidated Income until the underlying hedged transaction occurs. Once it becomes probable that an anticipated transaction will not occur, RERC recognizes deferred gains and losses. In general, the financial impact of transactions involving these Energy Derivatives is included in RERC's Statements of Consolidated Income under the captions fuel expenses, in the case of natural gas transactions and revenues, in the case of natural gas sales transactions. Cash flows resulting from these transactions in Energy Derivatives are included in RERC's Statements of Consolidated Cash Flows in the same category as the item being hedged.

For transactions involving Energy Derivatives, hedge accounting is applied only if the derivative reduces the risk of the underlying hedged item and is designated as a hedge at its inception. Additionally, the derivatives must be expected to result in financial impacts that are inversely correlated to those of the item(s) to be hedged. This correlation, a measure of hedge effectiveness, is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied.

At December 31, 1999, RERC was a fixed-price payor and a fixed-price receiver in Energy Derivatives covering 29,596 billion British thermal units (Bbtu) and 5,481 Bbtu of natural gas, respectively. At December 31, 2000, RERC was a fixed-price payor and a fixed-price receiver in Energy Derivatives covering 40,991 Bbtu and 14,949 Bbtu of natural gas, respectively. In addition to the fixed-price notional volumes, RERC also has variable-priced agreements totaling 41,341 Bbtu and 12,630 Bbtu at December 31, 1999 and 2000, respectively. The weighted average maturity of these instruments is less than one year.

The notional amount is intended to be indicative of RERC's level of activity in these derivatives. However, the amounts at risk are significantly smaller because, in view of the price movement correlation required for hedge accounting, changes in the market value of these derivatives generally are offset by changes in the value associated with the underlying physical transactions or in other derivatives. When Energy Derivatives are closed out in advance of the underlying commitment or anticipated transaction, however, the market value changes may not offset due to the fact that price movement correlation ceases to exist when the positions are closed, as further discussed above. Under these circumstances, gains (losses) are deferred and recognized as a component of income when the underlying hedged item is recognized in income.

The average maturity discussed above and the fair value discussed in Note 10 are not necessarily indicative of likely future cash flows as these positions may be changed by new transactions at any time in response to changing market conditions, market liquidity and RERC's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(c) Trading and Non-trading -- General Policy.

In addition to the risk associated with price movements, credit risk is also inherent in RERC's risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. RERC has off-balance sheet risk to the extent that the counterparties to these transactions may fail to perform as required by the terms of each contract. In order to minimize this risk, RERC enters into these contracts primarily with counterparties having a minimum investment grade index rating, i.e. a Standard & Poor's or Moody's rating of BBB- or Baa3, respectively. For long-term arrangements, RERC periodically reviews the financial condition of these firms in addition to monitoring the effectiveness of these financial contracts in achieving RERC's objectives. If the counterparties to these arrangements fail to perform, RERC would seek to compel performance at law or otherwise obtain compensatory damages. RERC might be forced to acquire alternative hedging arrangements or be required to replace the underlying commitment at then-current market prices. In this event, RERC might incur additional losses to the extent of amounts, if any, already paid to the counterparties.

RERC's policies prohibit the use of leveraged financial instruments. A leveraged instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

Reliant Energy has established a Risk Oversight Committee, comprised of corporate and business segment officers that oversees all commodity price and credit risk activities, including RERC's trading, marketing, power origination and risk management activities. The committee's duties are to establish RERC's commodity risk policies, allocate risk capital within limits established by Reliant Energy's Board of Directors, approve trading of new products and commodities, monitor risk positions and ensure compliance with Reliant Energy's risk management policies and procedures and trading limits established by Reliant Energy's Board of Directors.

o (9) COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments.

The following table sets forth information concerning RERC's obligations under non-cancelable long-term operating leases principally consisting of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions):

2001	$13
2002	8
2003	7
2004	5
2005	4
2006 and beyond	18
Total	$55

RERC has a master leasing agreement which provides for the lease of vehicles, construction equipment, office furniture, data processing equipment and other property. For accounting purposes, the lease is treated as an operating lease. At December 31, 2000, the unamortized value of equipment covered by the master leasing agreement was $10 million. RERC does not expect to lease additional property under this lease agreement.

