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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

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)

HOUSTON INDUSTRIES INCORPORATED
(Former name, if changed since last report)

Commission file number 1-13265

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

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

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

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

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

As of May 7, 1999, Reliant Energy, Incorporated had 296,330,151 shares of common stock outstanding, including 11,027,326 ESOP shares not deemed outstanding for financial statement purposes and excluding 91,521 shares held as treasury stock. As of May 7, 1999, all 1,000 shares of Reliant Energy Resources Corp. common stock were held by Reliant Energy, Incorporated.

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

RELIANT ENERGY, INCORPORATED
AND RELIANT ENERGY RESOURCES CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 1999

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PART I. FINANCIAL INFORMATION

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 1999	1998
REVENUES:		
Electric Operations	$ 849,906	$ 846,562
Natural Gas Distribution	663,164	716,896
Interstate Pipelines	66,105	70,981
Wholesale Energy	1,008,103	891,373
International	(51,484)	27,246
Corporate	235,385	202,833
Eliminations	(128,275)	(124,569)
Total	2,642,904	2,631,322
EXPENSES:		
Fuel and cost of gas sold	1,417,364	1,278,394
Purchased power	328,507	413,037
Operation and maintenance	399,012	371,640
Taxes other than income taxes	117,321	109,760
Depreciation and amortization	190,585	175,599
Total	2,452,789	2,348,430
OPERATING INCOME	190,115	282,892
OTHER INCOME (EXPENSE):		
Unrealized loss on ACES	(331,311)	(189,320)
Time Warner dividend income	10,313	10,313
Other - net	702	7,214
Total	(320,296)	(171,793)
INTEREST AND OTHER CHARGES:		
Interest on long-term debt	103,854	106,029
Other interest	23,339	24,359
Distributions on trust securities	9,791	7,410
Allowance for borrowed funds used during construction	(930)	(957)
Total	136,054	136,841
LOSS BEFORE INCOME TAXES AND PREFERRED DIVIDENDS	(266,235)	(25,742)
INCOME TAX EXPENSE (BENEFIT)	(56,543)	4,276
NET LOSS	(209,692)	(30,018)
PREFERRED DIVIDENDS	97	97
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (209,789)	$ (30,115)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.74)	$ (0.11)

See Notes to the Company's Consolidated Financial Statements.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	MARCH 31, 1999	DECEMBER 31, 1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 83,795	$ 29,673
Accounts receivable - net	768,109	726,377
Accrued unbilled revenues	104,286	175,515
Time Warner dividends receivable	10,313	10,313
Fuel stock and petroleum products	94,737	211,750
Materials and supplies, at average cost	172,174	171,998
Price risk management assets	274,390	265,203
Prepayments and other current assets	50,806	78,342
Total current assets	1,558,610	1,669,171
PROPERTY, PLANT AND EQUIPMENT - AT COST:		
Electric	14,088,627	13,969,302
Natural gas distribution and gathering systems	1,732,598	1,686,159
Interstate pipelines	1,303,180	1,302,829
Other property	85,911	72,299
Total	17,210,316	17,030,589
Less accumulated depreciation and amortization	5,661,537	5,499,448
Property, plant and equipment - net	11,548,779	11,531,141
OTHER ASSETS:		
Goodwill - net	2,105,349	2,098,890
Equity investments and advances to unconsolidated affiliates	906,874	1,051,600
Investment in Time Warner securities	990,000	990,000
Deferred plant costs - net	529,341	535,787
Deferred debits	426,193	391,495
Unamortized debt expense and premium on reacquired debt	214,420	208,350
Regulatory tax asset - net	333,130	418,339
Prepaid pension asset	104,184	102,021
Price risk management assets	69,624	21,414
Fuel-related debits	53,585	65,278
Recoverable project costs - net	46,436	55,036
Total other assets	5,779,136	5,938,210
Total	$ 18,886,525	$ 19,138,522

See Notes to the Company's Consolidated Financial Statements.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

CAPITALIZATION AND LIABILITIES

	MARCH 31, 1999	DECEMBER 31, 1998
CURRENT LIABILITIES:		
Notes payable	$ 1,738,003	$ 1,812,739
Accounts payable	715,445	807,977
Taxes accrued	205,402	252,581
Interest accrued	117,953	115,201
Dividends declared	111,124	111,058
Customer deposits	77,847	77,937
Price risk management liabilities	231,003	227,652
Current portion of long-term debt	375,497	397,454
Other	218,871	268,343
Total current liabilities	3,791,145	4,070,942
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,149,360	2,364,036
Benefit obligations	340,913	378,747
Unamortized investment tax credit	323,927	328,949
Price risk management liabilities	64,892	29,108
Fuel-related credits	131,978	88,639
Other	422,575	413,253
Total deferred credits	3,433,645	3,602,732
CAPITALIZATION:		
Long-term debt:		
Automatic common exchange securities (ACES)	2,681,307	2,349,997
Debentures	1,475,492	1,482,050
First mortgage bonds	1,715,928	1,865,784
Notes payable	506,083	507,789
Pollution control revenue bonds	581,385	581,385
Other	13,502	13,743
Total long-term debt	6,973,697	6,800,748
Company/Resources obligated mandatorily redeemable trust preferred securities of subsidiary trusts holding solely junior subordinated debentures of Company/Resources	717,268	342,232
Preference stock, none outstanding		
Cumulative preferred stock, not subject to mandatory redemption	9,740	9,740
Common Stock Equity:		
Common stock, no par value	3,146,137	3,136,826
Treasury stock, at cost	(2,384)	(2,384)
Unearned ESOP shares	(212,615)	(217,780)
Retained earnings	1,128,387	1,445,081
Accumulated other comprehensive loss	(98,495)	(49,615)
Total common stock equity	3,961,030	4,312,128
Total capitalization	11,661,735	11,464,848
COMMITMENTS AND CONTINGENCIES (NOTE 1)		
Total	$ 18,886,525	$ 19,138,522

See Notes to the Company's Consolidated Financial Statements.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31, 1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss attributable to common shareholders	$ (209,789)	$ (30,115)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	190,585	175,599
Amortization of nuclear fuel	5,811	6,714
Deferred income taxes	(123,153)	(54,104)
Investment tax credit	(5,022)	(5,031)
Unrealized loss on ACES	331,311	189,320
Undistributed loss (earnings) of equity investments in unconsolidated affiliates	74,362	(13,103)
Fuel cost over (under) recovery	23,632	(28,381)
Changes in other assets and liabilities:		
Accounts receivable - net	25,001	193,598
Accounts receivable - IRS		140,532
Fuel surcharge	18,837	21,966
Inventory	117,537	31,389
Other current assets	27,536	35,222
Accounts payable	(92,532)	(154,132)
Interest and taxes accrued	(44,427)	(75,694)
Other current liabilities	(53,415)	(51,188)
Net price risk management assets	(18,262)	(6,670)
Other - net	(65,786)	48,147
Net cash provided by operating activities	202,226	424,069
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures (including allowance for borrowed funds used during construction)	(179,039)	(108,497)
Equity investment and advances to unconsolidated affiliates	19,361	(4,926)
Other - net	(1,716)	(9,225)
Net cash used in investing activities	$ (161,394)	$ (122,648)

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RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of matured bonds		$ (1,000)
Proceeds from issuance of trust preferred securities	$ 375,000	
Proceeds from issuance of debentures		300,000
Payment of debentures	(6,042)	
Restricted deposit for bond redemption		(290,000)
Proceeds from issuance of pollution control revenue refunding bonds		386,757
Payment of common stock dividends	(106,767)	(106,448)
Decrease in notes payable - net	(74,736)	(390,307)
Extinguishment of long-term debt	(170,500)	(107,263)
Conversion of convertible securities	(7)	(3,255)
Other - net	(3,658)	(2,551)
Net cash provided by (used in) financing activities	13,290	(214,067)
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,122	87,354
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29,673	51,712
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 83,795	$ 139,066
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 122,517	$ 145,348
Income taxes	28,308	15,158

See Notes to the Company's Consolidated Financial Statements.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED RETAINED EARNINGS
AND COMPREHENSIVE LOSS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,			
	1999		1998	
RETAINED EARNINGS:				
Balance at beginning of period	$ 1,445,081		$ 2,013,055	
Net loss	(209,789)	$ (209,789)	(30,115)	$ (30,115)
Total	1,235,292		1,982,940	
Common stock dividends	(106,905)		(106,505)	
Balance at end of period	$ 1,128,387		$ 1,876,435	
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:				
Balance at beginning of period	$ (49,615)		$ (6,455)	
Foreign currency translation adjustments	(50,978)	(50,978)	119	119
Unrealized gain on available for sale securities	2,098	2,098	1,379	1,379
Balance at end of period	$ (98,495)		$ (4,957)	
COMPREHENSIVE LOSS		$ (258,669)		$ (28,617)

See Notes to the Company's Consolidated Financial Statements.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Included in this combined Form 10-Q (Form 10-Q) for Reliant Energy, Incorporated (Company) and for Reliant Energy Resources Corp. (Resources) are the Company's and Resources' consolidated interim financial statements and notes (Interim Financial Statements) including such companies' wholly owned and majority owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the combined Form 10-K of the Company (Company Form 10-K) and Resources (Resources Form 10-K) for the year ended December 31, 1998. For additional information regarding the presentation of interim period results, see Note 14 below.

The financial statements for the three months ended March 31, 1998 have been restated to reflect the Company's and Resources' adoption of mark-to-market accounting in the fourth quarter of 1998, retroactively to January 1, 1998. See Note 1(r) of the Company 10-K Notes (as defined below).

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

Notes to Consolidated Financial Statements of the Company (Company 10-K Notes): Note 1(c) (Regulatory Assets and Other Long-Lived Assets), Note 1(n) (Investments in Time Warner Securities), Note 1(p) (Foreign Currency Adjustments), Note 2 (Derivative Financial Instruments), Note 3 (Rate Matters), Note 4 (Jointly Owned Electric Utility Plant), Note 5 (Equity Investments and Advances to Unconsolidated Subsidiaries), Note 12 (Commitments and Contingencies) and Note 16(a) (Foreign Currency Devaluation).

Notes to Consolidated Financial Statements of Resources (Resources 10-K Notes): Note 1(c) (Regulatory Assets and Regulation), Note 2 (Derivative Financial Instruments) and Note 8 (Commitments and Contingencies).

(2) FOREIGN CURRENCY ADJUSTMENTS

For information about the Company's foreign currency adjustments, see Note 1(p) of the Company 10-K Notes. The Company has an indirect 11.69% common stock interest in Light Servicos de Eletricidade S.A. (Light) and through its investment in Light, has an 8.753% common stock interest in Metropolitana Eletricidade de Sao Paulo S.A. (Metropolitana), both in Brazil. The Company accounts for its investment in Light under the equity method of accounting and records its proportionate share, based on stock ownership, in the net income of Light and its affiliates (including Metropolitana) as part of the Company's consolidated net income.

As of March 31, 1999, Light and Metropolitana had total borrowings of $2.9 billion in non-local currencies. During the first quarter of 1999, the Brazilian real was devalued and allowed to float against other major currencies. The effects of this devaluation on the non-local currency denominated borrowings caused the Company to record a non-cash, after-tax charge of $91 million in the first quarter of 1999 as a result of foreign currency transaction losses recorded by both Light and Metropolitana during the quarter. At March 31, 1999, one U.S. dollar could be exchanged for 1.72 Brazilian reais. Because the Company uses the Brazilian real as the functional currency in which it reports Light's equity earnings, any further decrease in the value of the Brazilian real below its March 31, 1999 level will increase the liability represented by the non-local currency denominated borrowings which will also be reflected in the Company's consolidated earnings, to the extent of the Company's 11.69% ownership interest in Light. Similarly, any increase in the value of the Brazilian real above its March 31, 1999 level will decrease the liability represented by such borrowings.

As of March 31, 1999, the charge to other comprehensive income was $51 million, net of tax of $34 million; this $51 million amount reflects the translation effect of the devaluation on the local currency denominated net assets underlying the Company's investment in Light.

(3) DEPRECIATION

(a) Company.

The Company calculates depreciation using the straight-line method. The Company's depreciation expense for the first quarter of 1999 was $139 million, compared to $127 million for the same period in 1998. For information regarding the additional depreciation of electric utility generating assets under a transition to competition plan, see Note 3(b) of the Company 10-K Notes.

(b) Resources.

Resources calculates depreciation using the straight-line method. Resources' depreciation expense for the first quarter of 1999 and 1998 was $36 million and $34 million, respectively.

(4) COMBINED FINANCIAL STATEMENT DATA OF EQUITY INVESTMENTS AND ADVANCES TO UNCONSOLIDATED AFFILIATES

The following table sets forth summarized financial information for the Company's unconsolidated affiliates for the three months ended March 31, 1999 and 1998.

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
	(IN MILLIONS)	
Revenues	$ 1,143	$ $635
Operating Expenses	831	442
Net Income (Loss)	(673)	131

Dividends received from these affiliates equaled $2.1 million and $3.6 million for the first quarter of 1999 and 1998, respectively.

(5) CHANGE IN ACCOUNTING PRINCIPLE

The Company and Resources adopted Emerging Issues Task Force 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 98-10) on January 1, 1999 for the energy trading activities of Reliant Energy Services, Inc. The adoption of EITF 98-10 had no material impact on the Company's or Resources' consolidated financial statements.

(6) TIME WARNER SECURITIES INVESTMENT

The Company owns 11 million shares of Time Warner Inc. (Time Warner) convertible preferred stock (TW Preferred). The Company has the right to convert the TW Preferred at any time into 45.8 million shares of Time Warner common stock (TW Common).

The TW Preferred historically has paid the Company a quarterly pre-tax dividend of $10.3 million. On July 6, 1999, the TW Preferred will cease to pay a preferred dividend. After that date, the Company expects to convert the TW Preferred into TW Common.

In 1997, in order to monetize a portion of the cash value of its investment in TW Preferred, the Company sold 22.9 million of its unsecured 7% Automatic Common Exchange Securities (ACES). The market value of ACES is linked to the market value of TW Common. In July 2000, the ACES will be mandatorily exchangeable for, at the Company's option, either shares of TW Common or an equivalent amount in cash. The exchange rates are determined as follows:

TW WARNER COMMON PRICE	ACES PAYMENT AMOUNT
Below $ 22.96875..........................	1.0 share of TW Common
$22.96875 - $27.7922......................$	22.96875, or the fractional share equivalent
Above $27.7922............................	1.6528 shares of TW Common

By issuing the ACES, the Company effectively eliminated its economic exposure to decreases in the price of TW Common below $22.96875. In addition, the Company retained 100% of any increase in TW Common price up to $27.7922 per share and 17% of any increase in market price above $27.7922. The closing price per share of TW Common on March 31, 1999, was $70.81.

Prior to the conversion of the TW Preferred, any increase in the market value of TW Common above $27.7922 is treated for accounting purposes as an increase in the payment amount of the ACES equal to 83% of the increase in the market price per share and is recorded by the Company as a non-cash expense. This expense is not offset, however, by the change in the economic value of the TW Common underlying the TW Preferred. As a result, the Company recorded in the first quarter of 1999 a non-cash, unrealized accounting loss of $331 million (which resulted in an after-tax earnings reduction of $215 million, or $0.76 per share); this correlates to the $401 million increase in the market value of TW Common during the quarter. The Company believes the combined unrealized loss for the ACES of $1.6 billion is more than economically hedged by the approximately $2.3 billion unrecorded unrealized gain at March 31, 1999 relating to the increase in market value of the TW Common since the acquisition of the TW Preferred.

Following the conversion of TW Preferred into TW Common, the current accounting treatment of the ACES and the Company's investment in the TW Common will change. After conversion, the Company will begin to record changes in the market price of the TW Common and the related changes in the market value of the ACES as a component of common stock equity and other comprehensive income. Upon the sale or other disposition of the TW Common, the Company is expected to record a gain equal to the amount realized on the sale less the book value of the TW Preferred recorded on its balance sheet. The book value is $990 million or approximately $21 per share of TW Common.

(7) CAPITAL STOCK

(a) Common Stock.

The Company has 700,000,000 authorized shares of common stock. At March 31, 1999, the Company had 296,421,672, shares of common stock issued (285,302,825 outstanding). At December 31, 1998, the Company had 296,271,063 shares of common stock issued (284,494,195 outstanding). Outstanding common shares exclude (i) shares pledged to secure a loan to the Company's Employee Stock Ownership Plan (11,027,326 and 11,674,063 at March 31, 1999 and December 31, 1998, respectively) and (ii) treasury shares (91,521 and 102,805 at March 31, 1999 and December 31, 1998, respectively), which are shares received by the Company in partial payment of exercised options.

Subject to market and other conditions, the Company has the authority to repurchase up to $89 million of its common stock under a repurchase program approved in 1996. Any repurchase depends on market conditions, might not be announced in advance and may be made in open market or privately negotiated transactions.

(b) Earnings Per Share.

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

	FOR THE THREE MONTHS ENDED MARCH 31, 1999	1998
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Basic and Diluted EPS Calculation:		
Loss before preferred dividends	$ (209,692)	$ (30,018)
Less: preferred dividends	97	97
Net loss attributable to common shareholders	$ (209,789)	$ (30,115)
Weighted average shares outstanding (1)	284,967	283,528
Loss per share before preferred dividends	$ (0.74)	$ (0.11)
Net loss per share attributable to common shareholders	$ (0.74)	$ (0.11)

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(1) Assumed conversions were not included in the computation of diluted earnings per share because additional shares outstanding would result in an anti-dilutive per share amount. The computation for the 1999 period excludes 730,000 shares of restricted stock, 27,000 shares for assumed conversion of debentures and purchase options for 661,000 shares of common stock, which would be anti-dilutive if exercised. The computation for the 1998 period excludes 492,000 shares of restricted stock, 359,000 shares for assumed conversion of debentures and purchase options for 235,000 shares of common stock, which would be anti-dilutive if exercised.

(c) Preferred Stock.

At March 31, 1999 and December 31, 1998, the Company had 10,000,000 authorized shares of preferred stock, of which 97,397 shares of $4.00 Preferred Stock were outstanding. The Preferred Stock pays an annual dividend of $4.00 per share, is redeemable at $105 per share and has a liquidation price of $100 per share.

(d) Preference Stock.

At March 31, 1999 and December 31, 1998, the Company had 10,000,000 authorized shares of preference stock, of which 700,000 shares are classified as Series A Preference Stock, 27,000 shares are classified as Series B Preference Stock and 1,575 are classified as Series C Preference Stock. At March 31, 1999 and December 31, 1998, there were no shares of Series A Preference Stock issued and outstanding (such shares being issuable in accordance with the Company's Shareholder Rights Agreement upon the occurrence of certain events) and 17,000 shares of Series B Preference Stock issued and outstanding. At March 31, 1999, there were no shares of Series C Preference Stock issued and outstanding (due to a redemption of 1,575 shares in March 1999). The Series B Preference Stock is not deemed outstanding for financial reporting purposes, because the sole holder of such series is a wholly owned financing subsidiary of the Company.

(8) COMPANY/RESOURCES OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY/RESOURCES

(a) Company.

In the first quarter of 1999, the Company, through the use of a Delaware statutory business trust (REI Trust I), registered $500 million of trust preferred securities and related junior subordinated debt securities. In February 1999, REI Trust I issued $375 million of preferred securities to the public and $11.6 million of common securities to the Company. The preferred securities have a distribution rate of 7.20% payable quarterly in arrears, a stated liquidation amount of $25 per preferred security and must be redeemed by March 2048. REI Trust I used the proceeds to purchase $386.6 million aggregate principal amount of subordinated debentures (REI Debentures) from the Company having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the preferred securities. The Company used the proceeds from the sale of the REI Debentures for general corporate purposes, including the repayment of short-term debt. The Company accounts for REI Trust I as a wholly owned consolidated subsidiary. The REI Debentures are the trust's sole asset and its entire operations. The Company has fully and unconditionally guaranteed, on a subordinated basis, all of REI Trust I's obligations with respect to the preferred securities. The preferred securities are mandatorily redeemable upon the repayment of the REI Debentures at their stated maturity or earlier redemption. Subject to certain limitations, the Company has the option of deferring payments of interest on the REI Debentures. During any period of deferral or event of default, the Company may not pay dividends on its capital stock. Under the registration statement, $125 million of these securities remain available for issuance. The issuance of all securities registered by the Company and its affiliates is subject to market and other conditions.

For information regarding $250 million of preferred securities and $100 million of capital securities previously issued by statutory business trusts formed by the Company, see Note 9(a) of the Company 10-K Notes. The sole asset of each trust consists of junior subordinated debentures of the Company 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 such trust.

(b) Resources.

For information regarding $177.8 million of convertible preferred securities previously issued by a statutory business trust formed by Resources, of which $1.0 million was outstanding at March 31, 1999, see Note 5 of Resources 10-K Notes. The sole asset of the trust consists of junior subordinated debentures of Resources having an interest rate and maturity date corresponding to the preferred securities, and the principal amount corresponding to the common and preferred securities issued by the trust.

(9) LONG-TERM DEBT AND SHORT-TERM FINANCING

(a) Company.

(i) Consolidated Debt.

The Company's consolidated long-term and short-term debt outstanding is summarized in the following table.

	MARCH 31, 1999		DECEMBER 31, 1998	
	LONG-TERM	CURRENT	LONG-TERM	CURRENT
	(IN MILLIONS)			
Short-Term Borrowings (1):				
Commercial Paper		$ 1,436		$ 1,360
Lines of Credit				150
Resources Receivables Facility		300		300
Notes Payable		2		3
Total Short-Term Borrowings		1,738		1,813
Long-Term Debt - net:				
ACES	$ 2,681		$ 2,350	
Debentures (2)(3)	1,476		1,482	
First Mortgage Bonds (2)	1,716	150	1,866	170
Pollution Control Bonds	581		581	
Resources Medium-Term Notes (3)	176		178	
Notes Payable (3)	330	224	330	226
Capital Leases	14	1	14	1
Total Long-Term Debt	6,974	375	6,801	397
Total Long-Term and Short-Term Debt	$ 6,974	$ 2,113	$ 6,801	$ 2,210

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(1) Includes amounts due within one year of the date noted.

(2) Includes unamortized discount related to debentures of approximately $0.5 million at March 31, 1999 and $1 million at December 31, 1998 and unamortized premium related to debentures of approximately $17 million at March 31, 1999 and December 31, 1998, respectively. The unamortized discount related to first mortgage bonds was approximately $10 million at March 31, 1999 and $10 million at December 31, 1998.

(3) Includes unamortized premium related to fair value adjustments of approximately $17.6 million and $18.1 million for debentures at March 31, 1999 and December 31, 1998, respectively. The unamortized premium for Resources long-term notes was approximately $11 million and $12 million at March 31, 1999 and December 31, 1998, respectively. The unamortized premium for long-term and current notes payable was approximately $3 million and $2 million at March 31, 1999 and $3 million each at December 31, 1998, respectively.

Consolidated maturities of long-term debt and sinking fund requirements for the Company (including Resources) are approximately $222 million for the remainder of 1999.

(ii) Financing Developments.

At March 31, 1999, a financing subsidiary of the Company had $1.293 billion in commercial paper borrowings supported by a $1.644 billion revolving credit facility. At March 31, 1999, the weighted average interest rate of these commercial paper borrowings was 5.12%. On March 2, 1999, another financing subsidiary of the Company terminated a credit agreement under which it had borrowed $150 million. Funds for the repayment of the loan were indirectly obtained from the issuance of commercial paper by a separate financing subsidiary. For additional information regarding the Company's and its subsidiaries' financings, see Note 8(c) and (d) of the Company 10-K Notes.

In February 1999, the Company repaid at maturity $25.4 million and $145.1 million of its Series A medium-term notes with interest rates of 9.85% and 9.80%, respectively.

(b) Resources.

As of March 31, 1999, Resources had outstanding $2.0 billion of long-term and short-term debt. Consolidated maturities of long-term debt and sinking fund requirements for Resources are approximately $200 million for the remainder of 1999.

In the first quarter of 1999, Resources purchased $6.04 million of its 6% convertible subordinated debentures due 2012 at an average purchase price of 98.3% of the aggregate principal amount, plus accrued interest. Resources plans to use the purchased debentures to satisfy March 2000 and 2001 sinking fund requirements of the 6% convertible subordinated debentures. For more information regarding Resources' financing arrangements, lease commitments and letters of credit, see Notes 4 and 8 (a) and (b) of the Resources 10-K Notes.

For information regarding Resources' $300 million receivables facility, see Note 4(a) of the Resources 10-K Notes. At March 31, 1999, Resources had sold $300 million of receivables under the facility. The weighted average interest rate was 4.88%.

For information regarding Resources' $350 million revolving credit facility, see Note 4(a) of the Resources 10-K Notes. In March 1999, this facility was amended to include a $65 million sub-facility under which letters of credit may be obtained. At March 31, 1999, there were no commercial paper borrowings or loans outstanding under the facility and letters of credit issued under the facility aggregated $14.6 million.

(10) RATE MATTERS

For information about regulatory matters affecting the Company's electric utility operations, including information about the Company's current rate caps and depreciation schedules (Transition Plan) and a pending appeal regarding part of the Transition Plan, see Note 3 of the Company 10-K Notes. Under the terms of the Transition Plan, if in the current session of the Texas legislature no legislation is adopted setting electric utility rates for the year 2000, the Company will be required to file a rate case no later than May 1, 2000, with rates to be effective as of June 1, 2000, unless prior to that date a rate settlement is negotiated. For information regarding legislative proposals before the Texas legislature, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings - Legislative Proposals."

(11) ACQUISITIONS

On March 29, 1999, the Company and one of its subsidiaries, N.V. Energieproduktiebedrijf UNA, a Dutch electric generating company (UNA), and the shareholders of UNA entered into an agreement providing for the initial acquisition of 40% of the capital stock of UNA by a subsidiary of the Company. The purchase price for the initial 40% interest is Dutch guilders (NLG) 1.6 billion (U.S. $840 million). The purchase price for the remaining 60% of UNA is approximately NLG 2.7 billion (U.S. $1.4 billion) and is expected to be paid no later than December 31, 2006. Depending on the timing of regulatory approvals and other conditions, the acquisition of the remaining interest could occur significantly earlier than 2006.

All purchase price obligations are denominated in Dutch guilders. The amounts shown above are subject to adjustment and assume a conversion rate of NLG 1.88 per U.S. Dollar. It is anticipated that the closing of the initial 40% interest will occur in June 1999, subject to receipt of various Dutch regulatory approvals and the satisfaction of other closing conditions.

UNA is one of four large Dutch generators with approximately 3,400 megawatts of generating capacity, representing nearly 20% of the Dutch market. It operates a mix of gas, coal and cogeneration plants in the Amsterdam and Utrecht areas.

(12) REPORTABLE SEGMENTS

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company has identified the following reportable segments: Electric Operations, Natural Gas Distribution, Interstate Pipelines, Wholesale Energy, International and Corporate. Electric Operations provides electric utility generation, transmission, distribution and sales to customers. Natural Gas Distribution operations consist of natural gas utility sales to, and natural gas utility transportation for, residential, commercial and industrial customers. Interstate Pipelines operates two interstate natural gas pipelines. Wholesale Energy is engaged in the acquisition, development and operation of, and sale of capacity and energy from, non-utility power generation facilities and in the wholesale energy trading and marketing and natural gas gathering businesses. International invests in foreign electric and gas utility operations, to date primarily in Latin America. Corporate includes a non-rate regulated retail service business, certain real estate holdings and corporate expenses.

Financial data for business segments, products and services and geographic areas are as follows:

	ELECTRIC OPERATIONS	NATURAL GAS DISTRIBUTION	INTERSTATE PIPELINES	WHOLESALE ENERGY	INTER-NATIONAL	CORPORATE	RECONCILING ELIMINATIONS	CONSOLIDATED
				(IN THOUSANDS)				
For the Three Months Ended March 31, 1999:								
Revenues from non-affiliates...	$ 849,906	$ 662,876	$ 26,481	$ 938,882	$ (51,484)	$ 216,243		$ 2,642,904
Intersegment revenues..........		288	39,624	69,221		19,142	$ (128,275)	
Operating income (loss)........	144,480	98,100	27,893	1,178	(77,900)	(3,636)		190,115
For the Three Months Ended March 31, 1998:								
Revenues from non-affiliates...	846,562	716,575	33,232	828,165	27,246	179,542		2,631,322
Intersegment revenues..........		321	37,748	63,209		23,291	(124,569)	
Operating income (loss)........	142,611	101,604	32,073	513	10,980	(4,889)		282,892

Reconciliation of Operating Income to Net Income (in thousands):

	THREE MONTHS ENDED MARCH 31, 1999	1998
Operating income..	$ 190,115	$ 282,892
Dividend income...	10,313	10,313
Interest expense..	(127,193)	(130,388)
Unrealized loss on ACES...	(331,311)	(189,320)
Distribution on trust securities...	(9,791)	(7,410)
Income tax benefit (expense)...	56,543	(4,276)
Other income	1,535	8,074
Net loss attributable to common shareholders..............................	$ (209,789)	$ (30,115)

(13) SUBSEQUENT EVENTS

In April 1999, the Gulf Coast Waste Disposal Authority (GCWDA) issued on behalf of the Company $19.2 million of revenue refunding bonds having an annual interest rate of 4.70%. The

GCWDA bonds will mature in 2011, and proceeds from the issuance will be used on June 1, 1999 to redeem all outstanding 7.0% GCWDA Series 1989A collateralized revenue refunding bonds ($19.2 million) at a redemption price of 102% of their aggregate principal amount.

In April 1999, the Matagorda County Navigation District Number One (MCND) issued on behalf of the Company $100 million of revenue refunding bonds having an annual interest rate of 5.25%. The MCND bonds will mature in 2026, and proceeds from the issuance will be used on July 1, 1999 to redeem all outstanding 7.125% MCND Series 1989C collateralized revenue refunding bonds ($100 million) at a redemption price of 102% of their aggregate principal amount.

In April 1999, the Brazos River Authority (BRA) issued on behalf of the Company $100 million of revenue refunding bonds having an annual interest rate of 5.375%. The BRA bonds will mature in 2019, and proceeds from the issuance will be used on July 1, 1999 to redeem all outstanding 7.625% BRA Series 1989A collateralized revenue refunding bonds ($100 million) at a redemption price of 102% of their aggregate principal amount.

(14) COMPANY/RESOURCES INTERIM PERIOD RESULTS; RECLASSIFICATIONS

The Company's and Resources' 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 Consolidated Statements of Operations and Resources Consolidated Statements of Income are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (i) seasonal variations in energy consumption, (ii) timing of maintenance and other expenditures and (iii) acquisitions and dispositions of assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to the Company's and Resources' presentation of financial statements in the current year. These reclassifications do not affect their respective earnings.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY

The following should be read in combination with the unaudited consolidated financial statements and notes thereto.

Reliant Energy, Incorporated (Company), together with various divisions and subsidiaries, including Reliant Energy Resources Corp. (Resources), is a diversified international energy services company. The Company reports its financial information in six segments. The Company's Electric Operations segment operates the nation's tenth largest utility in terms of kilowatt-hour (KWH) sales. The Natural Gas Distribution segment includes the gas utility operations of Resources and is the third largest such operation in the U.S. in terms of number of customers served. The Interstate Pipelines segment operates two interstate natural gas pipelines. The Wholesale Energy segment is engaged in the acquisition, development and operation of, and sale of capacity and energy from, non-utility power generation facilities, and in the wholesale energy trading and marketing and natural gas gathering businesses. The International segment invests in foreign electric and gas utility operations, to date primarily in Latin America. The Corporate segment includes a non-rate regulated retail service business, certain real estate holdings and corporate expenses.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,		PERCENT
	1999	1998	CHANGE
	(in millions, except per share data)		
Revenues	$ 2,643	$ 2,631	--
Operating Expenses	2,453	2,348	4%
Operating Income	190	283	(33%)
Other Expenses (1)	320	172	86%
Interest and Other Charges	136	137	(1%)
Income Tax Expense (Benefit)	(57)	4	--
Net Loss (1)	(210)	(30)	--
Basic and Diluted Loss Per Share (1)	(.74)	(.11)	--

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(1) Other Expenses and Net Loss reflect the after-tax effect of a $331 million non-cash, unrealized accounting loss recorded in the three months ended March 31, 1999 compared to a $189 million non-cash, unrealized accounting loss in the three months ended March 31, 1998 relating to the Company's 7% Automatic Common Exchange Securities (ACES). See Note 6 to the Company's Interim Financial Statements.

First Quarter of 1999 Compared to First Quarter of 1998. The Company reported a consolidated net loss of $210 million ($0.74 per share) for the first quarter of 1999 compared to a consolidated net loss of $30 million ($0.11 per share) in the first quarter of 1998. The 1999 results reflect a $215 million after-tax, non-cash, unrealized accounting loss on the ACES and a $91 million after-tax, non-cash loss due to the devaluation of the Brazilian real. The 1998 results reflect a $123 million, after-tax, non-cash unrealized accounting loss on the ACES.

After adjusting for the charges described above, the Company would have had consolidated net income of $97 million ($0.34 per share) in the first quarter of 1999 and $92 million ($0.33 per share) in the first quarter of 1998. The $5 million increase was primarily due to improved results from trading activities at Wholesale Energy and increased revenues from customer growth and higher energy usage at the Electric Operations segment. These effects were partially offset by milder weather at the Natural Gas Distribution segment and base rate credits at Electric Operations.

The Company's income tax benefit for the first quarter of 1999 was $57 million. In addition, an income tax benefit of $49 million is reflected in International's revenues relating to the Company's interest in its Brazilian subsidiaries' foreign currency transaction losses resulting from the devaluation described above.

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

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
	(IN MILLIONS)	
Electric Operations	$ 144	$ 143
Natural Gas Distribution	98	102
Interstate Pipelines	28	32
Wholesale Energy	1	1
International	(78)	11
Corporate	(3)	(6)
Total Consolidated	$ 190	$ 283

ELECTRIC OPERATIONS

Electric Operations are conducted under the name Reliant Energy HL&P, an unincorporated division of the Company. Electric Operations provides electric generation, transmission, distribution and sales to approximately 1.6 million customers in a 5,000 square mile area on the Texas Gulf Coast, including Houston, the nation's fourth largest city.

