UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
NO. 1

(Mark One)

[X] AMENDMENT NO. 1 TO QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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)

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 twelve 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 August 3, 2001, Reliant Energy, Incorporated had 297,799,335 shares of common stock outstanding, including 7,528,889 ESOP shares not deemed outstanding for financial statement purposes and excluding 4,511,691 shares held as treasury stock.

RELIANT ENERGY, INCORPORATED
QUARTERLY REPORT ON FORM 10-Q/A
FOR THE QUARTER ENDED JUNE 30, 2001

Reliant Energy, Incorporated (Reliant Energy) hereby amends Items 1 and 2 of Part 1 of its Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 as originally filed on August 10, 2001.

RESTATEMENT

On February 5, 2002, Reliant Energy announced that it was restating its earnings for the second and third quarters of 2001. As more fully described in Note 1, the restatement relates to a correction in accounting treatment for a series of four structured transactions that were inappropriately accounted for as cash flow hedges for the period of May 2001 through September 2001.

Although these transactions were undertaken and accounted for as cash flow hedges, having further reviewed the transactions, Reliant Energy now believes that they did not meet the requirements of a cash flow hedge under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). Consequently, these contracts should have been accounted for as derivatives with changes in fair value recognized through the income statement.

As a result, Reliant Energy's unaudited consolidated condensed financial statements (Original Interim Financial Statements) and related disclosures as of June 30, 2001 and for the three and six months ended June 30, 2001 have been restated from amounts previously reported. The principal effects of the restatement on the accompanying financial statements are set forth in Note 1 of the Notes to Interim Financial Statements.

For purposes of this Form 10-Q/A, and in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, each item of the June 30, 2001 Form 10-Q as originally filed on August 10, 2001 that was affected by the restatement has been amended and restated in its entirety. No attempt has been made in this Form 10-Q/A to modify or update other disclosures as presented in the original Form 10-Q except as required to reflect the effects of the restatement.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 2001 (AS RESTATED)	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 2001 (AS RESTATED)
REVENUES	$ 5,755,169	$ 11,986,483	$9,968,175	$ 25,270,804
EXPENSES:				
Fuel and cost of gas sold	2,921,920	5,313,470	5,254,509	12,980,609
Purchased power	1,405,945	5,076,669	2,190,879	9,184,292
Operation and maintenance	564,194	619,582	1,029,142	1,334,596
Taxes other than income taxes	115,045	142,126	225,610	281,814
Depreciation and amortization	234,119	224,711	412,735	419,765
Total	5,241,223	11,376,558	9,112,875	24,201,076
OPERATING INCOME	513,946	609,925	855,300	1,069,728
OTHER (EXPENSE) INCOME:				
Unrealized (loss) gain on AOL Time Warner investment	(1,320,755)	330,901	202,928	467,983
Unrealized gain (loss) on indexed debt securities	1,320,755	(329,185)	(202,870)	(464,232)
Income from equity investments in unconsolidated subsidiaries	5,481	51,572	5,966	64,350
Interest expense	(186,709)	(150,293)	(346,763)	(328,245)
Distribution on trust preferred securities	(12,812)	(13,899)	(26,704)	(27,799)
Minority interest	208	(34,103)	515	(33,812)
Other, net	26,439	34,503	46,533	69,820
Total	(167,393)	(110,504)	(320,395)	(251,935)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, EXTRAORDINARY ITEM, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS	346,553	499,421	534,905	817,793
Income Tax Expense	110,620	183,060	165,156	293,210
INCOME FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEM, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS	235,933	316,361	369,749	524,583
Loss from Discontinued Operations, net of tax of $3,213 and $1,813	(19,447)	--	(20,110)	--
Loss on Disposal of Discontinued Operations, net of tax of $(1,640)	--	--	--	(7,294)
INCOME BEFORE EXTRAORDINARY ITEM, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS	216,486	316,361	349,639	517,289
Extraordinary Item	7,445	--	7,445	--
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS	223,931	316,361	357,084	517,289
Cumulative Effect of Accounting Change, net of tax of zero and $33,205	--	(47)	--	61,619
INCOME BEFORE PREFERRED DIVIDENDS	223,931	316,314	357,084	578,908
Preferred Dividends	98	98	195	195
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 223,833	$ 316,216	$ 356,889	$ 578,713
BASIC EARNINGS PER SHARE:				
Income from Continuing Operations	$ 0.83	$ 1.09	$ 1.30	$ 1.82
Loss from Discontinued Operations, net of tax	(0.07)	--	(0.07)	--
Loss on Disposal of Discontinued Operations, net of tax	--	--	--	(0.03)
Extraordinary Item	0.03	--	0.03	--
Cumulative Effect of Accounting Change, net of tax	--	--	--	0.22
Net Income Attributable to Common Stockholders	$ 0.79	$ 1.09	$ 1.26	$ 2.01
DILUTED EARNINGS PER SHARE:				
Income from Continuing Operations	$ 0.82	$ 1.08	$ 1.29	$ 1.81
Loss from Discontinued Operations, net of tax	(0.07)	--	(0.07)	--
Loss on Disposal of Discontinued Operations, net of tax	--	--	--	(0.03)
Extraordinary Item	0.03	--	0.03	--
Cumulative Effect of Accounting Change, net of tax	--	--	--	0.21
Net Income Attributable to Common Stockholders	$ 0.78	$ 1.08	$ 1.25	$ 1.99

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	JUNE 30, 2001
		(AS RESTATED)
CURRENT ASSETS:		
Cash and cash equivalents	$ 175,972	$ 107,705
Investment in AOL Time Warner common stock	896,824	1,364,807
Accounts receivable, net	2,623,492	2,622,813
Accrued unbilled revenues	592,618	274,117
Fuel stock and petroleum products	213,484	315,097
Materials and supplies	269,729	274,118
Price risk management assets	4,290,803	2,513,734
Non-trading derivative assets	--	2,032,273
Margin deposits on energy trading activities	521,004	186,582
Other	253,335	281,125
Total current assets	9,837,261	9,972,371
Property, plant and equipment	22,391,874	23,136,189
Less accumulated depreciation and amortization	(7,128,316)	(7,309,770)
Property, plant and equipment, net	15,263,558	15,826,419
OTHER ASSETS:		
Goodwill and other intangibles, net	3,077,304	2,997,523
Regulatory assets	1,926,103	1,688,517
Price risk management assets	544,909	542,954
Non-trading derivative assets	--	618,674
Equity investments in unconsolidated subsidiaries	108,727	139,523
Stranded costs indemnification receivable	--	367,000
Net assets of discontinued operations	194,858	120,455
Other	746,709	858,333
Total other assets	6,598,610	7,332,979
TOTAL ASSETS	$ 31,699,429	$ 33,131,769

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	JUNE 30, 2001
CURRENT LIABILITIES:		(AS RESTATED)
Short-term borrowings	$ 5,004,494	$ 3,036,770
Current portion of long-term debt	1,623,202	479,977
Indexed debt securities derivative	--	1,252,490
Accounts payable	3,057,948	2,366,241
Taxes accrued	172,449	329,798
Interest accrued	103,489	123,879
Dividends declared	110,893	111,949
Price risk management liabilities	4,272,771	2,419,718
Non-trading derivative liabilities	--	1,799,425
Margin deposits from customers on energy trading activities	284,603	380,400
Accumulated deferred income taxes	309,008	409,086
Other	630,357	527,359
Total current liabilities	15,569,214	13,237,092
OTHER LIABILITIES:		
Accumulated deferred income taxes	2,548,891	2,691,236
Unamortized investment tax credits	265,737	256,572
Price risk management liabilities	530,263	488,361
Non-trading derivative liabilities	--	677,712
Benefit obligations	491,964	538,049
Other	1,100,505	1,149,193
Total other liabilities	4,937,360	5,801,123
LONG-TERM DEBT	4,996,095	5,448,676
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 12)		
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	9,345	1,231,843
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	705,355	705,569
STOCKHOLDERS' EQUITY:		
Cumulative preferred stock	9,740	9,740
Common stock	3,257,190	3,869,251
Treasury stock	(120,856)	(113,336)
Unearned ESOP stock	(161,158)	(143,499)
Retained earnings	2,520,350	2,881,523
Accumulated other comprehensive (loss) income	(23,206)	203,787
Total stockholders' equity	5,482,060	6,707,466
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 31,699,429	$ 33,131,769

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 2001
		(AS RESTATED)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributable to common stockholders	$ 356,889	$ 578,713
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	412,735	419,765
Deferred income taxes	(12,697)	89,852
Investment tax credits	(9,142)	(9,165)
Cumulative effect of accounting change	--	(61,619)
Unrealized gain on AOL Time Warner investment	(202,928)	(467,983)
Unrealized loss on indexed debt securities	202,870	464,232
Undistributed earnings of unconsolidated subsidiaries	(5,966)	(30,822)
Proceeds from sale of debt securities	123,428	--
Impairment of marketable equity securities	22,185	--
Extraordinary item	(7,445)	--
Net cash provided by discontinued operations	19,266	80,189
Minority interest	(515)	33,812
Changes in other assets and liabilities:		
Accounts receivable, net	(509,885)	372,364
Inventory	(8,669)	(99,554)
Accounts payable	539,982	(689,852)
Federal tax refund	52,817	--
Fuel cost under-recovery	(261,094)	(267,754)
Net price risk management assets and liabilities	(26,650)	(116,103)
Margin deposits on energy trading activities, net	(128,884)	430,219
Prepaid lease obligation	--	(101,542)
Interest and taxes accrued	82,707	179,826
Other current assets	366	64,653
Other current liabilities	47,401	(101,113)
Other assets	(59,861)	167,307
Other liabilities	(23,668)	47,231
Other, net	82,732	102,945
Net cash provided by operating activities	685,974	1,085,601
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(817,265)	(1,037,259)
Business acquisitions, net of cash acquired	(2,120,312)	--
Payment of business purchase obligation	(981,789)	--
Investments in unconsolidated subsidiaries	(3,204)	26
Net cash used in discontinued operations	(36,553)	(5,806)
Other, net	24,214	(12,541)
Net cash used in investing activities	(3,934,909)	(1,055,580)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt, net	92,098	544,632
Increase (decrease) in short-term borrowing, net	3,795,000	(1,814,158)
Payments of long-term debt	(448,194)	(377,951)
Payment of common stock dividends	(212,423)	(216,170)
Proceeds from issuance of stock	18,389	82,223
Proceeds from subsidiary issuance of stock	--	1,697,848
Purchase of treasury stock	(27,306)	--
Net cash provided by discontinued operations	41,514	--
Other, net	782	(9,867)
Net cash provided by (used in) financing activities	3,259,860	(93,443)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	6,693	(4,845)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,618	(68,267)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	80,767	175,972
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 98,385	$ 107,705
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 374,015	$ 314,135
Income taxes	72,195	111,869