Total rental expense for all leases was $25 million, $33 million and $19 million in 1998, 1999 and 2000, respectively.

(b) Transportation Agreement.

A predecessor of Reliant Energy Services had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) which contemplated that RERC would transfer to ANR an interest in some of RERC's pipeline and related assets. The interest represented capacity of 250 Mmcf/day. Under the ANR Agreement, an ANR affiliate advanced $125 million to RERC. Subsequently, the parties restructured the ANR Agreement and RERC refunded in 1995 and 1993, respectively, $50 million and $34 million to ANR or an affiliate. Reliant Energy Services recorded a liability reflecting ANR's or its affiliates' use of 130 Mmcf/day of capacity in some of RERC's transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to an ANR affiliate. The ANR Agreement will terminate in 2005 with a refund of the $36 million. RERC has agreed to reimburse Reliant Energy Services for any transportation payments made under the ANR agreement and for the refund of the $41 million. In RERC's Consolidated Balance Sheets, RERC has recorded a long-term notes payable to Reliant Energy Services of $28 million and a deferred obligation to ANR of $13 million as of December 31, 2000.

(c) Environmental Matters.

Manufactured Gas Plant Sites. RERC and its predecessors operated a manufactured gas plant (MGP) adjacent to the Mississippi River in Minnesota formerly known as Minneapolis Gas Works (MGW) until 1960. RERC has substantially completed remediation of the main site other than ongoing water monitoring and treatment. The manufactured gas was stored in separate holders. RERC is negotiating cleanup of one such holder. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, RERC believes that two were neither owned nor operated by RERC. RERC believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 1999 and 2000, RERC had accrued $19 million and $17 million, respectively, for remediation of the Minnesota sites. At December 31, 2000, the estimated range of possible remediation costs was $8 million to $36 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

Other Minnesota Matters. At December 31, 1999 and 2000, RERC had recorded accruals of $1 million and $2 million, respectively (with a maximum estimated exposure for these accruals of approximately $13 million and $17 million at December 31, 1999 and 2000, respectively), for other environmental matters in Minnesota for which remediation may be required.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. RERC has received notices from the United States Environmental Protection Agency and others regarding its status as a potentially responsible party (PRP) for other sites. Based on current information, RERC has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

Mercury Contamination. RERC's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by RERC at some sites in the past, and RERC has conducted remediation at sites found to be contaminated. Although RERC is not aware of additional specific sites, it is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by RERC and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, RERC believes that the costs of any remediation of these sites will not be material to RERC's financial position, results of operations or cash flows.

Potentially Responsible Party Notifications. From time to time RERC has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Considering the information currently known about such sites and the involvement of RERC in activities at these sites, RERC does not believe that these matters will have a material adverse effect on RERC's financial position, results of operations or cash flows.

(d) Other Legal Matters.

California Wholesale Market. Reliant Energy and Reliant Energy Services have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. RERC Corp. has also been named as a defendant in one of the lawsuits. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 1), Reliant Resources will agree to indemnify Reliant Energy and RERC Corp. for any damages arising under this lawsuit and may elect to defend this lawsuit at Reliant Resources' own expense. This lawsuit was filed in Superior Court in San Francisco County in January 2001. While plaintiffs alleged various violations by the defendants of the state antitrust laws and state laws against unfair and unlawful business practices, this lawsuit is grounded on the central allegation that defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in this lawsuit seek restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity during all or portions of 2000, costs of suit and attorneys' fees. Defendants have filed petitions to remove this case to federal court. Furthermore, defendants have filed a motion with the Panel on Multidistrict Litigation seeking transfer and consolidation of all the cases. This lawsuit has only recently been filed. Therefore, the ultimate outcome of this lawsuit cannot be predicted with any degree of certainty at this time. However, RERC Corp. does not believe, based on its analysis to date of the claims asserted in this lawsuit, the indemnification agreement with Reliant Resources and the underlying facts, that resolution of this lawsuit will have a material adverse effect on RERC's financial condition, results of operations or cash flows.

RERC is a party to litigation (other than that specifically noted) which arises in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that the effects, if any, from the disposition of these matters will not have a material adverse effect on RERC's financial position, results of operations or cash flows.