	THREE MONTHS ENDED MARCH 31,		PERCENT CHANGE
	1999	1998	
	(IN MILLIONS)		
Operating Revenues:			
Base Revenues (1)	$ 568	$ 555	2%
Reconcilable Fuel Revenues (2)	282	292	(3%)
Total Operating Revenues	850	847	--
Operating Expenses:			
Fuel and Purchased Power Expense	292	305	(4%)
Operation and Maintenance Expense	220	214	3%
Depreciation and Amortization Expense	136	130	5%
Other Operating Expenses	58	55	5%
Total Operating Expenses	706	704	--
Operating Income	$ 144	$ 143	1%
Electric Sales (MWH):			
Residential	3,825,764	3,597,021	6%
Commercial	3,616,675	3,424,350	6%
Industrial - Firm	6,167,900	6,367,979	(3%)
Municipal and Public Utilities	75,295	81,389	(7%)
Total Firm Billed Sales	13,685,634	13,470,739	2%
Average Cost of Fuel (Cents/MMBtu)	171.5	172.6	(1%)

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(1) Includes miscellaneous revenues (including transmission revenues) and certain purchased power-related revenues.

(2) Includes revenues collected through a fixed fuel factor and surcharge, net of over/under recovery.

In the first quarter of 1999, Electric Operations' operating income increased $1 million over the same period of 1998. This increase was primarily due to higher revenues from customer growth, offset by additional base rate credits under Reliant Energy HL&P's transition to competition plan. Reliant Energy HL&P's earnings are capped at an overall rate of return on a calendar year basis as part of its transition plan approved by the Public Utility Commission of Texas in June 1998. As a result of this plan, any earnings above the maximum allowed return cap of 9.844 percent on invested capital will be offset by additional depreciation of Reliant Energy HL&P's generation assets. Electric Operations recorded additional depreciation expense of $12.5 million for each of the first quarters of 1999 and 1998, as provided by the plan.

Electric Operations' increase in base revenues of $13 million for the three months ended March 31, 1999, compared to the same period of 1998, is primarily the result of customer growth. The increase in revenues was partially offset by $6 million of additional base rate credits compared to the first quarter of 1998. For information regarding the transition plan, see Note 3(b) of the Company 10-K Notes.

As approved by the Texas Public Utility Commission, effective July 1, 1998, the Company implemented a fixed fuel factor and a temporary fuel surcharge in the amount of $125 million to be collected over 12 to 18 months. As of March 31, 1999, Electric Operations' cumulative under-recovery of fuel costs was $1 million, including interest.

Fuel and purchased power expenses for the three months ended March 31, 1999 decreased by $13 million over the 1998 period primarily due to a decline in the average unit cost of natural gas (from $2.43 to $1.95 per MMBtu), coal (from $1.94 to $1.89 per MMBtu), and nuclear fuel (from $.49 to $.46 per MMBtu).

Operation and maintenance, and other operating expenses for the first quarter of 1999 increased by $9 million compared to the 1998 period. The increase is largely due to the timing of employee benefit expense and increased material and supply expense.

NATURAL GAS DISTRIBUTION

Natural Gas Distribution operations are conducted through three divisions of Resources: Reliant Energy Arkla, Reliant Energy Entex and Reliant Energy Minnegasco. These operations consist of intrastate natural gas sales to, and natural gas transportation for, residential, commercial and certain industrial customers in six states: Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas.

	QUARTER ENDED MARCH 31, 1999	QUARTER ENDED MARCH 31, 1998	PERCENT CHANGE
	(IN MILLIONS)		
Operating Revenues:			
Base Revenues	$ 252	$ 262	(4%)
Recovered Gas Revenues	411	455	(10%)
Total Operating Revenues	663	717	(8%)
Operating Expenses:			
Natural Gas	414	458	(10%)
Operation and Maintenance	93	98	(5%)
Depreciation and Amortization	33	32	3%
Other Operating Expenses	25	27	(7%)
Total Operating Expenses	565	615	(8%)
Operating Income	$ 98	$ 102	(4%)

	QUARTER ENDED MARCH 31, 1999	1998	PERCENT CHANGE
Throughput Data (in Bcf):			
Residential and Commercial Sales..................	124	126	(2%)
Industrial Sales..................................	14	15	(7%)
Transportation....................................	13	13	--
Total Throughput................................	151	154	(2%)

Natural Gas Distribution operating income decreased by $4 million in the first quarter of 1999 compared to the 1998 period due primarily to milder weather partially offset by reduced operation and maintenance expenses.

The decreases in recovered gas revenues and purchased gas costs reflect a lower average cost of gas and decreased sales volume due to milder weather in 1999. The decrease in operation and maintenance expense is primarily the result of cost control initiatives at Natural Gas Distribution.

INTERSTATE PIPELINES

The Interstate Pipelines segment provides interstate gas transportation and related services to customers. These operations are conducted by Reliant Energy Gas Transmission Company and Mississippi River Transmission Corporation, two wholly owned subsidiaries of Resources.

	QUARTER ENDED MARCH 31, 1999	1998	PERCENT CHANGE
	(IN MILLIONS)		
Operating Revenues..................................	$ 66	$ 71	(7%)
Operating Expenses:			
Natural Gas.......................................	5	8	(38%)
Operation and Maintenance.........................	17	17	--
Depreciation and Amortization.....................	12	9	33%
Other Operating Expenses..........................	4	5	(20%)
Total Operating Expenses........................	38	39	(3%)
Operating Income....................................	28	32	(13%)
Throughput Data (in MMBtu):			
Natural Gas Sales.................................	4	4	--
Transportation....................................	231	237	(3%)
Elimination (1).................................	(4)	(4)	--
Total Throughput....................................	231	237	(3%)

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(1) Elimination of volumes both transported and sold.

Interstate Pipelines operating income decreased by $4 million in the first quarter of 1999 compared to the 1998 period due to a rate settlement, reflected in the 1998 quarter as a $5 million reduction of depreciation rates retroactive to July 1996. Operating income declined $4 million over the 1998 period primarily due to decreased volumes due to mild weather and reduced transportation margins. Expenses, other than purchased gas, were $2 million higher in the 1999 period as a result of the net effect of the rate settlement described above.

WHOLESALE ENERGY

Wholesale Energy includes the acquisition, development and operation of, and sales of capacity and energy from, non-utility power generation facilities; wholesale energy trading and marketing; and natural gas gathering activities. This segment includes operations owned by the Company and Resources.

	QUARTER ENDED MARCH 31, 1999	QUARTER ENDED MARCH 31, 1998	PERCENT CHANGE
	(IN MILLIONS)		
Operating Revenues	$ 1,008	$ 891	13%
Operating Expenses:			
Natural Gas	706	565	25%
Purchased Power	241	301	(20%)
Operation and Maintenance	52	21	148%
Depreciation and Amortization	6	2	200%
Other Operating Expenses	2	1	100%
Total Operating Expenses	1,007	890	13%
Operating Income	$ 1	$ 1	--
Operations Data:			
Natural Gas (in Bcf):			
Sales	363	264	38%
Gathering	61	58	5%
Total	424	322	32%
Electricity (in thousand MWH):			
Wholesale Power Sales	10,268	13,770	(25%)

Wholesale Energy experienced significantly higher operating income from its trading and marketing activities, offset by increased operating and maintenance expenses of the California power plants, which began operations after the first quarter of 1998. The operations of the California plants are seasonal with the plants running primarily in the third quarter of the year.

Wholesale Energy operating revenues increased $117 million primarily due to an increase in gas sales volume partially offset by a decrease in the average sales price of gas and lower power sales volumes.

Wholesale Energy purchased natural gas costs increased $141 million in the first quarter of 1999 due to an increase in gas sales volume in 1999, partially offset by a lower average sales price of gas. Wholesale Energy's purchased power expense decreased $60 million primarily due to lower power sales volume.

Operation and maintenance expense for Wholesale Energy increased $31 million due to operating expenses of the California plants and staffing increases.

To minimize the Company's risks associated with fluctuations in the price of natural gas and transportation, the Company, primarily through Reliant Energy Services, Inc. (a subsidiary of Resources), enters into futures transactions, swaps and options relating to (i) certain commitments to buy, sell and transport natural gas, (ii) existing natural gas and heating oil inventory, (iii) future power sales and natural gas purchases by generation facilities, (iv) crude oil and refined products and (v) certain anticipated transactions, some of which carry off-balance sheet risk. Reliant Energy Services also enters into commodity derivatives in its trading and price risk management activities. For a discussion of the Company's accounting treatment of derivative instruments, see Note 2 of the Company 10-K Notes and Item 7A (Quantitative and Qualitative Disclosure About Market Risk) in the Company's Form 10-K.

INTERNATIONAL

The International segment includes Reliant Energy International, Inc. (a wholly owned subsidiary of the Company) and the international operations of Resources. Substantially all of International's operations to date have been in Latin America.

	QUARTER ENDED MARCH 31, 1999	QUARTER ENDED MARCH 31, 1998	PERCENT CHANGE
	(IN MILLIONS)		
Operating Revenues	(51)	27	-
Operating Expenses:			
Fuel	12	5	140%
Operation and Maintenance	14	10	40%
Depreciation and Amortization	1	1	-
Total Operating Expenses	27	16	69%
Operating Income (Loss)	$ (78)	$ 11	-

International had an operating loss of $78 million in the first quarter of 1999 compared to operating income of $11 million in the same period of 1998. The 1999 loss reflects a $91 million after-tax, non-cash charge relating to the Company's share of foreign exchange losses incurred by its Brazilian affiliates, Light and Metropolitana, with respect to their non-local currency denominated borrowings. Such devaluation losses stem from the Brazilian government's January 1999 decision to allow the Brazilian real to float against other foreign currencies. Excluding the devaluation loss, operating income for the first quarter of 1999 would have been $13 million. This increase in operating income was primarily due to increased earnings from equity investments and the completion of a 160-megawatt cogeneration facility in Argentina which commenced operation in November 1998. For more information regarding risks of the Company's international operations, see "Certain Factors Affecting Future Earnings - Risks of International Operations" below.

Fuel expenses and operation and maintenance expenses were higher in the first quarter of 1999 compared to the 1998 period primarily due to the completion of the facility in Argentina described above.

CORPORATE

In the first quarter of 1999, Corporate had an operating loss of $3 million compared to a loss of $6 million in 1998, reflecting improved results from non-rate regulated retail and consumer services.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on developments, factors and trends that may have an impact on the Company's future earnings, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries" in the Company's Form 10-K, which is incorporated herein by reference. Among the factors discussed are: "Competition and Restructuring of the Electric Utility Industry," "Competition - Other Operations," "Fluctuation In Commodity Prices and Derivative Instruments," "Accounting Treatment of ACES," "Impact of the Year 2000 Issue and Other System Implementation Issues," "Risks of International Operations," "Environmental Expenditures" and "Other Contingencies." Certain updated information contained in the Notes to the Company's Interim Financial Statements is referenced below.

ACCOUNTING TREATMENT OF ACES

The Company accounts for its investment in TW Preferred under the cost method. As a result of the Company's issuance of the ACES, a portion of the increase in the market value above $27.7922 per share of Time Warner common stock (the security into which the TW Preferred is convertible) results in unrealized accounting losses to the Company, pending the conversion of the Company's TW Preferred into Time Warner common stock. Excluding the unrealized, non-cash accounting loss for ACES, the Company's retained earnings and total common stock equity would have been $2.2 billion and $5.0 billion, respectively, at March 31, 1999. For additional information regarding the accounting treatment of the ACES and the TW Preferred, see Note 6 to the Company's Interim Financial Statements.

LEGISLATIVE PROPOSALS

A number of proposals to restructure the electric utility industry have been introduced in the 1999 session of the Texas legislature. Many of these proposals would result in, among other things, the legislature freezing rates through 2001 and requiring a reduction in rates in 2002. For more information, see Note 10 to the Company's Interim Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries - Competition and Restructuring of the Electric Utility Industry" in the Company Form 10-K. To date, no legislation has been passed and the Company cannot predict what, if any, action the Texas legislature may take or the ultimate form in which such proposals may be adopted, if at all. The Texas legislative session is scheduled to end in May 1999. Because the proposed legislation is intended to fundamentally restructure electric utility operations, it is likely that enactment of any of the proposed legislation would have a material impact on Electric Operations and the Company.

IMPACT OF THE YEAR 2000 AND OTHER SYSTEM IMPLEMENTATION ISSUES

For a description of the Company's Year 2000 and other system implementation issues, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries - Impact of the Year 2000 and Other System Implementation Issues" in the Company Form 10-K.

All of the Company's and its subsidiaries' business units have completed a Year 2000 Project analysis of critical systems and equipment that control the production and delivery of energy, as well as corporate, departmental and personnel systems and equipment. The remediation and replacement work on the majority of IT systems, non-IT systems and infrastructure began in the first quarter of 1998 and is expected to be completed by the second quarter of 1999. Testing of these systems began in the second quarter of 1998 and is scheduled to be completed in third quarter of 1999. The following table illustrates the Company's completion percentages for the Year 2000 activities as of April 30, 1999:

	PRIORITY 1	PRIORITY 2	PRIORITY 3
Assessment..............................	99%	96%	96%
Conversion..............................	99%	76%	91%
Testing.................................	91%	69%	87%
Implementation..........................	90%	59%	75%

Total direct costs of resolving the Year 2000 issue with respect to the Company and its subsidiaries are expected to be between $35 and $40 million and include approximately $16 million spent through the first quarter of 1999.

The Company is in the process of implementing SAP America, Inc.'s (SAP) proprietary R/3 enterprise software. Although it is anticipated that the implementation of the SAP system will have the incidental effect of negating the need to modify many of the Company's computer systems to accommodate the Year 2000 problem, the Company does not deem the costs of the SAP system as directly related to its Year 2000 compliance program. Portions of the SAP system were implemented in December 1998 and March 1999, and it is expected that the final portion of the SAP system will be fully implemented by August 2000. The cost of implementing the SAP system is currently estimated to be approximately $182 million, inclusive of internal costs, but that estimate could be revised upward by 10% to 25%. As of March 31, 1999, $136 million has been spent on the implementation.

RISKS OF INTERNATIONAL OPERATIONS

The Company's international operations are subject to various risks incidental to investing or operating in emerging market countries. These risks include political risks, such as government instability, and economic risks, such as fluctuations in currency exchange rates, restrictions on the repatriation of foreign earnings and/or restrictions on the conversion of local currency earnings into U.S. dollars. The Company's international operations are also highly capital intensive and significantly dependent on the availability of bank financing and other sources of capital on commercially acceptable terms. For more information on the risks of international operations, see "Qualitative and Quantitative Disclosures About Market Risk of the Company" herein and Note 2 to the Company's Interim Financial Statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company-Certain Factors Affecting Future Earnings of the Company and its Subsidiaries-Risks of International Operations" in the Company form 10-K.

LIQUIDITY AND CAPITAL RESOURCES

For the first quarter of 1999, the Company's net cash provided by operating activities decreased $222 million over the same period in 1998 primarily due to a $141 million tax refund received in the 1998 period.

Net cash used in investing activities increased $39 million in the first quarter of 1999 compared to the same period of 1998, primarily due to increased capital expenditures in Electric Operations related to an acceleration of capital projects performed during maintenance outages.

Net cash used in financing activities for the first quarter of 1999 reflected a $13 million inflow compared to a $214 million outflow for the same period of 1998. The cash inflow in 1999 included the proceeds from the issuance of trust preferred securities offset by the payment of long-term debt, notes payable and common stock dividends.

The following tables provide information about the Company's and Resources' unused sources of capital at March 31, 1999 and repayments and financings that occurred in the first quarter of 1999.

UNUSED SOURCES OF CAPITAL AT MARCH 31, 1999

SOURCE	AVAILABILITY (IN MILLIONS)	
COMPANY:		
Revolving Credit Facility (1)	$ 200	
Shelf registration statements (2)	230	preferred stock
	580	debt securities
	125	trust preferred securities and related junior subordinated debt securities
FINANCECO LP:		
$1.6 billion revolving credit facility (3)	351	
RESOURCES:		
Revolving credit facility (4)	335	

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(1) Supports up to $200 million of commercial paper borrowings.

(2) Issuance of securities under the shelf registration statements is subject to market and other conditions.

(3) Supports up to $1.6 billion of commercial paper borrowings.

(4) Supports commercial paper borrowings and has a $65 million subfacility, which may be used for letters of credit. At March 31, 1999, there were $14.6 million of letters of credit issued.

FIRST QUARTER 1999 REPAYMENTS AND REPURCHASES

TYPE OF DEBT	AMOUNT (IN MILLIONS)
COMPANY:	
9.85% Series A medium term notes	$ 25.4
9.80% Series A medium term notes	145.1
FINANCECO LP:	
Credit agreement (1)	150.0
RESOURCES:	
6.0% Convertible subordinated debentures due 2012 (2)	6.0

- ------------------

(1) This credit facility was repaid and terminated on March 2, 1999.

(2) The average purchase price was 98.3%. These debentures will be used to partially fund the sinking fund for the 6% convertible subordinated debentures in March 2000 and March 2001. In the first quarter of 1999, Resources satisfied the $6.5 million sinking fund requirement using debentures purchased in 1998.

FIRST QUARTER 1999 FINANCINGS

ENTITY	AMOUNT (IN MILLIONS)	DISTRIBUTION/ INTEREST RATE
COMPANY:		
REI Trust I(1)	$375 preferred securities $11.6 common securities	7.2%
RESOURCES:		
Receivables facility	$300 receivables sold	4.88% (2)

- ------------------

(1) This trust is a Delaware statutory business trust established by the Company. Proceeds from the sale were used to purchase $386.6 million of 7.2% subordinated debentures due March 2048 from the Company. Proceeds from the sale of the debentures were used for general corporate purposes, including repayment of short-term debt.

(2) Weighted average rate on sale proceeds as of March 31, 1999.

As of March 31, 1999, Light and Metropolitana had $2.9 billion in non-local currency denominated borrowings. In April 1999, approximately $1.2 billion was refinanced in U.S. Dollar denominated loans, which expire within one year to 14 months, and $300 million was funded through a 60-day local currency loan. The short-term loan is guaranteed by a subsidiary of the Company and certain other shareholders of Light and is expected to be repaid through capital contributions. The Company expects that its portion of the capital contributions will be approximately $30 million to $35 million and will be made in the second quarter of 1999.

The Company has a "money fund" through which it and its subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and borrowing or investing is based on the net cash position. The money fund's net funding requirements are generally met with commercial paper issued by a financing subsidiary. At March 31, 1999, Resources had $214.1 million in investments in this fund.

In April 1999, the Company completed the following financings:

ENTITY	AMOUNT (MILLIONS)	INTEREST RATE	MATURITY DATE
Gulf Coast Waste Disposal Authority (GCWDA)(1)	$19.2 revenue refunding bonds	4.70%	2011
Matagorda County Navigation District Number One (MCND)(2)	$100 revenue refunding bonds	5.25%	2026
Brazos River Authority (BRA)(3)	$100 revenue refunding bonds	5.375%	2019

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(1 On behalf of the Company. Proceeds will be used June 1, 1999 to redeem $19.2 million 7% GCWDA Series 1989A collateralized revenue refunding bonds at a price of 102%.

(2) On behalf of the Company. Proceeds will be used July 1, 1999 to redeem $100 million 7.125% MCND Series 1989C collateralized revenue refunding bonds at a price of 102%.

(3) On behalf of the Company. Proceeds will be used July 1, 1999 to redeem $100 million 7.625% BRA Series 1989A collateralized revenue refunding bonds at a price of 102%.

In July 1999, $200 million of Resources' 8.875% Notes will mature. Resources will repay the notes with proceeds from the liquidation of investments, cash generated by operations and/or newly issued commercial paper.

The Company believes that its current level of cash and borrowing capability along with future cash flows from operations are sufficient to meet the needs of its existing businesses. However, to achieve its objectives, the Company may, when necessary, supplement its available cash resources by seeking funds in the equity or debt markets.

NEW ACCOUNTING ISSUES

In the first quarter of 1999, the Company and Resources adopted the Emerging Issues Task Force of the Financial Accounting Standards Board Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF Issue 98-10). EITF Issue 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings. The implementation of EITF Issue 98-10 did not have an effect on the Company's or Resources' consolidated financial statements since Reliant Energy Services adopted mark-to-market accounting in 1998.

In 2000, the Company and Resources expect to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which establishes accounting and reporting standards for derivative instruments, including certain hedging instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. The Company and Resources are in the process of determining the effect of adoption of SFAS No. 133 on its consolidated financial statements.

QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK OF THE COMPANY

The Company and its subsidiaries have financial instruments that involve various market risks and uncertainties. For information regarding the Company's exposure to risks associated with interest rates, equity market prices, foreign currency exchange rate risk and energy commodity prices, see Item 7A of the Company's Form 10-K. These risks have not materially changed from the market risks disclosed in the Company's Form 10-K. As described in "Management's Discussion and Analysis of Financial Conditions and Results of Operations of the Company," the Company reported a $91 million charge to net income and a $51 million charge to other comprehensive income, due to the devaluation of the Brazilian real. The charge to net income reflects increases in the liabilities at Light and Metropolitana for their non-local currency denominated borrowings using the exchange rate in effect at March 31, 1999 and an average exchange rate for the quarter. The charge to other comprehensive income reflects the translation effect on the local currency denominated net assets underlying the Company's investment in Light. As of March 31, 1999, the Brazilian real exchange rate was 1.72 per U.S. dollar. An increase of 10% from the March 31, 1999 exchange rate would result in the Company recording an additional charge of $21 million and $12 million to net income and other comprehensive income, respectively.

In the first quarter of 1999, the Company recorded an additional $215 million unrealized loss (net of tax) related to the ACES. For further discussion of this loss, see Note 6 to the Company's Interim Financial Statements. The Company believes that this additional unrealized loss for the ACES is more than economically hedged by the unrecorded unrealized gain relating to the increase in the fair value of the Time Warner common stock underlying the investment in TW Preferred since the date of its acquisition. An increase of 10% in the price of the Time Warner common stock above its March 31, 1999 market value of $70.81 per share would result in the recognition of an additional unrealized accounting loss (net of tax) of approximately $174 million.

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

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

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
REVENUES	$ 1,828,064	$ 1,754,541
EXPENSES:		
Natural gas and purchased power, net	1,443,683	1,381,036
Operation and maintenance	153,914	151,609
Depreciation and amortization	50,018	44,730
Taxes other than income taxes	30,272	33,672
	1,677,887	1,611,047
OPERATING INCOME	150,177	143,494
OTHER INCOME (EXPENSE):		
Interest expense, net	(29,662)	(26,900)
Dividend requirement on preferred securities of subsidiary trust	(99)	(268)
Other -- net	3,031	2,556
	(26,730)	(24,612)
INCOME BEFORE INCOME TAXES	123,447	118,882
INCOME TAX EXPENSE	52,474	57,054
NET INCOME	$ 70,973	$ 61,828

See Notes to Resources' Consolidated Financial Statements.

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

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	MARCH 31, 1999	DECEMBER 31, 1998
CURRENT ASSETS:		
Cash and cash equivalents	$ 50,407	$ 26,576
Accounts and notes receivable, principally customer	738,326	682,552
Unbilled revenue	73,505	145,131
Accounts and notes receivable - affiliated companies	264,170	193,177
Gas in underground storage	20,267	79,855
Materials and supplies	33,245	33,947
Gas purchased in advance of delivery	6,200	6,200
Fuel stock and petroleum products		81,230
Price risk management assets	274,390	265,203
Other current assets	32,971	33,034
Total current assets	1,493,481	1,546,905
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas distribution and gathering systems	1,732,598	1,686,159
Interstate pipelines	1,303,180	1,302,829
Other	13,406	13,976
Total	3,049,184	3,002,964
Less accumulated depreciation and amortization	220,854	187,936
Property, plant and equipment -- net	2,828,330	2,815,028
OTHER ASSETS:		
Goodwill, net	2,037,101	2,050,386
Prepaid pension asset	104,184	102,021
Investment in marketable equity securities	14,086	10,800
Regulatory asset for environmental costs	20,529	20,695
Gas purchased in advance of delivery	20,791	22,207
Price risk management assets	69,624	21,414
Deferred debits, net	89,178	66,065
Total other assets	2,355,493	2,293,588
TOTAL ASSETS	$ 6,677,304	$ 6,655,521

See Notes to Resources' Consolidated Financial Statements.

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

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

LIABILITIES AND STOCKHOLDER'S EQUITY

	MARCH 31, 1999	DECEMBER 31, 1998
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 201,965	$ 203,438
Receivables facility	300,000	300,000
Accounts payable, principally trade	501,743	622,262
Accounts payable - affiliated companies	47,286	
Interest payable	29,673	36,197
Other taxes	40,277	42,107
Customer deposits	36,903	36,985
Price risk management liabilities	231,003	227,652
Other current liabilities	176,015	172,616
Total current liabilities	1,564,865	1,641,257
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	518,622	511,070
Estimated environmental remediation costs	20,529	20,695
Payable under capacity lease agreement	41,000	41,000
Benefit obligations	154,224	158,762
Refundable excess deferred income taxes	12,009	12,246
Price risk management liabilities	64,892	29,108
Other	159,472	164,438
Total deferred credits and other liabilities	970,748	937,319
RESOURCES-OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF RESOURCES, NET	1,144	1,157
LONG-TERM DEBT, LESS CURRENT MATURITIES	1,504,977	1,513,289
STOCKHOLDER'S EQUITY:		
Common stock	1	1
Paid-in capital	2,463,831	2,463,831
Retained earnings	185,644	114,671
Accumulated other comprehensive income	(13,906)	(16,004)
Total stockholder's equity	2,635,570	2,562,499
COMMITMENTS AND CONTINGENCIES (NOTE 1)		
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 6,677,304	$ 6,655,521

See Notes to Resources' Consolidated Financial Statements.

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

STATEMENTS OF CONSOLIDATED CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1999	1998
Cash Flows from Operating Activities:		
Net income	$ 70,973	$ 61,828
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	50,018	44,730
Deferred income taxes	4,500	14,785
Changes in other assets and liabilities:		
Accounts and notes receivable - net	(59,641)	88,460
Inventories	141,926	29,930
Other current assets	(18,501)	16,238
Accounts payable	(73,233)	(133,074)
Interest and taxes accrued	55,116	41,956
Other current liabilities	(47,769)	(15,216)
Net price risk management activities	(18,262)	(6,670)
Other - net	(24,188)	34,471
Net cash provided by operating activities	80,939	177,438
Cash Flows from Investing Activities:		
Capital expenditures	(45,540)	(38,639)
Other - net	(1,769)	2,371
Net cash used in investing activities	(47,309)	(36,268)
Cash Flows from Financing Activities:		
Retirements and reacquisitions of long-term debt	(6,042)	(1,000)
Other debt repayments		(417,027)
Proceeds from issuance of debentures		300,000
Redemption of convertible securities	(7)	(3,255)
Other - net	(3,750)	(3,905)
Net cash used in financing activities	(9,799)	(125,187)
Net Increase in Cash and Cash Equivalents	23,831	15,983
Cash and Cash Equivalents at Beginning of the Period	26,576	35,682
Cash and Cash Equivalents at End of the Period	$ 50,407	$ 51,665
Supplemental Disclosure of Cash Flow Information:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 30,939	$ 39,194
Income taxes - net	(2,549)	(13,792)

See Notes to Resources' Consolidated Financial Statements.

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

CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
(THOUSANDS OF DOLLARS)
(UNAUDITED)

	COMMON STOCK						
	SHARES	AMOUNT	PAID IN CAPITAL	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPRE-HENSIVE INCOME	TOTAL STOCK-HOLDER'S EQUITY	TOTAL COMPRE-HENSIVE INCOME
Balance at December 31, 1997..	1,000	$ 1	$2,463,831	$ 20,847	$ (5,634)	$2,479,045	
Net Income....................				61,828		61,828	$ 61,828
Change in Market Value of Marketable Equity Securities, net tax of ($781)......................					1,379	1,379	1,379
Comprehensive Income							63,207
Balance at March 31, 1998.....	1,000	1	2,463,831	82,675	(4,255)	2,542,252	
Net Income....................				31,996		31,996	31,996
Change in Market Value of Marketable Equity Securities, net tax of $6,658......................					(11,749)	(11,749)	(11,749)
Comprehensive Income..........							20,247
Balance at December 31, 1998..	1,000	1	2,463,831	114,671	(16,004)	2,562,499	
Net Income....................				70,973		70,973	70,973
Change in Market Value of Marketable Equity Securities, net tax of ($1,189)					2,098	2,098	2,098
Comprehensive Income..........							$ 73,071
Balance at March 31, 1999.....	1,000	$ 1	$2,463,831	$ 185,644	$ (13,906)	$2,635,570	

See Notes to Resources' Consolidated Financial Statements.

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Notes to the unaudited consolidated financial statements of Reliant Energy Resources Corp. are included in the Notes to the unaudited consolidated financial statements of Reliant Energy, Incorporated (Company) as follows and are incorporated herein by reference:

(1) BASIS OF PRESENTATION -- see Company Note 1.

(2) DEPRECIATION -- see Company Note 3 (b).

(3) CHANGE IN ACCOUNTING PRINCIPLE -- see Company Note 5.

(4) COMPANY/RESOURCES OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY/RESOURCES -- see Company Note 8(b).

(5) LONG-TERM DEBT AND SHORT-TERM FINANCING -- see Company Note 9(b).

(6) REPORTABLE SEGMENTS

Effective January 1, 1998, Resources adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). Because Resources is a wholly owned subsidiary of the Company, Resources has determined its reportable segments based in part on the operating units under which its parent manages sales to wholesale or retail customers in differing regulatory environments. The segment financial data include information for the Company and Resources on a combined basis, except for Electric Operations, which has no Resources operations, and International, which has minimal Resources operations. Reconciling items included under the caption "Elimination of Non-Resources Operations" reduce the amounts by those operations not conducted within the Resources legal entity. Operations not owned or operated by Resources, but included in segment information before elimination, include primarily the operations of the Company's non-rate regulated power generation business, and non-Resources corporate expenses.

In accordance with SFAS No. 131, the Company has identified the following reportable segments: Electric Operations, Natural Gas Distribution, Interstate Pipelines, Wholesale Energy, International and Corporate. See Note 12 to the Company's Interim Financial Statements for a description of these segments.

	NATURAL GAS DISTRIBUTION	INTERSTATE PIPELINES	WHOLESALE ENERGY	CORPORATE AND OTHER	RECONCILING ELIMINATIONS(1)	ELIMINATION OF NON-RESOURCES OPERATIONS	CONSOLIDATED
			(THOUSANDS OF DOLLARS)				
For the Three Months Ended March 31, 1999:							
Revenues from non-affiliates....	$ 662,876	$ 26,481	$ 938,882	$ 216,243		$ (16,418)	$ 1,828,064
Intersegment revenues...........	288	39,624	69,221	19,142	$ (128,275)		
Operating income................	98,100	27,893	1,178	(3,636)		26,642	150,177
For the Three Months Ended March 31, 1998:							
Revenues from non-affiliates....	716,575	33,232	828,165	179,542		(2,973)	1,754,541
Intersegment revenues...........	321	37,748	63,209	23,291	(124,569)		
Operating income................	101,604	32,073	513	(4,889)		14,193	143,494

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(1) Includes data for operations conducted at the parent level. This data is eliminated for purposes of the consolidated data at the Resources level.

Reconciliation of Operating Income to Net Income:

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998
	(THOUSANDS OF DOLLARS)	
Operating income	$ 150,177	$ 143,494
Interest expense	(29,662)	(26,900)
Distribution on preferred trust securities	(99)	(268)
Income tax expense	(52,474)	(57,054)
Other income, net	3,031	2,556
Net income	$ 70,973	$ 61,828

(7) COMPANY/RESOURCES INTERIM PERIOD RESULTS; RECLASSIFICATIONS -- see Company Note 14.

MANAGEMENT'S NARRATIVE ANALYSIS OF
THE RESULTS OF OPERATIONS OF RESOURCES

Resources reports its financial information in the following segments: Natural Gas Distribution, Interstate Pipelines, Wholesale Energy (through which Resources conducts the energy trading and marketing operations and natural gas gathering operations, but does not conduct the operations of Reliant Energy Power Generation, Inc.) and Corporate. Although Resources has international operations, they are not significant.

Resources meets the conditions specified in General Instruction H to Form 10-Q and is permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, Resources has omitted from this report the information called for by Item 3 (quantitative and qualitative disclosure about market risk) of Part I and the following Part II items of Form 10-Q: Item 2 (changes in securities and use of proceeds), Item 3 (defaults upon senior securities) and Item 4 (submission of matters to a vote of security holders). The following discussion explains material changes in the amount of revenue and expense items of Resources between the first quarter of 1999 and the first quarter of 1998. Reference is made to Management's Narrative Analysis of the Results of Operations in Item 7 of Resources' Form 10-K, the Resources 10-K Notes referred to herein and Resources' Interim Financial Statements contained in this Form 10-Q.

CONSOLIDATED RESULTS OF OPERATIONS

	QUARTER ENDED MARCH 31,		PERCENT
	1999	1998	CHANGE
	(THOUSANDS OF DOLLARS)		
Operating Revenues	$ 1,828,064	$ 1,754,541	4%
Operating Expenses	1,677,887	1,611,047	4%
Operating Income, Net	150,177	143,494	5%
Interest Expense, Net	29,662	26,900	10%
Distributions on Subsidiary Trust Securities	99	268	(63%)
Other Income, Net	3,031	2,556	19%
Income Tax Expense	52,474	57,054	(8%)
Net Income	$ 70,973	$ 61,828	15%

First Quarter of 1999 Compared to First Quarter of 1998. Resources' net income increased $9 million in the first quarter of 1999 compared to the 1998 period primarily due to increased operating income of $7 million related to improved trading and marketing results at Wholesale Energy. This increase was partially offset by a decrease in operating income at Natural Gas Distribution due to warmer weather and at Interstate Pipelines due to a rate settlement, which resulted in $5 million of reduced depreciation expense recorded in the first quarter of 1998.

Resources' revenues increased approximately $74 million due primarily to increased trading activities at Wholesale Energy offset by decreases at Natural Gas Distribution due to the effects of warmer weather. Resources' operating expenses increased $67 million due largely to increases in gas sales at Wholesale Energy.