See Notes to the Company's Interim Financial Statements

(1) BASIS OF PRESENTATION

Included in this Quarterly Report on Form 10-Q/A (Form 10-Q/A) for Reliant Energy, Incorporated (Reliant Energy), together with its subsidiaries (the Company) are Reliant Energy's consolidated interim financial statements and notes (Interim Financial Statements) including the Company's 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 Reliant Energy Resources Corp. (RERC Corp.) (RERC Corp. Form 10-K) for the year ended December 31, 2000 and the Quarterly Report on Form 10-Q of Reliant Energy (Reliant Energy First Quarter 10-Q) and RERC Corp (RERC Corp. First Quarter 10-Q) for the quarter ended March 31, 2001.

RESTATEMENT

On February 5, 2002, the Company announced that it was restating its earnings for the second and third quarters of 2001. As more fully described below, the restatement relates to a correction in accounting treatment for a series of four structured transactions that were inappropriately accounted for as cash flow hedges for the period of May 2001 through September 2001.

During the May 2001 through September 2001 time frame, the Company entered into a series of four structured transactions that were intended to increase future cash flow and earnings and to increase certainty associated with future cash flow and earnings, albeit at the expense of 2001 cash flow and earnings. It was contemplated that the structured transactions would qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). The transactions were recorded in the Company's cash flow hedge accounting records and were, in effect, overlaid on existing contracts entered into as hedges. In general, each structured transaction involved a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003. Each series of contracts in a structure were executed contemporaneously with the same counterparty and were for the same commodities, quantities and locations. The contracts in each structure were offsetting in terms of physical attributes. In two of the four structured transactions, a series of contracts were entered into with the same counterparty to mitigate credit exposure (the credit mitigation contracts). These credit mitigation contracts mirrored the cash flows and terms from the other contracts in the structure, except for an upfront demand payment made to the counterparty in these two transactions. In addition, in contemplation of one of the structured transactions, in August 2001, the Company entered into forward contracts with a different counterparty to buy and sell natural gas, a portion of which was inappropriately recorded in the fourth quarter of 2001. The counterparties to all of the structured transactions were independent third parties that are regularly engaged in the energy trading business.

While each contract in each structure was not at market at inception, the contracts were intended to be at market in total, so the structure had little or no fair value at inception. Under the original accounting treatment, however, the Company recorded each applicable contract in its hedge accounting records on an individual basis, resulting in the recognition of a non-trading derivative asset or liability on the balance sheet with an offsetting entry in accumulated other comprehensive income at inception for each contract. Such accounting treatment resulted in a net loss being recorded in 2001 and ultimately would result in income being recorded for 2002 and 2003 related to these four structured transactions. In this situation, the recognition of other comprehensive income was in error, because the fair value of each contract in each structure resulted not from changes in the fair value of any anticipated transaction, but rather from the fact that the individual contracts were not at market at inception.

Having further reviewed the transactions, the Company now believes the contracts should have been accounted for as a unit within each structured transaction rather than separately and that, viewed as such, they did not qualify as cash flow hedges under SFAS No. 133. Consequently, these contracts should have been accounted for as derivatives with changes in fair value recognized through the income statement.

As a result, the unaudited consolidated condensed financial statements and related disclosures as of June 30, 2001 and for the three and six months ended June 30, 2001 have been restated from amounts previously reported. A summary of the principal effects of the restatement is as follows: (Note - Those line items for which no change in amounts are shown were not affected by the restatement.)

	THREE MONTHS ENDED JUNE 30, 2001		SIX MONTHS ENDED JUNE 30, 2001	
	AS RESTATED	AS PREVIOUSLY REPORTED	AS RESTATED	AS PREVIOUSLY REPORTED
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$ 11,986	$ 11,974	$ 25,271	$ 25,259
Expenses:				
Fuel and cost of gas sold	5,314	5,389	12,981	13,056
Purchased power	5,077	5,077	9,184	9,184
Other expenses	986	986	2,037	2,037
Total	11,377	11,452	24,202	24,277
Operating Income	609	522	1,069	982
Other Expense, net	(77)	(77)	(218)	(218)
Minority Interest	(34)	(23)	(34)	(23)
Income Tax Expense	(182)	(148)	(294)	(260)
Income from Continuing Operations Before Cumulative Effect of Accounting Change and Preferred Dividends	316	274	523	481
Loss on Disposal of Discontinued Operations, net of tax	--	--	(7)	(7)
Cumulative effect of accounting change, net of tax	--	--	62	62
Preferred Dividends	--	--	--	--
Net Income Attributable to Common Shareholders	$ 316	$ 274	$ 578	$ 536
BASIC EARNINGS PER SHARE:				
Income from Continuing Operations	$ 1.09	$ 0.94	$ 1.82	$ 1.67
Loss on Disposal of Discontinued Operations, net of tax	--	--	(0.03)	(0.03)
Cumulative effect of accounting change, net of tax	--	--	0.22	0.22
Net Income Attributable to Common Shareholders	$ 1.09	$ 0.94	$ 2.01	$ 1.86
DILUTED EARNINGS PER SHARE:				
Income from Continuing Operations	$ 1.08	$ 0.93	$ 1.81	$ 1.66
Loss on Disposal of Discontinued Operations, net of tax	--	--	(0.03)	(0.03)
Cumulative effect of accounting change, net of tax	--	--	0.21	0.21
Net Income Attributable to Common Shareholders	$ 1.08	$ 0.93	$ 1.99	$ 1.84

ASSETS	JUNE 30, 2001 AS RESTATED	JUNE 30, 2001 AS PREVIOUSLY REPORTED
	(IN MILLIONS)	
CURRENT ASSETS:		
Price risk management assets	$ 2,514	$ 2,514
Non-trading derivative assets	2,033	2,047
Other	5,426	5,426
Total current assets	9,973	9,987
PROPERTY, PLANT AND EQUIPMENT, NET	15,826	15,826
OTHER ASSETS:		
Price risk management assets	543	543
Non-trading derivative assets	619	711
Other	6,171	6,171
Total other assets	7,333	7,425
TOTAL ASSETS	$ 33,132	$ 33,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Price risk management liabilities	$ 2,420	$ 2,420
Non-trading derivative liabilities	1,800	1,809
Accumulated deferred income taxes	409	412
Other	8,608	8,608
Total current liabilities	13,237	13,249
OTHER LIABILITIES:		
Accumulated deferred income taxes	2,691	2,694
Price risk management liabilities	489	564
Non-trading derivative liabilities	678	677
Other	1,944	1,944
Total other liabilities	5,802	5,879
LONG-TERM DEBT	5,449	5,449
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	1,232	1,221
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	705	705
STOCKHOLDERS' EQUITY:		
Cumulative preferred stock	10	10
Common stock	3,869	3,869
Treasury stock	(113)	(113)
Unearned ESOP	(144)	(144)
Retained earnings	2,881	2,839
Accumulated other comprehensive income	204	274
Stockholders' equity	6,707	6,735
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 33,132	$ 33,238

BASIS OF PRESENTATION

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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) (Summary of Significant Accounting Policies -- 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 12.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 "Business Combinations" (SFAS No. 141) and SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. Under SFAS No. 142, a nonamortization approach, goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead would be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. The provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 will be adopted by the Company on January 1, 2002. The Company is in the process of determining the effect of adoption of SFAS No. 141 and SFAS No. 142 on its consolidated financial statements.

(3) DERIVATIVE FINANCIAL INSTRUMENTS

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 six months ended June 30, 2001, losses of $35 million of the initial transition adjustment recognized in other comprehensive income were realized in net income. For additional information regarding the adoption of SFAS No. 133 and the Company's accounting policies for derivative financial instruments, see Note 2 of Reliant Energy First Quarter 10-Q.

The application of SFAS No. 133 is still evolving as the FASB clears issues submitted to the Derivatives Implementation Group for consideration. The FASB approved a number of issues regarding the normal purchases and normal sales exception in the second quarter. One issue concludes forward contracts with volumetric optionality do not qualify for the normal purchases and normal sales exception, while another issue applies exclusively to the electric industry and allows the normal purchases and normal sales exception for option-type contracts if certain criteria are met. The effective date for implementation of these decisions is July 1, 2001. The Company is currently assessing the impact of the recently cleared issues and does not believe they will have a material impact on the Company's Consolidated Financial Statements.

Cash Flow Hedges. During the six months ended June 30, 2001, the Company entered into interest-rate swaps in order to adjust the interest rate on $1.6 billion of its floating rate debt. In addition, as of June 30, 2001, the Company's European Energy segment had entered into transactions to purchase approximately $103 million at fixed exchange rates in order to hedge future fuel purchases payable in U.S. dollars.