The decrease in income taxes in the first quarter of 1999 is attributable to decreases in non-deductible expenditures and state tax expenses.

To minimize risks associated with fluctuations in the price of natural gas and transportation, Resources, through its subsidiary, Reliant Energy Services, Inc., enters into futures transactions, swaps and options relating to (i) certain commitments to buy, sell and transport natural gas, (ii) existing natural gas and heating oil inventory, (iii) crude oil and refined products and (iv) certain anticipated transactions, some of which carry off-balance sheet risk. Reliant Energy Services also enters into commodity derivatives in its trading and price risk management activities. For a discussion of the accounting treatment of derivative instruments, see Note 2 of Resources 10-K Notes and Item 7A (Quantitative and Qualitative Disclosure About Market Risk) in the Company's Form 10-K.

Seasonality and Other Factors. Resources' results of operations are affected by seasonal fluctuations in the demand for and, to a lesser extent, the price of natural gas. Resources' results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates charged by Resources and its subsidiaries, competition in Resources' various business operations, debt service costs and income tax expense. For a discussion of certain other factors that may affect Resources' future earnings see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries - Competition - Other Operations," "- Fluctuations in Commodity Prices and Derivative Instruments," "- Environmental Expenditures" and "- Other Contingencies" in the Company's Form 10-K.

NEW ACCOUNTING ISSUES

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- New Accounting Issues" in the Company's Form 10-Q for a discussion of certain new accounting issues affecting Resources.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Company:

For a description of legal proceedings affecting the Company and its subsidiaries, please review Item 3 of the Company Form 10-K and Notes 3(b), 12(h) and 12(i) of the Company 10-K Notes, which are incorporated herein by reference.

Resources:

For a description of legal proceedings affecting Resources, please review Note 8(g) of the Resources 10-K Notes, which is incorporated herein by reference.

ITEM 5. OTHER INFORMATION.

Forward-Looking Statements. From time to time, the Company and Resources may make statements regarding their assumptions, projections, expectations, intentions or beliefs about future events. These statements and other statements that are not historical facts are intended as "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. The Company and Resources caution that assumptions, projections, expectations, intentions or beliefs about future events may and often do vary materially from actual results and the differences between assumptions, projections, expectations, intentions or beliefs and actual results can be material. Accordingly, there can be no assurance actual results will not differ materially from those expressed or implied by the forward-looking statements.

The following are some of the factors that could cause actual results to differ from those expressed or implied in forward-looking statements: (i) state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures and affect the speed and degree to which competition enters the electric and natural gas industries; (ii) industrial, commercial and residential growth in service territories of the Company and Resources; (iii) the weather and other natural phenomena; (iv) the timing and extent of changes in commodity prices and interest rates; (v) changes in environmental and other laws and regulations to which the Company, Resources and their respective subsidiaries are subject or other external factors over which the Company and Resources have no control; (vi) the results of financing efforts; (vii) growth in opportunities for the Company's and Resources' subsidiaries and diversified operations; (viii) risks incidental to the Company's overseas operations (including the effects of fluctuations in foreign currency exchange rates); (ix) the effect of the Company's and Resources' accounting policies; (x) the timing of the closing of the Company's acquisition of an interest in UNA; and (xi) other factors discussed in this and other filings by the Company and Resources with the Securities and Exchange Commission.

When used in the Company's or Resources' documents or oral presentations, the words "anticipate," estimate," "expect," "objective," "projection," "forecast," "goal" or similar words are intended to identify forward-looking statements.

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

(a) Exhibits.

Company:

Exhibit 3	Amendment to the Company's Articles of Incorporation.
Exhibit 10.1	Employment Agreement effective as of June 1, 1999, between the Company and Don D. Jordan.
Exhibit 10.2	Share Subscription Agreement dated March 29, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc., Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsbedrijf, Reliant Energy Power Generation, Inc. and UNA
Exhibit 10.3	Share Purchase Agreement dated March 29, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc., Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsbedrijf, Reliant Energy Power Generation, Inc. and UNA.
Exhibit 12	Ratio of Earnings to Fixed Charges and Preferred Dividends.
Exhibit 27	Financial Data Schedule.
Exhibit 99	Items incorporated by reference from the Company Form 10-K: Item 3 "Legal Proceedings." Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries" and "- New Accounting Issues." and Item 7A "Quantitative and Qualitative Disclosures About Market Risk." Note 1(c) (Regulatory Assets and Other Long-Lived Assets), Note 1(n) (Investments in Time Warner Securities), Note 1(p) (Foreign Currency Adjustments), Note 1(r) (Change in Accounting Principle), Note 2 (Derivative Financial Instruments), Note 3 (Rate Matters), Note 4 (Jointly Owned Electric Utility Plant), Note 5 (Equity Investments and Advances to Unconsolidated Subsidiaries), Note 8(c) (FinanceCo and FinanceCo II Credit Facilities), Note 8(d) (Company Credit Facility), Note 9(a) (Trust Securities - Company), Note 12 (Commitments and Contingencies) and Note 16(a) (Foreign Currency Devaluation) of the Company 10-K Notes.

Resources:

Exhibit 12	Ratio of Earnings to Fixed Charges.
Exhibit 27	Financial Data Schedule.
Exhibit 99	Items incorporated by reference from Resources Form 10-K: Item 3 "Legal Proceedings." Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries" and "- New Accounting Issues." Item 7A "Quantitative and Qualitative Disclosures About Market Risk." Item 7 "Management's Narrative Analysis of the Results of Operations of Reliant Energy Resources Corp. and Consolidated Subsidiaries." Note 1(c) (Regulatory Assets and Regulation), Note 2 (Derivative Financial Instruments), Note 4 (Long-Term and Short-Term Financing), Note 5 (Trust Securities); and Note 8 (Commitments and Contingencies) of Resources 10-K Notes.

(b) Reports on Form 8-K.

Company:

Form 8-K dated January 26,1999 (filed February 1, 1999) filing press release regarding currency devaluation in Brazil.

Form 8-K dated February 23, 1999 (filed February 26, 1999) regarding the issuance and sale of 7.20% Trust Original Preferred Securities, Series C.

Resources:

None.

SIGNATURE

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

RELIANT ENERGY, INCORPORATED
(Registrant)

By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Vice President and Comptroller
(Principal Accounting Officer)

Date: May 14, 1999

SIGNATURE

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

RELIANT ENERGY RESOURCES CORP.
(Registrant)

By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Vice President and Comptroller
(Principal Accounting Officer)

Date: May 14, 1999

Exhibit Index

EXHIBIT NUMBER	DESCRIPTION
Company	
Exhibit 3	Amendment to the Company's Articles of Incorporation.
Exhibit 10.1	Employment Agreement effective as of June 1, 1999, between the Company and Don D. Jordan.
Exhibit 10.2	Share Subscription Agreement dated March 29, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc., Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsbedrijf, Reliant Energy Power Generation, Inc. and UNA.
Exhibit 10.3	Share Purchase Agreement dated March 29, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc., Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsbedrijf, Reliant Energy Power Generation, Inc. and UNA.
Exhibit 12	Ratio of Earnings to Fixed Charges and Preferred Dividends.
Exhibit 27	Financial Data Schedule.
Exhibit 99	Items incorporated by reference from the Company Form 10-K: Item 3 "Legal Proceedings." Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries" and "- New Accounting Issues." and Item 7A "Quantitative and Qualitative Disclosures About Market Risk." Note 1(c) (Regulatory Assets and Other Long-Lived Assets), Note 1(n) (Investments in Time Warner Securities), Note 1(p) (Foreign Currency Adjustments), Note 1(r) (Change in Accounting Principle), Note 2 (Derivative Financial Instruments), Note 3 (Rate Matters), Note 4 (Jointly Owned Electric Utility Plant), Note 5 (Equity Investments and Advances to Unconsolidated Subsidiaries), Note 8(c) (FinanceCo and FinanceCo II Credit Facilities), Note 8(d) (Company Credit Facility), Note 9(a) (Trust Securities - Company), Note 12 (Commitments and Contingencies) and Note 16(a) (Foreign Currency Devaluation) of the Company 10-K Notes.
Resources	
Exhibit 12	Ratio of Earnings to Fixed Charges.
Exhibit 27	Financial Data Schedule.
Exhibit 99	Items incorporated by reference from Resources Form 10-K: Item 3 "Legal Proceedings." Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries" and "- New Accounting Issues." Item 7A "Quantitative and Qualitative Disclosures About Market Risk." Item 7 "Management's Narrative Analysis of the Results of Operations of Reliant Energy Resources Corp. and Consolidated Subsidiaries." Note 1(c) (Regulatory Assets and Regulation), Note 2 (Derivative Financial Instruments), Note 4 (Long-Term and Short-Term Financing), Note 5 (Trust Securities); and Note 8 (Commitments and Contingencies) of Resources 10-K Notes.

EXHIBIT 3

ARTICLES OF AMENDMENT

TO THE

RESTATED ARTICLES OF INCORPORATION

OF

HOUSTON INDUSTRIES INCORPORATED

Pursuant to and in accordance with the provisions of Article 4.04 of the Texas Business Corporation Act, Houston Industries Incorporated, a Texas corporation (the "Corporation"), hereby adopts the following Articles of Amendment (the "Articles of Amendment") to its Restated Articles of Incorporation (the "Articles of Incorporation"):

ARTICLE I

The name of the Corporation is Houston Industries Incorporated.

ARTICLE II

The following amendment to the Articles of Incorporation (the "Amendment") was duly adopted by the shareholders of the Corporation on the fifth day of May,1999:

The Articles of Incorporation are hereby amended by deleting ARTICLE I thereof in its entirety and replacing in lieu thereof a new ARTICLE I reading in its entirety as follows:

"ARTICLE I

The name of the Company is "Reliant Energy, Incorporated."

ARTICLE III

The number of shares of the Corporation outstanding at the time of the adoption of the Amendment was 296,421,672 shares of Common Stock, without par value ("Common Stock"), 97,397 shares of Preferred Stock, without par value, and 18,575 shares of Preference Stock, without par value; and the number of shares entitled to vote on the Amendment was 296,329,501 shares of Common Stock.

ARTICLE VI

The number of shares of Common Stock voted for the Amendment was 246,013,385; and the number of shares of Common Stock voted against the Amendment was 3,012,801.

IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to be duly executed as of the 5th day of May, 1999.

HOUSTON INDUSTRIES INCORPORATED

By: /s/ Rufus S. Scott

Rufus S. Scott
Vice President, Deputy General Counsel
and Assistant Corporate Secretary

EXHIBIT 10.1

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (the "Agreement") is entered into by and between HOUSTON INDUSTRIES INCORPORATED D/B/A RELIANT ENERGY, INCORPORATED, a Texas corporation (said corporation, together with its successors and assigns permitted under this Agreement, hereinafter referred to as the "Company"), and DON D. JORDAN (the "Executive"), this _____ day of March, 1999.

W I T N E S S E T H:

WHEREAS, on November 7, 1997, the Company and the Executive entered into an Amended and Restated Employment Agreement (the "Prior Agreement") under which the Executive would be employed by the Company until June 1, 1999; and

WHEREAS, the parties to said Prior Agreement desire to completely amend and restate said Prior Agreement to provide for the extended employment of the Executive through December 31, 2000; and

WHEREAS, Section 15(A) of the Prior Agreement contemplates the amendment of the Prior Agreement with the mutual consent of the parties and the parties desire to amend and restate the Prior Agreement;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree that the Prior Agreement shall be amended and restated in its entirety, effective June 1, 1999, to read as follows:

1. CERTAIN DEFINITIONS:

"ACCRUED OBLIGATIONS" shall have the meaning set forth in Section 5(B)(i)(a).

"AFFILIATED COMPANIES" shall mean and include any company controlled by, controlling or under common control with the Company within the meaning of Section 414 of the Code.

"ANNUAL BASE SALARY" shall mean the salary of the Executive provided for in Section 3(B)(i), as adjusted and in effect from time to time.

"BENEFICIARY" shall mean the person or persons, trustee or trustees of a trust, partnership, corporation, limited liability partnership, limited liability company or other entity named, in a writing filed with the Company, to receive any compensation or benefit payable hereunder following the Executive's death or, in the event no such person or entity is named or survives the Executive, his estate. In the event of the Executive's death or a judicial determination of his incompetence, reference in this Agreement to the Executive shall be deemed, where appropriate, to refer to his Beneficiary, estate or other legal representative.

"BOARD" shall mean the Board of Directors of the Company.

"CAUSE" shall mean (i) repeated violations by the Executive of the Executive's obligations under Section 3(A) (other than as a result of incapacity due to physical or mental illness) which are demonstrably willful and deliberate on the Executive's part, which are committed in bad faith or without reasonable belief that such violations are in the best interests of the Company and which are not remedied in a reasonable period of time after receipt of written notice from the Company specifying such violations or (ii) the conviction of the Executive of a felony involving moral turpitude.

"CODE" shall mean the Internal Revenue Code of 1986, as in effect on the Effective Date and as thereafter amended.

"DATE OF TERMINATION" shall mean (a) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (b) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date on which the Company notifies the Executive of such termination, (c) if the Executive's employment is terminated by reason of death, Retirement or Disability, the date of death or Retirement of the Executive or the Disability Effective Date, as the case may be, and (d) if the Executive's employment is terminated by reason of the expiration of the Employment Period, the last day of the Employment Period.

"DEFERRED COMPENSATION PLAN" shall mean each of the Deferred Compensation Plan (amended and restated effective January 1, 1991), the Deferred Compensation Plan (amended and restated effective January 1, 1989) and the Deferred Compensation Plan (amended and restated effective September 1, 1985), each of which is sponsored by the Company, as in effect from time to time.

"DISABILITY" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative, such agreement as to acceptability by the Executive not to be withheld unreasonably.

"DISABILITY EFFECTIVE DATE" shall mean the date so described in Section 4(A).

"DIVIDEND DEFERRAL ACCOUNT" shall mean the bookkeeping account maintained by the Company to track the dividends (and associated accumulated interest) payable with respect to Stock Deferrals.

"EFFECTIVE DATE" shall mean June 1, 1999.

"EICP" shall mean the Company's Executive Incentive Compensation Plan, as in effect from time to time, or any similar successor plan adopted by the Company.

"EMPLOYMENT PERIOD" shall mean the period commencing on the Effective Date and ending on December 31, 2000.

"GOOD REASON" shall mean:

(a) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 3(A), or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(b) any failure by the Company to comply with any of the provisions of Section 3(B), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(c) the Company's requiring the Executive to be based at any office or location other than that described in Section 3(A)(i) or the Company's failure to provide the residence required by Section 3(A)(i);

(d) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(e) any failure by the Company to comply with and satisfy Section 11(C), provided that the successor described in Section 11(C) has received at least ten days' prior written notice from the Company or the Executive of the requirements of Section 11(C).

"LICP" shall mean the Company's Long-Term Incentive Compensation Plan, as in effect from time to time, or any similar successor plan adopted by the Company.

"NOTICE OF TERMINATION" shall mean a written notice that (a) indicates the specific termination provision in this Agreement relied upon, (b) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (c) if the Date of Termination is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 15 days after the giving of such notice except in the case of a Disability Effective Date).

"OTHER BENEFITS" shall mean the amounts so described in Section 5(B)(i)(e).

"PRIOR STOCK AWARD" shall mean the award of Stock described as the 'Stock Award' in Section 3(B)(ii) of the Prior Agreement.

"RETIREMENT" shall mean the retirement of the Executive with the express consent of the Board.

"SERP" shall mean the Benefit Restoration Plan of the Company.

"SPOUSE" shall mean the person who is legally married to the Executive.

"STOCK" shall mean the Common Stock, without par value, of the Company.

"STOCK DEFERRALS" shall mean the shares of Stock potentially payable pursuant to the Prior Stock Award, the receipt of which is deferred by Executive pursuant to Section 6.

"SUPPLEMENTAL RETIREMENT BENEFIT" shall mean the benefit so described in Section 5(B)(i)(c).

"TARGET BONUS" shall mean the Executive's target incentive opportunity under the EICP in effect for the year with respect to which the Target Bonus is being determined or, if no such plan is then in effect, for the last year in which such a plan was in effect, expressed as a dollar amount based upon the Executive's Annual Base Salary for the year of such determination.

"WELFARE BENEFIT CONTINUATION" shall mean the continuation of benefits so described in Section 5(B)(i)(d).

"WITHOUT CAUSE" shall mean without Cause and for reasons other than death, Disability or Retirement.

"WITHOUT GOOD REASON" shall mean without Good Reason and for reasons other than death, Disability or Retirement.

2. EMPLOYMENT PERIOD: The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with the terms and provisions of this Agreement, for the Employment Period.

3. TERMS OF EMPLOYMENT:

A. POSITION AND DUTIES: During the Employment Period:

(i) The Executive shall relinquish the title and office of Chief Executive Officer of the Company, effective as of the Effective Date, and shall be employed as the Chairman of the Board of the Company during the remainder of the Employment Period. The Executive, in carrying out his duties under this Agreement, shall report only to the Board and shall perform the duties and functions set forth on Exhibit A attached hereto and incorporated herein for all purposes. The Executive's services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office which is the headquarters of the Company and is less than 50 miles from such location. It is hereby agreed and understood that the Executive may be required by the Company to move his business office (within the 50-mile limit set forth above) but not his principle place of residence. In the event that the Company requires the Executive to move his main office outside of Harris County, the Company shall provide, at no expense to the Executive, an apartment or town home in the new location which is commensurate with the Executive's standard of living.

(ii) Excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. It shall not be a violation of this Agreement for the Executive to (a) serve on corporate, civic or charitable boards or committees, (b) deliver lectures, fulfill speaking engagements or teach at educational institutions and (c) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company.

B. COMPENSATION:

(i) Annual Base Salary: During the Employment Period, the Executive shall receive an Annual Base Salary, payable on a semi-monthly basis in accordance with the Company's normal payroll practices, at an annual rate at least equal to $1,460,000; provided, however, that the monthly salary payable to the Executive during the period from the Effective Date to December 31, 1999 shall be adjusted upward such that the total Annual Base Salary paid to the Executive between January 1, 1999 and December 31, 1999 equals $1,460,000. Annual Base Salary shall not be reduced.

(ii) Benefit and Bonus Plans: During the Employment Period, except as otherwise set forth in this paragraph (ii), the Executive shall be entitled to participate in all incentive, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its Affiliated Companies. The Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its Affiliated Companies (including, without limitation, medical, prescription, dental, disability,

the Executive salary continuance, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its Affiliated Companies.
Notwithstanding the foregoing:

(a) The Executive shall not be granted awards under the Company's Long-Term Incentive Compensation Plan for performance cycles commencing in 1999 and 2000;

(b) The Executive shall be entitled to receive a separate monthly supplemental retirement benefit from the Company equal to the excess, if any, of (1) the benefit payable under the Retirement Plan and the SERP based on the benefit accrual formulas and actuarial assumptions in effect at the Effective Date over (2) the Executive's actual benefit (paid or payable) under the Retirement Plan and the SERP. Any such benefit shall commence at the same time and be payable in the same form as the amounts paid under the Retirement Plan and the SERP.

(iii) Expenses: During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the policies, practices and procedures of the Company and its Affiliated Companies to the extent applicable generally to other peer executives of the Company and its Affiliated Companies.

(iv) Vacation and Fringe Benefits: During the Employment Period, the Executive shall be entitled to paid vacation and fringe benefits in accordance with the plans, practices, programs and policies of the Company and its Affiliated Companies to the extent applicable generally to other peer executives of the Company and its Affiliated Companies.

(v) Other Perquisites: During the Employment Period, the Executive shall continue to be provided with such perquisites as were provided to the Executive on the Effective Date of this Agreement. Such perquisites shall be reviewed annually by the Compensation Committee of the Board.

(vi) Termination Bonus: The Company hereby agrees that within 60 days after the expiration of the Employment Period, it shall review the performance of Executive hereunder and the extent to which his efforts have contributed to any increase in shareholder value of the Company and determine if a cash bonus or other compensation in addition to that otherwise provided herein is appropriate. The payment of any such additional compensation shall be made at the Board's sole discretion.

4. TERMINATION OF EMPLOYMENT:

A. DEATH OR DISABILITY: The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period, it may give to the Executive written notice in accordance with Section 15(B) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties.

B. CAUSE: The Company may terminate the Executive's employment during the Employment Period for Cause.

C. GOOD REASON: The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. For purposes of this Section 4(C), any good faith determination of Good Reason made by the Executive shall be conclusive.

D. NOTICE OF TERMINATION: Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 15(B). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

E. EXPIRATION OF EMPLOYMENT PERIOD: The Executive's employment shall terminate automatically upon the expiration of the Employment Period.

5. OBLIGATIONS OF THE COMPANY UPON TERMINATION OF EMPLOYMENT:

A. FOR CAUSE OR WITHOUT GOOD REASON: If, at any time during the Employment Period, the Company terminates the Executive's employment for Cause or the Executive terminates his employment Without Good Reason, this Agreement shall terminate without further obligations to the Executive other than (i) the obligation to pay to the Executive the Annual Base Salary through the Date of Termination plus the amount of any compensation previously deferred by the Executive, in each case to the extent theretofore unpaid, (ii) the timely provision of Other Benefits, and (iii) fulfillment of the requirements of Section 3(B)(ii)(b), Sections 5(C) and (D) (to the extent applicable), Section 6 and Section 16. Any unpaid but due Annual Base Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination under this paragraph.

B. WITHOUT CAUSE, FOR GOOD REASON, DEATH, DISABILITY OR RETIREMENT: If, during the Employment Period, the employment of the Executive terminates (except for Cause or Without Good Reason, which are addressed in Section 5(A)), the obligations of the Company shall be as set forth below:

(i) For Good Reason or Without Cause: If, at a time described in this Section 5(B), the Executive terminates his employment for Good Reason or the Company terminates the Executive's employment Without Cause, then:

(a) the Company shall pay to the Executive in a lump sum in cash (or common stock of the Company with respect to certain payments under the LICP), within 30 days after the Date of Termination, determined without any reduction for the present value of such lump-sum payment, the aggregate of:

(I) the Annual Base Salary payable to the Executive for the remainder of the Employment Period, as if there had been no termination of employment;

(II) all bonuses payable to the Executive for the remainder of the Employment Period, as if there had been no termination of employment (including, but not by way of limitation, all bonuses awarded to the Executive under the EICP and the LICP and all bonuses that would have been awarded to the Executive under the EICP and LICP during the remainder of the Employment Period), assuming, for purposes of determining the amount of any bonus, (x) that bonus awards continued to be granted at the levels most recently granted to the Executive prior to the Date of Termination (unless a reduction in the level of any bonus award was the basis for a termination for Good Reason, in which case reference shall be made to the level in effect prior to such reduction) and (y) that any applicable performance objectives were met at the "target" level; and

(III) any accrued vacation pay;

in each case to the extent not theretofore paid (the sum of the amounts described in clauses (I) - (III) above shall be referred to herein as the "Accrued Obligations");

(b) the benefits accrued up to the Date of Termination under the Retirement Plan and the SERP or any successor plan thereto shall commence thereunder in such form and at such time as elected by the Executive in accordance with the terms of said Plans, subject to the requirements of Section 16;

(c) the Company shall pay a separate monthly supplemental retirement benefit equal to the excess, if any, of (I) the benefit payable under the Retirement Plan and the SERP or any other successor supplemental and/or excess retirement plan of the Company and its Affiliated Companies providing benefits for the Executive which the Executive would receive if the Executive's employment continued at the compensation level provided for in Section 3(B) for the remainder of the Employment Period, assuming for this purpose that (x) all accrued benefits are fully vested and (y) benefit accrual formulas and actuarial assumptions are no less advantageous to the Executive than those in effect at the Effective Date, over (II) the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP (the amount of such benefit calculated under this Section 5(B)(i)(c), which shall commence at the same time and be payable in the same form as the amounts described in Section 5(B)(i)(b), shall be referred to herein as the "Supplemental Retirement Benefit");

(d) for the remainder of the Employment Period, or such longer period as any plan, program, practice or policy may provide, the Company shall continue benefits to the Executive and/or the Executive's family at least equal to those which would have been provided to them in accordance with the welfare benefit plans, programs, practices and policies described in Section 3(B)(ii) if the Executive's employment had not been terminated; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility (such continuation of such benefits for the applicable period herein set forth shall be referred to herein as "Welfare Benefit Continuation");

(e) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive and/or the Executive's family any other amounts or benefits required to be paid or provided or which the Executive and/or the Executive's family is eligible to receive pursuant to this Agreement and under any plan, program, policy or practice or contract or agreement of the Company and its Affiliated Companies as in effect and applicable generally to other peer executives and their families (such other amounts and benefits, payable as described in this paragraph, shall be referred to herein as the "Other Benefits"); and

(f) the Company shall pay to the Executive in a lump sum in cash, within 30 days after the Date of Termination, the amount it would have contributed as an employer contribution to the tax-qualified Savings Plan of the Company for the remainder of the Employment Period, had the Executive contributed at the maximum rate during said period and had the terms of said Savings Plan as in effect on the Effective Date remained unchanged during said remainder of the Employment Period; and

(g) the Company shall fulfill the requirements of Section 5(C) and (D), Section 6 and Section 16.

(ii) By Reason of Death or Disability: If, at a time described in this Section 5(B), the Executive's employment is terminated by reason of the Executive's death or Disability, this Agreement shall terminate without further obligations to or in respect of the Executive under this Agreement, other than for (a) payment of Accrued Obligations (which shall be paid to the Executive or the Executive's Beneficiary in a lump sum in cash (or common stock of the Company with respect to certain payments under the LICP) within 30 days of the Date of Termination), (b) the timely payment or provision of the Welfare Benefit Continuation and Other Benefits in accordance with Section 5(B)(i), and (c) fulfillment of the requirements of Section 3(B)(ii)(b), Section 5(C) and (D) (to the extent applicable), Section 6 and Section 16.

(iii) Retirement: If, at a time described in this Section 5(B), the Executive terminates his employment with the Company by reason of Retirement, he shall be entitled to receive under this Agreement, in addition to all other benefits otherwise due from the Company upon Retirement, the prompt payment of all benefits due under Section 5(B)(i) had the Executive terminated employment for Good Reason as described therein. The Company shall also fulfill its obligations under Section 6. Furthermore, the Executive shall be entitled, for the remainder of the Employment Period, to the prompt reimbursement of all expenses incurred for civic or industry activities undertaken on behalf of the Company which are of a similar nature and scope to those expenses reimbursable by the Company to the Executive on the Effective Date. In this connection, the Executive shall also be afforded reasonable use of any Company aircraft.

C. EXECUTIVE BENEFITS PLAN/DEFERRED COMPENSATION: Upon a termination of employment during or at the end of the Employment Period for any reason, the Company hereby agrees that the Executive shall be fully vested in the benefit provided under the Executive Benefits Plan, as in effect on the Effective Date, and that the benefit payable thereunder shall be based on his Annual Base Salary as provided in Section 3(B)(i). The Company and the Board hereby agree to cause the Deferred Compensation Plan to be administered or amended so that any and all amounts of salary and/or bonus theretofore deferred by the Executive and held under the Deferred Compensation Plan with instructions from the Executive to pay in 15 annual installments shall be paid in said 15 installments commencing on June 1, 2002, notwithstanding any provision of the Deferred Compensation Plan to the contrary.

D. OFFICE: Upon a termination of employment during or at the end of the Employment Period for any reason other than death or for Cause, the Company shall provide the Executive with suitable executive office space and secretarial help at an acceptable location outside the premises of any Company location. Such office and secretary shall be provided the Executive until such time as mutually agreed by the parties to be no longer necessary.

6. DEFERRAL OF PRIOR STOCK AWARD:

A. DEFERRAL: By executing this Agreement, the Executive hereby irrevocably elects to defer the receipt of any amounts which may be payable, or shares of Stock which may be deliverable, to him on account of the Prior Stock Award. The deferred delivery of the shares of Stock deliverable on account of the Prior Stock Award (the "Stock Deferrals") shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the Executive's unfunded right to receive shares of Stock of the Company on the Executive's Termination Date.

B. DIVIDENDS AND INTEREST: The Company shall maintain a separate bookkeeping account (the "Dividend Deferral Account") to reflect the dividends accumulated on shares of Stock credited to the Deferral Account. The beginning balance of the Dividend Deferral Account shall be the amount of any cash payment to which the Executive would be entitled pursuant to Section 3(B)(ii)(e) of the Prior Agreement on account of accumulated dividends. From the date the Prior Stock Award would otherwise be payable until the Executive's Termination Date, the Dividend Deferral Account shall be credited, as of the date any dividend is payable, with the amount of the dividend payable with respect to the shares of Stock represented in the Deferral Account. Until paid to the Executive, amounts credited to the Dividend Deferral Account shall be credited, on a quarterly basis, with interest calculated at an annual rate equal to the composite yield on Moody's Long-Term Corporate Bond Index for the applicable calendar quarter as determined from Moody's Bond Record published by Moody's Investors' Service, Inc. (or any successor thereto), or, if such yield is no longer published, a substantially similar average selected by the Compensation Committee, plus 2%.

C. PAYMENT: Within 30 days after the Termination Date, shares of Stock representing the Stock Deferrals shall be registered in the name of the Executive and certificates representing such shares of Stock shall be delivered to the Executive. Unless the Company determines otherwise, shares of Stock delivered to the Executive shall consist of shares of Stock theretofore held by the Company in its treasury or by a subsidiary of the Company. In addition, within 30 days after the Termination Date, the Company shall deliver to the Executive a lump sum cash payment equal to the amount of the Dividend Deferral Account.

7. NON-EXCLUSIVITY OF RIGHTS: Except as provided in Section 5, nothing in this Agreement shall prevent or limit the Executive's continuing or further participation in any plan, program, policy or practice provided by the Company or any of its Affiliated Companies and for which the Executive may qualify, nor shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its Affiliated Companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its Affiliated Companies at or subsequent to the Date of Termination shall be

payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. SET-OFF; MITIGATION; LEGAL FEES; EXPENSES; OBLIGATIONS PENDING DISPUTE RESOLUTION:

A. SET-OFF AND MITIGATION: The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, except as provided in Section 5(B)(i)(d), such amounts shall not be reduced whether or not the Executive obtains other employment.

B. LEGAL FEES AND EXPENSES: It is the intent of the Company that the Executive not be required to incur legal fees and the related expenses associated with the interpretation, enforcement or defense of the Executive's rights under this Agreement by litigation or otherwise because the cost and expense thereof would detract from the benefits intended to be extended to the Executive hereunder. Accordingly, if it should appear to the Executive that the Company has failed to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, the Executive the benefits provided or intended to be provided to the Executive hereunder, the Company irrevocably authorizes the Executive from time to time to retain counsel of the Executive's choice, at the expense of the Company as hereafter provided, to advise and represent the Executive in connection with any such interpretation, enforcement or defense, including without limitation the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to the Executive entering into an attorney-client relationship with such counsel, and in that connection the Company and the Executive agree that a confidential relationship will exist between the Executive and such counsel. Without respect to whether the Executive prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' fees and related expenses incurred by the Executive in connection with any of the foregoing except to the extent that a final judgment no longer subject to appeal finds that a claim or defense asserted by the Executive was frivolous. (In such a case, the portion of such fees and expenses incurred by the Executive as a result of such frivolous claim or defense shall become the Executive's sole responsibility and any funds advanced by the Company or by a Trust created to secure such payment shall be repaid.) The Company agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive incurs as described above, plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

In addition and to the extent not already provided by the terms of any insurance policy owned by the Company, the Company hereby agrees to pay promptly as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any litigation or other legal action filed against the Executive or his estate arising out of, or in any way connected with or resulting from, actions taken or omitted to be taken by the Executive during his employment with the Company.

In the event a "Change in Control" (as defined in the Prior Agreement and hereinafter referred to "CIC") occurs, the performance of the Company's obligations under this Section 8 will be funded by amounts deposited or to be deposited in trust pursuant to certain trust agreements to which the Company will be a party providing that the fees and expenses of counsel selected from time to time by the Executive pursuant to this Section 8 will be paid, or reimbursed to the Executive if paid by the Executive, either in accordance with the terms of such trust agreements, or, if not so provided, on a regular, periodic basis upon presentation by the Executive to the trustee of a statement or statements prepared by such counsel in accordance with its customary practices. In order to be eligible for payment of expenses directly from the Company, Executive must first exhaust all rights to payment under the trust agreements contemplated immediately above. The pendency of a claim by the Company that a claim or defense of the Executive is frivolous or otherwise lacking merit shall not excuse the Company (or the trustee of a Trust contemplated by this Section 8) from making periodic payments of legal fees and expenses until a final judgment is rendered as hereinabove provided. Any failure by the Company to satisfy any of its obligations under this Section 8 will not limit the rights of the Executive hereunder. Subject to the foregoing, the Executive will have the status of a general unsecured creditor of the Company and will have no right to, or security interest in, any assets of the Company or any Affiliate.

C. OBLIGATIONS PENDING DISPUTE RESOLUTION: If there shall be any dispute between the Company and the Executive regarding (i) in the event of any termination of the Executive's employment by the Company, whether such termination was for Cause, or (ii) in the event of any termination of employment by the Executive, whether Good Reason existed, then, unless and until there is a final, nonappealable judgment by a court of competent jurisdiction declaring that such termination was for Cause or that the determination by the Executive of the existence of Good Reason was not made in good faith, the Company shall pay all amounts, and provide all benefits, to the Executive and/or the Executive's family or other beneficiaries, as the case may be, that the Company would be required to pay or provide pursuant to this Agreement as though such termination were by the Company without Cause or by the Executive with Good Reason; provided, however, that the Company shall not be required to pay any disputed amounts pursuant to this paragraph except upon receipt of an undertaking by or on behalf of the Executive to repay all such amounts to which the Executive is ultimately adjudged by such court not to be entitled.

9. CERTAIN ADDITIONAL PAYMENTS BY THE COMPANY: Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9 (a "Payment")) would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment (whether through withholding at the source or otherwise) by the Executive of all taxes

(including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto), employment taxes and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

Subject to the provisions of this Section 9, all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required and the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the CIC, the Executive shall appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that failure to report the Excise Tax on the Executive's applicable federal income tax return would not result in the imposition of negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts its remedies pursuant to the following provisions of this Section 9 and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which it gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(a) give the Company any information reasonably requested by the Company relating to such claim;

(b) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company;

(c) cooperate with the Company in good faith in order to effectively contest such claim; and

(d) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, employment tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation of the foregoing provisions of this Section 9, the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax, employment tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

If, after the receipt by the Executive of an amount advanced by the Company pursuant to the foregoing provisions of this Section 9, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company complying with the requirements of this Section 9) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to the foregoing provisions of this Section 9, a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

If the Company is obligated to provide the Executive with Welfare Benefit Continuation and the amount of such benefits or the value of such benefit coverage (including without limitation any insurance premiums paid by the Company to provide such benefits) is subject to any income, employment or similar tax imposed by federal, state or local law, or any interest or penalties with respect to such tax (such tax or taxes, together with any such interest and penalties, being hereafter collectively referred to as the "Income Tax") because such benefits cannot be provided under a nondiscriminatory health plan described in Section 105 of the Code or for any other reason, the Company will pay to the Executive an additional payment or payments (collectively, an "Income Tax Payment"). The Income Tax Payment will be in an amount such that, after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), the Executive retains an amount of the Income Tax Payment equal to the Income Tax imposed with respect to such Welfare Benefits Continuation.

10. CONFIDENTIAL INFORMATION: The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its Affiliated Companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its Affiliated Companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. SUCCESSORS:

A. This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

B. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

C. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. SOURCE OF PAYMENTS: All payments provided in this Agreement shall, unless the plan or program pursuant to which they are made provide otherwise, be paid in cash from the general funds of the Company, and no special or separate funds shall be established and no other segregation of assets shall be made to assure payment. The Executive shall have no right, title or interest

whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to this provision, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and the Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

13. EFFECT OF PRIOR AGREEMENTS: This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement between the Company or any predecessor of the Company and the Executive, except that this Agreement shall not affect or operate to reduce (a) any benefit or compensation inuring to the Executive of a kind elsewhere provided and not expressly provided or modified in this Agreement or (b) the agreements of the Company set forth in those three separate letters to the Executive from John T. Cater, Robert J. Cruikshank and R. Steve Letbetter, dated November 28, 1995, September 2, 1998 and March 9, 1999, respectively, regarding various matters directly or indirectly related to or arising out of Executive's employment with the Company. Specifically, but not by way of limitation, this Agreement supersedes and replaces that certain amended and restated Employment Agreement between the parties, dated November 7, 1997, except to the extent necessary to determine the amounts deferred and payable pursuant to Section 6.

14. CONSOLIDATION, MERGER OR SALE OF ASSETS: Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of the Company hereunder; provided that no such action shall diminish the Executive's rights hereunder, including, without limitation, rights under Section 4(C). Upon such a consolidation, merger or transfer of assets and assumption, the term "Company" as used herein shall mean such other corporation.

15. MISCELLANEOUS:

A. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

B. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified-mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: Don D. Jordan
5 Stayton Circle
Houston, Texas 77024

If to the Company: Houston Industries Incorporated
d/b/a Reliant Energy, Incorporated
P.O. Box 4567
Houston, Texas 77210

ATTENTION: Mr. Hugh Rice Kelly
Vice President, General
Counsel and Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

C. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

D. The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

E. The Executive's or the Company's failure to insist upon strict compliance with any provision hereof or any other provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 4(C), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

F. The headings of paragraphs herein are included solely for convenience and reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

16. DEFERRED COMPENSATION PLAN AND SERP PAYMENTS: Notwithstanding any provision herein or any provision of the Deferred Compensation Plan of the Company to the contrary, the Company and the Board hereby agree to cause the Deferred Compensation Plan to be administered so that any and all amounts of salary and/or bonus theretofore deferred by the Executive and held under the Deferred Compensation Plan with instructions from the Executive to pay in 15 annual installments (a) shall be paid in said 15 installments, (b) shall remain in said Plan earning interest at the rate prescribed therein until installment distributions commence, (c) shall commence at the time provided herein (or, if not provided for herein, at the time provided in said Plan) and (d) shall not be commuted and paid in a lump sum. Notwithstanding any provision of this Agreement or any provision of the SERP to the contrary, the Company and the Board hereby agree to cause the SERP to be administered so that no benefit payable to or on behalf of the Executive under the SERP may be commuted and paid in a lump sum.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name and on its behalf, all on the day and year first above written, but effective as of the Effective Date.

HOUSTON INDUSTRIES INCORPORATED
D/B/A RELIANT ENERGY, INCORPORATED

By /s/ Robert J. Cruikshank

Robert J. Cruikshank, Chairman of the Compensation Committee of the Board of Directors

EXECUTIVE

/s/ Don D. Jordan

Don D. Jordan

EXHIBIT A

DUTIES OF THE CHAIRMAN OF THE BOARD

Duties with respect to Board of Directors:

Chair meetings of the Board of Directors ("Board")

Establish Board agenda (in consultation with Board and CEO); provide materials for Board preparation

Keep the Board apprised of merger and acquisition opportunities and the status of any deals in progress

Specific executive duties:

Represent the company on Boards of venture capital fund investments (Utech Climate Challenge Fund, Utility Competitive Advantage Fund, Micro-Generation Technology Fund)

Represent company in specific external settings:

- President, World Energy Council
- Executive Committee, Edison Electric Institute
- Others (T.B.D.)

Provide principal interface to Federal legislative officials

Advise and assist CEO with respect to:

Interface with Board

Major corporate development initiatives (acquisitions and divestitures)

International development (acquisitions, divestitures and alliances)

Utilize Chairman's existing network of associations and affiliations to expand community and business contacts of CEO and other top officers

Other projects/issues as the CEO may request

EXHIBIT 10.2

SHARE SUBSCRIPTION AGREEMENT

This Share Subscription Agreement, hereinafter referred to as the "Share Subscription Agreement", is entered into on this 29th day of March 1999

by and between

1 RELIANT ENERGY WHOLESALE HOLDINGS (EUROPE) INC., a company incorporated under the laws of the State of Delaware, USA, having its principal offices at 1111 Louisiana, Houston, Texas, United States of America, herein represented by R. Steve Letbetter, hereinafter referred to, together with any successors and permitted assignees, as the "New Partner";

and

2 PROVINCIE NOORD HOLLAND having its seat at Haarlem, the Netherlands, herein represented by J.P.J. Lagrand, hereinafter referred to as the "Province of North Holland";

and

3 GEMEENTE AMSTERDAM having its seat at Amsterdam, the Netherlands, herein represented by G. ter Horst, hereinafter referred to as the "City of Amsterdam";

and

4 N.V. PROVINCIAAL EN GEMEENTELIJK UTRECHTS STROOMLEVERINGSBEDRIJF having its registered office at Utrecht, the Netherlands, herein represented by M. ten Klooster, hereinafter referred to as "Pegus";

and

5 RELIANT ENERGY POWER GENERATION, INC., a company incorporated under the laws of the State of Delaware, United States of America, with its principal offices at 1111 Louisiana, Houston, Texas, United States of America, herein represented by R. Steve Letbetter,

hereinafter referred to as the "Ultimate Parent 2"

and

6 N.V. ENERSIEPRODUKTIEBEDRIJF UNA
having its registered office at Utrecht, the Netherlands,
herein represented by P. Koppen de Neve,
hereinafter referred to as the "Company";

(The New Partner, Province of North Holland, City of Amsterdam, Pegus, the Ultimate Parent 2 and the Company hereinafter collectively referred to as the "Parties" and each individually as a "Party").

WHEREAS:

A. Pursuant to the Partnership Documentation concluded between Parties on the Signing Date (i) the Existing Partners will sell and transfer their Shares to the New Partner and the New Partner will purchase and accept such Shares on the terms and conditions set forth in the Share Purchase Agreement and (ii) the New Partner wishes to subscribe for the Subscription Shares and in respect of such subscription contribute the Subscription Price on the terms and conditions set out in this Share Subscription Agreement.

IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE 1 DEFINITIONS

1.1. Capitalized terms used in this Share Subscription Agreement and not otherwise defined shall have the meanings ascribed to them in schedule 1.1 to the Partnership Agreement, which schedule is attached hereto as SCHEDULE 1.1, except as the context may otherwise require.

1.2. All Schedules and Annexes to this Share Subscription Agreement shall form an integral part hereof.

1.3. References to Articles, Schedules or Annexes shall be references to Articles of and Schedules and Annexes to this Share Subscription Agreement.

1.4. Headings are inserted for convenience only and shall not affect the interpretation of this Share Subscription Agreement.

1.5. Nouns, pronouns and verbs of the singular number shall be deemed to include the plural, and vice versa, and pronouns of the masculine gender shall be deemed to include the feminine and neuter, and vice versa, all as the context may require.

1.6. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation".

1.7. Whenever used in this Share Subscription Agreement the words "hereof", "herein" and similar words shall be construed as references to this Share Subscription Agreement as a whole and not limited to the particular Article or subsection in which the reference appears.

1.8. The words "best knowledge" shall mean such knowledge as the relevant entities, officials, directors or members of the management board, municipal executive board or provincial executive body, as the case may be, have or may reasonably be expected to have.

ARTICLE 2SUBSCRIPTION AND SUBSCRIPTION PRICE

2.1. Subject to the terms and conditions of this Share Subscription Agreement, the Company agrees to issue to the New Partner and the New Partner agrees to subscribe for 850 (in words: eight hundred and fifty) Shares (the "Subscription Shares") free from any and all liens, charges, claims, third party rights, pledges and encumbrances and together with all rights attaching to them.

2.2. The subscription price for the Subscription Shares (the "Subscription Price") shall be NLG 897,667,150 (in words: eight hundred ninety seven million six hundred sixty seven thousand one hundred and fifty Dutch Guilders), and shall be payable as set forth in Article 6.3.

ARTICLE 3 SIGNING

3.1. The Signing Actions shall take place on the Signing Date and shall be deemed to take place simultaneously, with each such action being conditional upon all such actions being effected.

ARTICLE 4CONDITIONS TO COMPLETION

4.1. The obligations of the Parties under this Share Subscription Agreement shall be subject to and conditional upon each of the First Completion Conditions being satisfied or waived by the Party to whose benefit the First Completion Conditions inure.

4.2. Each of the Parties hereto agrees to make all reasonable efforts to ensure that each of the First Completion Conditions is satisfied as soon as possible after the Signing Date. If at any time a Party becomes aware of anything that may prevent any First Completion Conditions being satisfied, it shall immediately inform the other Parties and they shall cooperate to make all reasonable efforts to ensure that the First Completion Conditions are satisfied.

ARTICLE 5 COVENANTS PRIOR TO COMPLETION

5.1. The Company shall ensure, from the Signing Date to the First Completion Date, that no action contrary to the Pre-Completion Covenants shall be taken without the prior written approval of the New Partner.

ARTICLE 6 COMPLETION AND PAYMENT

6.1. The Completion of the Subscription Shares shall take place at the Amsterdam offices of Loeff Claeys Verbeke at the First Completion Date.

6.2. The issuance of the Subscription Shares shall be carried out by means of execution of a notarial deed, in accordance with the form attached hereto as SCHEDULE 6.2,to be executed by the Notary. The Notary is a civil law notary of Loeff Claeys Verbeke, the firm of the external legal advisors of the Company. The other Parties hereby acknowledge that they are aware of the provisions of articles 8, 9, l0 and 14.2 of the "Guidelines" concerning associations between civil law notaries ("notarissen") and associations between civil law notaries (notarissen) and barristers/solicitors ("advocaten") as established by the Board of the Royal Regulatory Body of Civil Law Notaries ("Koninklijke Notariele Beroepsorganisatie"). The other Parties hereby explicitly agree that Loeff Claeys Verbeke shall advise and act on behalf of the Company with respect to this Share Subscription Agreement, any agreements resulting from this Share Subscription Agreement and/or any disputes resulting therefrom. To this end the other Parties hereby approve the exchange of essential information, relating to the issuance of the Subscription Shares, between the barristers/solicitors ("advocaten "), tax advisors ("fiscalisten") and civil law notaries ("notarissen") of Loeff Claeys Verbeke.

6.3. The New Partner shall pay the Subscription Price to the Company at the First Completion Date in accordance with the First Completion Actions as follows:

(i) an amount of NLG 21,250,000 (in words: twenty one million two hundred fifty thousand Dutch Guilders) in cash, which is equal to 25% (in words: twenty five percent) of the nominal value of the Subscription Shares;

(ii) the remainder of the Subscription Price by way of assignment to the Company of a promissory note issued to New Partner by Ultimate Parent 2, the form of which note is attached as SCHEDULE 6.3.

6.4. The Company hereby waives any right under Chapter III, article 8 of its Articles of Association to call up that portion of the nominal amount of the Subscription Shares in excess of the cash portion thereof other than as provided in the Promissory Note, all Parties acknowledging that the promissory note delivered under Article 6.3 constitutes, together with said cash portion, complete payment for the Subscription Shares.

ARTICLE 7 COMPLETION

7.1. At the Completion of the Subscription Shares, the First Completion Actions shall take place, which actions shall be deemed to take place as described in schedule 18.2 to the Partnership Agreement, with each such action being conditional upon all such actions being effected.

7.2. Each Party shall at the reasonable request of the other Party execute all documents and do all other acts and things as may reasonably be deemed necessary to give full effect to this Share Subscription Agreement and all agreements pursuant hereto.

ARTICLE 8 WAIVER

8.1. The Existing Partners unconditionally and irrevocably waive all of their respective rights under the Articles of Association in respect of the issuance of the Subscription Shares.

ARTICLE 9 DUE DILIGENCE INVESTIGATION

9.1. The New Partner and the Ultimate Parent 2 acknowledge and agree that they have performed, with the assistance of professional legal, accountancy, financial, technical and tax advisors, a due diligence investigation (the "Due Diligence Investigation") and furthermore:

9.1.1. that for the purposes of the Due Diligence Investigation they have had (and that their advisors have had) opportunity to review the information, including the data room information set out in SCHEDULE 9.1.1., made available to them and their advisors;

9.1.2. that they have obtained (and their advisors have obtained) other information that they (and their advisors) deemed proper, and necessary for the purposes of entering into this Share Subscription Agreement, through management interviews, management presentations, site visits and questions submitted to the Existing Partners and the Companies and their advisors;

9.1.3. that they have raised with the Existing Partners and the Companies any and all specific issues which they considered relevant in connection with the transactions contemplated hereby.

9.2. The New Partner and the Ultimate Parent 2 acknowledge that the representations and warranties contained in this Share Subscription Agreement are the only representations, warranties or other assurances of any kind given by or on behalf of the Company on which the New Partner and the Ultimate Parent 2 may rely (and have relied on) in entering into this Share Subscription Agreement.

9.3. The New Partner and the Ultimate Parent 2 hereby declare that they are not aware as of the Signing Date of any matter or anything which is inconsistent with the representations and warranties of the Company contained in this Share Subscription Agreement.

ARTICLE 10 REPRESENTATIONS AND WARRANTIES OF THE COMPANY

10.1. Subject to the provisions of Article 9 and Article 12, the Company represents and warrants to the New Partner that as of First Completion Date the following statements (the "Warranties") shall be true and correct:

10.1.1. the Companies have been duly incorporated and are validly existing under the laws of the Netherlands;

10.1.2. the Company is registered with the Trade Register of the Chamber of Commerce of "Utrecht en omstreken" under file number 30084656 in conformity with the extract attached as annex 1.4 to the Share Purchase Agreement and the information contained in the extract is correct;

10.1.3. the Company has the power and authority to enter into this Share Subscription Agreement and to carry out its obligations thereunder;

10.1.4. the Company has legally resolved to enter into this Share Subscription Agreement subject to the provisions hereof, the signing hereof has been duly authorized and upon signature hereof this Share Subscription Agreement will constitute the legally valid and binding obligations of the Company enforceable against the Company in accordance with its terms and conditions;

10.1.5. execution, delivery and performance of this Share Subscription Agreement by the Company and its compliance with the terms andconditions hereof do not violate, conflict with or constitute a breach of any of the terms or provisions of, or a default under (or an event that with notice or lapse of time, or both, would constitute a default), or require consent under, or result in the creation or imposition of a lien, charge, pledge or encumbrance on any property or assets of the Companies or an acceleration of any indebtedness of any of the Companies pursuant to (i) any statute, rule or regulation under applicable laws or any order of any governmental agency or of any court or any agreement to which the Company is a party or subject or (ii) any bond, debenture, note, indenture, mortgage, deed of pledge or trust, loan or credit agreement, reimbursement agreement relating to any letter of credit, license, permit, authorization, leases, subleases or other agreement or instrument to which any of the Companies is a party or is subject, except as it would not have a material adverse effect on the Company or the Companies;

10.1.6. the entire issued and paid-up share capital of the Company consists of 2,550 (in words: two thousand five hundred and fifty) Shares before the Completion of the Subscription Shares;

10.1.7. the authorized share capital of the Company amounts to Euro 204,210,000 (in words: two hundred four million two hundred one thousand Euro), divided into 4,500 Shares;

10.1.8. the New Partner shall have full right and title to the Subscription Shares free of any pledge, usufruct, attachment or any other charge;

10.1.9. no person other than the New Partner has any right, contingent or otherwise, to acquire or to be offered the Subscription Shares or any other Shares;

10.1.10. the Companies are legally and validly registered in accordance with the laws of the Netherlands;

10.1.11. the most recent versions of the articles of association of the Companies have been submitted to the New Partner prior to the signing date. No action has since been taken to amend any of the articles of association, except as provided for in the Partnership Agreement. The Company is subject to the provisions of the statutory regime with respect to large companies (structuurregime);

10.1.12. none of the Companies has been dissolved or liquidated and no resolution has been adopted with respect to the dissolution or liquidation of the Companies and there are no circumstances known to the Company that may cause the dissolution or liquidation of any of the Companies;

10.1.13. none of the Companies has been declared bankrupt and no suspension of payments has been granted to any of the Companies; no resolution has been adopted to the aforesaid effect and no circumstances exist that could require one or more of the Companies being declared bankrupt or granted a suspension of payments;

10.1.14. no resolution has been adopted with respect to any of the Companies to issue shares additional to the issued and outstanding share capital of each of such Companies;

10.1.15. no rights - including options, warrants and convertible debentures - have been granted with respect to unissued shares in the capital of the Companies;

10.1.16. the Companies' investments in the Participations and the results of operations of the Participations are not material to the financial condition, results of operations or prospects of the Companies.

ARTICLE 11 REPRESENTATIONS AND WARRANTIES OF THE NEW PARTNER AND ULTIMATE PARENT 2

11.1. The New Partner and the Ultimate Parent 2 represent and warrant to the Company that each and every statement made by them under article 19 of the Partnership Agreement shall be true and correct at the First Completion Date.

ARTICLE 12 BREACH OF WARRANTIES, NON-FULFILMENT, DAMAGES

12.1. In the event of a breach of any of the Warranties by the Company, the New Partner or the Ultimate Parent 2 ("Breach") or non-fulfilment by the Company, the New Partner or the Ultimate Parent 2 of any other obligation contemplated by this Share Subscription Agreement ("Non-Fulfilment"), the Company, the New Partner or the Ultimate Parent 2 (the "Notifying Party"), as the case may be, shall upon obtaining knowledge thereof notify the other Party (the "Notified Party") of such Breach or Non-Fulfilment promptly and in writing, and under no circumstances later than 30 (in words: thirty) days after obtaining knowledge of the Breach or Non-Fulfilment, setting out in reasonable detail the events or facts giving rise to the Breach or Non Fulfilment, and specifying the amount of Damages claimed as a result of any Breach of Warranties.

12.2. If the Notified Party fails to take appropriate measures to remedy the Breach or Non-Fulfilment within 30 (thirty) days of such notification and a dispute arises, the Notifying Party shall be entitled to institute arbitration proceedings with a view to resolving the dispute pursuant to article 40 of the Partnership Agreement.

12.3. Subject to the other provisions of this Article 12, the Company shall indemnify the New Partner for all Damages incurred by the New Partner, resulting from any Breach or any Non-Fulfilment, as the case may be.

12.4. The Company shall not owe Damages to the New Partner by virtue of this Article 12 or otherwise have obligations towards the New Partner if and to the extent that the Damage ensuing from a Breach or Non-Fulfilment:

12.4.1. has been paid to the New Partner by virtue of any insurance policy;

12.4.2. has been paid to the New Partner by a third party other than an insurance company;

12.4.3. has not been reported in writing with a statement of the nature, cause and scope of the loss or damage to the Company within 60 (in words: sixty) days after the day the New Partner has become aware of a Breach or Non-Fulfilment;

12.4.4. is specifically, fairly and fully disclosed in writing to the New Partner before the Signing Date;

12.4.5. is covered by means of a reserve in the 1998 Annual Accounts, on the understanding that, for the application of this Article 12.4.5, reserves which are (or should be) released after the First Completion Date shall be added to reserves which at that instance are found to be insufficient for the underlying Damage if there is not definitive insight concerning the sufficiency of the other reserves;

12.4.6. are solely due to changes in legislation, regulations or case law after the First Completion Date;

12.4.7. is a consequence of a change after the Completion Date of the corporate tax structure or the accounting policies of the Companies;

12.4.8. would not have occurred without an action or omission after the Completion Date by the New Partner, the Companies or any person whose action or omission is attributable to the New Partner and/or the Companies which bear a material connection to the Damage;

12.4.9. except as otherwise specifically provided in this Share Subscription Agreement, if and to the extent it reduces the tax obligations of the New Partner relating to its investment in the Company or of the Companies after the First Completion Date; and

12.4.10. furthermore, if and to the extent that the alleged Breach or Non Fulfilment is not submitted by the New Partner to the arbitral body referred to in article 40 of the Partnership Agreement within a period of three months after the written notification by the New Partner to Existing Partners of the Breach or Non-Fulfilment.

12.5. The Existing Partners and the Company shall ensure that reasonable steps are taken to prevent or mitigate Damages which could give rise to a claim by virtue of this Article 12. If the Damages concerned are a consequence of or bear connection to a claim from or liability towards a third party, neither the Existing Partners nor the Company shall in the matter of such claim or liability agree to any terms with the third party without prior written permission from the New Partner. In addition, the Company shall not agree to any such terms without prior permission from the Existing Partners. The Company shall keep the New Partner and the Existing Partners fully informed of such Damages and of the defense to be conducted by the Company.

12.6. A Damage claim against the Company in connection with a Breach or Non-Fulfilment shall not be permitted for any individual claims for an amount below NLG 1,000,000 (in words: one million Dutch Guilders) and in any event the aggregate amount of all claims (as finally determined or agreed) in excess of NLG 1,000,000 (in words: one million Dutch Guilders) must total more than NLG 50,000,000 (in words: fifty million Dutch Guilders) before a claim may be lodged in which case the excess over NLG 50,000,000 (in words: fifty million Dutch Guilders) shall be payable.

12.7. Under no circumstances shall the aggregate amount of all awards or Damages awarded or agreed against the Company exceed an amount equal to 20% (in words: twenty percent) of the Subscription Price.

12.8. The New Partner shall not be entitled to make any claim against the Company for any Breach or Non-Fulfilment unless notice in writing of such claim is given prior to 1 May immediately following the first full Fiscal Year of the Company after the First Completion Date.

12.9. The amount of any award or Damages owed by the Company to the New Partner shall, at the option of the New Partner, be either paid directly to the New Partner or subtracted from the unpaid amount of the Promissory Note referred to in Article 6.3.

12.10. The New Partner irrevocably and unconditionally waives its right to claim Damages against the Company with respect to Stranded Costs and/or Legal Action Stranded Costs.

ARTICLE 13 TERMINATION

13.1. If the Partnership Agreement is terminated in accordance with article 22 of the Partnership Agreement, this Share Purchase Agreement shall terminate in accordance with its terms.

ARTICLE 14 MISCELLANEOUS

14.1. Articles 19 and 22 through 40 of the Partnership Agreement shall govern this Share Purchase Agreement.

IN WITNESS WHEREOF this Share Subscription Agreement has been executed by the Parties hereto in sixfold on the date set out on page one

SIGNED by

for and on behalf of Provincie Noord Holland
By: J.P.J. Lagrand

SIGNED by

for and on behalf of Gemeente Amsterdam
By: G. ter Horst

SIGNED by

for and on behalf of N.V. Provinciaal en Gemeentelijk Utrechts Stroomleveringsbedrijf
By: M. ten Klooster

SIGNED by

for and on behalf of Reliant Energy Wholesale Holdings (Europe) Inc.
By: R. Steve Letbetter

SIGNED by

Reliant Energy Power Generation, Inc.
By: R. Steve Letbetter

SIGNED by

for and on behalf of N.V. Energieproduktiebedrijf UNA
By: P. Koppen de Neve

Schedules to the Share Subscription Agreement

EXHIBIT 10.3

SHARE PURCHASE AGREEMENT

This Share Purchase Agreement, hereinafter referred to as the "Share Purchase Agreement", is entered into on this 29th day of March 1999

by and between

1. RELIANT ENERGY WHOLESALE HOLDING (EUROPE) INC.
having its principal offices at 1111 Louisiana, Houston, Texas, United States of America herein represented by R. Steve Letbetter, hereinafter referred to, together with any successors and permitted assignors, as the "New Partner";

and

2. PROVINCIE NOORD HOLLAND
having its seat at Haarlem, the Netherlands, herein represented by J.P.J. Lagrand, hereinafter referred to as the "Province of North Holland";

and

3. GEMEENTE AMSTERDAM
having its seat at Amsterdam, the Netherlands, herein represented by G. ter Horst, hereinafter referred to as the "Municipality of Amsterdam";

and

4. PROVINCIE UTRECHT
having its seat in Utrecht, the Netherlands, herein represented by D.H. Kok, hereinafter referred to as the "Province of Utrecht";

and

5. GEMEENTE UTRECHT
having its seat in Utrecht, the Netherlands, herein represented by H.H.W. Kernkamp, hereinafter referred to as the "Municipality of Utrecht";

and

6. N.V. PROVINCIAAL EN GEMEENTELIJK UTRECHTS STROOMLEVERINGSBEDRIJF
having its registered office at Utrecht, the Netherlands,

herein represented by M. ten Klooster,
hereinafter referred to as "Pegus";

and

7. RELIANT ENERGY POWER GENERATION, INC., a company incorporated under the laws of the State of Delaware, United States of America, with its principal offices at 1111 Louisiana, Houston, Texas United States of America
herein represented by R. Steve Letbetter,
hereinafter referred to as the "Ultimate Parent 2";

and

8. N.V. ENERGIEPRODUKTIEBEDRIJIF UNA
having its registered office at Utrecht, the Netherlands,
herein represented by P. Koppen cle Neve,
hereinafter referred to as the "Company".

(The New Partner, Province of North Holland, Municipality of Amsterdam, Pegus, the Ultimate Parent 2 and the Company hereinafter collectively referred to as the "Parties" and each individually as a "Party").

WHEREAS:

A. The Existing Partners are the legal and beneficial owners of the entire issued and outstanding share capital of the Company whereby:

(i) the Province of North Holland is the legal and beneficial owner of 850 (in words: eight hundred and fifty) Shares;
(ii) the Municipality of Amsterdam is the legal and beneficial owner of 850 (in words: eight hundred and fifty) Shares;
(iii) Pegus is the legal and beneficial owner of 850 (in words: eight hundred and fifty) Shares;

B. Pursuant to the Partnership Documentation concluded between Parties on the Signing Date, (i) the New Partner will subscribe for the Subscription Shares and, in respect of such subscription, contribute the Subscription Price on the terms and conditions set out in the Share Subscription Agreement and (ii) the Existing Partners wish to sell and transfer their Shares to the New Partner and the New Partner wishes to purchase and accept such Shares on the terms and conditions set out in this Share Purchase Agreement.

IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE 1 DEFINITIONS AND INTERPRETATION

1.1. Capitalized terms used in this Share Purchase Agreement shall have the meanings ascribed to them in schedule 1.1 to the Partnership Agreement, which Schedule is attached hereto as SCHEDULE 1.1, except as the context may otherwise require.

1.2. All Schedules and Annexes to this Share Purchase Agreement shall form an integral part hereof.

1.3. References to Articles, Schedules or Annexes shall be references to Articles of and Schedules and Annexes to this Share Purchase Agreement.

1.4. Headings are inserted for convenience only and shall not affect the interpretation of this Share Purchase Agreement.

1.5. Nouns, pronouns and verbs of the singular number shall be deemed to include the plural, and vice versa, and pronouns of the masculine gender shall be deemed to include the feminine and neuter, and vice versa, all as the context may require.

1.6. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation".

1.7. Whenever used in this Share Purchase Agreement the words "hereof", "herein" and similar words shall be construed as references to this Share Purchase Agreement as a whole and not limited to the particular Article or subsection in which the reference appears.

1.8. The words "best knowledge" shall mean such knowledge as the relevant entities, officials, directors or members of the management board, municipal executive board or provincial executive body, as the case may be, have or may reasonably be expected to have.

ARTICLE 2 SALE, PURCHASE AND PURCHASE PRICE

2.1. Subject to the terms and conditions of this Share Purchase Agreement:

2.1.1. Each of the Existing Partners hereby sells to the New Partner and the New Partner hereby purchases from each of the Existing Partners such number of its Shares as set forth in SCHEDULE 2.1.1 (the "First Tranche Shares");

2.1.2. Subject to the Second Completion Conditions, the Existing Partners hereby sell to the New Partner and the New Partner hereby purchases from the Existing Partners such number of Shares as is required to provide the New Partner with a majority interest of 52% (in words: fifty two percent), in the issued and outstanding share capital of the Company, whereby each Existing Partner sells to the New Partner at least one third of such number of Shares provided, however that the New Partner shall, if requested by an Existing Partner, purchase and accept such additional number of Shares as shall be determined by each of the Existing Partners at its sole discretion and notified to the New Partner in the Request (the "Second Tranche Shares");

2.1.3. Subject to the Third Completion Conditions, each of the Existing Partners hereby sells to the New Partner and the New Partner hereby purchases from each of the Existing Partners all the Shares, if any, which such Existing Partner shall hold after Completion of the Second Tranche Shares (the "Third Tranche Shares").

2.2. The aggregate purchase price (the "Purchase Price") to be paid by the New Partner to the Existing Partners shall be:

2.2.1. for the First Tranche Shares, the First Purchase Price which shall be determined and allocated to the respective Existing Partners in the amounts set forth in Schedule 2.1.1;

2.2.2. for the Second Tranche Shares the price (the "Second Purchase Price") shall be calculated, determined and allocated amongst the Existing Partners in accordance with the formula set forth in SCHEDULE 2.2.2;

2.2.3. for the Third Tranche Shares the price (the "Third Purchase Price") shall be calculated, determined and allocated amongst the Existing Partners in accordance with the formula set forth in Schedule 2.2.2;

2.3. As security for due performance by the Ultimate Parent 2 of its obligation to guarantee payment of the Second Purchase Price and the Third Purchase Price to the Existing Partners, the Ultimate Parent 2 shall pledge on the First Completion Date 65% of its ownership interest in Reliant Energy Wholesale Holdings (Europe) Inc. to the Existing Partners by means of a pledge agreement, in accordance with the form attached hereto as SCHEDULE 2.3.

ARTICLE 3 SIGNING

3.1. The Signing Actions shall take place on the Signing Date and shall be deemed to take place simultaneously, with each such action being conditional upon all such actions being effected.

ARTICLE 4 CONDITIONS TO COMPLETION

4.1. The obligations of the Parties under this Share Purchase Agreement shall be:

4.1.1. with respect to the transfer of the First Tranche Shares subject to and conditional upon the First Completion Conditions being satisfied or waived by the Party to whose benefit these conditions inure;

4.1.2. with respect to the sale and transfer of the Second Tranche Shares subject to and conditional upon the completion conditions attached hereto as SCHEDULE 4.1.2. (the "Second Completion Conditions") being satisfied or waived by the Party to whose benefit these conditions inure;

4.1.3. with respect to the sale and transfer of the Third Tranche Shares subject to and conditional upon the completion conditions attached hereto as SCHEDULE 4.1.3. (the "Third Completion Conditions") being satisfied or waived by the Party to whose benefit these conditions inure.

4.2. Each of the Parties shall make all reasonable efforts to ensure that each of the Completion Conditions is satisfied as early as possible before the related Completion Date. If at any time a Party becomes aware of anything that may prevent any Completion Condition being satisfied, it shall immediately inform the other Parties and the Parties shall cooperate to make all reasonable efforts to ensure the Completion Conditions are satisfied.

ARTICLE 5 COVENANTS PRIOR TO THE FIRST COMPLETION DATE

5.1. The Existing Partners and the Company shall procure that, from the Signing Date until the First Completion Date, the Pre-Completion Covenants shall be complied with.

ARTICLE 6 COMPLETION AND PAYMENT REGARDING THE SOLD SHARES

6.1. The Completion of the Sold Shares shall take place at the Amsterdam offices of Loeff Claeys Verbeke whereby:

6.1.1. the Completion of the First Tranche Shares shall take place on a Business Day within 15 (in words: fifteen) Business Days, as mutually agreed between the New Partner and Existing Partners after the date on which any and all First Completion Conditions shall have been fulfilled or waived by the Party to whose benefit these First Completion Conditions inure (the "First Completion Date");

6.1.2. the Completion of the Second Tranche Shares shall take place pursuant to a Request subject to Article 6.1.4 by one of the Existing Partners to the New Partner on a Business Day (the "Second Completion Date") within 60 (in words: sixty) Business Days after such Request, as mutually agreed between the New Partner and the Existing Partners, but in no event later than 31 December 2002;

6.1.3. the Completion of the Third Tranche Shares, if any, shall take place pursuant to a Request subject to Article 6.1.4 by each respective Existing Partner within 60 (in words: sixty) Business Days, after such Request as mutually agreed between the New Partner and the Existing Partners, but in no event later than 31 December 2006 (the "Third Completion Date");

6.1.4. the Requests referred to in Articles 6.1.2. and Articles 6.1.3, respectively, shall set forth the number of Shares to be transferred to the New Partner on the respective Completion Date, and be submitted to the New Partner at least 120 (in words: hundred twenty) days prior to such Completion Date or 60 (in words: sixty) days after the respective Completion Conditions have been fulfilled or waived by the Party to whose benefit these Completion Conditions inure which ever date is later;

6.2. Notwithstanding any provision in the Partnership Documentation to the contrary, the Existing Partners will remain obligated under this Share Purchase Agreement to sell, and the New Partner will remain obligated to purchase, Second Tranche Shares and Third Tranche Shares even if, for any reason whatsoever, the Second Tranche Shares and Third Tranche Shares are not sold to New Partner by the Second Completion Date and the Third Completion Date, respectively.