During the six months ended June 30, 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. During the six months ended June 30, 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. As of June 30, 2001, current non-trading derivative assets and liabilities and corresponding amounts in accumulated other comprehensive income are expected to be reclassified into 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 is five years.

Hedge of Net Investment in Foreign Subsidiaries. The Company has substantially hedged its net investment in its European Energy segment through a combination of Euro-denominated borrowings, foreign currency swaps and foreign currency forward contracts. These are designed to reduce the Company's exposure to changes in foreign currency rates. During the six months ended June 30, 2001, the derivative and non-derivative instruments designated as hedging the net investment in the Company's European Energy segment resulted in a gain of $227 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. During the six months ended June 30, 2001, the Company recorded a $464 million loss associated with the fair value of the derivative component of the indexed debt securities obligations. During the six months ended June 30, 2001, the Company recorded a $468 million gain on the Company's investment in AOL Time Warner Inc. common stock. 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 an indirect Dutch generating subsidiary of the Company, Reliant Energy Power Generation Benelux N.V. (REPGB), previously named 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 Dutch generation sector, including REPGB, financial responsibility to purchase electricity and gas under a gas supply contract and three electricity contracts. These contracts are derivatives pursuant to SFAS No. 133 due to the pricing indices. As of June 30, 2001, the Company has recognized $169 million in short-term and long-term non-trading derivative liabilities for REPGB's portion of these stranded costs contracts. For additional information regarding REPGB's stranded costs and the related indemnification by former shareholders of these stranded costs, see Note 12(e).

During the second quarter of 2001, the Company entered into a structured transaction which was recorded on the balance sheet in non-trading derivative assets and liabilities. For further discussion of this transaction, see Note 1. The change in fair value of these derivative assets and liabilities must be recorded in the statement of income for each reporting period. During the second quarter of 2001, $13 million of net non-trading derivative liabilities were settled related to this transaction. As of June 30, 2001, the Company has recognized $815 million of non-trading derivative assets and $803 million of non-trading derivative liabilities related to this transaction.

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

On May 12, 2000, an indirect 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. 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 actual financial information and pro forma information for the six months ended June 30, 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 sale and leaseback transactions, see Note 14(c) to Reliant Energy 10-K Notes.

	THREE MONTHS ENDED JUNE 30, 2000		SIX MONTHS ENDED JUNE 30, 2000	
	ACTUAL	PRO FORMA	ACTUAL	PRO FORMA
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$ 5,755	$ 5,814	$ 9,968	$ 10,134
Income from continuing operations	236	227	370	345
Net income attributable to common stockholders	224	215	357	332
Basic earnings per share	0.79	0.76	1.26	1.17
Diluted earnings per share	0.78	0.75	1.25	1.16

These 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.

(5) 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. No additional loss was recorded during the three months ended June 30, 2001.

(6) DEPRECIATION AND AMORTIZATION

The Company's depreciation expense for the quarter and six months ended June 30, 2000 was $97 million and $186 million, respectively, compared to $99 million and $200 million for the same periods in 2001. Goodwill amortization related to acquisitions was $20 million and $42 million for the quarter and six months ended June 30, 2000, respectively, compared to $19 million and $42 million for the same periods in 2001. Other amortization expense, including amortization of regulatory assets, was $117 million and $185 million for the quarter and six months ended June 30, 2000, respectively, compared to $107 million and $178 million for the same periods 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 June 30, 2001, the cumulative amount of redirected depreciation for regulatory purposes was $611 million and $725 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. Amortization expense related to the recoverable impaired plant costs and other deferred debits created from discontinuing SFAS No. 71 was $95 million and $147 million for the quarter and six months ended June 30, 2000, respectively, compared to $87 million and $123 million for the same periods in 2001.

(7) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS)			
Net income attributable to common stockholders	$ 224	$ 316	$ 357	$ 578
Other comprehensive income (loss):				
Foreign currency translation adjustments from continuing operations	5	6	(5)	5
Foreign currency translation adjustments from discontinued operations	(23)	--	(23)	--
Additional minimum non-qualified pension liability adjustment	--	3	--	1
Cumulative effect of adoption of SFAS No. 133	--	--	--	(252)
Net deferred gains from cash flow hedges	--	194	--	377
Reclassification of deferred loss from cash flow hedges realized in net income	--	83	--	83
Unrealized gain on available-for-sale securities	1	6	2	13
Reclassification adjustment for impairment loss on available-for-sale securities realized in net income .	--	--	14	--
Comprehensive income	$ 207	$ 608	$ 345	$ 805

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

(a) Short-term Borrowings.

As of June 30, 2001, the Company had credit facilities, which included the facilities of various financing subsidiaries, Reliant Resources, Inc. (Reliant Resources), REPGB and RERC Corp., with financial institutions which provide for an aggregate of $7.4 billion in committed credit, of which $3.0 billion was unused. As of June 30, 2001, borrowings of $3.8 billion were outstanding or supported under these credit facilities of which $852 million were classified as long-term debt, based on availability of committed credit with expiration dates exceeding one year and management's intention to maintain these borrowings in excess of one year. Various credit facilities aggregating $2.7 billion may be used for letters of credit of which $0.6 billion were outstanding as of June 30, 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 $3.7 billion are unsecured. The credit facilities contain covenants and requirements that 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. As of June 30, 2001, 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.

(9) EARNINGS PER SHARE

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)			
Basic EPS Calculation:				
Income from continuing operations	$ 236	$ 316	$ 370	$ 523
Loss from discontinued operations, net of tax	(19)	--	(20)	--
Loss on disposal of discontinued operations, net of tax	--	--	--	(7)
Extraordinary item	7	--	7	--
Cumulative effect of accounting change, net of tax	--	--	--	62
Net income attributable to common stockholders	$ 224	$ 316	$ 357	$ 578
Weighted average shares outstanding	284,238,000	289,743,000	283,658,000	288,546,000
Basic EPS:				
Income from continuing operations	$ 0.83	$ 1.09	$ 1.30	$ 1.82
Loss from discontinued operations, net of tax	(0.07)	--	(0.07)	--
Loss on disposal of discontinued operations, net of tax	--	--	--	(0.03)
Extraordinary item	0.03	--	0.03	--
Cumulative effect of accounting change, net of tax	--	--	--	0.22
Net income attributable to common stockholders	$ 0.79	$ 1.09	$ 1.26	$ 2.01
Diluted EPS Calculation:				
Net income attributable to common stockholders	$ 224	$ 316	$ 357	$ 578
Plus: Income impact of assumed conversions:				
Interest on 6 -1/4% convertible trust preferred securities	--	--	--	--
Total earnings effect assuming dilution	$ 224	$ 316	$ 357	$ 578
Weighted average shares outstanding	284,238,000	289,743,000	283,658,000	288,546,000
Plus: Incremental shares from assumed conversions (1):				
Stock options	1,562,000	2,373,000	979,000	2,233,000
Restricted stock	753,000	607,000	753,000	607,000
6 -1/4% convertible trust preferred securities	15,000	14,000	15,000	14,000
Weighted average shares assuming dilution	286,568,000	292,737,000	285,405,000	291,400,000
Diluted EPS:				
Income from continuing operations	$ 0.82	$ 1.08	$ 1.29	$ 1.81
Loss from discontinued operations, net of tax	(0.07)	--	(0.07)	--
Loss on disposal of discontinued operations, net of tax	--	--	--	(0.03)
Extraordinary item	0.03	--	0.03	--
Cumulative effect of accounting change, net of tax	--	--	--	0.21
Net income attributable to common stockholders	$ 0.78	$ 1.08	$ 1.25	$ 1.99

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(1) For the three months ended June 30, 2000 and 2001, the computation of diluted EPS excludes 52,307 and 1,860,256 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $28.72 to $32.22 per share and $45.57 to $50.00 per share for the second quarter 2000 and 2001, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

For the six months ended June 30, 2000 and 2001, the computation of diluted EPS excludes 452,327 and 1,978,698 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $25.81 to $32.22 per share and $41.69 to $50.00 per share for the first six months of 2000 and 2001, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

(10) 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 June 30, 2001, 302,263,474 shares of Reliant Energy common stock were issued and 290,222,894 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 7,528,889 at December 31, 2000 and June 30, 2001, respectively) and (b) treasury shares (4,811,193 and 4,511,691 at December 31, 2000 and June 30, 2001, respectively). Reliant Energy declared dividends of $0.375 per share in the second quarter of 2000 and 2001 and $0.75 per share in the first six months of 2000 and 2001.

During the six months ended June 30, 2001, Reliant Energy issued 300,000 shares of Reliant Energy common stock out of its treasury stock. As of June 30, 2001, Reliant Energy was authorized to purchase up to $271 million of Reliant Energy common stock under its stock repurchase program.

(11) 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 JUNE 30, 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 JUNE 30, 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.

(12) 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. (a wholly owned subsidiary of Reliant Resources), Reliant Energy Power Generation, Inc. (a wholly owned subsidiary of Reliant Resources) and several other subsidiaries of Reliant Resources, as well as several officers of some of these companies, 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. 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 for any damages arising under 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 of San Francisco County; and one was filed in the Superior Court of 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 sought to remove all of these cases to federal court. The Judicial Panel on Multidistrict Litigation issued an order consolidating and transferring them to the Honorable Robert H. Whaley, a U.S. District Court Judge from the Eastern District of Washington, sitting by designation in San Diego, California. On June 27, 2001, Judge Whaley heard argument on plaintiffs' motions to remand five of the six cases back to state court. A motion to remand the sixth case has not been filed at this time. Judge Whaley issued a ruling on July 30, 2001, remanding the five cases back to state court. On August 1, 2001, a motion to consolidate the remanded state court cases was filed. 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.

Clean Air Standards. The Company has participated in a lawsuit against the Texas Natural Resource Conservation Commission (TNRCC) regarding the limitation of the emission of oxides of nitrogen (NOx) in the Houston area. A settlement of the lawsuit was reached with the TNRCC in the second quarter of 2001. The settlement provides for an increase in allowable NOx emissions, compared to the original TNRCC requirements, through 2004. Further emission reduction requirements may or may not be required through 2007, depending upon the outcome of further investigations of regional air quality issues. Under the settlement, the Company will expend substantial funds to achieve significant reductions of NOx emissions. The Company anticipates investing up to $720 million in capital and other special project expenditures by 2004, and an additional $140 million between 2004 and 2007 to comply with this settlement.

Manufactured Gas Plant Sites. RERC Corp. and its subsidiaries (collectively, 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 June 30, 2001, RERC had accrued $19 million for remediation of the Minnesota sites. At June 30, 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 June 30, 2001, RERC had recorded accruals of $4 million (with a maximum estimated exposure of approximately $17 million at June 30, 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. The Company has found this type of contamination 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 of 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 condition, 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 June 30, 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 June 30, 2001. The Company expects approximately $13 million will be paid over the next five years.

REPGB Asbestos Abatement and Soil Remediation. Prior to the Company's acquisition of REPGB (see Note 3(b) to Reliant Energy 10-K Notes), REPGB 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 REPGB's properties. REPGB 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 expected to be fully completed by 2005. As of June 30, 2001, the estimated undiscounted liability for this asbestos abatement and soil remediation was $21 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 that 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 condition, 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 by the California Public Utilities Commission (CPUC) early this year.

As of December 31, 2000, the Company was owed a total of $282 million by the California Power Exchange (Cal PX) and the California Independent System Operator (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. As of June 30, 2001, the Company was owed a total of $318 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 June 30, 2001. In the first six months of 2001, the Company recorded a pre-tax provision of $37 million against receivable balances related to energy sales from January 1, 2001 through June 30, 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.

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.

On March 9, 2001, the FERC issued an order outlining criteria for determining amounts subject to possible refund based on a monthly proxy market clearing price for transactions in the Cal ISO and Cal PX markets from January 1, 2001 through May 28, 2001. According to those criteria, 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 are subject to possible refunds. In addition, approximately $370,000 of the $6.6 million charged by the Company from May 1 through May 28, 2001, for sales in California to the Cal ISO are subject to possible refund. The FERC found that the Company did not have any potential refund obligations associated with its sales in March or April 2001. In the March 9 order, the FERC set forth procedures for challenging possible refund obligations. On April 11 and 13 and May 11, the Company submitted cost or other justification for most of the January and February transactions designated as subject to refund. During the second quarter of 2001, the Company accrued refunds of $15 million of which $3 million had been previously reserved in the first quarter of 2001. On June 22, 2001, the Company notified the FERC that it agreed to refund amounts in excess of the proxy prices for May transactions in light of changes in environmental restrictions on the Company's generators. 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. 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. This plan became effective on May 29, 2001 and was to have lasted 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 in the Cal ISO). The plan's breakpoint amount is based on variable cost calculations using data submitted confidentially by each gas-fired generator to the FERC and the Cal ISO. The Cal ISO is instructed to 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. On June 1, 2001, the Cal ISO and the three California public utilities made a filing purporting to meet this requirement.

On June 19, 2001, the FERC issued an order modifying the market monitoring and mitigation plan adopted in its April 26 order, to apply price controls to all hours, instead of just hours of low operating reserve, and to extend the mitigation measures to other Western states in addition to California. The proxy market clearing price calculated by the Cal ISO will apply during reserve deficiencies to all sales in the Cal ISO and Western spot markets. The affected Western states are Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. The proxy market clearing price will include variable operations and maintenance costs ($6/MWh) and natural gas costs, while emissions costs and start-up fuel costs incurred in providing energy will be billed by suppliers directly to the Cal ISO. The Cal ISO will also add a 10 percent premium to market clearing prices to compensate sellers for credit uncertainty in California. In non-emergency hours in California, the maximum price in California and the West will be capped at 85 percent of the highest Cal ISO hourly market clearing price established during the hours when the last Stage 1 emergency was in effect. Sellers other than marketers will be allowed to bid higher than the maximum prices, but such bids are subject to justification and potential refund. Justification of higher prices is limited to establishing higher actual gas costs than the proxy calculation averages. Marketers cannot justify prices above the set maximum, but rather must be price takers. The plan requires that every non-hydroelectric generator located in California with available uncommitted capacity must bid into the Cal ISO's real-time market in every hour, and non-hydroelectric generators in other Western states that use the interstate transmission grid must likewise make their uncommitted capacity available to a spot market of their choice. The modified monitoring and mitigation plan went into effect June 20, 2001, and will terminate on September 30, 2002, covering two summer peak seasons, or approximately 16 months. The Company believes that while the mitigation plan will reduce volatility in the market, the Company will nevertheless be able to profitably operate its facilities in the West because the proxy market clearing price is based on the heat rate of the least efficient unit on-line during each hour. Additionally, as noted above, the mitigation plan allows sellers, such as the Company, to justify prices above the proxy price. Finally, any adverse impacts of the mitigation plan on the Company's operations would be mitigated, in part, by the Company's forward hedging activities. The FERC set July 2, 2001, as the refund effective date for mitigation of prices throughout the West. This means that transactions after that date may be subject to refund if found to be unjust or unreasonable.

The order issued June 19 further requires all public utility sellers and buyers in the Cal ISO's markets to participate in settlement discussions to address past accounts and creditworthiness issues and to structure more long-term contracting. This conference convened on June 25, 2001, and continued through July 9, 2001 The settlement judge made his recommendations to the FERC regarding a proposed methodology for calculating possible refunds by sellers and procedures for resolving that and other outstanding issues on July 12, 2001. The FERC issued an order on July 25, 2001 adopting most of the settlement judge's recommendations, with modifications, and set an expedited hearing schedule. The Company cannot currently predict the amount of these potential refunds, if any, because the methodology used to calculate these refunds is dependent on information that is only known to the Cal ISO. The amounts of any refunds will be determined by the end of the expedited hearing process. This proceeding should be completed by September 24, 2001. The Company has not reserved any amounts for potential future refunds as a reasonable estimate cannot currently be made. Any refunds that are determined in the FERC proceeding are to be offset against unpaid amounts owed to the Company for its prior sales.

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, the California State Senate and the California Office of the Attorney General all have separate ongoing investigations into the high prices and their causes. The Washington and Oregon attorney generals have begun similar investigations. With the exception of a report by the California Bureau of State Audits, none of these investigations has been completed and no findings have been made in connection with any of them. The California state audit report, released earlier this year, concluded that the foremost cause of the market disruptions in California was fundamental flaws in the structure of the power market. In addition, recently promulgated regulations may make the Company subject to additional reporting requirements to the California Energy Commission.

Pursuant to a resolution by the California Senate Rules Committee, the California Senate has established a Select Committee on Price Manipulation of the Wholesale Market (Committee). On June 12, 2001, the Committee served on Reliant Energy Services, Inc., and Reliant Energy Power Generation, Inc., subpoenas for documents. On July 18, 2001, the Committee found that these two companies had not provided an adequate response to the subpoenas, and it voted to recommend that the Senate initiate contempt proceedings against those entities. The ultimate outcome of the Senate proceedings cannot be predicted with any degree of certainty at this time.

In default on payments for wholesale power purchased through the Cal PX and from the Cal ISO, the credit ratings of two of California's public utilities, Pacific Gas and Electric (PG&E) and Southern California Edison Company (SCE), remain below investment grade. As a result, PG&E and SCE are no longer able to schedule power transactions through the Cal ISO, which has relied on its emergency dispatch authority to serve the load of PG&E and SCE that cannot be served by generation owned or under contract by PG&E or SCE. According to orders of the FERC, the Cal ISO may not make real-time power purchases or issue emergency dispatch orders to third-party suppliers to serve the utilities' net short load in the absence of a creditworthy counterparty to back the liabilities of PG&E or SCE. The bankruptcy court judge in the PG&E bankruptcy has also issued an injunction precluding the Cal ISO from making such purchases.

The CDWR has acted as a creditworthy counterparty for certain real-time transactions on behalf of PG&E and SCE, but disputes its direct liability for some of the power obtained from third-party suppliers to serve the utilities' net short load. The issue of CDWR's liability for amounts due from PG&E and SCE is currently before the FERC. Since January 2000, pursuant to emergency legislation enacted by the California Legislature, the CDWR has negotiated and purchased power through short- and long-term contracts on behalf of PG&E and SCE. On May 10, 2001, the CDWR received authorization under state law to issue up to $13.4 billion in bonds to cover the costs of power purchased on behalf of PG&E and SCE. These funds may not, however, be used to pay for any past under-collections or to service existing debt of the utilities.

In addition to creditworthiness and payment disputes regarding transactions through the Cal ISO, certain issues remain outstanding with regard to the defaults of PG&E and SCE in the markets operated by the Cal PX, which is now in Chapter 11 bankruptcy proceedings. The Cal PX initially allocated the utilities' defaults to other market participants, under a chargeback provision of the Cal PX tariff, which action was challenged in both federal court and at the FERC. Although the Cal PX's actions with regard to the chargebacks were ultimately stayed by the federal court and ordered by the FERC to be rescinded, the issue of how monies held in escrow by the Cal PX will be distributed among market participants is still outstanding. In addition, Reliant Energy Services, Inc. and the Cal PX have filed actions to recover payment from the state of California for its seizure of block forward contracts purchased by PG&E and SCE that secured the utilities' activities in the Cal PX markets.