6.3. The respective transfers of the Sold Shares shall be carried out through execution of a notarial deed, in form attached hereto as SCHEDULE 6.3 before the Notary. The Notary shall be a civil law notary of Loeff Claeys Verbeke, the firm of the external legal advisors of the Company. The other Parties hereby acknowledge that they are aware of the provisions of articles 8, 9, 10 and 14.2 of the "Guidelines" concerning associations between civil law notaries (notarissen) and associations between civil law notaries (notarissen) and barristers/solicitors ("advocaten")" as established by the Board of the Royal Regulatory Body of Civil Law Notaries ("Koninklijke Notariele Beroepsorganisatie"). The other Parties hereby explicitly agree that Loeff Claeys Verbeke shall advise and act on behalf of the Company with respect to this Share Purchase Agreement, any agreements resulting from this Share Purchase Agreement or any disputes resulting therefrom. To this end the other Parties hereby approve the exchange of essential information, relating to the transfer of the Sold Shares, between the barristers/ solicitors ("advocaten"), tax advisors ("fiscalisten") and civil law notaries ("notarissen") of Loeff Claeys Verbeke.

6.4. The New Partner shall pay the First Purchase Price, which shall be estimated and allocated in accordance with Schedule 2.2.1, the Second Purchase Price and the Third Purchase Price on the respective Completion Dates in accordance with the respective Completion Actions.

ARTICLE 7 COMPLETION

7.1. At the Completion of the First Tranche Shares, the First Completion Actions shall take place, which actions shall be deemed to take place as described in Schedule 18.2 to the Partnership Agreement, with each such action being conditional upon all such actions being effected;

7.2. At the Completion of the Second Tranche Shares and Third Tranche Shares, respectively, the actions referred to in SCHEDULE 7.2A (the "Second Completion Actions") and the actions referred to in SCHEDULE 7.2B (the "Third Completion Actions"), respectively, shall take place, which actions shall be deemed to take place simultaneously, with each such action being conditional upon all such actions being effected.

7.3. Each Party shall at the reasonable request of another Party execute all documents and do all other acts and things as may reasonably be deemed necessary to give full effect to this Share Purchase Agreement and all agreements pursuant hereto.

7.4. After the First Completion Date, the New Partner and the Existing Partners shall determine, allocate and settle the actual First Purchase Price in accordance with Schedule 2.2.1.

ARTICLE 8 WAIVER

8.1. The New Partner and each of the Existing Partners unconditionally and irrevocably waive all of their respective rights under the Articles of Association in respect of the sale and transfer of the Sold Shares.

ARTICLE 9 STRANDED COSTS

9.1. For the purpose of determination of the Purchase Price, the Parties have estimated that the Stranded Costs for the account of the Company shall be NLG 500,000,000 (in words: five hundred million Dutch Guilders) (the "Estimated Stranded Costs"), which estimate is based on the expected allocation of the Stranded Costs between each of the Dutch electricity generators and the Ministry of Economic Affairs as set forth in SCHEDULE 9.1 (the "Expected Allocation").

9.2. In the event that either (i) the Company and the other Dutch energy generating companies in the Netherlands (EPON, EPZ and EZH and the naamloze vennootschap Samenwerkendle Electriciteits Produktie Bedrijven (SEP)) shall enter into a definitive settlement agreement, which shall have become final and binding, with respect to the allocation of the Stranded Costs, or (ii) the Ministry of Economic Affairs or a competent court or arbitral tribunal shall issue a ruling with respect to the allocation of the Stranded Costs that is subsequently approved, in as far as required by all governmental authorities, including those of the European Union, which shall be final and binding on the Company, the Company shall as soon as possible after such definitive settlement agreement or final ruling submit a statement (the "Statement") to the Shareholders providing for the calculation of the Stranded Costs by adjusting the Estimated Stranded Costs and the Expected Allocation as set forth in Schedule 9.1 in accordance with the following principles (the "Adjustment Principles"):

9.2.1. the allocation of the Stranded Costs reflected in the Expected Allocation between the Dutch electricity generators and the Ministry of Economic Affairs shall be adjusted if necessary so as to conform to the contributions of the Ministry of Economic Affairs at the 7ct/KWh basic load price level in either the settlement agreement or the ruling referred to in this Article 9.2 under (i) and (ii), as the case may be;

9.2.2. the allocation of the Stranded Costs reflected in the Expected Allocation between the Dutch electricity generators shall be adjusted if necessary so as to conform to the allocation determined in either the settlement agreement or the ruling referred to in this Article 9.2 under (i) and (ii), as the case may be;

9.2.3. the amounts mentioned in Schedule 9.1 under the column "Total" shall remain unchanged.

9.3. The Existing Partners and the New Partner shall review the Statement and shall consult with each other and with the Company with a view to agreeing in good faith on the definitive amount of the Stranded Costs calculated in accordance with the Adjustment Principles (the "Definitive Stranded Costs"). The provisions made in Article 9.6 and Article 9.8 shall apply if the Existing Partners, the New Partner and the Company reach agreement on the Definitive Stranded Costs.

9.4. If the Existing Partners, the New Partner and the Company shall fail to agree on the application of the Adjustment Principles and the corresponding Definitive Stranded Costs within 60 (in words: sixty) days of the date on which the Company sent out the Statement, each of the Existing Partners, the Company or the New Partner may serve written notice on the others and may refer the dispute for resolution to an independent chartered accountant acting as an expert (bindend adviseur) and not as an arbitrator to be appointed by agreement between the Existing Partners, the Company and the New Partner or, failing agreement as to nomination within 10 (in words: ten) Business Days of such written notice, to be nominated by the president for the time being of the "Nederlands Instituut Van Register Accountants". The independent chartered accountant shall be instructed to use reasonable efforts to deliver his opinion within 20 (in words: twenty) Business Days of the referral to him or so soon thereafter as is practicable and his decision on the application of the Adjustment Principles and the corresponding Definitive Stranded Costs shall, in the absence of manifest error, be final and binding on the Parties. The costs of an independent chartered accountant shall be borne in the way that he sees fit.

9.5. The Parties shall procure that the New Partner's Accountants, the Existing Partners' Accountants and any independent chartered accountant shall have reasonable access during business hours to all relevant books, records, accounts, personnel and other information of the Companies for the purpose of reviewing the Statement. The costs of the New Partner's Accountants and the Existing Partners' Accountants shall be borne by the New Partner and by the Existing Partner respectively.

9.6. The Purchase Price shall be increased, if the sum of (i) the amount of the Definitive Stranded Costs (as agreed or determined under the provisions of this Article 9) and (ii) the aggregate amount of Legal Action Stranded Costs is less than the amount of the Estimated Stranded Costs. The Purchase Price shall be reduced if the sum of (i) the amount of the Definitive Stranded Costs (as agreed or determined under the provisions of this Article 9 and (ii) the aggregate amount of Legal Action Stranded Costs exceeds the Estimated Stranded Costs. The increase or reduction of the Purchase Price as the case may be, shall be calculated, determined and applied in the manner set forth in Schedule 9.

9.7. The Existing Partners shall repay to the New Partner the amount of any reduction in the Purchase Price and the New Partner shall repay to the Existing Partners the amount of any increase in the Purchase Price, calculated and determined under the provisions of this Article 9 on the later of the Second Completion Date or the 30th day (or if that day is not a Business Day, the next succeeding Business Day) following the date on which the Definitive Stranded Costs are agreed or determined under the provisions of this Article 9 (the "Date of Payment") by wire transfer to such account or accounts as the New Partner or the Existing Partners, as the case may be, may specify in writing, or by such other method as the Existing Partners and the New Partner may agree.

9.8. The Company shall keep the New Partner and the Existing Partners fully informed of the Stranded Costs and actions taken by the Company and the Existing Partners with respect to such Stranded Costs.

9.9. The obligation of the Existing Partners and the New Partner to pay in accordance with Article 9.6 the difference between the Definitive Stranded Costs over the amount of Estimated Stranded Costs shall expire at the later of 31 December 2004 or the last Third Completion Date unless (i) there has been a settlement agreement or ruling referred to in Article 9.2 under (i) and(ii) for which no Purchase Price adjustment has yet been made under Article 9.6 or (ii) there is outstanding on such date an action that could result in Legal Action Stranded Costs.

9.10. At the option of the New Partner, New Partner may reduce the Second Purchase Price and Third Purchase Price with respect to any amounts it is entitled to receive (and has not received) from the Existing Partners under this Article 9.

ARTICLE 10 DUE DILIGENCE INVESTIGATION

10.1. The New Partner and the Ultimate Parent 2 acknowledge and agree that they have performed, with the assistance of professional legal, accountancy, financial technical and tax advisors, a due diligence investigation (the "Due Diligence Investigation") and furthermore;

10.1.1. that for the purposes of the Due Diligence Investigation they have had (and that their advisors have had), opportunity to review the information including the data room information set out in SCHEDULE 10.1.1 made available to them and their advisors;

10.1.2. that they have obtained (and their advisors have obtained) other information that they (and their advisors) deemed proper and necessary for the purposes of entering into this Share Purchase Agreement, through management interviews, management presentations, site visits and questions submitted to the Existing Partners and the Companies and their advisors; and

10.1.3. that they have raised with the Existing Partners and the Companies any and all specific issues which they considered relevant in connection with the transactions contemplated hereby.

10.2. The New Partner and the Ultimate Parent 2 acknowledge that the representations and warranties contained in this Share Purchase Agreement are the only representations, warranties or other assurances of any kind given by or on behalf of the Existing Partners and the Companies on which the New Partner and the Ultimate Parent 2 may rely (and have relied upon) in entering into this Share Purchase Agreement.

10.3. The New Partner and the Ultimate Parent 2 hereby declare that they are not aware as of the Signing Date of any matter or anything which is inconsistent with the representations and warranties of the Existing Partners contained in this Share Purchase Agreement.

ARTICLE 11 REPRESENTATIONS AND WARRANTIES OF EXISTING PARTNERS

11.1. Subject to the provisions of Article 10 and Article 13, the Existing Partners jointly ("niet-hoofdelijk") represent and warrant to the New Partner that at the Signing Date each and every statement (the "Warranties") set out in SCHEDULE 11.1 is, and that at the First Completion Date each and every Warranty shall be, true and correct. The Existing Partners also represent and warrant to the New Partner that at the Second Completion Date and Third Completion Date, the Warranties set out in articles 2.1 and 2.2 with respect to the Second Tranche Shares and the Third Tranch Shares, respectively, shall be true and correct.

ARTICLE 12 REPRESENTATIONS AND WARRANTIES OF THE NEW PARTNER AND ULTIMATE PARENT

12.1. The New Partner and the Ultimate Parent 2 represent and warrant to the Existing Partners that each and every statement made by them in article 19 of the Partnership Agreement is, and at the First Completion Date shall be true and correct.

ARTICLE 13 BREACH OF WARRANTIES, NON-FULFILLMENT, DAMAGES

13.1. In the event of a breach of any of the Warranties by the Existing Partners or the New Partner or the Ultimate Parent 2 ("Breach") or Non-Fulfillment by the Existing Partners, the New Partner or the Ultimate Parent 2 of any other obligation contemplated by this Share Purchase Agreement ("Nonfulfillment"), the Existing Partners, the New Partner or the Ultimate Parent 2, (the "Notifying Party"), as the case may be, shall upon obtaining knowledge thereof notify the other Party (the "Notified Party") of such Breach or Nonfulfillment promptly and in writing, and under no circumstances later than 30 (in words: thirty) days after obtaining knowledge of the Breach or Nonfulfillment, setting out in reasonable detail the events or facts giving rise to the Breach or Non-Fulfillment, and specifying the amount of Damages claimed as a result of any Breach or Non-Fulfillment.

13.2. If the Notified Party fails to take appropriate measures to remedy the Breach or Non-Fulfillment within 30 (thirty) days of such notification and a dispute arises, the Notifying Party shall be entitled to institute arbitration proceedings with a view of resolving the dispute pursuant to article 40 of the Partnership Agreement.

13.3. Subject to the other provisions of this Article 13, the Existing Partners shall indemnify the New Partner for all Damages incurred by the New Partner, resulting from any Breach or any Non-Fulfillment, as the case may be.

13.4. The Existing Partners shall not owe Damages to the New Partner by virtue of this Article 13 or otherwise have obligations towards the New Partner if and to the extent that the Damage ensuing from a Breach or Non-Fulfillment:

13.4.1. has been paid to the New Partner or to the Company or Companies by virtue of any insurance policy;

13.4.2. has been paid to the New Partner or to the Company or Companies by a third party other than an insurance company;

13.4.3. has not been reported in writing with a statement of nature, cause and scope of the loss or damage to the Existing Partners within 60 (in words: sixty) days after the day the New Partner has become aware of the Breach or Non- Fulfillment arose;

13.4.4. is specifically, fairly and fully disclosed in writing to the New Partner before the Signing Date;

13.4.5. is covered by means of a reserve in the 1998 Annual Accounts, on the understanding that, for the application of this Article 13.4.5, reserves which are (or should be) released after the First Completion Date shall be added to reserves which at that instance are found to be insufficient for the underlying Damage; or if there is not definitive insight concerning the sufficiency of the other reserves, shall be included in a new general reserve that shall be created for the purpose of supplementing reserves found at a later instance to be insufficient to cover the underlying Damage, whereby cases of Damage for which reserves are nonexistent or insufficient at the instance of liability and which occurred prior to release within the meaning of this Article 13.4.5, shall be set-off retroactive against a released reserve;

13.4.6. are solely due to changes in legislation, regulations or case law that had taken effect after the First Completion Date and except as specifically provided for in this Share Purchase Agreement;

13.4.7. is a consequence of a change after the First Completion Date of the corporate or tax structure or the accounting policies of the Companies;

13.4.8. would not have occurred without an action or omission after the First Completion Date by the New Partner, the Companies or any person whose action or omission is attributable to the New Partner and/or the Companies which bear a material connection to the Damage;

13.4.9. if and to the extent it reduces the tax obligations of the New Partner relating to its investment in the Company or of the Companies after the First Completion Date and except as specifically provided for in this Share Purchase Agreement;

13.4.10. and furthermore, if and to the extent that the alleged Breach or Nonfulfillment is not submitted by the New Partner to the arbitral body referred to in article 40 of the Partnership Agreement within a period of three months after the written notification by the New Partner to Existing Partners of the Breach or Non-Fulfillment.

13.5. The Existing Partners and the Company shall ensure that reasonable steps are taken to prevent or mitigate Damages, which could give rise to a claim by virtue of this Article 13. If the Damages concerned are a consequence of or bears connection to a claim from or liability towards a third party neither the Existing Partner nor the Company shall in the matter of such claim or liability agree to any term with the third party without prior written permission from the New Partner. In addition, the Company shall not agree to any such terms without prior permission from the Existing Partners. The Company shall keep the New Partner and the

Existing Partners fully informed of such Damages and of the defense to be conducted by the Company.

13.6. A Damage claim against the Existing Partners in connection with a Breach or Non-Fulfillment shall not be permitted for any individual claims for an amount below NLG 1,000,000 (in words: one million Dutch Guilders), and in any event the aggregate amount of all claims (as finally determined or agreed) in excess of NLG 1,000,000 (in words: one million Dutch Guilders) must total more than NLG 150,000,000 (in words: one hundred and fifty million Dutch Guilders) before a claim may be lodged, in which case the excess over NLG 150,000,000 (in words: one hundred and fifty million Dutch Guilders) shall be payable.

13.7. Under no circumstances shall the aggregate amount of (i) all awards or Damages awarded or agreed against the Existing Partners, (ii) a reduction of the Purchase Price pursuant to Article 9.6, if any, and (iii) any other payment obligation of the Existing Partners under this Share Purchase Agreement other than (x) any payments to adjust the estimated First Purchase Price to the actual First Purchase Price to reflect changes in net debt and dividend payments as provided in Schedule 2.1.1, (y) any requirements of an Existing Partner to pay expenses under the provisions of the Partnership Documentation including, but not limited to, articles 33.1 and 40.7 of the Partnership Agreement and articles 9.4 and 9.8 and (z) any obligation to pay interest in respect of an adjustment of the Purchase Price as contemplated by Schedule 9.6, exceed an amount equal to 40% (in words: forty percent) of the Purchase Price.

13.8. The New Partner shall not be entitled to make any claim against the Existing Partners for any Breach or Non-Fulfillment unless notice in writing of such claim is given prior to 1 May immediately following the first full Fiscal Year of the Company after the First Completion Date except for (i) a claim for a Breach of article 4.5 of Schedule 11.1 for which the New Partner shall not be entitled to make any claim against the Existing Partners unless written notice of such claim is given prior to the day 30 (in words: thirty) months after the First Completion Date and (ii) a claim for a Breach relating to tax, for which the New Partner shall not be entitled to make any claim against the Existing Partners unless written notice of such claim is given prior to the end of the period during which the relevant Dutch tax authorities are competent, according to the laws of the Netherlands, to impose an additional tax assessment ("navorderingsaanslag" or "naheffingsaanslag") concerning events, omissions, acts or behaviors that have taken place prior to the First Completion Date increased by a period of six months.

13.9. Any Damages and any other amount payable by each respective Existing Partner under Article 13 shall only be payable at 1/3 (in words: one third) of the amount otherwise due under the subsections of this Article 13.

13.10. Without prejudice to the provisions of Article 9, the Existing Partners shall not owe Damages to the New Partner by virtue of this Article 13 or otherwise have obligations towards the New Partner if and to the extent that the Damages ensue from or are related to Stranded Costs.

13.11. The amount of any award or Damages owed by the Existing Partners to the New Partner shall at the option of the Existing Partners be either paid directly to the New Partner or subtracted from the amount, if any, of the Second Purchase Price and the Third Purchase Price if necessary, owed by the New Partner to the Existing Partners. Any such obligation to make payment by the Existing Partners or subtraction from the Purchase Price shall be allocated among the Existing Partners in proportion to the numbers of First Tranche Shares sold by the Existing Partners being 1/3 (in words: one third). At the option of the New Partner, the New Partner may reduce the Second Purchase Price and Third Purchase Price with respect to any amounts it is entitled to receive (and has not received) from the Existing Partners under this Article 13.

13.12. The Province of Utrecht and the Municipality of Utrecht jointly ("niet hoofdelijk"), irrevocably and unconditionally guarantee to the New Partner as guarantor for Pegus prompt performance by Pegus of all its obligations under or in connection with the Share Purchase Agreement.

ARTICLE 14 TERMINATION

14.1. If the Partnership Agreement is terminated in accordance with Article 22 of the Partnership Agreement, this Share Purchase Agreement shall terminate in accordance with its terms.

ARTICLE 15 MISCELLANEOUS

15.1. Articles 19 and 22 through 40 of the Partnership Agreement shall govern this Share Purchase Agreement.

IN WITNESS WHEREOF this Share Purchase Agreement has been executed by the Parties hereof in eightfold on the date set out on page one.

SIGNED by

- --
for and on behalf of Provincie Noord Holland
By: J.P.J. Lagrand

SIGNED by

- --
for and on behalf of Gemeente Utrecht
By: H.H.W. Kernkamp

SIGNED by

- --
for and on behalf of Gemeente Amsterdam
By: G. ter Horst

SIGNED by

- --
for and on behalf of Provincie Utrecht
By: D.H. Kok

SIGNED by

- --
for and on behalf of N.V. Provinciaal en
Gemeentelijk Utrechts Stroomleveringsbedrijf
By: M. ten Klooster

SIGNED by

- --
Reliant Energy Wholesale Holdings (Europe) Inc.
By: R. Steve Letbetter

SIGNED by

- --
for and on behalf of Reliant Energy Power Generation, Inc.
By: R. Steve Letbetter

SIGNED by

- --
for and on behalf of N.V. Energieproduktiebedrijf UNA
By: P. Koppen de Neve

Schedules to the Share Purchase Agreement

EXHIBIT 12

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(THOUSANDS OF DOLLARS)

		THREE MONTHS ENDED MARCH 31, 1999	TWELVE MONTHS ENDED MARCH 31, 1999
Fixed Charges as Defined:			
(1)	Interest on Long-Term Debt	$ 103,854	$ 413,963
(2)	Other Interest	23,339	96,747
(3)	Capitalized Interest	779	8,170
(4)	Distribution on Trust Securities	9,791	31,582
(5)	Interest Component of Rentals Charged to Operating Expense	2,600	11,085
(6)	Total Fixed Charges	$ 140,363	$ 561,547
Earnings as Defined:			
(7)	Income (loss) from Continuing Operations	$ (209,789)	$ (321,156)
(8)	Income Taxes for Continuing Operations	(56,543)	(91,251)
(9)	Fixed Charges (line 6)	140,363	561,547
(10)	Capitalized Interest	(779)	(8,170)
(11)	Income from Continuing Operations Before Income Taxes and Fixed Charges	(126,748)	140,970
Ratio of Earnings to Fixed Charges (line 11 divided by line 6)			0.25
Preferred Dividends Requirements:			
(12)	Preferred Stock Dividends	$ 97	$ 390
(13)	Less Tax Deduction for Preferred Dividends	$ 27	$ 54
(14)	Total	$ 70	$ 336
(15)	Ratio of Pre-Tax Income from Continuing Operations to Net Income (line 7 plus line 8 divided by line 7)	1.27	1.28
(16)	Line 14 times line 15	89	430
(17)	Add Back Tax Deduction (line 13)	27	54
(18)	Preferred Dividends Factor	116	484
(19)	Total Fixed Charges (line 6)	$ 140,363	$ 561,547
(20)	Preferred Dividends Factor (line 18)	116	484
(21)	Total	140,479	562,031
Ratios of Earnings to Fixed Charges and Preferred Dividends (line 11 divided by line 21)			0.25

Earnings for the three months ended March 31, 1999 are inadequate to cover fixed charges; the coverage deficiency is approximately $267 million for the three-month period ended March 31, 1999 and $421 million for the twelve-month period ended March 31, 1999. The deficiency results from the non-cash, unrealized accounting loss recorded for the ACES of $331 million for the three months ended March 31, 1999 and $1,318 million for the twelve months ended March 31, 1999. Excluding ACES, earnings from continuing operations to fixed charges would have been 1.46 and 2.60 for the three months and twelve months ended March 31, 1999.

OPUR1

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
COMPANY'S FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO
SUCH FINANCIAL STATEMENTS.

0000048732
RELIANT ENERGY INC
1,000

3-MOS
DEC-31-1999
MAR-31-1999
PER-BOOK
9,639,082
3,806,571
1,558,610
3,882,262
0
18,886,525
2,931,138
0
1,029,892
3,961,030
0
9,740
7,677,463
0
302,300
1,435,703
375,497
0
13,502
0
5,111,290
18,886,525
2,642,904
(56,543)
2,452,789
2,452,789
190,115
(320,296)
(130,181)
136,054
(209,692)
97
(209,789)
106,905
85,437
202,226
(0.74)
(0.74)

Total annual interest charges on all bonds is as of year-to-date 03/31/99.

EXHIBIT 99A

[ITEMS INCORPORATED BY REFERENCE FROM THE COMPANY 10-K.]

ITEM 3. LEGAL PROCEEDINGS.

(a) Company.

For a description of certain legal and regulatory proceedings affecting the Company, see Notes 3(b), 12(h) and 12(i) to the Company's Consolidated Financial Statements, which notes are incorporated herein by reference.

ITEM. 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY

CERTAIN FACTORS AFFECTING FUTURE EARNINGS
OF THE COMPANY AND ITS SUBSIDIARIES

Earnings for the past three years are not necessarily indicative of future earnings and results. The level of future earnings depends on numerous factors including (i) the future growth in the Company's and its subsidiaries' energy sales; (ii) weather; (iii) the success of the Company's and its subsidiaries' entry into non-rate regulated businesses such as energy marketing and international and domestic power projects; (iv) the Company's and its subsidiaries' ability to respond to rapid changes in a competitive environment and in the legislative and regulatory framework under which they have traditionally operated; (v) rates of economic growth in the Company's and its subsidiaries' service areas; (vi) the ability of the Company and its subsidiaries to control costs and to maintain pricing structures that are both attractive to customers and profitable; (vii) the outcome of future rate proceedings; (viii) the effect that foreign exchange rate changes may have on the Company's investments in international operations; and (ix) future legislative initiatives.

In order to adapt to the increasingly competitive environment in which the Company operates, the Company continues to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, internal restructuring, reorganizations or dispositions of currently owned properties or currently operating business units and new products, services and customer strategies. In addition, the Company continues to engage in new business ventures, such as electric power trading and marketing, which arise from competitive and regulatory changes in the utility industry.

COMPETITION AND RESTRUCTURING OF THE ELECTRIC UTILITY INDUSTRY

The electric utility industry is becoming increasingly competitive due to changing government regulations, technological developments and the availability of alternative energy sources.

Long-Term Trends in Electric Utility Industry. The electric utility industry historically has been composed of vertically integrated companies providing electric service on an exclusive basis within governmentally-defined geographic areas. Prices for electric service have typically been set by governmental authorities under principles designed to provide the utility with an opportunity to recover its cost of providing electric service plus a reasonable return on its invested capital. Federal legislation and regulation as well as legislative and regulatory initiatives in various states have encouraged competition among electric utility and non-utility owned power generators. These developments, combined with increased demand for lower-priced electricity and technological advances in electric generation, have continued to move the electric utility industry in the direction of more competition.

Based on a strategic review of the Company's business and of ongoing developments in the electric utility and related industries regarding competition, regulation and consolidation, the Company's management believes that the electric utility industry will continue its path toward competition, albeit on a state-by-state basis. The Company's management also believes the business of electricity and natural gas are converging and consolidating and these trends will alter the structure and business practices of companies serving these markets in the future.

Competition in Wholesale Market. The Federal Energy Policy Act of 1992, the Public Utility Regulatory Act of 1995 (now the Texas Utilities Code) and regulations promulgated by the Federal Energy Regulatory Commission (FERC) contain provisions intended to facilitate the development of a wholesale energy market. Although Reliant Energy HL&P's wholesale sales traditionally have accounted for less than 1% of its total revenues, the expansion of competition in the wholesale electric market is significant in that it has increased the range of non-utility competitors, such as exempt wholesale generators (EWGs) and power marketers, in the Texas electric market as well as resulted in fundamental changes in the operation of the state transmission grid.

In February 1996, the Texas Utility Commission adopted rules granting third-party users of transmission systems open access to such systems at rates, terms and conditions comparable to those available to utilities owning such transmission assets. Under the Texas Utility Commission order implementing the rule, Reliant Energy HL&P was required to separate, on an operational basis, its wholesale power marketing operations from the operations of the transmission grid and, for purposes of transmission pricing, to disclose each of its separate costs of generation, transmission and distribution.

Within ERCOT, an independent system operator (ISO) manages the state's electric grid, ensuring system reliability and providing non-discriminatory transmission access to all power producers and traders. The ERCOT ISO, the first in the nation, is a key component for implementing the Texas Utility Commission's overall strategy to create a

competitive wholesale market. ERCOT formed an ad hoc committee in early 1998 to investigate the potential impacts of a competitive retail market on the ISO. The ERCOT committee report was released in December 1998 and concluded that the ISO's role and function would necessarily expand in a competitive retail environment, but the changes required of the ISO to support retail choice should not impede introduction of retail choice.

Competition in Retail Market. The Company estimates that, since 1978, cogeneration projects representing approximately one-third of current total peak generating capability have been built in the Houston area and that, as a result, Reliant Energy HL&P has seen a reduction of approximately 2,500 MW in customer load to self-generation. Reliant Energy HL&P has utilized flexible pricing to respond to situations where large industrial customers have an alternative to buying power from it, primarily by constructing their own generating facilities. Under a tariff option approved by the Texas Utility Commission in 1995, Reliant Energy HL&P was permitted to implement contracts based upon flexible pricing for up to 700 MW. Currently, this rate is fully subscribed.

Texas law currently does not permit retail sales by unregulated entities such as cogenerators. The Company anticipates that cogenerators and other interests will continue to exert pressure to obtain access to the electric transmission and distribution systems of regulated utilities for the purpose of making retail sales to customers of regulated utilities.

Legislative Proposals. A number of proposals to restructure the electric utility industry have been introduced in the 1999 session of the Texas legislature. If adopted, legislation may permit and encourage alternative suppliers to compete to serve Reliant Energy HL&P's current rate-regulated retail customers. The various legislative proposals include provisions governing recovery of stranded costs and permitting securitization of those costs; freezing rates until 2002; requiring firm sales of energy to competing retail electric providers; requiring disaggregation of generation, transmission and distribution, and retail sales into separate companies and limiting the ability of existing utilities' affiliates competing for retail electric customers on the basis of price until they have lost a substantial percentage of their residential and small commercial load to alternative retail providers. In addition to the Texas legislative proposals, a number of federal legislative proposals to promote retail electric competition or restructure the U.S. electric utility industry have been introduced during the current congressional session.

At this time, the Company is unable to make any prediction as to whether any legislation to restructure electric operations or provide retail competition will be enacted or as to the content or impact on the Company of any legislation which may be enacted. However, because the proposed legislation is intended to fundamentally restructure electric utility operations, it is likely that enacted legislation would have a material impact on the Company.

Stranded Costs. As the U.S. electric utility industry continues its transition to a more competitive environment, a substantial amount of fixed costs previously approved for recovery under traditional utility regulatory practices (including regulatory assets and liabilities) may become "stranded," i.e., unrecoverable at competitive market prices. The issue of stranded costs could be particularly significant with respect to fixed costs incurred in connection with the past construction of generation plants, such as nuclear power plants, which, because of their high fixed costs, would not command the same price for their output as they have in a regulated environment.

In January 1997, the Texas Utility Commission delivered a report to the Texas legislature on stranded investments in the electric utility industry in Texas (referred to by the Texas Utility Commission as "Excess Cost Over Market") (ECOM). In April 1998, the Texas Utility Commission submitted to the Texas Senate Interim Committee on Electric Utility Restructuring an updated study of ECOM estimates. Assuming that retail competition is adopted at the beginning of 2002, the updated study estimated that the total amount of stranded costs for all Texas electric utilities could be $4.5 billion. If instead, retail competition is adopted one year later, the study estimates statewide ECOM to be $3.3 billion. Estimates of ECOM vary widely and there is inherent uncertainty in calculating these costs.

Transition Plan. In June 1998, the Texas Utility Commission approved the Transition Plan filed by Reliant Energy HL&P in December 1997. The Transition Plan included base rate credits to residential and certain commercial customers in 1998 and 1999, an overall rate of return cap formula for 1998 and 1999 and approval of accounting procedures designed to accelerate recovery of stranded costs which may arise under restructuring legislation. The Transition Plan permits the redirection of depreciation expense to generation assets that Electric Operations otherwise would apply to transmission, distribution and general plant assets. In addition, the Transition Plan provides that all earnings above a 9.844% overall annual rate of return on invested capital be used to recover Electric Operations' investment in generation assets. In 1998, Reliant Energy HL&P recorded an additional $194 million in depreciation under the Transition Plan. Certain parties have appealed the order approving the Transition Plan. For additional information, see Notes 1(f) and 3(b) to the Company's Consolidated Financial Statements.

COMPETITION -- OTHER OPERATIONs

Natural Gas Distribution competes primarily with alternate energy sources such as electricity and other fuel sources as well as with providers of energy conservation products. In addition, as a result of federal regulatory changes affecting interstate pipelines, it has become possible for other natural gas suppliers and distributors to bypass Natural Gas Distribution's facilities and market, sell and/or transport natural gas directly to small commercial and/or large volume customers.

The Interstate Pipeline segment competes with other interstate and intrastate pipelines in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service. Interstate Pipeline competes indirectly with other forms of energy available to its customers, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability of energy and pipeline capacity, the level of business activity, conservation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in areas served by Interstate Pipeline and the level of competition for transport and storage services.

Reliant Energy Services competes for sales in its gas and power trading and marketing business with other natural gas and power merchants, producers and pipelines based on its ability to aggregate supplies at competitive prices from different sources and locations and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities. Reliant Energy Services also competes against other energy marketers on the basis of its relative financial position and access to credit sources. This competitive factor reflects the tendency of energy customers, natural gas suppliers and natural gas transporters to seek financial guarantees and other assurances that their energy contracts will be satisfied. As pricing information becomes increasingly available in the energy trading and marketing business and as deregulation in the electricity markets continues to accelerate, the Company anticipates that Reliant Energy Services will experience greater competition and downward pressure on per-unit profit margins in the energy marketing industry.

Competition for acquisition of international and domestic non-rate regulated power projects is intense. International and Power Generation compete against a number of other participants in the non-utility power generation industry, some of which have greater financial resources and have been engaged in non-utility power projects for periods longer than the Company and have accumulated greater portfolios of projects. Competitive factors relevant to the non-utility power industry include financial resources, access to non-recourse funding and regulatory factors.

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding the Company's exposure to risk as a result of fluctuations in commodity prices and derivative instruments, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Report.

ACCOUNTING TREATMENT OF ACES

The Company accounts for its investment in Time Warner Convertible Preferred Stock (TW Preferred) under the cost method. As a result of the Company's issuance of the ACES, a portion of the increase in the market value above $27.7922 per share of Time Warner common stock (the security into which the TW Preferred is convertible) (TW

Common) results in unrealized accounting losses to the Company, pending the conversion of the Company's TW Preferred into TW Common. For consistency purposes, the TW Common and related per share prices retroactively reflect a 2 for 1 stock split effective December 15, 1998.

Prior to the conversion of the TW Preferred into TW Common, when the market price of TW Common increases above $27.7922, the Company records in Other Income (Expense) an unrealized, non-cash accounting loss for the ACES equal to the aggregate amount of such increase as applicable to all ACES multiplied by 0.8264. In accordance with generally accepted accounting principles, this accounting loss (which reflects the unrealized increase in the Company's indebtedness with respect to the ACES) may not be offset by accounting recognition of the increase in the market value of the TW Common that underlies the TW Preferred. Upon conversion of the TW Preferred (which is anticipated to occur in June 1999 when the preferential dividend on the TW Preferred expires), the Company will begin recording future unrealized net changes in the market prices of the TW Common and the ACES as a component of common stock equity and other comprehensive income.

As of December 31, 1998, the market price of TW Common was $62.062 per share. Accordingly, the Company recognized an increase of $1.2 billion in 1998 in the unrealized liability relating to its ACES indebtedness (which resulted in an after-tax earnings reduction of $764 million or $2.69 basic earnings per share in 1998). The Company believes that the cumulative unrealized loss for the ACES of approximately $1.3 billion is more than economically offset by the approximately $1.8 billion unrecorded unrealized gain at December 31, 1998 relating to the increase in the fair value of the TW Common underlying the investment in TW Preferred since the date of its acquisition. Any gain related to the increase in fair value of TW Common would be recognized as a component of net income upon the sale of the TW Preferred or the shares of TW Common into which such TW Preferred is converted. As of March 11, 1999, the price of TW Common was $70.75 per share, which would have resulted in the Company recognizing an additional increase of $329 million in the unrealized liability represented by its indebtedness under the ACES. The related unrecorded unrealized gain as of March 11, 1999 would have been computed as an additional $398 million.

Excluding the unrealized, non-cash accounting loss for ACES, the Company's retained earnings and total common stock equity would have been $2.3 billion and $5.2 billion, respectively.

IMPACT OF THE YEAR 2000 ISSUE AND OTHER SYSTEM IMPLEMENTATION ISSUES

Year 2000 Problem. At midnight on December 31, 1999, unless the proper modifications have been made, the program logic in many of the world's computer systems will start to produce erroneous results because, among other things, the systems will incorrectly read the date "01/01/00" as being January 1 of the year 1900 or another incorrect date. In addition, certain systems may fail to detect that the year 2000 is a leap year. Problems can also arise earlier than January 1, 2000, as dates in the next millennium are entered into non-Year 2000 compliant programs.

Compliance Program. In 1997, the Company initiated a corporate-wide Year 2000 project to address mainframe application systems, information technology (IT) related equipment, system software, client-developed applications, building controls and non-IT embedded systems such as process controls for energy production and delivery. Incorporated into this project were Resources' and other Company subsidiaries' mainframe applications, infrastructures, embedded systems and client-developed applications that will not be migrated into existing or planned Company or Resources systems prior to the year 2000. The evaluation of Year 2000 issues included those related to significant customers, key vendors, service suppliers and other parties material to the Company's and its subsidiaries' operations. In the course of this evaluation, the Company has sought written assurances from such third parties as to their state of Year 2000 readiness.

State of Readiness. Work has been prioritized in accordance with business risk. The highest priority has been assigned to activities that would disrupt the physical delivery of energy (Priority 1); activities that would impact back office activities such as billing (Priority 2); activities that would cause inconvenience or productivity loss in normal business operations (e.g. air conditioning systems and elevators) (Priority 3). All business units have completed an analysis of critical systems and equipment that control the production and delivery of energy, as well as corporate, departmental and personnel systems and equipment. The remediation and replacement work on the majority of IT systems, non-IT systems and infrastructure began in the first quarter of 1998 and is expected to be completed by the second quarter of 1999. Testing of these systems began in the second quarter of 1998 and is scheduled to be completed in third quarter of 1999. The following table illustrates the Company's completion percentages for the Year 2000 activities as of February 28, 1999:

	PRIORITY 1	PRIORITY 2	PRIORITY 3
Assessment..	95%	86%	96%
Conversion..	86%	70%	91%
Testing...	80%	61%	87%
Implementation..	76%	54%	75%

Costs to Address Year 2000 Compliance Issues. Based on current internal studies, as well as recently solicited bids from various computer software vendors, the Company estimates that the total direct cost of resolving the Year 2000 issue with respect to the Company and its subsidiaries will be between $35 and $40 million. This estimate includes approximately $7 million related to salaries and expenses of existing employees and approximately $3 million in hardware purchases that the Company expects to capitalize. In addition, the $35 to $40 million estimate includes approximately $2 million spent prior to 1998 and approximately $12 million during 1998. The remaining costs related to resolving the Year 2000 issue are expected to be expended in 1999. The Company expects to fund these expenditures through internal sources.

In September 1997, the Company entered into an agreement with SAP America, Inc. (SAP) to license SAP proprietary R/3 enterprise software. The licensed software includes customer care, finance and accounting, human resources, materials management and service delivery components. The Company's purchase of this software license and related computer hardware is part of its response to changes in the electric utility and energy services industries, as well as changes in the Company's businesses and operations resulting from the acquisition of Resources and the Company's expansion into the energy trading and marketing business. Although it is anticipated that the implementation of the SAP system will have the incidental effect of negating the need to modify many of the Company's computer systems to accommodate the Year 2000 problem, the Company does not deem the costs of the SAP system as directly related to its Year 2000 compliance program. Portions of the SAP system were implemented in December 1998 and March 1999, and it is expected that the final portion of the SAP system will be fully implemented by July 2000. The estimated costs of implementing the SAP system is approximately $182 million, inclusive of internal costs. In 1998, the Company and its subsidiaries spent $108 million of such costs. In 1999, the Company and its subsidiaries expect to spend $59 million with the remaining amounts to be spent in 2000.

The estimated Year 2000 project costs do not give effect to any future corporate acquisitions or divestitures made by the Company or its subsidiaries.

Risks and Contingency Plans. The major systems which pose the greatest Year 2000 risks for the Company and its subsidiaries if implementation of the Year 2000 compliance program is not successful are the process control systems for energy delivery systems; the time in use, demand and recorder metering system for commercial and industrial customers; the outage analysis system; and the power billing systems. The potential problems related to these systems are temporary electric service interruptions to customers, temporary interruptions in revenue data gathering and temporary poor customer relations resulting from delayed billing. Although the Company does not believe that this scenario will occur, the Company has considerable experience responding to emergency situations, including computer failure. Existing emergency operations, disaster recovery and business continuation plans are being enhanced to ensure preparedness and to mitigate the long-term effect of such a scenario.

The North American Electric Reliability Council (NERC) is coordinating electric utility industry contingency planning on a national level. Additional contingency planning is being done at the regional electric reliability council level. Reliant Energy HL&P filed a draft Year 2000 Contingency Plan with NERC and with the Texas Utility Commission in December 1998. The draft plan addresses restoration of electric service and related business processes, and is designed to work in conjunction with the Emergency Operating Plan and with the plans of NERC and ERCOT.

A final contingency plan is scheduled to be complete by June 30, 1999. In addition, Reliant Energy HL&P will participate in industry preparedness drills, such as the two NERC drills scheduled to be held on April 9, 1999 and September 9, 1999.

The existing business continuity disaster recovery and emergency operations plans are being reviewed and enhanced, and where necessary, additional plans will be developed to include mitigation strategies and action plans specifically addressing potential Year 2000 scenarios. The expected completion date for these plans is June 30, 1999.

In order to assist in preparing for and mitigating the foregoing scenarios, the Company intends to complete all mission critical Year 2000 remediation and testing activity by the end of the second quarter of 1999. In addition, the Company has initiated Year 2000 communications with significant customers, key vendors, service suppliers and other parties material to the Company's operations and is diligently monitoring the progress of such third parties' Year 2000 projects. The Company expects to meet with mission-critical third parties, including suppliers, in order to ascertain and assess the relative risks of Year-2000-related issues, and to mitigate such risks. Notwithstanding the foregoing, the Company cautions that (i) the nature of testing is such that it cannot comprehensively address all future combinations of dates and events and (ii) it is impossible for the Company to assess with precision or certainty the compliance of third parties with Year 2000 remediation efforts. Due to the speculative and uncertain nature of contingency planning, there can be no assurance that such plans actually will be sufficient to reduce the risk of material impacts on the Company's and its subsidiaries' operations.

RISKS OF INTERNATIONAL OPERATIONS

The Company's international operations are subject to various risks incidental to investing or operating in emerging market countries. These risks include political risks, such as governmental instability, and economic risks, such as fluctuations in currency exchange rates, restrictions on the repatriation of foreign earnings and/or restrictions on the conversion of local currency earnings into U.S. dollars. The Company's international operations are also highly capital intensive and, thus, dependent to a significant extent on the continued availability of bank financing and other sources of capital on commercially acceptable terms.

Impact of Currency Fluctuations on Company Earnings. The Company, through Reliant Energy International's subsidiaries, owns 11.69% of the stock of Light and, through its investment in Light, an 8.753% interest in the stock of Metropolitana Electricidade de Sao Paulo S.A. (Metropolitana). The Company accounts for its investment in Light under the equity method of accounting and records its proportionate share, based on stock ownership, in the net income of Light and its affiliates (including Metropolitana) as part of the Company's consolidated net income.

At December 31, 1998, Light and Metropolitana had total borrowings of approximately $3.2 billion denominated in non-local currencies. Because of the devaluation of the Brazilian real subsequent to December 31, 1998, Light and Metropolitana are expected to record a charge to March 31, 1999 earnings that reflects the increase in the liability represented by their non-local currency denominated bank borrowings relative to the Brazilian real. Because the Company uses the Brazilian real as the functional currency in which it reports Light's equity earnings, the resulting decrease in Light's earnings will also be reflected in the Company's consolidated earnings to the extent of the Company's 11.69% ownership interest in Light. At December 31, 1998, one U. S. dollar could be exchanged for 1.21 Brazilian reais. Using the exchange rate of 2.06 Brazilian reais in effect at the end of February, and the average exchange rate in effect since the end of the year, the Company estimates that its share of the after-tax charge to be recorded by Light would be approximately $125 million. This estimate does not reflect the possibility of additional fluctuations in the exchange rate and does not include other non-debt-related impacts of Brazil's currency devaluation on Light's and Metropolitana's future earnings.

None of Light's or Metropolitana's tariff adjustment mechanisms are directly indexed to the U.S. dollar or other non-local currencies. Each company currently is evaluating various options including regulatory rate relief to mitigate the impact of the devaluation of the Brazilian real. For example, the long-term concession contracts under which Light and Metropolitana operate contain mechanisms for adjusting electricity tariffs to reflect changes in operating costs resulting from inflation. If the devaluation of the Brazilian real results in an increase in the local rate of inflation and if an adjustment to tariff rates is made promptly to reflect such increase, the Company believes that the financial results of Light and Metropolitana should be protected, at least in part, from the effects of devaluation. However, there can be no assurance the implementation of such tariff adjustments will be timely or that the economic impact of the devaluation will be completely reflected in increased inflation rates.

Certain of Reliant Energy International's other foreign electric distribution companies have incurred U.S. dollar and other non-local currency indebtedness (approximately $71 million at December 31, 1998). For further analysis of foreign currency fluctuations in the Company's earnings and cash flows, see "Quantitative and Qualitative Disclosures About Market Risk -- Foreign Currency Exchange Rate Risk" in Item 7A of this Form 10-K.

Impact of Foreign Currency Devaluation on Project Capital Resources. In the first quarter of 1999, approximately $117 million of Metropolitana's U.S. dollar denominated debt will mature. In the second quarter of 1999, approximately $980 million of Light's and approximately $696 million of Metropolitana's U.S. and non-local currency denominated bank debt will mature. In March 1999, Light refinanced approximately $130 million of its U.S. dollar denominated debt through a local - currency denominated loan. The ability of Light and Metropolitana to repay or refinance their debt obligations at maturity is dependent on many factors, including local and international economic conditions prevailing at the time such debt matures.

If economic conditions in the international markets continue to be unsettled or deteriorate, it is possible that Light, Metropolitana and the other foreign electric distribution companies in which the Company holds investments might encounter difficulties in refinancing their debt (both local currency and non-local currency borrowings) on terms and conditions that are commercially acceptable to them and their shareholders. In such circumstances, in lieu of declaring a default or extending the maturity, it is possible that lenders might seek to require, among other things, higher borrowing rates, and additional equity contributions and/or increased levels of credit support from the shareholders of such entities. The availability or terms of refinancing such debt cannot be assured.

Currency fluctuation and instability affecting Latin America may also adversely affect Reliant Energy International's ability to refinance its equity investments with debt. In 1998, Reliant Energy International invested $411 million in Colombia and El Salvador. As of January 1999, $100 million of these investments were refinanced with debt. Reliant Energy International intends to refinance approximately $75 million more of such initial investments with debt.

ENVIRONMENTAL EXPENDITURES

The Company and its subsidiaries, including Resources, are subject to numerous environmental laws and regulations, which require them to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment.

Clean Air Act Expenditures. The Company expects the majority of capital expenditures associated with environmental matters to be incurred by Electric Operations in connection with new emission limitations under the Federal Clean Air Act (Clean Air Act) for oxides of nitrogen (NOx). The standards applicable to Electric Operations' generating units in the Houston, Texas area will become effective in November 1999. NOx reduction costs incurred by Electric Operations totaled approximately $7 million in 1998. The Company estimates that Electric Operations will incur approximately $8 million in 1999 and $10 million in 2000 for such expenditures. The Texas Natural Resources Conservation Commission (TNRCC) has indicated that additional NOx reduction will be required after 2000; however, since the magnitude and timing of these reductions have not yet been established, it is impossible for the Company to estimate a reasonable range of such expenditures at this time.

In 1998, the Wholesale Energy spent approximately $100,000 in order to comply with NOx reduction with respect to Southern California generating facilities acquired by Power Generation from Southern California Edison (SCE) in 1998. In 1999, based on existing requirements, the Company projects that it will spend an additional $100,000 on NOx reduction standards with respect to such plants and approximately $1 million on continuous emission monitoring system upgrades for such plants.

Site Remediation Expenditures. From time to time the Company and its subsidiaries have received notices from regulatory authorities or others regarding their status as potentially responsible parties in connection with sites found to require remediation due to the presence of environmental contaminants.

The Company's identified sites with respect to which it may be claimed to have a remediation liability include several sites for which there is a lack of current available information, including the nature and magnitude of contamination, and the extent, if any, to which the Company may be held responsible for contributing to any costs incurred for remediating these sites. Thus, no reasonable estimate of cleanup costs can now be made for these sites. Based on currently available information, the Company believes that such costs ultimately will not materially affect its financial position, results of operations or cash flows. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to such estimates. For information about specific sites that are the subject of remediation claims, see Note 12(h) to the Company's Consolidated Financial Statements and Note 8(g) to Resources' Consolidated Financial Statements, each of which is incorporated herein by reference.

Mercury Contamination. Like other natural gas pipelines, Resources' pipeline operations have in the past employed elemental mercury in meters used on its pipelines. Although the mercury has now been removed from the meters, it is possible that small amounts of mercury have been spilled at some of those sites in the course of normal maintenance and replacement operations and that such spills have contaminated the immediate area around the meters with elemental mercury. Such contamination has been found by Resources at some sites in the past, and Resources has conducted remediation at sites found to be contaminated. Although Resources is not aware of additional specific sites, it is possible that other contaminated sites exist and that remediation costs will be incurred for such sites. Although the total amount of such costs cannot be known at this time, based on experience of Resources and others in the natural gas industry to date and on the current regulations regarding remediation of such sites, the Company and Resources believe that the cost of any remediation of such sites will not be material to the Company's or Resources' financial position, results of operations or cash flows.

Other. 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 its practice of vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

OTHER CONTINGENCIES

For a description of certain other legal and regulatory proceedings affecting the Company and its subsidiaries, see Notes 3, 4, 5 and 12 to the Company's Consolidated Financial Statements and Note 8 to Resources' Consolidated Financial Statements, which notes are incorporated herein by reference.

NEW ACCOUNTING ISSUES

In 1998, the Company and Resources adopted SFAS No. 130, "Reporting Comprehensive Income" (SFAS No. 130), SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131) and SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132). For further discussion of these accounting statements, see Note 15 to the Company's Consolidated Financial Statements and Note 9 to Resources' Consolidated Financial Statements.

In 2000, the Company and Resources expect to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. The Company is in the process of determining the effect of adoption of SFAS No. 133 on its consolidated financial statements.

In December 1998, The Emerging Issues Task Force of the Financial Accounting Standards Board reached consensus on Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF Issue 98-10). EITF Issue 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings. EITF Issue 98-10 is effective for fiscal years beginning after December 15, 1998. The Company expects to adopt EITF Issue 98-10 in the first quarter of 1999. The Company does not expect the implementation of EITF Issue 98-10 to be material to its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

The Company and its subsidiaries have long-term debt, Company/ Resources obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of the Company/Resources (Trust Securities), securities held in the Company's nuclear decommissioning trust, bank facilities, certain lease obligations and interest rate swaps which subject the Company, Resources and certain of their subsidiaries to the risk of loss associated with movements in market interest rates.

At December 31, 1998, the Company and certain of its subsidiaries had issued fixed-rate long-term debt (excluding ACES) and Trust Securities aggregating $5.0 billion in principal amount and having a fair value of $5.2 billion. These instruments are fixed-rate and, therefore, do not expose the Company and its subsidiaries to the risk of earnings loss due to changes in market interest rates (see Notes 8 and 9 to the Company's Consolidated Financial Statements). However, the fair value of these instruments would increase by approximately $260.6 million if interest rates were to decline by 10% from their levels at December 31, 1998. In general, such an increase in fair value would impact earnings and cash flows only if the Company and its subsidiaries were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company and certain of its subsidiaries' floating-rate obligations aggregated $1.8 billion at December 31, 1998 (see Note 8 to the Company's Consolidated Financial Statements), inclusive of (i) amounts borrowed under short-term and long-term credit facilities of the Company and its subsidiaries (including the issuance of commercial paper supported by such facilities), (ii) borrowings underlying Resources' receivables facility and (iii) amounts subject to a master leasing agreement of Resources under which lease payments vary depending on short-term interest rates. These floating-rate obligations expose the Company, Resources and their subsidiaries to the risk of increased interest and lease expense in the event of increases in short-term interest rates. If the floating rates were to increase by 10% from December 31, 1998 levels, the Company's consolidated interest expense and expense under operating leases would increase by a total of approximately $0.9 million each month in which such increase continued.

As discussed in Notes 1(o), 4(c) and 13 to the Company's Consolidated Financial Statements, the Company contributes $14.8 million per year to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project. The securities held by the trust for decommissioning costs had an estimated fair value of $119.1 million as of December 31, 1998, of which approximately 44% were fixed-rate debt securities that subject the Company to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 1998, the decrease in fair value of the fixed-rate debt securities would not be material to the Company. In addition, the risk of an economic loss is mitigated at this time as a result of the Company's regulated status. Any unrealized gains or losses are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability because the Company believes that its future contributions which are currently recovered through the rate-making process will be adjusted for these gains and losses.

Certain subsidiaries of the Company have entered into interest rate swaps for the purpose of decreasing the amount of debt subject to interest rate fluctuations. At December 31, 1998, these interest rate swaps had an aggregate notional amount of $75.4 million, which the Company could terminate at a cost of $3.2 million (see Notes 2 and 13 to the Company's Consolidated Financial Statements). An increase of 10% in the December 31, 1998 level of interest rates would not increase the cost of termination of the swaps by a material amount to the Company. Swap termination costs would impact the Company's and its subsidiaries' earnings and cash flows only if all or a portion of the swap instruments were terminated prior to their expiration.

As discussed in Note 8(h) to the Company's Consolidated Financial Statements, Resources sold $500 million aggregate principal amount of its 6 3/8% TERM Notes which included an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate in 2003 is below 5.66%. At December 31, 1998, the Company could terminate the option at a cost of $30.7 million. A decrease of 10% in the December 31, 1998 level of interest rates would not increase the cost of termination of the option by a material amount to the Company.

The change in exposure to loss in earnings and cash flows related to interest rate risk from December 31, 1997 to December 31, 1998 is not material to the Company.

EQUITY MARKET RISK

The Company holds an investment in TW Preferred which is convertible into Time Warner common stock (TW Common) as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Accounting Treatment of ACES" in Item 7 of this Form 10-K. As a result, the Company is exposed to losses in the fair value of this security. For purposes of analyzing market risk in this Item 7A, the Company assumed that the TW Preferred was converted into TW Common. In addition, Resources' investment in the common stock of Itron, Inc. (Itron) exposes the Company and Resources to losses in the fair value of Itron common stock. A 10% decline in the market value per share of TW Common and Itron common stock from the December 31, 1998 levels would result in a loss in fair value of approximately $284.4 million and $1.1 million, respectively.

The Company's and its subsidiaries' ability to realize gains and losses related to the TW Preferred and the Itron common stock is limited by the following: (i) the TW Preferred is not publicly traded and its sale is subject to certain limitations and (ii) the market for the common stock of Itron is fairly illiquid.

The ACES expose the Company to accounting losses as the Company is required to record in Other Income (Expense) an unrealized accounting loss equal to (i) the aggregate amount of the increase in the market price of TW Common above $27.7922 as applicable to all ACES multiplied by (ii) 0.8264. Prior to the conversion of the TW Preferred into TW Common, such loss would affect earnings. After conversion, such loss would be recognized as an adjustment to common stock equity through a reduction of other comprehensive income. However, there would be an offsetting increase in common stock equity through an increase in accumulated other comprehensive income on the Company's Statements of Consolidated Retained Earnings and Comprehensive Income for the fair value increase in the investment in TW Common. For additional information on the accounting treatment of the ACES and related accounting losses recorded in 1998, see Note 1(n) to the Company's Consolidated Financial Statements. An increase of 15% in the price of the TW Common above its December 31, 1998 market value of $62.062 per share would result in the recognition of an additional unrealized accounting loss (net of tax) of approximately $229.1 million. The Company believes that this additional unrealized loss for the ACES would be more than economically hedged by the unrecorded unrealized gain relating to the increase in the fair value of the TW Common underlying the investment in TW Preferred since the date of its acquisition.

For a discussion of the non-cash, unrealized accounting loss recorded in 1998 and 1997 related to the ACES, see "-- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Accounting Treatment of ACES" in Item 7 of this Form 10-K.

As discussed above under "-- Interest Rate Risk," the Company contributes to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project which held debt and equity securities as of December 31, 1998. The equity securities expose the Company to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at December 31, 1998, the resulting loss in fair value of these securities would not be material to the Company. Currently, the risk of an economic loss is mitigated as a result of the Company's regulated status as discussed above under "--Interest Rate Risk."

FOREIGN CURRENCY EXCHANGE RATE RISK

As further described in "Certain Factors Affecting Future Earnings of the Company and Its Subsidiaries -- Risks of International Operations" in Item 7 of this Form 10-K, the Company, through Reliant Energy International invests in certain foreign operations which to date have been primarily in South America. As of December 31, 1998, the Company's Consolidated Balance Sheets reflected $1.1 billion of foreign investments, a substantial portion of which represent investments accounted for under the equity method. These foreign investments expose the Company to risk of loss in earnings and cash flows due to the fluctuation in foreign currencies relative to the Company's consolidated reporting currency, the U.S. dollar. The Company accounts for adjustments resulting from translation of its investments with functional currencies other than the U.S. dollar as a charge or credit directly to a separate component of stockholders' equity. For further discussion of the accounting for foreign currency adjustments, see Note 1(p) in the Notes to the Company's Consolidated Financial Statements. The cumulative translation loss of $34 million, recorded as of December 31, 1998, will be realized as a loss in earnings and cash flows only upon the disposition of the related investment. The foreign currency loss in earnings and cash flows related to debt obligations held by foreign operations in currencies other than their own functional currencies was not material to the Company as of December 31, 1997.

In addition, certain of Reliant Energy International's foreign operations have entered into obligations in currencies other than their own functional currencies which expose the Company to a loss in earnings. In such cases, as the respective investment's functional currency devalues relative to the non-local currencies, the Company will record its proportionate share of its investments' foreign currency transaction losses related to the non-local currency denominated debt. At December 31, 1998, Light and Metropolitana had borrowings of approximately $3.2 billion denominated in non-local currencies. Because of the devaluation of the Brazilian real subsequent to December 31, 1998, Light and Metropolitana are expected to record a charge to earnings for the quarter ended March 31, 1999, primarily related to foreign currency transaction losses on their non-local currency denominated debt. For further discussion and analysis of the possible effect on the Company's Consolidated Financial Statements, see "Certain Factors Affecting Future Earnings of the Company and Its Subsidiaries - -- Risks of International Operations" in Item 7 of this Form 10-K.

The company attempts to manage and mitigate this foreign risk by properly balancing the higher cost of financing with local denominated debt against the risk of devaluation of that local currency and including a measure of the risk of devaluation in all its financial plans. In addition, where possible, Reliant Energy International attempts to structure its tariffs and revenue contracts to ensure some measure of adjustment due to changes in inflation and currency exchange rates; however, there can be no assurance that such efforts will compensate for the full effect of currency devaluation, if any.

ENERGY COMMODITY PRICE RISK

As further described in Note 2 to the Company's Consolidated Financial Statements, certain of the Company's subsidiaries utilize a variety of derivative financial instruments (Derivatives), including swaps and exchange-traded futures and options, as part of the Company's overall hedging strategies and for trading purposes. To reduce the risk from the adverse effect of market fluctuations in the price of electric power, natural gas, crude oil and refined products and related transportation, Resources and certain subsidiaries of the Company and Resources enter into futures transactions, forward contracts, swaps and options (Energy Derivatives) in order to hedge certain commodities in storage, as well as certain expected purchases, sales and transportation of energy commodities (a portion of which are firm commitments at the inception of the hedge). The Company's policies prohibit the use of leveraged financial instruments. In addition, Reliant Energy Services, a subsidiary of Resources, maintains a portfolio of Energy Derivatives to provide price risk management services and for trading purposes (Trading Derivatives).

The Company uses value-at-risk and a sensitivity analysis method for assessing the market risk of its derivatives.

With respect to the Energy Derivatives (other than Trading Derivatives) held by subsidiaries of the Company and Resources as of December 31, 1998, a decrease of 10% in the market prices of natural gas and electric power from year-end levels would decrease the fair value of these instruments by approximately $3 million. As of December 31, 1997, a decrease of 10% in the prices of natural gas would have resulted in a loss of $7 million in fair values of the Energy Derivatives (other than for trading purposes).

The above analysis of the Energy Derivatives utilized for hedging purposes does not include the favorable impact that the same hypothetical price movement would have on the Company's and its subsidiaries' physical purchases and sales of natural gas and electric power to which the hedges relate. The portfolio of Energy Derivatives held for hedging purposes is no greater than the notional quantity of the expected or committed transaction volume of physical commodities with equal and opposite commodity price risk for the same time periods. Furthermore, the Energy Derivative portfolio is managed to complement the physical transaction portfolio, reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Energy Derivatives held for hedging purposes associated with the hypothetical changes in commodity prices referenced above would be offset by a favorable impact on the underlying hedged physical transactions, assuming (i) the Energy Derivatives are not closed out in advance of their expected term, (ii) the Energy Derivatives continue to function effectively as hedges of the underlying risk and (iii) as applicable, anticipated transactions occur as expected.

The disclosure with respect to the Energy Derivatives relies on the assumption that the contracts will exist parallel to the underlying physical transactions. If the underlying transactions or positions are liquidated prior to the maturity of the Energy Derivatives, a loss on the financial instruments may occur, or the options might be worthless as determined by the prevailing market value on their termination or maturity date, whichever comes first.

With respect to the Trading Derivatives held by Reliant Energy Services, consisting of natural gas, electric power, crude oil and refined products, physical forwards, swaps, options and exchange-traded futures, this subsidiary is exposed to losses in fair value due to changes in the price and volatility of the underlying derivatives. During the year ended December 31, 1998 and 1997, the highest, lowest and average monthly value-at-risk in the Trading Derivative portfolio was less than $5 million at a 95% confidence level and for a holding period of one business day. The Company uses the variance/covariance method for calculating the value-at-risk and includes the delta approximation for options positions.

The Company has established a Corporate Risk Oversight Committee comprised of corporate and business segment officers that oversees all corporate price and credit risk activities, including derivative trading activities discussed above. The committee's duties are to establish the Company's policies and to monitor and ensure compliance with risk management policies and procedures and the trading limits established by the Company's board of directors.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(c) Regulatory Assets and Other Long-Lived Assets.

The Company and certain subsidiaries of Resources apply the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), to the accounts of Electric Operations, Natural Gas Distribution and the Interstate Pipeline operations of a subsidiary of Resources. In general, SFAS No. 71 permits a company with cost-based rates to defer certain costs that would otherwise be expensed to the extent that the rate regulated company is recovering or expects to recover such costs in rates charged to its customers.

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheet as of December 31, 1998, detailed by Electric Operations and other segments.

	ELECTRIC OPERATIONS	OTHER	TOTAL COMPANY
	(MILLIONS OF DOLLARS)		
Deferred plant costs-- net	$ 536	$	$ 536
Recoverable project costs-- net	55		55
Regulatory tax asset-- net	418		418
Unamortized loss on reacquired debt	140		140
Fuel-related debits/credits-- net	(15)		(15)
Other deferred debits	54	12	66
Total	$ 1,188	$ 12	$ 1,200

If, as a result of changes in regulation or competition, the Company's and Resources' ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, "Accounting for the Discontinuation of Application of SFAS No. 71" (SFAS No. 101) and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), the Company and Resources would be required to write off or write down such regulatory assets and liabilities, unless some form of transition cost recovery continues through rates established and collected for their remaining regulated operations. In addition, the Company and Resources would be required to determine any impairment to the carrying costs of deregulated plant and inventory assets. In order to reduce exposure to potentially stranded costs related to generation assets, Electric Operations redirected $195 million of depreciation in 1998 from transmission, distribution and general plant assets to generation assets. Such redirection is in accordance with the Company's transition to competition plan (Transition Plan) described in Note 1(f). If Electric Operations was required to apply SFAS No. 101 to the generation portion of its business only, the cumulative amount of redirected depreciation of $195 million would become a regulatory asset of the transmission and distribution portion of its business.

Effective January 1, 1996, the Company and Resources adopted SFAS No. 121. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Adoption of the standard did not result in a write-down of the carrying amount of any asset on the books of the Company or Resources.

In July 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board reached a consensus on Issue No. 97-4, "Deregulation of the Pricing of Electricity -- Issues Related to the Application of FASB Statements No. 71, Accounting for the Effects of Certain Types of Regulation, and No. 101, Regulated Enterprises -- Accounting for the Discontinuation of Application of FASB Statement No. 71" (EITF 97-4). EITF 97-4 concluded that the application of SFAS No. 71 to a segment which is subject to a deregulation plan should cease when the legislation and enabling rate order contain sufficient detail for the utility to reasonably determine how the plan will affect the segment to be deregulated. In addition, EITF 97-4 requires the regulatory assets and liabilities to be allocated to the applicable portion of the electric utility from which the source of the regulated cash flows will be derived. As a part of the Transition Plan, the Company has agreed to support future legislation providing for retail customer choice and other provisions consistent with those in the 1997 proposed Texas legislation. At this time, the Company is unable to make any predictions as to the details of legislation being considered by the Texas legislature or the likelihood that such legislation will ultimately be enacted. Although the Company has determined that no impairment loss or write-offs of regulatory assets or carrying costs of plant and inventory assets need to be recognized for applicable assets of Electric Operations as of December 31, 1998, this conclusion may change in the future (i) as competition influences wholesale and retail pricing in the electric utility industry, (ii) depending on regulatory action, if any and (iii) depending on legislation, if any, that is passed.

(n) Investments in Time Warner Securities.

The Company owns 11 million shares of non-publicly traded Time Warner convertible preferred stock (TW Preferred). The TW Preferred is redeemable after July 6, 2000, has an aggregate liquidation preference of $100 per share (plus accrued and unpaid dividends), is entitled to annual dividends of $3.75 per share until July 6, 1999, is currently convertible by the Company and after July 6, 1999 is exchangeable by Time Warner into approximately 45.8 million shares of Time Warner common stock (TW Common). Each share of TW Preferred is entitled to two votes (voting together with the holders of the TW Common as a single class).

The Company has accounted for its investment in TW Preferred under the cost method at a value of $990 million on the Company's Consolidated Balance Sheets. Dividends on these securities are recognized as income at the time they are earned. The Company recorded pre-tax dividend income with respect to the Time Warner securities of $41.3 million in 1998 and 1997 and $41.6 million in 1996.

To monetize its investment in the TW Preferred, the Company sold in July 1997, 22.9 million of ACES. At maturity in July 2000, the principal amount of the ACES will be mandatorily exchangeable by the Company into either (i) a number of shares of TW Common based on an exchange rate or (ii) cash having an equal value. Subject to adjustments that may result from certain dilution events, the exchange rate for each ACES is determined as follows: (i) 1.6528 shares of TW Common if the price of TW Common at maturity (Maturity Price) is at least $27.7922 per share, (ii) a fractional share of TW Common such that the fractional share will have a value equal to $22.96875 if the Maturity Price is less than $27.7922 but greater than $22.96875 and (iii) one share of TW Common if the Maturity Price is not more than $22.96875. The closing price of TW Common was $62.062 per share on December 31, 1998.

Prior to maturity, the Company has the option of redeeming the ACES if (i) changes in federal tax regulations require recognition of a taxable gain on the Company's TW Preferred and (ii) the Company could defer such gain by redeeming the ACES. The redemption price is 105% of the closing sales price of the ACES as determined over a period prior to the redemption notice. The redemption price may be paid in cash or in shares of TW Common or a combination of the two.

As a result of the issuance of the ACES, a portion of the increase in the market value above $27.7922 per share of TW Common results in non-cash, unrealized accounting losses to the Company for the ACES, pending the conversion of the Company's TW Preferred into TW Common. For example, prior to the conversion, when the market price of TW Common increases above $27.7922, the Company records in Other Income (Expense) an unrealized, non-cash accounting loss for the ACES equal to (i) the aggregate amount of such increase as applicable to all ACES multiplied by (ii) 0.8264. In accordance with generally accepted accounting principles, this accounting loss (which reflects the unrealized increase in the Company's indebtedness with respect to the ACES) may not be offset by accounting recognition of the increase in the market value of the TW Common that underlies the TW Preferred. Upon conversion of the TW Preferred (anticipated to occur in July 1999), the Company will begin recording future unrealized net changes in the market prices of the TW Common and the ACES as a component of common stock equity and other comprehensive income.