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 percent tax on any electricity sold by California generators that exceeds a "just and reasonable price," such price to be set by the CPUC. This bill expired when the first extraordinary session ended. During the second extraordinary session of the California legislature, currently in progress, similar bills have been introduced in both the California Senate and the California Assembly. The Senate bill, which was introduced on May 17, would impose a tax equal to the portion of sales above the "cost based rates," which include "reasonable" profit margins and maintenance and operating expenses. This bill passed the Senate on May 17 and is currently in committee in the California Assembly. It must be voted on and passed by the California Assembly, and signed by the Governor, before it will become law. On May 15, the California Assembly also introduced a bill that would tax "excess" gross receipts from electrical energy distribution. The Assembly bill would impose a tax equal to 50% of all gross receipts higher than a base price but not more than 150% of the base price. For receipts between 150% and 200% of the base price, the tax is 70%, and for receipts over 200% of the base price, the tax is 90% of the gross receipts. The bill sets the base price at $60 per megawatt hour until the CPUC sets an appropriate price. This bill has not yet passed the California Assembly. If either bill is enacted into law in its current form, 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 operations and cash flows.

(e) Indemnification of Dutch Stranded Costs.

In January 2001, the Dutch Electricity Production Sector Transitional Arrangements Act (Transition Act) became effective. The Transition Act, among other things, allocated to REPGB and the three other Dutch generation companies, a share of the assets, liabilities and stranded cost commitments of BV Nederlands Elektriciteit Administratiekantoor (formerly, N.V. Samenwerkende elecktriciteits-produktiebedrijven (SEP)). Prior to the enactment of the Transition Act, SEP acted as the national electricity pooling and coordinating body for the generation output of REPGB and the three other national Dutch generation companies. REPGB and the three other Dutch generation companies are shareholders of SEP.

The Transition Act and related agreements specify that REPGB has a 22.5% share of SEP's assets, liabilities and stranded cost commitments. SEP's stranded cost commitments consisted primarily of various uneconomical or stranded cost investments and long-term gas supply and power contracts entered into prior to the liberalization of the Dutch wholesale electricity market. SEP's primary asset is its ownership interest in the Dutch national grid company, which is expected to be sold to the Dutch government in the fourth quarter of 2001 for approximately NLG 2.55 billion (approximately $982 million based on an exchange rate of 2.59 NLG per U.S. dollar as of June 30, 2001). Under the Transition Act, REPGB can either assume its 22.5% allocated interest in the contracts or, subject to the terms of the contracts, sell its interests to third parties.

The Transition Act, as enacted, provided that, subject to the approval of the European Commission, the Dutch government will provide financial compensation to the Dutch generation companies, including REPGB, for certain liabilities associated with long-term district heating contracts entered into by the generation companies with various municipalities. In July 2001, the European Commission ruled that under certain conditions the Dutch government can provide financial compensation to the generation companies for the district heating contracts. However, at this point, it is unclear what the timing of this compensation will be or what form it will take. To the extent that this compensation is not ultimately provided to the generation companies by the Dutch government, REPGB will collect its compensation directly from the former shareholders as further discussed below.

The former shareholders have agreed pursuant to a share purchase agreement to indemnify REPGB for up to NLG 1.9 billion in stranded cost liabilities (approximately $734 million based on an exchange rate of 2.59 NLG per U.S. dollar as of June 30, 2001). The indemnity obligation of the former shareholders and various provincial and municipal entities (including the city of Amsterdam), is secured by a NLG 900 million escrow account (approximately $347 million based on an exchange rate of 2.59 NLG per U.S. dollar as of June 30, 2001). In the first quarter of 2001, REPGB recorded a $544 million liability representing the estimated net present value of its statutorily allocated share of SEP's stranded cost gas and electric and district heating commitments over the life of the respective contracts. Pursuant to SFAS No. 133, the gas and electric contracts are marked to market. As of June 30, 2001, the Company has recorded a liability of $376 million for its stranded cost gas and electric and district heating commitments. In addition, the Company recorded a corresponding asset of equal amount for the indemnification of this obligation from REPGB's former shareholders and the Dutch government. The estimate of stranded cost liability is based on a number of assumptions, many of which are contingent upon the outcome of future events, such as fuel and energy prices, that are not known at this time. The actual amount of the ultimate stranded cost liability may be greater or smaller depending on the outcome of these assumptions.

During the second quarter of 2001, the Company filed aggregate indemnity claims of NLG 64 million (approximately $25 million) for stranded cost liabilities associated with the district heating and gas and electricity contract losses incurred during the first quarter of 2001. Based on current market projections, the Company expects to file similar claims on a quarterly basis for the lifetime of these contracts. On May 31 and July 9, 2001, the former shareholders rejected REPGB's indemnity claims. The Company believes that the rejection of its indemnity claims is without merit and intends to vigorously pursue its claims against the former shareholders.

During the second quarter of 2001, the Company recorded a $51 million pre-tax gain (NLG 125 million) recorded as equity income for the preacquisition gain contingency related to the acquisition of REPGB for the value of its equity investment in SEP. This gain was based on the Company's evaluation of SEP's financial position and fair value. Pursuant to the purchase agreement of REPGB, as amended, REPGB is entitled to a NLG 125 million (approximately $51 million) dividend from SEP under certain conditions.

(f) Reliant Energy HL&P Rate Matters.

The Texas Utility Commission has issued an interim order on June 5, 2001 requiring Reliant Energy HL&P to reverse the amount of redirected depreciation and accelerated depreciation since it was in the Texas Utility Commission's estimation that the utility had overmitigated its stranded costs. The Company disagrees with certain positions prescribed in the interim order by the Texas Utility Commission and will determine future action based on the final order anticipated in August 2001. At June 30, 2001, cumulative redirected depreciation and cumulative accelerated depreciation for regulatory purposes totaled $725 million and approximately $1 billion, respectively. If implemented, the 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 seven years would serve as offsets to the transmission and distribution utility's non-bypassable charges. The rates derived from the Texas Utility Commission's June 5, 2001 interim order will be used during the retail electric pilot project which began on July 31, 2001. The Company does not expect the final Reliant Energy HL&P transmission and distribution rate to be established until the end of August 2001 and implemented until 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.

(g) 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 (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 upon its 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 not sufficient 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.

(13) BENEFIT CURTAILMENT AND ENHANCEMENT CHARGE

During the first quarter of 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.

(14) 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 JUNE 30, 2000			AS OF DECEMBER 31, 2000
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
	(IN MILLIONS)			
Electric Operations	$ 1,421	$ --	$ 325	$ 10,691
Natural Gas Distribution	785	8	(12)	4,509
Pipelines and Gathering	39	52	33	2,358
Wholesale Energy	3,354	98	173	10,794
European Energy	136	--	24	2,521
Other Operations	20	8	(29)	2,296
Discontinued Operations (1)	--	--	--	195
Reconciling Elimination	--	(166)	--	(1,665)
Consolidated	$ 5,755	$ --	$ 514	$ 31,699

	FOR THE SIX MONTHS ENDED JUNE 30, 2000		
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
		(IN MILLIONS)	
Electric Operations	$ 2,368	$ --	$ 527
Natural Gas Distribution	1,829	15	93
Pipelines and Gathering	86	95	65
Wholesale Energy	5,368	240	151
European Energy	286	--	57
Other Operations	31	13	(38)
Reconciling Elimination	--	(363)	--
Consolidated	$ 9,968	$ --	$ 855

	FOR THE THREE MONTHS ENDED JUNE 30, 2001			AS OF JUNE 30, 2001
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
		(IN MILLIONS)		
Electric Operations	$ 1,523	$ --	$ 342	$ 10,908
Natural Gas Distribution	856	32	(49)	3,706
Pipelines and Gathering	50	46	34	2,335
Wholesale Energy	9,252	126	292	11,744
European Energy	276	--	9	3,043
Other Operations	29	12	(19)	2,157
Discontinued Operations (1)	--	--	--	120
Reconciling Elimination	--	(216)	--	(881)
Consolidated	$ 11,986	$ --	$ 609	$ 33,132

	FOR THE SIX MONTHS ENDED JUNE 30, 2001		
	REVENUES FROM NON-AFFILIATES	NET INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
		(IN MILLIONS)	
Electric Operations	$ 2,913	$ --	$ 528
Natural Gas Distribution	3,125	86	86
Pipelines and Gathering	125	101	72
Wholesale Energy	18,536	435	508
European Energy	524	--	27
Other Operations	48	25	(152)
Reconciling Elimination	--	(647)	--
Consolidated	$ 25,271	$ --	$ 1,069

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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. For more information regarding the Company's discontinued operations, see Note 5.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS)			
Operating Income	$ 514	$ 609	$ 855	$ 1,069
Other Expense	(167)	(111)	(320)	(252)
Income Tax Expense	(111)	(182)	(165)	(294)
Loss from Discontinued Operations, net of tax	(19)	--	(20)	--
Loss on Disposal of Discontinued Operations, net of tax	--	--	--	(7)
Extraordinary Item	7	--	7	--
Cumulative Effect of Accounting Change, net of tax	--	--	--	62
Net Income Attributable to Common Stockholders	$ 224	$ 316	$ 357	$ 578

(15) 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. 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. Pursuant to the terms of the master separation agreement, Reliant Resources used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. Reliant Resources used the remainder of 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 twelve months of the Offering (Distribution). As a result of the Offering, the Company recorded directly into stockholders' equity as a component of common stock a $509 million gain on the sale of its subsidiary's stock. For additional information regarding the Company's business separation plan, see Note 4(b) to Reliant Energy 10-K Notes. The Reliant Resources common stock issued in the Offering has been reflected as minority interest in consolidated subsidiaries in the Company's Consolidated Balance Sheet as of June 30, 2001.

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.

(16) SUBSEQUENT EVENTS

(a) Debt Refinancing.

In July 2001, financing subsidiaries of Reliant Energy terminated several bank credit facilities and entered into new bank credit facilities which increased the aggregate amount of bank facilities at financing subsidiaries to $4.3 billion. The new bank facilities expire in July 2002 and are expected to support the issuance of commercial paper. In connection with the termination of a Euro 560 million bank facility, financing subsidiary bank loans of Euro 560 million were refinanced with U.S. dollar denominated commercial paper issued by a financing subsidiary.

(b) Reliant Resources Stock Repurchase.

During the third quarter of 2001, Reliant Resources purchased 840,000 shares of Reliant Resources common stock at an average price of $20.58 per share, or an aggregate purchase price of $17.3 million. These shares were purchased in anticipation of funding benefit plan obligations of Reliant Resources expected to be funded prior to the Distribution. The master separation agreement between Reliant Resources and Reliant Energy restricts the ability of Reliant Resources to issue shares of its common stock prior to the separation of the two companies without the prior consent of Reliant Energy. Accordingly, Reliant Resources may make future purchases of its common stock in anticipation of funding pre-Distribution employee benefit plan obligations.

(c) Hedge of Net Investment in Foreign Subsidiaries.

In July 2001, the Company has entered into foreign currency swaps on Euro 560 million (approximately $475 million based on an exchange rate of 0.8490 Euro per U.S. dollar as of June 30, 2001) to hedge its net investment in its European Energy segment, which expire in 2002. The Company has designated these derivative instruments as hedges. Changes in the fair value of the swaps will be recorded as foreign currency translation adjustments as a component of stockholders' equity.

(d) Reliant Energy Communications.

During the third quarter of 2001, the Company decided to evaluate strategic alternatives, including divestiture, partnerships with other market participants or other strategic alternatives, for the Company's Communications business which serves as a facility-based competitive local exchange carrier and Internet services provider as well as network operations centers and managed data centers in Houston and Austin. The Company does not believe the disposition or other strategic alternatives of this business will have a material adverse effect on its consolidated financial condition, results of operations or cash flows in 2001 and in future periods.

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/A.

RESTATEMENT OF THE INTERIM FINANCIAL STATEMENTS

On February 5, 2002, the Company announced that it was restating its earnings for the second and third quarters of 2001. As more fully described in Note 1, the restatement relates to a correction in accounting treatment for a series of four structured transactions that were inappropriately accounted for as cash flow hedges for the period of May 2001 through September 2001.

Although these transactions were undertaken and accounted for as cash flow hedges, having further reviewed the transactions, the Company now believes that they did not meet the requirements of a cash flow hedge under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). Consequently, these contracts should have been accounted for as derivatives with changes in fair value recognized through the income statement.

As a result, the Original Interim Financial Statements and related disclosures as of June 30, 2001 and for the three and six months ended June 30, 2001 have been restated from amounts previously reported. The principal effects of the restatement on the accompanying financial statements are set forth in Note 1 of the Notes to Interim Financial Statements.

OVERVIEW

We are a diversified international energy services and energy delivery company that provides energy and energy services in North America and 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 domestic and international non-rate regulated power generation facilities. We own two interstate natural gas pipelines that provide 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 operations 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 14 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 our business separation plan, please read Note 4(b) to Reliant Energy 10-K Notes.

As part of the separation, 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 our business separation plan, 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 (Offering) price of $30 per share and received net proceeds from the Offering of $1.7 billion. Pursuant to the master separation agreement, Reliant Resources used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. 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 of the closing of the Reliant Resources initial public offering.

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. 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 4 to our Interim Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Revenues	$ 5,755	$ 11,986	$ 9,968	$ 25,271
Operating Expenses	(5,241)	(11,377)	(9,113)	(24,202)
Operating Income	514	609	855	1,069
Income from equity investments in unconsolidated subsidiaries	5	52	6	64
Interest Expense	(187)	(150)	(347)	(328)
Distribution on Trust Preferred Securities	(13)	(14)	(27)	(28)
Minority Interest	--	(34)	1	(34)
Other Income	28	35	47	74
Income Tax Expense	(111)	(182)	(165)	(294)
Loss from Discontinued Operations, net of tax	(19)	--	(20)	--
Loss on Disposal of Discontinued Operations, net of tax	--	--	--	(7)
Extraordinary Item	7	--	7	--
Cumulative Effect of Accounting Change, net of tax	--	--	--	62
Net Income Attributable to Common Stockholders	$ 224	$ 316	$ 357	$ 578
Basic Earnings Per Share	$ 0.79	$ 1.09	$ 1.26	$ 2.01
Diluted Earnings Per Share	$ 0.78	$ 1.08	$ 1.25	$ 1.99

Three months ended June 30, 2000 compared to three months ended June 30, 2001

We reported consolidated net income of $224 million ($0.78 per diluted share) for the three months ended June 30, 2000 compared to $316 million ($1.08 per diluted share) for the three months ended June 30, 2001. The 2000 results include a $19 million loss from discontinued operations in Latin America and a $7 million extraordinary gain related to the early extinguishment of long-term debt. The 2001 results include a $33 million after-tax gain recorded in equity income related to a preacquisition contingency for the value of SEP, the coordinating body for the Dutch electricity generating sector, offset by related minority interest of $6 million.

Our consolidated net income, after adjusting for the items described above, was $236 million ($0.82 per diluted share) for the three months ended June 30, 2000 compared to $289 million ($0.99 per diluted share) for the three months ended June 30, 2001. The improvement was primarily due to increased profitability from our Wholesale Energy and Electric Operations businesses, partially offset by reduced contributions from our Natural Gas Distribution and European Energy segments.

For an explanation of changes in operating income for the second quarter of 2000 versus 2001, see the discussion below of operating income by segment.

Equity income from unconsolidated subsidiaries increased by $47 million during the second quarter of 2001 compared to 2000 primarily due to the pre-tax gain of $51 million related to a preacquisition contingency recorded by our European Energy segment (see Note 12(e)), partially offset by decreased earnings from unconsolidated subsidiaries of our Wholesale Energy segment due to a plant outage at one of our equity investments. Our Wholesale Energy segment reported income from equity investments for the three months ended June 30, 2000 of $5.5 million compared to $1 million for the same period in 2001.

We incurred charges for interest expense and distribution on trust preferred securities of $200 million and $164 million for the second quarters of 2000 and 2001, respectively. The decrease resulted from a combination of lower levels of both short-term borrowings and long-term debt and lower interest rates in the second quarter of 2001 compared to the same period in 2000.

Other income increased by $7 million during the second quarter of 2001 compared to 2000, primarily due to increased interest income from our Electric Operations and Wholesale Energy segments.

During the second quarter of 2001, we recorded minority interest expense of $34.4 million related to the minority interest in Reliant Resources.

The effective tax rate for the second quarter of 2000 and 2001 was 32% and 37%, respectively.

Six months ended June 30,2000 compared to six months ended June 30, 2001

We reported consolidated net income of $357 million ($1.25 per diluted share) for the six months ended June 30, 2000 compared to $578 million ($1.99 per diluted share) for the six months ended June 30, 2001. The 2000 results include a $20 million loss from discontinued operations in Latin America and an extraordinary gain of $7 million related to the early extinguishment of long-term debt. The 2001 results reflect a $7 million after-tax loss on the disposal of discontinued operations in Latin America, a $62 million after-tax cumulative effect of an accounting change from the adoption of SFAS No. 133, a $65 million after-tax non-cash charge relating to the redesign of the company's benefit plans for employees of our unregulated businesses and a $33 million after-tax gain recorded in equity income related to a preacquisition contingency for the value of SEP, offset by related minority interest of $6 million.

Our consolidated net income, after adjusting for the items described above, was $370 million ($1.29 per diluted share) for the first six months of 2000 compared to $563 million ($1.94 per diluted share) for the first six months of 2001. The increase in adjusted earnings for this period was largely driven by strong performance from our Wholesale Energy businesses.

For information regarding the adoption of SFAS No. 133, the discontinuance of our Latin American segment, the gain related to the preacquisition contingency and the benefit charge incurred in the first quarter of 2001, see Notes 3, 5, 12(e) and 13 to our Interim Financial Statements.

For an explanation of changes in operating income for the first six months of 2000 versus 2001, see the discussion below of operating income (loss) by segment.

Equity income from unconsolidated subsidiaries increased by $58 million during the first half of 2001 compared to 2000 primarily due to the pre-tax gain of $51 million related to a preacquisition contingency recorded by our European Energy segment, as discussed above, and increased earnings from unconsolidated subsidiaries of our Wholesale Energy segment. Our Wholesale Energy segment reported income from equity investments for the six months ended June 30, 2000 of $6 million compared to $14 million in the same period in 2001. 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 charges for interest expense and distribution on trust preferred securities of $374 million and $356 million for the first six months of 2000 and 2001, respectively. The decrease resulted from a combination of lower levels of both short-term borrowings and long-term debt and lower interest rates in the first six months of 2001 compared to the same period in 2000.

Other income increased by $27 million during the first six months of 2001 compared to 2000 primarily due to increased interest income from our Electric Operations and Wholesale Energy segments and a pre-tax impairment loss of $22 million recorded in 2000 related to certain marketable securities, partially offset by a $15 million gain related to the sale of a development-stage project in 2000 and a federal tax refund in 2000. For additional information regarding our investment equity securities noted above, see Note 2(l) to Reliant Energy 10-K Notes.

During the six months ended June 30, 2001, we recorded minority interest expense of $34.4 million related to the minority interest in Reliant Resources.

The effective tax rate for the first six months of 2000 and 2001 was 31% and 36%, respectively.