As of December 31, 1998 and 1997, the market price of TW Common was $62.062 and $31.00 per share, respectively. Accordingly, the Company recognized an increase of $1.2 billion in 1998 and $121 million in 1997 in the unrealized liability relating to its ACES indebtedness (which resulted in an after-tax earnings reduction of $764 million or $2.69 basic earnings per share and $79 million or $.31 basic earnings per share, respectively). The Company believes that the cumulative unrealized loss for the ACES of approximately $1.3 billion is more than economically hedged by the approximately $1.8 billion unrecorded unrealized gain at December 31, 1998 relating to the increase in the fair value of the TW Common underlying the investment in TW Preferred since the date of its acquisition. Any gain related to the increase in fair value of TW Common would be recognized as a component of net income upon the sale of the TW Preferred or the shares of TW Common into which such TW Preferred is converted. As of March 11, 1999, the price of TW Common was $70.75 per share which would have resulted in the Company recognizing an additional increase of $329 million in the unrealized liability relating to its ACES indebtedness. The related unrecorded unrealized gain as of March 11, 1999 would have been computed as an additional $398 million.

(p) Foreign Currency Adjustments

International assets and liabilities where the local currency is the functional currency, have been translated into U.S. dollars using the exchange rate at the balance sheet date. Revenues, expenses, gains, and losses have been translated using the weighted average exchange rate for each month prevailing during the periods reported. Cumulative adjustments resulting from translation have been recorded in stockholders' equity and other comprehensive income. When the U.S. dollar is the functional currency, the financial statements of International are remeasured in U.S. dollars using historical exchange rates for non-monetary accounts and the current rate at the respective balance sheet date and the weighted average exchange rate for all other balance sheet and income statement accounts, respectively. All exchange gains and losses from remeasurement and foreign currency transactions are included in consolidated net income. However, fluctuations in foreign currency exchange rates relative to the U.S. dollar can have an impact on the reported equity earnings of the Company's foreign investments. For additional information about the Company's investments in unconsolidated affiliates, see Note 5. For additional information about the Company's investments in Brazil and the devaluation of the Brazilian real in January 1999, see Note 16(a).

(r) Change in Accounting Principle.

In the fourth quarter of 1998, the Company adopted mark-to-market accounting for all of the energy price risk management and trading activities of Reliant Energy Services. Under mark-to-market accounting, the Company records the fair value of energy-related derivative financial instruments, including physical forward contracts, swaps, options and exchange-traded futures contracts at each balance sheet date. Such amounts are recorded in the Company's Consolidated Balance Sheet as price risk management assets, price risk management liabilities, deferred debits and deferred liabilities. The realized and unrealized gains (losses) are recorded as a component of operating revenues in the Company's Consolidated Statements of Income. The Company has applied mark-to-market accounting retroactively to January 1, 1998. This change was made in order to adopt a generally accepted accounting methodology that provided consistency between financial reporting and the methodology used in all reported periods by the Company in managing its trading activities. There was no material cumulative effect resulting from the accounting change.

The Company will adopt Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" in the first quarter of 1999 for Reliant Energy Services' trading activities. The Company does not expect the implementation of EITF Issue 98-10 to be material to its consolidated financial statements.

(2) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Price Risk Management and Trading Activities.

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

Prior to 1998, Reliant Energy Services applied hedge accounting to certain physical commodity activities that qualified for hedge accounting. In 1998, Reliant Energy Services adopted mark-to-market accounting for all of its price risk management and trading activities. Accordingly, as of such date such Trading Derivatives are recorded at fair value with realized and unrealized gains (losses) recorded as a component of operating revenues in the Company's Consolidated Statements of Income. The recognized, unrealized balance is recorded as price risk management assets/liabilities and deferred debits/credits on the Company's Consolidated Balance Sheets (See Note 1(r)).

The notional quantities, maximum terms and the estimated fair value of Trading Derivatives at December 31, 1998 are presented below (volumes in billions of British thermal units equivalent (BBtue) and dollars in millions):

1998	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
Natural gas	937,264	977,293	9
Electricity	122,950	124,878	3
Crude oil and products	205,499	204,223	3

	FAIR VALUE		AVERAGE FAIR VALUE (a)	
1998	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Natural gas	$ 224	$ 213	$ 124	$ 108
Electricity	34	33	186	186
Crude oil and products	29	23	21	17
	$ 287	$ 269	$ 331	$ 311

The notional quantities, maximum terms and the estimated fair value of derivative financial instruments at December 31, 1997 are presented below (volumes in BBtue and dollars in millions):

1997	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
Natural gas	85,701	64,890	4
Electricity	40,511	42,976	1

1997	FAIR VALUE		AVERAGE FAIR VALUE (a)	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Natural gas	$ 46	$ 39	$ 56	$ 48
Electricity	6	6	3	2
	$ 52	$ 45	$ 59	$ 50

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(a) Computed using the ending balance of each month.

In addition to the fixed-price notional volumes above, Reliant Energy Services also has variable-priced agreements, as discussed above, totaling 1,702,977 and 101,465 BBtue as of December 31, 1998 and 1997, respectively. Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure the Company's exposure to market or credit risks.

All of the fair value shown in the table above at December 31, 1998 and substantially all of the fair value at December 31, 1997 have been recognized in income. The fair value as of December 31, 1998 and 1997 was estimated using quoted prices where available and considering the liquidity of the market for the Trading Derivatives. The prices are subject to significant changes based on changing market conditions.

At December 31, 1998, $22 million of the fair value of the assets and $41 million of the fair value of the liabilities are recorded as long-term on deferred debits and deferred credits, respectively on the Company's Consolidated Balance Sheets.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum and average terms disclosed herein are not indicative of likely future cash flows, as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

In addition to the risk associated with price movements, credit risk is also inherent in the Company and its subsidiaries' risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The following table shows the composition of the total price risk management assets of Reliant Energy Services as of December 31, 1998.

	INVESTMENT GRADE (1)	TOTAL
	(Thousands of Dollars)	
Energy marketers	$ 102,458	$ 123,779
Financial institutions	61,572	61,572
Gas and electric utilities	46,880	48,015
Oil and gas producers	7,197	8,323
Industrials	1,807	3,233
Independent power producers	1,452	1,463
Others	45,421	46,696
Total	$ 266,787	$ 293,081
Credit and other reserves		(6,464)
Energy price risk management assets (2)		$ 286,617

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(1) "Investment Grade" is primarily determined using publicly available credit ratings along with the consideration of credit support (e.g., parent company guarantees) and collateral, which encompass cash and standby letters of credit.

(2) The Company has credit risk exposure with respect to two investment grade customers, each of which represents an amount greater than 5% but less than 10% of Price Risk Management Assets.

(b) Non-Trading Activities.

To reduce the risk from market fluctuations in the price of electric power, natural gas and related transportation, the Company, Resources and certain of its subsidiaries enter into futures transactions, swaps and options (Energy Derivatives) in order to hedge certain natural gas in storage, as well as certain expected purchases, sales and transportation of natural gas and electric power (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements, although usage to date for this purpose has not been material. The Company applies hedge accounting with respect to its derivative financial instruments.

Certain subsidiaries of the Company also utilize interest-rate derivatives (principally interest-rate swaps) in order to adjust the portion of its overall borrowings which are subject to interest rate risk and also utilize such derivatives to effectively fix the interest rate on debt expected to be issued for refunding purposes.

For transactions involving either Energy Derivatives or interest-rate derivatives, hedge accounting is applied only if the derivative (i) reduces the price risk of the underlying hedged item and (ii) is designated as a hedge at its inception. Additionally, the derivatives must be expected to result in financial impacts which are inversely correlated to those of the item(s) to be hedged. This correlation (a measure of hedge effectiveness) is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied.

In the case of interest-rate swaps associated with existing obligations, cash flows and expenses associated with the interest-rate derivative transactions are matched with the cash flows and interest expense of the obligation being hedged, resulting in an adjustment to the effective interest rate. When interest rate swaps are utilized to effectively fix the interest rate for an anticipated debt issuance, changes in the market value of the interest-rate derivatives are deferred and recognized as an adjustment to the effective interest rate on the newly issued debt.

Unrealized changes in the market value of Energy Derivatives utilized as hedges are not generally recognized in the Company's Consolidated Statements of Income until the underlying hedged transaction occurs. Once it becomes probable that an anticipated transaction will not occur, deferred gains and losses are recognized. In general, the financial impact of transactions involving these Energy Derivatives is included in the Company's Statements of Consolidated Income under the captions (i) fuel expenses, in the case of natural gas transactions and (ii) purchased power, in the case of electric power transactions. Cash flows resulting from these transactions in Energy Derivatives are included in the Company's Statements of Consolidated Cash Flows in the same category as the item being hedged.

At December 31, 1998, subsidiaries of Resources were fixed-price payors and fixed-price receivers in Energy Derivatives covering 42,498 billion British thermal units (Bbtu) and 3,930 BBtu of natural gas, respectively. At December 31, 1997, subsidiaries of Resources were fixed-price payors and fixed-price receivers in Energy Derivatives covering 38,754 BBtu and 7,647 BBtu of natural gas, respectively. Also, at December 31, 1998 and 1997, subsidiaries of Resources were parties to variable-priced Energy Derivatives totaling 21,437 Bbtu and 3,630 BBtu of natural gas, respectively. The weighted average maturity of these instruments is less than one year.

The notional amount is intended to be indicative of the Company's and its subsidiaries' level of activity in such derivatives, although the amounts at risk are significantly smaller because, in view of the price movement correlation required for hedge accounting, changes in the market value of these derivatives generally are offset by changes in the value associated with the underlying physical transactions or in other derivatives. When Energy Derivatives are closed out in advance of the underlying commitment or anticipated transaction, however, the market value changes may not offset due to the fact that price movement correlation ceases to exist when the positions are closed, as further discussed below. Under such circumstances, gains (losses) are deferred and recognized as a component of income when the underlying hedged item is recognized in income.

The average maturity discussed above and the fair value discussed in Note 13 are not necessarily indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(c) Trading and Non-trading -- General Policy.

In addition to the risk associated with price movements, credit risk is also inherent in the Company's and its subsidiaries' risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. While as yet the Company and its subsidiaries have experienced only minor losses due to the credit risk associated with these arrangements, the Company has off-balance sheet risk to the extent that the counterparties to these transactions may fail to perform as required by the terms of each such contract. In order to minimize this risk, the Company and/or its subsidiaries, as the case may be, enter into such contracts primarily with those counterparties with a minimum Standard & Poor's or Moody's rating of BBB- or Baa3, respectively. For long-term arrangements, the Company and its subsidiaries periodically review the financial condition of such firms in addition to monitoring the effectiveness of these financial contracts in achieving the Company's objectives. Should the counterparties to these arrangements fail to perform, the Company would seek to compel performance at law or otherwise or obtain compensatory damages in lieu thereof. The Company might be forced to acquire alternative hedging arrangements or be required to honor the underlying commitment at then- current market prices. In such event, the Company might incur additional loss to the extent of amounts, if any, already paid to the counterparties. In view of its criteria for selecting counterparties, its process for monitoring the financial strength of these counterparties and its experience to date in successfully completing these transactions, the Company believes that the risk of incurring a significant financial statement loss due to the non-performance of counterparties to these transactions is minimal.

The Company's policies prohibit the use of leveraged financial instruments.

The Company has established a Corporate Risk Oversight Committee, comprised of corporate and business segment officers, to oversee all corporate price and credit risks, including Reliant Energy Services' trading, marketing and risk management activities. The Corporate Risk Oversight Committee's responsibilities include reviewing the Company's and its subsidiaries' hedging, trading and price risk management strategies, activities and limits and monitoring to ensure compliance with the Company's risk management policies and procedures and trading limits established by the Company's board of directors.

(3) RATE MATTERS

(a) Electric Proceedings.

The Texas Utility Commission has original (or in some cases appellate) jurisdiction over Electric Operations' electric rates and services. Texas Utility Commission orders may be appealed to a District Court in Travis County, and from that court's decision an appeal may be taken to the Court of Appeals for the 3rd District at Austin (Austin Court of Appeals). Discretionary review by the Supreme Court of Texas may be sought from decisions of the Austin Court of Appeals. In the event that the courts ultimately reverse actions of the Texas Utility Commission, such matters are remanded to the Texas Utility Commission for action in light of the courts' orders.

(b) Transition Plan.

In June 1998, the Texas Utility Commission issued an order in Docket No. 18465 approving the Company's Transition Plan filed by Electric Operations in December 1997. The Transition Plan included base rate credits to residential customers of 4% in 1998 and an additional 2% in 1999. Commercial customers whose monthly billing is 1,000 kva or less are entitled to receive base rate credits of 2% in each of 1998 and 1999. The Company implemented the Transition Plan effective January 1, 1998.

For information about additional depreciation of generation assets and redirecting depreciation pursuant to the Transition Plan, see Note 1(f).

Review of the Texas Utility Commission's order in Docket No. 18465 is currently pending before the Travis County District Court. In August 1998, the Office of the Attorney General for the State of Texas and a Texas municipality filed an appeal seeking, among other things, to reverse the portion of the Texas Utility Commission's order relating to the redirection of depreciation expenses under the Transition Plan. Because of the number of variables that can affect the ultimate resolution of an appeal of Commission orders, the Company is not in a position at this time to predict the outcome of this matter or the ultimate effect that adverse action by the courts could have on the Company.

(4) JOINTLY OWNED ELECTRIC UTILITY PLANT

(a) Investment in South Texas Project.

The Company has a 30.8% interest in the South Texas Project, which consists of two 1,250 megawatt (MW) nuclear generating units and bears a corresponding 30.8% share of capital and operating costs associated with the project. As of December 31, 1998, the Company's investment in the South Texas Project (including AFUDC) was $1.4 billion (net of $1.1 billion accumulated depreciation). The Company's investment in nuclear fuel (including AFUDC) was $41 million (net of $230 million amortization) as of such date.

The South Texas Project is owned as a tenancy in common among its four co-owners, with each owner retaining its undivided ownership interest in the two nuclear-fueled generating units and the electrical output from those units. The four co-owners have delegated management and operation responsibility for the South Texas Project to the South Texas Nuclear Operating Company (STPNOC). STPNOC is managed by a board of directors comprised of one director from each of the four owners, along with the chief executive officer of STPNOC. The four owners provide oversight through an owners' committee comprised of representatives of each of the owners and through the board of directors of STPNOC. Prior to November 1997, the Company was the operator of the South Texas Project.

(b) Nuclear Insurance.

The Company and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses. This coverage consists of $500 million in primary property damage insurance and excess property insurance in the amount of $2.25 billion. With respect to excess property insurance, the Company and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $16.5 million during any one policy year. The application of the proceeds of such property insurance is subject to the priorities established by the Nuclear Regulatory Commission (NRC) regulations relating to the safety of licensed reactors and decontamination operations.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants, such as the South Texas Project, was $9.145 billion as of December 31, 1998. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The assessment of deferred premiums provided by the plan for each nuclear incident is up to $83.9 million per reactor, subject to indexing for inflation, a possible 5% surcharge (but no more than $10 million per reactor per incident in any one year) and a 3% state premium tax. The Company and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on the Company's financial condition, results of operations and cash flows.

(c) Nuclear Decommissioning.

The Company contributes $14.8 million per year to a trust established to fund its share of the decommissioning costs for the South Texas Project. For a discussion of the accounting treatment for the securities held in the Company's nuclear decommissioning trust, see Note 1(o). In May 1994, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $318 million (1994 dollars). The consultant's calculation of decommissioning costs for financial planning purposes used the DECON methodology (prompt removal/dismantling), one of the three alternatives acceptable to the NRC and assumed deactivation of Units Nos. 1 and 2 upon the expiration of their 40-year operating licenses. While the current and projected funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning, changes in regulatory and accounting requirements, changes in technology and changes in costs of labor, materials and equipment. An update of the 1994 study is in the process of being completed.

(d) Assessment Fees for Spent Fuel Disposal and Enrichment and Decommissioning.

By contract, the United States Department of Energy (DOE) has committed itself ultimately to take possession of all spent fuel generated by the South Texas Project. The DOE contract currently requires payment of a spent fuel disposal fee on nuclear plant-generated electricity of one mill (one-tenth of a cent) per net KWH sold. This fee is subject to adjustment to ensure full cost recovery by the DOE. The Energy Policy Act also includes a provision that assesses a fee upon domestic utilities that purchased nuclear fuel enrichment services from the DOE before October 24, 1992. The South Texas Project's assessment is approximately $2 million per year (subject to escalation for inflation). The Company has a remaining estimated liability of $5 million for such assessments.

(e) 1996 Settlement of South Texas Project Litigation.

In 1996, the Company recorded an aggregate $95 million ($62 million net of tax) charge in connection with various settlements of lawsuits filed by co-owners of the South Texas Project. For information about the execution of an operations agreement with the City of San Antonio in connection with one of these settlements, see Note 12(c).

(5) EQUITY INVESTMENTS AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES

The Company accounts for affiliate investments of its subsidiaries under the equity method of accounting where (i) the subsidiary's ownership interest in the affiliate ranges from 20% to 50%, (ii) the ownership interest is less than 20% but the subsidiary exercises significant influence over operating and financial policies of such affiliate or (iii) the subsidiary's ownership interest in the affiliate exceeds 50% but the subsidiary does not exercise control over the affiliate.

The Company's and its subsidiaries' equity investments and advances in unconsolidated subsidiaries at December 31, 1998 and 1997 were $1 billion and $704 million, respectively. The Company's and its subsidiaries' equity income from these investments, included in International revenues and other net income, was $71 million, $49 million and $17 million in 1998, 1997 and 1996, respectively. Dividends received from the investments amounted to $44 million and $46 million in 1998 and 1997, respectively. No dividends were received from these investments in 1996.

(a) International.

In April 1998, Light ServiHos de Eletricidade S.A. (Light), a Brazilian corporation in which Reliant Energy International, Inc. (Reliant Energy International) indirectly owns an 11.69% common stock interest, purchased 74.88% of the common stock of Metropolitana Eletricidade de Sao Paulo S.A. (Metropolitana), an electric distribution company that serves the metropolitan area of Sao Paulo, Brazil. The purchase price for the shares was approximately $1.8 billion and was financed with proceeds from bank borrowings. As of December 31, 1998, Light and Metropolitana had approximately $3.2 billion in non-local currency denominated borrowings. For information regarding foreign currency adjustments, see Note 1(p). For information about the devaluation of the Brazilian real in January 1999, see Note 16(a).

In May 1997, Reliant Energy International increased its indirect ownership interest in an Argentine electric utility from 48% to 63%. The purchase price of the additional interest was $28 million.

On June 30, 1998, Reliant Energy International sold its 63% ownership interest in an Argentine affiliate and certain related assets for approximately $243 million. Reliant Energy International acquired its initial ownership interests in the electric utility in 1992. The Company recorded an $80 million after-tax gain from this sale in the second quarter of 1998.

In 1998, a subsidiary of Reliant Energy International acquired for approximately $150 million, equity interests (currently ranging from approximately 36% to 45%) in three electric distribution systems located in El Salvador. Corporacion EDC S.A.C.A. (CEDC), Reliant Energy International's partner in this venture, acquired majority interests in the systems when they were privatized in early 1998. On June 30, 1998, CEDC closed on the sale of approximately half of its interests in the systems to a subsidiary of Reliant Energy International.

In August 1998, Reliant Energy International and CEDC jointly acquired, through subsidiaries, 65% of the stock of two Colombian electric distribution companies, Electricaribe and Electrocosta. The shares of these companies are indirectly held by an offshore holding company jointly owned by special purpose subsidiaries of CEDC and Reliant Energy International.

The purchase price for the joint investment in Electricaribe and Electrocosta was approximately $522 million, excluding transaction costs. The purchase price was funded with capital contributions from Reliant Energy International and CEDC and a U.S. $200 million loan obtained by the holding company from a United States bank. A $100 million advance on the loan was obtained in October 1998 with subsequent advances of $25 million and $75 million obtained in December 1998 and January 1999, respectively. The loan will mature on October 31, 2003. Reliant Energy International funded its capital contributions with a portion of the proceeds from the sale of the Argentine affiliate discussed above and capital contributions from the Company. Under the terms of a support agreement, Reliant Energy International and CEDC have agreed, among other things, to repurchase up to U.S. $50 million of the loan from the bank to the extent that the bank is unable to syndicate that portion of the loan to other banks on or prior to June 15, 1999.

In June 1997, a consortium of investors which included a subsidiary of Reliant Energy International, acquired for $496 million a 56.7% controlling ownership interest in Empresa de Energia del Pacifico S.A.E.S.P. (EPSA), an electric utility system serving the Valle de Cauca province of Colombia, including the area surrounding the city of Cali. Reliant Energy International contributed $152 million of the purchase price for a 28.35% ownership interest in EPSA. In addition to its distribution facilities, EPSA owns 850 MW of electric generation capacity.

Reliant Energy International has accounted for these transactions under purchase accounting and has recorded its investments and its interest in the affiliates' earnings after the acquisition dates using the equity method. The purchase prices were allocated, on a preliminary basis, using the estimated fair market values of the assets acquired and the liabilities assumed as of the dates of acquisition. The differences between the amounts paid and the underlying fair values of the net assets acquired are being amortized as a component of earnings attributable to unconsolidated affiliates over the estimated lives of the projects ranging from 30 to 40 years. Purchase price adjustments to fixed assets are being amortized over the underlying assets' estimated useful lives.

(b) Combined Financial Statement Data of Equity Investments and Advances to Unconsolidated Subsidiaries.

The following table sets forth certain summarized financial information of the Company's unconsolidated affiliates as of December 31, 1998 and 1997 and for the years then ended or periods from the respective affiliates' acquisition date through December 31, 1998, 1997 and 1996, if shorter:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	($ IN THOUSANDS)		
Income Statement:			
Revenues	$ 2,449,335	$ 2,011,927	$ 994,743
Operating Expenses	1,762,166	1,460,248	768,993
Net Income	514,005	403,323	149,038

	YEAR ENDED DECEMBER 31,	
	1998	1997
	($ IN THOUSANDS)	
Balance Sheet:		
Current Assets	$ 1,841,857	$ 726,997
Noncurrent Assets	13,643,747	5,791,858
Current Liabilities	4,074,603	566,596
Noncurrent Liabilities	6,284,821	1,398,385
Owner's Equity	5,126,180	4,553,874

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

(c) FinanceCo and FinanceCo II Credit Facilities.

In August 1997, a limited partnership special purpose subsidiary of the Company (FinanceCo) established a five-year, $1.644 billion revolving credit facility (FinanceCo Facility). The FinanceCo Facility supported $1.360 billion in commercial paper borrowings by FinanceCo at December 31, 1998 recorded as notes payable on the Company's Consolidated Balance Sheet. The weighted average interest rate of these borrowings was 5.88% at December 31, 1998, and 6.15% at December 31, 1997.

Borrowings under the FinanceCo Facility bear interest at a rate based upon the London interbank offered rate (LIBOR) plus a margin, a base rate or at a rate determined through a bidding process. The FinanceCo Facility may be used (i) to support the issuance of commercial paper or other short-term indebtedness of FinanceCo, (ii) subject to certain limitations, to finance purchases of Company common stock and (iii) subject to certain limitations, to provide funds for general purposes of FinanceCo, including the making of intercompany loans to, or securing letters of credit for the benefit of, FinanceCo's affiliates.

The FinanceCo Facility requires the Company to maintain a ratio of consolidated indebtedness for borrowed money to consolidated capitalization (as defined) that does not exceed 0.65:1.00. The FinanceCo Facility also contains restrictions applicable to the Company and certain of its subsidiaries with respect to, among other things, (i) liens, (ii) consolidations, mergers and dispositions of assets, (iii) dividends and purchases of common stock, (iv) certain types of investments and (v) certain changes in its business. The FinanceCo Facility contains customary covenants and default provisions applicable to FinanceCo and its subsidiaries, including limitations on, among other things, additional indebtedness (other than certain permitted indebtedness), liens and certain investments or loans.

Subject to certain conditions and limitations, the Company is required to make cash payments from time to time to FinanceCo from excess cash flow (as defined in the FinanceCo Facility) to the extent necessary to enable FinanceCo to meet its financial obligations. At December 31, 1998, commercial paper supported by the FinanceCo Facility was secured by pledges of (i) all of the limited and general partner interests of FinanceCo, (ii) the Series B Preference Stock and (iii) certain intercompany notes held by FinanceCo. The obligations under the FinanceCo Facility are not secured by the utility assets of the Company or Resources or by the Company's investment in Time Warner securities.

In March 1998, a limited partnership special purpose subsidiary of the

Company (FinanceCo II) executed a $150 million credit agreement (FinanceCo II Facility) which terminated March 2, 1999. Proceeds from $150 million of borrowings under the FinanceCo II Facility were used to fund a portion of the April 1998 purchase by Reliant Energy Power Generation, Inc. (Power Generation) of four electric generation plants. Borrowings under the FinanceCo II Facility bore interest at LIBOR-based and negotiated rates. At December 31, 1998, FinanceCo II had $150 million of borrowings under this facility at an interest rate of 5.75%. In March 1999, the $150 million of borrowings under the FinanceCo II facility were paid at maturity with borrowings under the FinanceCo facility.

(d) Company Credit Facility.

The Company meets its short-term financing needs primarily through sales of commercial paper supported by a $200 million revolving credit facility. Borrowings under the facility are unsecured and a facility fee is paid. At December 31, 1998, there was no outstanding commercial paper and there were no outstanding borrowings under the bank facility.

(9) TRUST SECURITIES

(a) Company.

In February 1997, two Delaware statutory business trusts (Reliant Trusts) established by the Company issued (i) $250 million of preferred securities and (ii) $100 million of capital securities, respectively. The preferred securities have a distribution rate of 8.125% payable quarterly in arrears, a stated liquidation amount of $25 per preferred security and must be redeemed by March 2046. The capital securities have a distribution rate of 8.257% payable quarterly in arrears, a stated liquidation amount of $1,000 per capital security and must be redeemed by February 2037.

The Reliant Trusts sold the preferred and capital securities to the public and used the proceeds to purchase $350 million aggregate principal amount of subordinated debentures (Debentures) from the Company having interest rates corresponding to the distribution rates of the securities and maturity dates corresponding to the mandatory redemption dates of the securities. The Reliant Trusts are accounted for as wholly owned consolidated subsidiaries of the Company. The Debentures represent the Reliant Trusts' sole assets and its entire operations. The Company has fully and unconditionally guaranteed, on a subordinated basis, each Trust's obligations, including the payment of distributions and all other payments due with respect to the respective preferred and capital securities. The preferred and capital securities are mandatorily redeemable upon the repayment of the related Debentures at their stated maturity or earlier redemption.

Subject to certain limitations, the Company has the option of deferring payments of interest on the Debentures held by the Reliant Trusts. If and for as long as interest payments on the Debentures have been deferred, or an event of default under the indenture relating thereto has occurred and is continuing, the Company may not pay dividends on its capital stock. As of December 31, 1998, no interest payments on the Debentures had been deferred.

(12) COMMITMENTS AND CONTINGENCIES

(a) Commitments.

The Company has various commitments for capital expenditures, fuel, purchased power, cooling water and operating leases. Commitments in connection with Electric Operations' capital program are generally revocable by the Company, subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties. The Company's and its subsidiaries' other commitments have various quantity requirements and durations. However, if these requirements could not be met, various alternatives are available to mitigate the cost associated with the contracts' commitments.

(b) Fuel and Purchased Power.

The Company is a party to several long-term coal, lignite and natural gas contracts which have various quantity requirements and durations. Minimum payment obligations for coal and transportation agreements are approximately $210 million in 1999, $187 million in 2000 and $188 million in 2001. Additionally, minimum payment obligations for lignite mining and lease agreements are approximately $9 million for 1999, $10 million for 2000 and $10 million for 2001. Minimum payment obligations for both natural gas purchase and storage contracts associated with Electric Operations are approximately $10 million in 1999, $9 million in 2000 and $9 million in 2001.

The Company also has commitments to purchase firm capacity from two cogenerators totaling approximately $22 million in both 1999 and 2000. Texas Utility Commission rules currently allow recovery of these costs through Electric Operations' base rates for electric service and additionally authorize the Company to charge or credit customers through a purchased power cost recovery factor for any variation in actual purchased power costs from the cost utilized to determine its base rates. In the event that the Texas Utility Commission, at some future date, does not allow recovery through rates of any amount of purchased power payments, these two firm capacity contracts contain provisions allowing the Company to suspend or reduce payments and seek repayment for amounts disallowed. Both of these firm capacity contracts have initial terms ending March 31, 2005.

(c) Operations Agreement with City of San Antonio.

As part of the 1996 settlement of certain litigation claims asserted by the City of San Antonio with respect to the South Texas Project, the Company entered into a 10-year joint operations agreement under which the Company and the City of San Antonio, acting through the City Public Service Board of San Antonio (CPS), share savings resulting from the joint dispatching of their respective generating assets in order to take advantage of each system's lower cost resources. Under the terms of the joint operations agreement entered into between CPS and Electric Operations, the Company has guaranteed CPS minimum annual savings of $10 million and a minimum cumulative savings of $150 million over the 10-year term of the agreement. Based on current forecasts and other assumptions regarding the combined operation of the two generating systems, the Company anticipates that the savings resulting from joint operations will equal or exceed the minimum savings guaranteed under the joint operating agreement. In 1996, savings generated for CPS' account for a partial year of joint operations were approximately $14 million. In 1997 and 1998, savings generated for CPS' account for a full year of operation were approximately $22 million and $14 million, respectively.

(d) Transportation Agreement.

Resources had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) which contemplated that Resources would transfer to ANR an interest in certain of Resources' pipeline and related assets. The interest represented capacity of 250 Mmcf/day. Under the ANR Agreement, an ANR affiliate advanced $125 million to Resources. Subsequently, the parties restructured the ANR Agreement and Resources refunded in 1995 and 1993, respectively, $50 million and $34 million to ANR or an affiliate. Resources recorded $41 million as a liability reflecting ANR's or its affiliates' use of 130 Mmcf/day of capacity in certain of Resources' transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to an ANR affiliate. The ANR Agreement will terminate in 2005 with a refund of the remaining balance.

(e) Lease Commitments.

The following table sets forth certain information concerning the Company's obligations under non-cancelable long-term operating leases:

Minimum Lease Commitments at December 31, 1998 (1)
(Millions of Dollars)

1999	$ 20
2000	16
2001	15
2002	11
2003	10
2004 and beyond	66
Total	$ 138

- ----------

(1) Principally consisting of rental agreements for building space and data processing equipment and vehicles (including major work equipment).

Resources has a master leasing agreement which provides for the lease of vehicles, construction equipment, office furniture, data processing equipment and other property. For accounting purposes, the lease is treated as an operating lease. Resources does not expect to lease additional property under this lease agreement.

Total rental expense for all Resources' leases was approximately $25 million in 1998. Total rental expense for all leases in 1997 since the Acquisition Date was approximately $15 million.

(f) Letters of Credit.

At December 31, 1998, the Company and Resources had letters of credit incidental with their ordinary business operations totaling approximately $34 million under which they are obligated to reimburse drawings, if any.

(g) Indemnity Provisions.

At December 31, 1998, Resources had a $5.8 million accounting reserve on the Company's Consolidated Balance Sheet in Other Deferred Credits for possible indemnity claims asserted in connection with its disposition of Resources' former subsidiaries or divisions, including the sale of (i) Louisiana Intrastate Gas Corporation, a former Resources subsidiary engaged in the intrastate pipeline and liquids extraction business; (ii) Arkla Exploration Company, a former Resources subsidiary engaged in oil and gas exploration and production activities; and (iii) Dyco Petroleum Company, a former Resources subsidiary engaged in oil and gas exploration and production.

(h) Environmental Matters.

The Company is a defendant in litigation arising out of the environmental remediation of a site in Corpus Christi, Texas. The litigation was instituted in 1985 by adjacent landowners. The litigation is pending before the United States

District Court for the Southern District of Texas, Corpus Christi Division. The site was operated by third parties as a metals reclaiming operation. Although the Company neither operated nor owned the site, certain transformers and other equipment originally sold by the Company may have been delivered to the site by third parties. The Company and others have remediated the site pursuant to a plan approved by appropriate state agencies and a federal court. To date, the Company has recovered or has commitments to recover from other responsible parties $2.2 million of the more than $3 million it has spent on remediation.

In 1992, the United States Environmental Protection Agency (EPA) (i) identified the Company, along with several other parties, as "potentially responsible parties" (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for the costs of cleaning up a site located adjacent to one of the Company's transmission lines in La Marque, Texas and (ii) issued an administrative order for the remediation of the site. The Company believes that the EPA took this action solely on the basis of information indicating that the Company in the 1950s acquired record title to a portion of the land on which the site is located. The Company does not believe that it now or previously has held any ownership interest in the property covered by the order and has obtained a judgement to that effect from a court in Galveston County, Texas. Based on this judgement and other defenses that the Company believes to be meritorious, the Company has elected not to adhere to the EPA's administrative order, even though the Company understands that other PRPs are proceeding with site remediation. To date, neither the EPA nor any other PRP has instituted an action against the Company for any share of the remediation costs for the site. However, if the Company was determined to be a responsible party, the Company could be jointly and severally liable along with the other PRPs for the aggregate remediation costs of the site (which the Company currently estimates to be approximately $80 million in the aggregate) and could be assessed substantial fines and damage claims. Although the ultimate outcome of this matter cannot currently be predicted at this time, the Company does not believe that this case will have a material adverse effect on the Company's financial condition, liquidity or results of operations.

From time to time the Company and its subsidiaries have received notices from regulatory authorities or others regarding their status as potential PRPs in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, the Company has been named as 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 its practice of vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operation or cash flows.

(i) Other.

Electric Operations' service area is heavily dependent on oil, gas, refined products, petrochemicals and related businesses. Significant adverse events affecting these industries would negatively affect the revenues of the Company.

The Company and Resources are involved in legal, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business, some of which 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 effect on the Company's and Resources' respective financial statements, if any, from the disposition of these matters will not be material.

In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class, against the Company and Houston Industries Finance Inc. (formerly a wholly owned subsidiary of the Company) citing underpayment of municipal franchise fees. The plaintiffs claim, among other things, that from 1957 to the present, franchise fees should have been paid on sales taxes collected by Electric Operations on receipts from sales to other utilities and on receipts from services as well as sales of electricity. Plaintiffs advance their claims notwithstanding their failure to notice such claims over the previous four decades. Because all of the franchise ordinances affecting Electric Operations expressly impose fees only on receipts from sales of electricity for consumption within a city, the Company regards plaintiffs' allegations as spurious and is vigorously contesting the matter. The plaintiffs' pleadings assert that their damages exceed $250 million. The District Court for Harris County has granted a partial summary judgment in favor of the Company dismissing all claims for franchise fees based on sales tax collections. Other motions for partial summary judgment remain pending. Although the Company believes the claims to be without merit, the Company cannot at this time estimate a range of possible loss, if any, from the lawsuit, nor can any assurance be given as to its ultimate outcome.