As discussed in Note 12(e) to our Interim Financial Statements, the Transition Act allocated to the Dutch generation sector, including REPGB, financial responsibility for SEP's obligations to purchase electricity and gas under a gas supply contract and three electricity contracts. As a result of the above, we recorded an out-of-market, net stranded cost liability of $169 million and a related deferred tax asset of $61 million at June 30, 2001 for our statutorily allocated share of these gas supply and electricity contracts. We believe that the costs incurred by REPGB subsequent to the tax holiday ending in 2001 related to these contracts will be deductible for Dutch tax purposes. However, due to the uncertainties related to the deductibility of these costs, we have recorded a reserve in other liabilities in our Interim Financial Statements of $61 million as of June 30, 2001.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS)			
Electric Operations	$ 325	$ 342	$ 527	$ 528
Natural Gas Distribution	(12)	(49)	93	86
Pipelines and Gathering	33	34	65	72
Wholesale Energy	173	292	151	508
European Energy	24	9	57	27
Other Operations	(29)	(19)	(38)	(152)
Total Consolidated	$ 514	$ 609	$ 855	$ 1,069

ELECTRIC OPERATIONS

Our Electric Operations segment conducts operations under the name "Reliant Energy HL&P," an unincorporated division of Reliant Energy. Our Electric Operations segment 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 JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 2001
	(IN MILLIONS)			
Operating Revenues:				
Base Revenues	$ 834	$ 816	$ 1,436	$ 1,433
Reconcilable Fuel Revenues	587	707	932	1,480
Total Operating Revenues	1,421	1,523	2,368	2,913
Operating Expenses:				
Fuel and Purchased Power	601	721	959	1,507
Operation and Maintenance	256	224	466	472
Depreciation and Amortization	144	129	243	208
Other Operating Expenses	95	107	173	198
Total Operating Expenses	1,096	1,181	1,841	2,385
Operating Income	$ 325	$ 342	$ 527	$ 528
Electric Sales Including Unbilled (in GWh(1)):				
Residential	5,987	5,784	9,433	9,736
Commercial	4,497	4,540	8,235	8,509
Industrial	7,276	7,705	14,285	14,508
Industrial - Interruptible	1,369	803	2,682	1,437
Other	306	381	1,026	677
Total Sales Including Unbilled	19,435	19,213	35,661	34,867
Average Cost of Fuel (in Cents/MMBtu (2))	263.5	288.5	231.3	294.3

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(1) Gigawatt hours

(2) Million British thermal units

Our Electric Operations segment's operating income for the three months ended June 30, 2001 increased $17 million compared to the three months ended June 30, 2000. The increase was primarily due to the timing of information technology and software expenses and transmission cost of service, and decreases in labor related costs, other operation and maintenance expenses and amortization expense. These decreases were partially offset by increased tax expenses, a reduction in revenues due to milder weather and reduced rates for certain governmental agencies as mandated by Texas deregulation legislation.

Our Electric Operations segment's operating income for the six months ended June 30, 2001 increased $1 million compared to the six months ended June 30, 2000. The increase was primarily due to increased revenue growth and decreased amortization expense offset by a reduction in revenues due to milder weather and reduced rates for certain governmental agencies as mandated by Texas deregulation legislation and increased tax expenses.

Base revenues decreased $18 million and $3 million for the quarter and six months ended June 30, 2001, respectively, primarily due to milder weather compared to prior year and a reduction in revenues due to reduced rates for certain governmental agencies as mandated by Texas deregulation legislation. These decreases were partially offset by customer growth.

Reconcilable fuel revenues and fuel and purchased power expenses for the quarter and six months ended June 30, 2001 increased as a result of an increase in the price of natural gas ($3.59 and $4.85 per MMBtu in the second quarters of 2000 and 2001, respectively, and $3.25 and $5.64 per MMBtu for the first six months of 2000 and 2001, respectively).

Operation and maintenance expenses and other operating expenses for the second quarter of 2001 decreased by $32 million and increased by $12 million, respectively, when compared to the same period in 2000. The decrease in operation and maintenance expenses is largely due to the timing of software and hardware maintenance costs and decreases in labor related costs and other operations and maintenance expenses. The increase in other operating expenses is primarily due to an increase in franchise tax requirements resulting from increased revenues.

Operation and maintenance expenses and other operating expenses for the first six months of 2001 increased by $6 million and $25 million, respectively, when compared to the same period in 2000. The increase in operation and maintenance expense is primarily due to higher benefit costs partially offset by decreased legal fees. The increase in other operating expenses is primarily due to an increase in franchise tax requirements resulting from increased revenues.

Depreciation and amortization expense for the quarter and six months ended June 30, 2001 decreased $15 million and $35 million, respectively, compared to the same periods in 2000. The decrease was primarily due to a decrease in amortization of the book impairment regulatory asset 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS)			
Operating Revenues	$ 793	$ 888	$ 1,844	$ 3,211
Operating Expenses:				
Natural Gas	622	725	1,380	2,702
Operation and Maintenance	126	150	250	283
Depreciation and Amortization	37	37	73	73
Other Operating Expenses	20	25	48	67
Total Operating Expenses	805	937	1,751	3,125
Operating (Loss) Income	$ (12)	$ (49)	$ 93	$ 86
Throughput Data (in Bcf (1)):				
Residential and Commercial Sales	46	37	160	189
Industrial Sales	13	12	38	23
Transportation	11	11	27	26
Retail	141	107	281	239
Total Throughput	211	167	506	477

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(1) Billion cubic feet.

Our Natural Gas Distribution segment's operating loss increased $37 million and operating income decreased $7 million for the quarter and six months ended June 30, 2001 as compared to the same periods in 2000. The increase in the loss for the quarter was largely due to increased bad debt expense in addition to changes in estimates of unbilled revenues and recoverability of deferred gas accounts and other items. The decrease in income for the first six months in 2001 compared to the same period in 2000 is primarily due to increased bad debt expense, in addition to changes in estimates of unbilled revenues and recoverability of deferred gas accounts and other items, partially offset by improved margins from colder weather and reduced operation and maintenance expense due to exiting certain retail gas markets during 2000.

PIPELINES AND GATHERING

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS)			
Operating Revenues	$ 91	$ 96	$ 181	$ 226
Operating Expenses:				
Natural Gas	16	12	31	58
Operation and Maintenance	24	31	49	59
Depreciation and Amortization	14	15	28	29
Other Operating Expenses	4	4	8	8
Total Operating Expenses	58	62	116	154
Operating Income	$ 33	$ 34	$ 65	$ 72
Throughput Data (in MMBtu):				
Natural Gas Sales	3	3	7	9
Transportation	209	193	470	439
Gathering	71	77	141	147
Elimination (1)	(3)	(1)	(6)	(2)
Total Throughput	280	272	612	593

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(1) Elimination of volumes both transported and sold.

Our Pipelines and Gathering segment's operating income for the quarter and six months ended June 30, 2001 increased $1 million and $7 million, respectively, compared to the same periods in 2000. Increased margins for our gas gathering business were offset by a decrease in margins from our Pipelines operations and increased operating expenses in the second quarter of 2001. Improved operating margins (revenues less natural gas costs) from both the pipelines and gas gathering businesses partially offset by increased operating expenses contributed to the increase for the first six months of 2001.

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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS)			
Operating Revenues	$ 3,452	$ 9,378	$ 5,608	$ 18,971
Operating Expenses:				
Fuel and Cost of Gas Sold	1,943	4,259	3,363	9,913
Purchased Power	1,244	4,654	1,931	8,201
Operation and Maintenance	71	146	133	279
Depreciation and Amortization	18	21	25	62
Other Operating Expenses	3	6	5	8
Total Operating Expenses	3,279	9,086	5,457	18,463
Operating Income	$ 173	$ 292	$ 151	$ 508
Operations Data:				
Natural Gas (in Bcf):				
Sales	533	859	1,082	1,626
Electricity (in MMWh):				
Wholesale Power Sales	35.8	86.1	64.1	162.6

Our Wholesale Energy segment's operating income increased $119 million and $357 million, respectively, for the quarter and six months ended June 30, 2001 compared to the same periods in 2000. The increases were primarily due to increased gross margins (revenues less fuel and cost of gas sold and purchased power. Gross margins for Wholesale Energy rose by $200 million and $543 million for the quarter and six months ended June 30, 2001 compared to the same periods in 2000, respectively. Gross margins increased primarily due to increased revenues from energy and ancillary services, increased volumes and higher margins from its trading and marketing activities and the addition of our Mid-Atlantic assets and strong commercial and operational performance in other regions. These results were partially offset by higher operation and maintenance expenses, higher general and administrative and development expenses and a $37 million provision and a $12 million net write-off against receivables balances related to energy sales in the West Region.

On June 19, 2001, the FERC issued an order modifying the market monitoring and mitigation plan it had previously adopted on April 26, 2001. This mitigation plan extends the hours to which the price controls are applied, as well as the states in which the price controls will be in effect. Additionally, the FERC issued an order on July 25, 2001 adopting certain recommendations made by an administrative law judge regarding a proposed methodology for calculating possible refunds by sellers of electricity in the Western Region. We, however, believe that while the mitigation plan will reduce volatility in the market, we will nevertheless be able to profitably operate our facilities in the West because the proxy market clearing price is based on the heat rate of the least efficient unit on-line during each hour. Additionally, as noted above, the mitigation plan allows sellers, such as us, to justify prices above the proxy price. Finally, any adverse impacts of the mitigation plan on our operations would be mitigated, in part, by our forward hedging activities. We have not reserved any amounts for potential future refunds as a reasonable estimate cannot currently be made. For information regarding the reserve against receivables and uncertainties in the California wholesale energy market, see Notes 12(a) and 12(d) to our Interim Financial Statements.

Our Wholesale Energy segment's operating revenues increased $6 billion and $13 billion, respectively, for the quarter and six months ended June 30, 2001 compared to the same periods in 2000. The increases were primarily due to increases in prices and volumes for gas and power sales. Our fuel and gas costs increased $2 billion and $7 billion, respectively, in the quarter and six months ended June 30, 2001 compared to the same periods in 2000, largely due to a higher average cost of gas and increased volume. Our purchased power expense increased $3 billion and $6 billion, respectively, in the quarter and six months ended June 30, 2001, primarily due to higher power sales volumes and higher average cost of power. Operation and maintenance expenses increased $75 million and $146 million, respectively, in the quarter and six months ended June 30, 2001 compared to the same periods 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, higher staffing levels to support increased sales and expanded trading and marketing efforts and increased corporate allocations to Wholesale Energy. Depreciation and amortization expense for the quarter and six months ended June 30, 2001 compared to the same periods in 2000 increased by $3 million and $37 million, respectively, as a result of higher expense related to the amortization of air emissions regulatory allowances, primarily in California, and depreciation of our Mid-Atlantic plants, which were acquired in May 2000.

EUROPEAN ENERGY

Our European Energy segment includes the operations of Reliant Energy Power Generation Benelux N.V. (REPGB) 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 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, REPGB has experienced 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
	(IN MILLIONS)			
Operating Revenues	$ 136	$ 276	$ 286	$ 524
Operating Expenses:				
Fuel and Purchased Power	62	218	131	400
Operation and Maintenance and Other	31	30	59	59
Depreciation and Amortization	19	19	39	38
Total Operating Expenses	112	267	229	497
Operating Income	$ 24	$ 9	$ 57	$ 27
Electricity (in MMWh):				
Wholesale Sales	2.8	3.7	5.9	7.3
Trading Sales	--	5.9	--	9.0

Our European Energy segment operating income decreased $15 million and $30 million, respectively, for the quarter and six months ended June 30, 2001 compared to the same periods in 2000. These decreases were primarily due to a decrease in margins (revenues less fuel and purchased power) as the Dutch electric market was completely opened to wholesale competition on January 1, 2001. Increased margins from ancillary services, district heating sales and an efficiency and energy payment from SEP totaling $30 million partially offset this decline.

Our European Energy segment operating revenues increased $140 million and $238 million, respectively, for the quarter and six months ended June 30, 2001 compared to the same periods in 2000. These increases were 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 $156 million and $269 million, respectively, in the quarter and six months ended June 30, 2001 compared to same periods in 2000, primarily due to increased purchased power for trading activities and increased 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 decreased $10 million and increased $114 million, respectively, for the quarter and six months ended June 30, 2001 compared to the same periods in 2000. The decreased loss in the second quarter was primarily due to increased sales of energy and energy services to commercial and industrial customers from our Reliant Energy Solutions unit partially offset by increased staffing and systems costs in preparation for full retail competition in Texas beginning January 1, 2002. The increased loss for the six months 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 13 to our Interim Financial Statements.

During the third quarter of 2001, we decided to evaluate strategic alternatives, including divestiture, partnerships with other market participants or other strategic alternatives, for our Communications business which serves as a facility-based competitive local exchange carrier and Internet services provider as well as network operations centers and managed data centers in Houston and Austin. We do not believe the disposition or other strategic alternatives of this business will have a material adverse effect on our consolidated financial condition, results of operations or cash flows in 2001 and in future periods.

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 12(a) and 12(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, we expect 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 rate case for the transmission and distribution company, please read Note 12(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 six months ended June 30, 2000 and 2001.

	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 2001
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities	$ 686	$ 1,086
Investing activities	(3,935)	(1,056)
Financing activities	3,260	(93)

Net cash provided by operating activities during the six months ended June 30, 2001 increased $400 million compared to the same period in 2000 primarily due to improved operating cash flows from Wholesale Energy and a decrease in margin deposits on energy trading activities partially offset by changes in working capital.

Net cash used in investing activities decreased $2.9 billion during the six months ended June 30, 2001 compared to the same period in 2000 primarily due to the funding of the remaining purchase obligation for REPGB for $982 million on March 1, 2000 and the acquisition of REMA for $2.1 billion on May 12, 2000, partially offset by an increase in capital expenditures related to the construction of domestic power generation projects during the six months ended June 30, 2001.

Cash flows provided by financing activities decreased $3.4 billion during the six months ended June 30, 2001 compared to the same period in 2000 primarily due to a decline in short-term borrowings, partially offset by $1.7 billion in net proceeds from the initial public offering of Reliant Resources.

FUTURE SOURCES AND USES OF CASH FLOWS

Credit Facilities. As of June 30, 2001, we had credit facilities in effect, including facilities of various financing subsidiaries and operating subsidiaries, which provided for an aggregate of $7.4 billion in committed credit, of which $4.0 billion was scheduled to expire in 2001. As of June 30, 2001, $4.4 billion was outstanding under these facilities including other borrowings of $3.8 billion and letters of credit of $0.6 billion. The remaining unused credit facilities totaled $3.0 billion. 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.

In May 2001, aggregate bank facilities and aggregate amount of commercial paper that can be offered were reduced by $1.7 billion, the amount of net proceeds from the Offering.

Debt Refinancing. In July 2001, various financing subsidiaries terminated several bank credit facilities and entered into new bank credit facilities which increased the aggregate amount of bank facilities at financing subsidiaries to $4.3 billion. The new bank facilities expire in July 2002 and are expected to support the issuance of commercial paper. In connection with the termination of a Euro 560 million bank facility, financing subsidiary bank loans of Euro 560 million were refinanced with U.S. dollar denominated commercial paper issued by a financing subsidiary.

Shelf Registrations. At June 30, 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 $483 million as of June 30, 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 for the recovery of costs associated with generation-related regulatory assets in the amount of $738 million plus issuance costs of up to $11 million. Payments on the transition bonds will be made out of funds derived from non-bypassable transition charges assessed to users of Reliant Energy HL&P's transmission and distribution services. The offering of the transition bonds is expected to be consummated during the third quarter of 2001.

Fuel Filing. As of June 30, 2001, Reliant Energy HL&P was under-collected on fuel recovery by approximately $667 million. In two separate filings with the Texas Utility Commission 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 with the Texas Utility Commission 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 requested to revise its fixed fuel factor to be implemented with the May 2001 billing cycle and proposed to defer the collection of the $389 million until the 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.

On June 21, 2001, Reliant Energy HL&P filed with the Texas Utility Commission to terminate the interim factor and return to the prior fuel factor due to the forecasted decline in natural gas prices. On July 20, 2001, the Texas Utility Commission issued an order of dismissal approving Reliant Energy HL&P's request that the interim rates approved on April 16, 2001, effective with Reliant Energy HL&P's May billing month, be terminated and Reliant Energy HL&P prospectively bill its customers using the prior fuel factor established in a previous order beginning with Reliant Energy HL&P's August billing month. The Texas Utility Commission also granted Reliant Energy HL&P a good cause exception in that Reliant Energy HL&P will not be required to refund amounts collected through the interim rates. Reliant Energy HL&P did not waive its right to collect any final fuel balance.

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 our 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. Pursuant to the terms of the master separation agreement, Reliant Resources used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. Reliant Resources used the remainder of the 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 twelve months of the Offering. For additional information regarding our business separation plan, please read Note 4(b) to Reliant Energy 10-K Notes.

Reliant Resources Stock Repurchase. During the third quarter of 2001, Reliant Resources purchased 840,000 shares of Reliant Resources common stock at an average price of $20.58 per share, or an aggregate purchase price of $17.3 million. These shares were purchased in anticipation of funding benefit plan obligations expected to be funded prior to the Distribution. The master separation agreement between Reliant Resources and Reliant Energy restricts the ability of Reliant Resources to issue shares of common stock prior to the separation of the two companies without the prior consent of Reliant Energy. Accordingly, Reliant Resources may make future purchases of its common stock in anticipation of funding pre-Distribution employee benefit plan obligations.

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, $348 million had been incurred as of June 30, 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 June 30, 2001, we had three additional non-rate regulated generating facilities under construction. Total estimated costs of constructing these facilities are $1.2 billion, including $349 million in commitments for the purchase of combustion turbines. As of June 30, 2001, we had incurred $513 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 $296 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 (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 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, 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 upon its completion, it 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, 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 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 until rates were raised by the CPUC early this year. 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 June 30, 2001, we were owed $318 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 June 30, 2001 and have recorded an allowance against such receivables of $76 million. From July 1, 2001 through August 6, 2001, we have collected none of these receivable balances. For additional information regarding uncertainties in the California wholesale market, please read Notes 12(a) and 12(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 an interim order on June 5, 2001 requiring Reliant Energy HL&P to reverse the amount of redirected depreciation and accelerated depreciation since it was in the Texas Utility Commission's estimation that the utility had overmitigated its stranded costs. We disagree with certain positions prescribed in the interim order by the Texas Utility Commission and will determine future action based on the final order anticipated in August 2001. At June 30, 2001, cumulative redirected depreciation and cumulative accelerated depreciation for regulatory purposes totaled $725 million and approximately $1 billion, respectively. If implemented, the 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 seven years would serve as offsets to the transmission and distribution utility's non-bypassable charges. The rates derived from the Texas Utility Commission's June 5, 2001 interim order will be used during the retail electric pilot project which began on July 31, 2001. We do not expect the final Reliant Energy HL&P transmission and distribution rate to be established until the end of August 2001 and implemented until 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.

Florida Tolling Arrangement. In the first quarter of 2001, our Wholesale Energy segment entered into tolling arrangements with a third party to purchase the rights 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 we will commence tolling payments.

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 bid on 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. We also expect Reliant Resources to establish a commercial paper program in late 2001 or the first half of 2002. 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, our 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 twelve months.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141 and SFAS No. 142. SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting, and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. Under SFAS No. 142, a nonamortization approach, goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead would be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. The provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 will be adopted by us on January 1, 2002. We are in the process of determining the effect of adoption of SFAS No. 141 and SFAS No. 142 on our consolidated financial statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-Q/A 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: March 25, 2002