(16) SUBSEQUENT EVENTS

(a) Foreign Currency Devaluation.

In January 1999, the Brazilian real was devalued and allowed to float against other major currencies. The Company expects to take a charge against first quarter earnings as a result of the Brazilian devaluation. The charge will reflect the Company's proportionate share of the impact of the devaluation on foreign denominated debt of Brazilian corporations in which the Company holds an equity interest. The amount of the charge will not be known until the end of the first quarter.

At December 31, 1998, one U.S. dollar could be exchanged for 1.21 Brazilian reais. Using the exchange rate of 2.06 reais/dollar in effect at the end of February, and the average exchange rate in effect since the end of the year, the

Company estimates that its share of the after-tax charge that would be recorded by the Brazilian companies in which it owns an interest would be approximately $125 million.

EXHIBIT 12

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(THOUSANDS OF DOLLARS)

	THREE MONTHS ENDED MARCH 31, 1999	TWELVE MONTHS ENDED MARCH 31, 1999
Income from Continuing Operations	$ 70,973	102,969
Income Taxes from Continuing Operations	52,474	107,250
Non-Utility Interest Capitalized	--	--
Income from Continuing Operations Before Income Taxes	123,447	210,219
Fixed Charges Interest	29,270	113,908
Amortization of debt discount and expense	491	654
Portion of Rents Considered to Represent an Interest Factor	2,143	9,519
Total Fixed Charges	31,904	124,081
Income from Continuing Operations Before Income Taxes and Fixed Charges	$ 155,351	$ 334,300
Ratio of Earnings to Fixed Charges	4.87	2.69

OPUR1

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM RESOURCES' FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0001042773
RELIANT ENERGY RESOURCES CORP
1,000

3-MOS
DEC-31-1999
MAR-31-1999
PER-BOOK
1,346,267
1,496,149
1,493,481
2,341,407
0
6,667,304
1
2,449,925
185,644
2,635,570
0
0
1,506,121
0
300,000
0
201,965
0
0
0
2,033,648
6,677,304
1,828,064
52,474
1,677,887
1,677,887
150,177
3,031
153,208
29,761
70,973
0
70,973
0
29,662
80,939
0
0

EXHIBIT 99B

[ITEMS INCORPORATED
FROM THE RESOURCES 10-K]

ITEM 3. LEGAL PROCEEDINGS.

(b) Resources.

For a description of certain legal and regulatory proceedings affecting Resources, see Note 8(g) to Resources' Consolidated Financial Statements, which note is incorporated herein by reference.

ITEM. 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY

CERTAIN FACTORS AFFECTING FUTURE EARNINGS
OF THE COMPANY AND ITS SUBSIDIARIES

Earnings for the past three years are not necessarily indicative of future earnings and results. The level of future earnings depends on numerous factors including (i) the future growth in the Company's and its subsidiaries' energy sales; (ii) weather; (iii) the success of the Company's and its subsidiaries' entry into non-rate regulated businesses such as energy marketing and international and domestic power projects; (iv) the Company's and its subsidiaries' ability to respond to rapid changes in a competitive environment and in the legislative and regulatory framework under which they have traditionally operated; (v) rates of economic growth in the Company's and its subsidiaries' service areas; (vi) the ability of the Company and its subsidiaries to control costs and to maintain pricing structures that are both attractive to customers and profitable; (vii) the outcome of future rate proceedings; (viii) the effect that foreign exchange rate changes may have on the Company's investments in international operations; and (ix) future legislative initiatives.

In order to adapt to the increasingly competitive environment in which the Company operates, the Company continues to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, internal restructuring, reorganizations or dispositions of currently owned properties or currently operating business units and new products, services and customer strategies. In addition, the Company continues to engage in new business ventures, such as electric power trading and marketing, which arise from competitive and regulatory changes in the utility industry.

COMPETITION AND RESTRUCTURING OF THE ELECTRIC UTILITY INDUSTRY

The electric utility industry is becoming increasingly competitive due to changing government regulations, technological developments and the availability of alternative energy sources.

Long-Term Trends in Electric Utility Industry. The electric utility industry historically has been composed of vertically integrated companies providing electric service on an exclusive basis within governmentally-defined geographic areas. Prices for electric service have typically been set by governmental authorities under principles designed to provide the utility with an opportunity to recover its cost of providing electric service plus a reasonable return on its invested capital. Federal legislation and regulation as well as legislative and regulatory initiatives in various states have encouraged competition among electric utility and non-utility owned power generators. These developments, combined with increased demand for lower-priced electricity and technological advances in electric generation, have continued to move the electric utility industry in the direction of more competition.

Based on a strategic review of the Company's business and of ongoing developments in the electric utility and related industries regarding competition, regulation and consolidation, the Company's management believes that the electric utility industry will continue its path toward competition, albeit on a state-by-state basis. The Company's management also believes the business of electricity and natural gas are converging and consolidating and these trends will alter the structure and business practices of companies serving these markets in the future.

Competition in Wholesale Market. The Federal Energy Policy Act of 1992, the Public Utility Regulatory Act of 1995 (now the Texas Utilities Code) and regulations promulgated by the Federal Energy Regulatory Commission (FERC) contain provisions intended to facilitate the development of a wholesale energy market. Although Reliant Energy HL&P's wholesale sales traditionally have accounted for less than 1% of its total revenues, the expansion of competition in the wholesale electric market is significant in that it has increased the range of non-utility competitors, such as exempt wholesale generators (EWGs) and power marketers, in the Texas electric market as well as resulted in fundamental changes in the operation of the state transmission grid.

In February 1996, the Texas Utility Commission adopted rules granting third-party users of transmission systems open access to such systems at rates, terms and conditions comparable to those available to utilities owning such transmission assets. Under the Texas Utility Commission order implementing the rule, Reliant Energy HL&P was required to separate, on an operational basis, its wholesale power marketing operations from the operations of the transmission grid and, for purposes of transmission pricing, to disclose each of its separate costs of generation, transmission and distribution.

Within ERCOT, an independent system operator (ISO) manages the state's electric grid, ensuring system reliability and providing non-discriminatory transmission access to all power producers and traders. The ERCOT ISO, the first in the nation, is a key component for implementing the Texas Utility Commission's overall strategy to create a competitive wholesale market. ERCOT formed an ad hoc committee in early 1998 to investigate the potential impacts of a competitive retail market on the ISO. The ERCOT committee report was released in December 1998 and concluded that the ISO's role and function would necessarily expand in a competitive retail environment, but the changes required of the ISO to support retail choice should not impede introduction of retail choice.

Competition in Retail Market. The Company estimates that, since 1978, cogeneration projects representing approximately one-third of current total peak generating capability have been built in the Houston area and that, as a result, Reliant Energy HL&P has seen a reduction of approximately 2,500 MW in customer load to self-generation. Reliant Energy HL&P has utilized flexible pricing to respond to situations where large industrial customers have an alternative to buying power from it, primarily by constructing their own generating facilities. Under a tariff option approved by the Texas Utility Commission in 1995, Reliant Energy HL&P was permitted to implement contracts based upon flexible pricing for up to 700 MW. Currently, this rate is fully subscribed.

Texas law currently does not permit retail sales by unregulated entities such as cogenerators. The Company anticipates that cogenerators and other interests will continue to exert pressure to obtain access to the electric transmission and distribution systems of regulated utilities for the purpose of making retail sales to customers of regulated utilities.

Legislative Proposals. A number of proposals to restructure the electric utility industry have been introduced in the 1999 session of the Texas legislature. If adopted, legislation may permit and encourage alternative suppliers to compete to serve Reliant Energy HL&P's current rate-regulated retail customers. The various legislative proposals include provisions governing recovery of stranded costs and permitting securitization of those costs; freezing rates until 2002; requiring firm sales of energy to competing retail electric providers; requiring disaggregation of generation, transmission and distribution, and retail sales into separate companies and limiting the ability of existing utilities' affiliates competing for retail electric customers on the basis of price until they have lost a substantial percentage of their residential and small commercial load to alternative retail providers. In addition to the Texas legislative proposals, a number of federal legislative proposals to promote retail electric competition or restructure the U.S. electric utility industry have been introduced during the current congressional session.

At this time, the Company is unable to make any prediction as to whether any legislation to restructure electric operations or provide retail competition will be enacted or as to the content or impact on the Company of any legislation which may be enacted. However, because the proposed legislation is intended to fundamentally restructure electric utility operations, it is likely that enacted legislation would have a material impact on the Company.

Stranded Costs. As the U.S. electric utility industry continues its transition to a more competitive environment, a substantial amount of fixed costs previously approved for recovery under traditional utility regulatory practices (including regulatory assets and liabilities) may become "stranded," i.e., unrecoverable at competitive market prices. The issue of stranded costs could be particularly significant with respect to fixed costs incurred in connection with the past construction of generation plants, such as nuclear power plants, which, because of their high fixed costs, would not command the same price for their output as they have in a regulated environment.

In January 1997, the Texas Utility Commission delivered a report to the Texas legislature on stranded investments in the electric utility industry in Texas (referred to by the Texas Utility Commission as "Excess Cost Over Market") (ECOM). In April 1998, the Texas Utility Commission submitted to the Texas Senate Interim Committee on Electric Utility Restructuring an updated study of ECOM estimates. Assuming that retail competition is adopted at the beginning of 2002, the updated study estimated that the total amount of stranded costs for all Texas electric utilities could be $4.5 billion. If instead, retail competition is adopted one year later, the study estimates statewide ECOM to be $3.3 billion. Estimates of ECOM vary widely and there is inherent uncertainty in calculating these costs.

Transition Plan. In June 1998, the Texas Utility Commission approved the Transition Plan filed by Reliant Energy HL&P in December 1997. The Transition Plan included base rate credits to residential and certain commercial customers in 1998 and 1999, an overall rate of return cap formula for 1998 and 1999 and approval of accounting procedures designed to accelerate recovery of stranded costs which may arise under restructuring legislation. The Transition Plan permits the redirection of depreciation expense to generation assets that Electric Operations otherwise would apply to transmission, distribution and general plant assets. In addition, the Transition Plan provides that all earnings above a 9.844% overall annual rate of return on invested capital be used to recover Electric Operations' investment in generation assets. In 1998, Reliant Energy HL&P recorded an additional $194 million in depreciation under the Transition Plan. Certain parties have appealed the order approving the Transition Plan. For additional information, see Notes 1(f) and 3(b) to the Company's Consolidated Financial Statements.

COMPETITION -- OTHER OPERATIONs

Natural Gas Distribution competes primarily with alternate energy sources such as electricity and other fuel sources as well as with providers of energy conservation products. In addition, as a result of federal regulatory changes affecting interstate pipelines, it has become possible for other natural gas suppliers and distributors to bypass Natural Gas Distribution's facilities and market, sell and/or transport natural gas directly to small commercial and/or large volume customers.

The Interstate Pipeline segment competes with other interstate and intrastate pipelines in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service. Interstate Pipeline competes indirectly with other forms of energy available to its customers, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability of energy and pipeline capacity, the level of business activity, conservation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in areas served by Interstate Pipeline and the level of competition for transport and storage services.

Reliant Energy Services competes for sales in its gas and power trading and marketing business with other natural gas and power merchants, producers and pipelines based on its ability to aggregate supplies at competitive prices from different sources and locations and to efficiently utilize transportation from third-party pipelines and transmission from electric utilities. Reliant Energy Services also competes against other energy marketers on the basis of its relative financial position and access to credit sources. This competitive factor reflects the tendency of energy customers, natural gas suppliers and natural gas transporters to seek financial guarantees and other assurances that their energy contracts will be satisfied. As pricing information becomes increasingly available in the energy trading and marketing business and as deregulation in the electricity markets continues to accelerate, the Company anticipates that Reliant Energy Services will experience greater competition and downward pressure on per-unit profit margins in the energy marketing industry.

Competition for acquisition of international and domestic non-rate regulated power projects is intense. International and Power Generation compete against a number of other participants in the non-utility power generation industry, some of which have greater financial resources and have been engaged in non-utility power projects for periods longer than the Company and have accumulated greater portfolios of projects. Competitive factors relevant to the non-utility power industry include financial resources, access to non-recourse funding and regulatory factors.

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding the Company's exposure to risk as a result of fluctuations in commodity prices and derivative instruments, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Report.

ACCOUNTING TREATMENT OF ACES

The Company accounts for its investment in Time Warner Convertible Preferred Stock (TW Preferred) under the cost method. As a result of the Company's issuance of the ACES, a portion of the increase in the market value above $27.7922 per share of Time Warner common stock (the security into which the TW Preferred is convertible) (TW

Common) results in unrealized accounting losses to the Company, pending the conversion of the Company's TW Preferred into TW Common. For consistency purposes, the TW Common and related per share prices retroactively reflect a 2 for 1 stock split effective December 15, 1998.

Prior to the conversion of the TW Preferred into TW Common, when the market price of TW Common increases above $27.7922, the Company records in Other Income (Expense) an unrealized, non-cash accounting loss for the ACES equal to the aggregate amount of such increase as applicable to all ACES multiplied by 0.8264. In accordance with generally accepted accounting principles, this accounting loss (which reflects the unrealized increase in the Company's indebtedness with respect to the ACES) may not be offset by accounting recognition of the increase in the market value of the TW Common that underlies the TW Preferred. Upon conversion of the TW Preferred (which is anticipated to occur in June 1999 when the preferential dividend on the TW Preferred expires), the Company will begin recording future unrealized net changes in the market prices of the TW Common and the ACES as a component of common stock equity and other comprehensive income.

As of December 31, 1998, the market price of TW Common was $62.062 per share. Accordingly, the Company recognized an increase of $1.2 billion in 1998 in the unrealized liability relating to its ACES indebtedness (which resulted in an after-tax earnings reduction of $764 million or $2.69 basic earnings per share in 1998). The Company believes that the cumulative unrealized loss for the ACES of approximately $1.3 billion is more than economically offset by the approximately $1.8 billion unrecorded unrealized gain at December 31, 1998 relating to the increase in the fair value of the TW Common underlying the investment in TW Preferred since the date of its acquisition. Any gain related to the increase in fair value of TW Common would be recognized as a component of net income upon the sale of the TW Preferred or the shares of TW Common into which such TW Preferred is converted. As of March 11, 1999, the price of TW Common was $70.75 per share, which would have resulted in the Company recognizing an additional increase of $329 million in the unrealized liability represented by its indebtedness under the ACES. The related unrecorded unrealized gain as of March 11, 1999 would have been computed as an additional $398 million.

Excluding the unrealized, non-cash accounting loss for ACES, the Company's retained earnings and total common stock equity would have been $2.3 billion and $5.2 billion, respectively.

IMPACT OF THE YEAR 2000 ISSUE AND OTHER SYSTEM IMPLEMENTATION ISSUES

Year 2000 Problem. At midnight on December 31, 1999, unless the proper modifications have been made, the program logic in many of the world's computer systems will start to produce erroneous results because, among other things, the systems will incorrectly read the date "01/01/00" as being January 1 of the year 1900 or another incorrect date. In addition, certain systems may fail to detect that the year 2000 is a leap year. Problems can also arise earlier than January 1, 2000, as dates in the next millennium are entered into non-Year 2000 compliant programs.

Compliance Program. In 1997, the Company initiated a corporate-wide Year 2000 project to address mainframe application systems, information technology (IT) related equipment, system software, client-developed applications, building controls and non-IT embedded systems such as process controls for energy production and delivery. Incorporated into this project were Resources' and other Company subsidiaries' mainframe applications, infrastructures, embedded systems and client-developed applications that will not be migrated into existing or planned Company or Resources systems prior to the year 2000. The evaluation of Year 2000 issues included those related to significant customers, key vendors, service suppliers and other parties material to the Company's and its subsidiaries' operations. In the course of this evaluation, the Company has sought written assurances from such third parties as to their state of Year 2000 readiness.

State of Readiness. Work has been prioritized in accordance with business risk. The highest priority has been assigned to activities that would disrupt the physical delivery of energy (Priority 1); activities that would impact back office activities such as billing (Priority 2); activities that would cause inconvenience or productivity loss in normal business operations (e.g. air conditioning systems and elevators) (Priority 3). All business units have completed an analysis of critical systems and equipment that control the production and delivery of energy, as well as corporate, departmental and personnel systems and equipment. The remediation and replacement work on the majority of IT systems, non-IT systems and infrastructure began in the first quarter of 1998 and is expected to be completed by the second quarter of 1999. Testing of these systems began in the second quarter of 1998 and is scheduled to be completed in third quarter of 1999. The following table illustrates the Company's completion percentages for the Year 2000 activities as of February 28, 1999:

	PRIORITY 1	PRIORITY 2	PRIORITY 3
Assessment	95%	86%	96%
Conversion	86%	70%	91%
Testing	80%	61%	87%
Implementation	76%	54%	75%

Costs to Address Year 2000 Compliance Issues. Based on current internal studies, as well as recently solicited bids from various computer software vendors, the Company estimates that the total direct cost of resolving the Year 2000 issue with respect to the Company and its subsidiaries will be between $35 and $40 million. This estimate includes approximately $7 million related to salaries and expenses of existing employees and approximately $3 million in hardware purchases that the Company expects to capitalize. In addition, the $35 to $40 million estimate includes approximately $2 million spent prior to 1998 and approximately $12 million during 1998. The remaining costs related to resolving the Year 2000 issue are expected to be expended in 1999. The Company expects to fund these expenditures through internal sources.

In September 1997, the Company entered into an agreement with SAP America, Inc. (SAP) to license SAP proprietary R/3 enterprise software. The licensed software includes customer care, finance and accounting, human resources, materials management and service delivery components. The Company's purchase of this software license and related computer hardware is part of its response to changes in the electric utility and energy services industries, as well as changes in the Company's businesses and operations resulting from the acquisition of Resources and the Company's expansion into the energy trading and marketing business. Although it is anticipated that the implementation of the SAP system will have the incidental effect of negating the need to modify many of the Company's computer systems to accommodate the Year 2000 problem, the Company does not deem the costs of the SAP system as directly related to its Year 2000 compliance program. Portions of the SAP system were implemented in December 1998 and March 1999, and it is expected that the final portion of the SAP system will be fully implemented by July 2000. The estimated costs of implementing the SAP system is approximately $182 million, inclusive of internal costs. In 1998, the Company and its subsidiaries spent $108 million of such costs. In 1999, the Company and its subsidiaries expect to spend $59 million with the remaining amounts to be spent in 2000.

The estimated Year 2000 project costs do not give effect to any future corporate acquisitions or divestitures made by the Company or its subsidiaries.

Risks and Contingency Plans. The major systems which pose the greatest Year 2000 risks for the Company and its subsidiaries if implementation of the Year 2000 compliance program is not successful are the process control systems for energy delivery systems; the time in use, demand and recorder metering system for commercial and industrial customers; the outage analysis system; and the power billing systems. The potential problems related to these systems are temporary electric service interruptions to customers, temporary interruptions in revenue data gathering and temporary poor customer relations resulting from delayed billing. Although the Company does not believe that this scenario will occur, the Company has considerable experience responding to emergency situations, including computer failure. Existing emergency operations, disaster recovery and business continuation plans are being enhanced to ensure preparedness and to mitigate the long-term effect of such a scenario.

The North American Electric Reliability Council (NERC) is coordinating electric utility industry contingency planning on a national level. Additional contingency planning is being done at the regional electric reliability council level. Reliant Energy HL&P filed a draft Year 2000 Contingency Plan with NERC and with the Texas Utility Commission in December 1998. The draft plan addresses restoration of electric service and related business processes, and is designed to work in conjunction with the Emergency Operating Plan and with the plans of NERC and ERCOT.

A final contingency plan is scheduled to be complete by June 30, 1999. In addition, Reliant Energy HL&P will participate in industry preparedness drills, such as the two NERC drills scheduled to be held on April 9, 1999 and September 9, 1999.

The existing business continuity disaster recovery and emergency operations plans are being reviewed and enhanced, and where necessary, additional plans will be developed to include mitigation strategies and action plans specifically addressing potential Year 2000 scenarios. The expected completion date for these plans is June 30, 1999.

In order to assist in preparing for and mitigating the foregoing scenarios, the Company intends to complete all mission critical Year 2000 remediation and testing activity by the end of the second quarter of 1999. In addition, the Company has initiated Year 2000 communications with significant customers, key vendors, service suppliers and other parties material to the Company's operations and is diligently monitoring the progress of such third parties' Year 2000 projects. The Company expects to meet with mission-critical third parties, including suppliers, in order to ascertain and assess the relative risks of Year-2000-related issues, and to mitigate such risks. Notwithstanding the foregoing, the Company cautions that (i) the nature of testing is such that it cannot comprehensively address all future combinations of dates and events and (ii) it is impossible for the Company to assess with precision or certainty the compliance of third parties with Year 2000 remediation efforts. Due to the speculative and uncertain nature of contingency planning, there can be no assurance that such plans actually will be sufficient to reduce the risk of material impacts on the Company's and its subsidiaries' operations.

RISKS OF INTERNATIONAL OPERATIONS

The Company's international operations are subject to various risks incidental to investing or operating in emerging market countries. These risks include political risks, such as governmental instability, and economic risks, such as fluctuations in currency exchange rates, restrictions on the repatriation of foreign earnings and/or restrictions on the conversion of local currency earnings into U.S. dollars. The Company's international operations are also highly capital intensive and, thus, dependent to a significant extent on the continued availability of bank financing and other sources of capital on commercially acceptable terms.

Impact of Currency Fluctuations on Company Earnings. The Company, through Reliant Energy International's subsidiaries, owns 11.69% of the stock of Light and, through its investment in Light, an 8.753% interest in the stock of Metropolitana Electricidade de Sao Paulo S.A. (Metropolitana). The Company accounts for its investment in Light under the equity method of accounting and records its proportionate share, based on stock ownership, in the net income of Light and its affiliates (including Metropolitana) as part of the Company's consolidated net income.

At December 31, 1998, Light and Metropolitana had total borrowings of approximately $3.2 billion denominated in non-local currencies. Because of the devaluation of the Brazilian real subsequent to December 31, 1998, Light and Metropolitana are expected to record a charge to March 31, 1999 earnings that reflects the increase in the liability represented by their non-local currency denominated bank borrowings relative to the Brazilian real. Because the Company uses the Brazilian real as the functional currency in which it reports Light's equity earnings, the resulting decrease in Light's earnings will also be reflected in the Company's consolidated earnings to the extent of the Company's 11.69% ownership interest in Light. At December 31, 1998, one U. S. dollar could be exchanged for 1.21 Brazilian reais. Using the exchange rate of 2.06 Brazilian reais in effect at the end of February, and the average exchange rate in effect since the end of the year, the Company estimates that its share of the after-tax charge to be recorded by Light would be approximately $125 million. This estimate does not reflect the possibility of additional fluctuations in the exchange rate and does not include other non-debt-related impacts of Brazil's currency devaluation on Light's and Metropolitana's future earnings.

None of Light's or Metropolitana's tariff adjustment mechanisms are directly indexed to the U.S. dollar or other non-local currencies. Each company currently is evaluating various options including regulatory rate relief to mitigate the impact of the devaluation of the Brazilian real. For example, the long-term concession contracts under which Light and Metropolitana operate contain mechanisms for adjusting electricity tariffs to reflect changes in operating costs resulting from inflation. If the devaluation of the Brazilian real results in an increase in the local rate of inflation and if an adjustment to tariff rates is made promptly to reflect such increase, the Company believes that the financial results of Light and Metropolitana should be protected, at least in part, from the effects of devaluation. However, there can be no assurance the implementation of such tariff adjustments will be timely or that the economic impact of the devaluation will be completely reflected in increased inflation rates.

Certain of Reliant Energy International's other foreign electric distribution companies have incurred U.S. dollar and other non-local currency indebtedness (approximately $71 million at December 31, 1998). For further analysis of foreign currency fluctuations in the Company's earnings and cash flows, see "Quantitative and Qualitative Disclosures About Market Risk -- Foreign Currency Exchange Rate Risk" in Item 7A of this Form 10-K.

Impact of Foreign Currency Devaluation on Project Capital Resources. In the first quarter of 1999, approximately $117 million of Metropolitana's U.S. dollar denominated debt will mature. In the second quarter of 1999, approximately $980 million of Light's and approximately $696 million of Metropolitana's U.S. and non-local currency denominated bank debt will mature. In March 1999, Light refinanced approximately $130 million of its U.S. dollar denominated debt through a local - currency denominated loan. The ability of Light and Metropolitana to repay or refinance their debt obligations at maturity is dependent on many factors, including local and international economic conditions prevailing at the time such debt matures.

If economic conditions in the international markets continue to be unsettled or deteriorate, it is possible that Light, Metropolitana and the other foreign electric distribution companies in which the Company holds investments might encounter difficulties in refinancing their debt (both local currency and non-local currency borrowings) on terms and conditions that are commercially acceptable to them and their shareholders. In such circumstances, in lieu of declaring a default or extending the maturity, it is possible that lenders might seek to require, among other things, higher borrowing rates, and additional equity contributions and/or increased levels of credit support from the shareholders of such entities. The availability or terms of refinancing such debt cannot be assured.

Currency fluctuation and instability affecting Latin America may also adversely affect Reliant Energy International's ability to refinance its equity investments with debt. In 1998, Reliant Energy International invested $411 million in Colombia and El Salvador. As of January 1999, $100 million of these investments were refinanced with debt. Reliant Energy International intends to refinance approximately $75 million more of such initial investments with debt.

ENVIRONMENTAL EXPENDITURES

The Company and its subsidiaries, including Resources, are subject to numerous environmental laws and regulations, which require them to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment.

Clean Air Act Expenditures. The Company expects the majority of capital expenditures associated with environmental matters to be incurred by Electric Operations in connection with new emission limitations under the Federal Clean Air Act (Clean Air Act) for oxides of nitrogen (NOx). The standards applicable to Electric Operations' generating units in the Houston, Texas area will become effective in November 1999. NOx reduction costs incurred by Electric Operations totaled approximately $7 million in 1998. The Company estimates that Electric Operations will incur approximately $8 million in 1999 and $10 million in 2000 for such expenditures. The Texas Natural Resources Conservation Commission (TNRCC) has indicated that additional NOx reduction will be required after 2000; however, since the magnitude and timing of these reductions have not yet been established, it is impossible for the Company to estimate a reasonable range of such expenditures at this time.

In 1998, the Wholesale Energy spent approximately $100,000 in order to comply with NOx reduction with respect to Southern California generating facilities acquired by Power Generation from Southern California Edison (SCE) in 1998. In 1999, based on existing requirements, the Company projects that it will spend an additional $100,000 on NOx reduction standards with respect to such plants and approximately $1 million on continuous emission monitoring system upgrades for such plants.

Site Remediation Expenditures. From time to time the Company and its subsidiaries have received notices from regulatory authorities or others regarding their status as potentially responsible parties in connection with sites found to require remediation due to the presence of environmental contaminants.

The Company's identified sites with respect to which it may be claimed to have a remediation liability include several sites for which there is a lack of current available information, including the nature and magnitude of contamination, and the extent, if any, to which the Company may be held responsible for contributing to any costs incurred for remediating these sites. Thus, no reasonable estimate of cleanup costs can now be made for these sites. Based on currently available information, the Company believes that such costs ultimately will not materially affect its financial position, results of operations or cash flows. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to such estimates. For information about specific sites that are the subject of remediation claims, see Note 12(h) to the Company's Consolidated Financial Statements and Note 8(g) to Resources' Consolidated Financial Statements, each of which is incorporated herein by reference.

Mercury Contamination. Like other natural gas pipelines, Resources' pipeline operations have in the past employed elemental mercury in meters used on its pipelines. Although the mercury has now been removed from the meters, it is possible that small amounts of mercury have been spilled at some of those sites in the course of normal maintenance and replacement operations and that such spills have contaminated the immediate area around the meters with elemental mercury. Such contamination has been found by Resources at some sites in the past, and Resources has conducted remediation at sites found to be contaminated. Although Resources is not aware of additional specific sites, it is possible that other contaminated sites exist and that remediation costs will be incurred for such sites. Although the total amount of such costs cannot be known at this time, based on experience of Resources and others in the natural gas industry to date and on the current regulations regarding remediation of such sites, the Company and Resources believe that the cost of any remediation of such sites will not be material to the Company's or Resources' financial position, results of operations or cash flows.

Other. 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 its practice of vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial position, results of operations or cash flows.

OTHER CONTINGENCIES

For a description of certain other legal and regulatory proceedings affecting the Company and its subsidiaries, see Notes 3, 4, 5 and 12 to the Company's Consolidated Financial Statements and Note 8 to Resources' Consolidated Financial Statements, which notes are incorporated herein by reference.

NEW ACCOUNTING ISSUES

In 1998, the Company and Resources adopted SFAS No. 130, "Reporting Comprehensive Income" (SFAS No. 130), SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131) and SFAS No. 132, "Employers Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132). For further discussion of these accounting statements, see Note 15 to the Company's Consolidated Financial Statements and Note 9 to Resources' Consolidated Financial Statements.

In 2000, the Company and Resources expect to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. The Company is in the process of determining the effect of adoption of SFAS No. 133 on its consolidated financial statements.

In December 1998, The Emerging Issues Task Force of the Financial Accounting Standards Board reached consensus on Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF Issue 98-10). EITF Issue 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings. EITF Issue 98-10 is effective for fiscal years beginning after December 15, 1998. The Company expects to adopt EITF Issue 98-10 in the first quarter of 1999. The Company does not expect the implementation of EITF Issue 98-10 to be material to its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

The Company and its subsidiaries have long-term debt, Company/ Resources obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of the Company/Resources (Trust Securities), securities held in the Company's nuclear decommissioning trust, bank facilities, certain lease obligations and interest rate swaps which subject the Company, Resources and certain of their subsidiaries to the risk of loss associated with movements in market interest rates.

At December 31, 1998, the Company and certain of its subsidiaries had issued fixed-rate long-term debt (excluding ACES) and Trust Securities aggregating $5.0 billion in principal amount and having a fair value of $5.2 billion. These instruments are fixed-rate and, therefore, do not expose the Company and its subsidiaries to the risk of earnings loss due to changes in market interest rates (see Notes 8 and 9 to the Company's Consolidated Financial Statements). However, the fair value of these instruments would increase by approximately $260.6 million if interest rates were to decline by 10% from their levels at December 31, 1998. In general, such an increase in fair value would impact earnings and cash flows only if the Company and its subsidiaries were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company and certain of its subsidiaries' floating-rate obligations aggregated $1.8 billion at December 31, 1998 (see Note 8 to the Company's Consolidated Financial Statements), inclusive of (i) amounts borrowed under short-term and long-term credit facilities of the Company and its subsidiaries (including the issuance of commercial paper supported by such facilities), (ii) borrowings underlying Resources' receivables facility and (iii) amounts subject to a master leasing agreement of Resources under which lease payments vary depending on short-term interest rates. These floating-rate obligations expose the Company, Resources and their subsidiaries to the risk of increased interest and lease expense in the event of increases in short-term interest rates. If the floating rates were to increase by 10% from December 31, 1998 levels, the Company's consolidated interest expense and expense under operating leases would increase by a total of approximately $0.9 million each month in which such increase continued.

As discussed in Notes 1(o), 4(c) and 13 to the Company's Consolidated Financial Statements, the Company contributes $14.8 million per year to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project. The securities held by the trust for decommissioning costs had an estimated fair value of $119.1 million as of December 31, 1998, of which approximately 44% were fixed-rate debt securities that subject the Company to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 1998, the decrease in fair value of the fixed-rate debt securities would not be material to the Company. In addition, the risk of an economic loss is mitigated at this time as a result of the Company's regulated status. Any unrealized gains or losses are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability because the Company believes that its future contributions which are currently recovered through the rate-making process will be adjusted for these gains and losses.

Certain subsidiaries of the Company have entered into interest rate swaps for the purpose of decreasing the amount of debt subject to interest rate fluctuations. At December 31, 1998, these interest rate swaps had an aggregate notional amount of $75.4 million, which the Company could terminate at a cost of $3.2 million (see Notes 2 and 13 to the Company's Consolidated Financial Statements). An increase of 10% in the December 31, 1998 level of interest rates would not increase the cost of termination of the swaps by a material amount to the Company. Swap termination costs would impact the Company's and its subsidiaries' earnings and cash flows only if all or a portion of the swap instruments were terminated prior to their expiration.

As discussed in Note 8(h) to the Company's Consolidated Financial Statements, Resources sold $500 million aggregate principal amount of its 6 3/8% TERM Notes which included an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate in 2003 is below 5.66%. At December 31, 1998, the Company could terminate the option at a cost of $30.7 million. A decrease of 10% in the December 31, 1998 level of interest rates would not increase the cost of termination of the option by a material amount to the Company.

The change in exposure to loss in earnings and cash flows related to interest rate risk from December 31, 1997 to December 31, 1998 is not material to the Company.

EQUITY MARKET RISK

The Company holds an investment in TW Preferred which is convertible into Time Warner common stock (TW Common) as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Accounting Treatment of ACES" in Item 7 of this Form 10-K. As a result, the Company is exposed to losses in the fair value of this security. For purposes of analyzing market risk in this Item 7A, the Company assumed that the TW Preferred was converted into TW Common. In addition, Resources' investment in the common stock of Itron, Inc. (Itron) exposes the Company and Resources to losses in the fair value of Itron common stock. A 10% decline in the market value per share of TW Common and Itron common stock from the December 31, 1998 levels would result in a loss in fair value of approximately $284.4 million and $1.1 million, respectively.

The Company's and its subsidiaries' ability to realize gains and losses related to the TW Preferred and the Itron common stock is limited by the following: (i) the TW Preferred is not publicly traded and its sale is subject to certain limitations and (ii) the market for the common stock of Itron is fairly illiquid.

The ACES expose the Company to accounting losses as the Company is required to record in Other Income (Expense) an unrealized accounting loss equal to (i) the aggregate amount of the increase in the market price of TW Common above $27.7922 as applicable to all ACES multiplied by (ii) 0.8264. Prior to the conversion of the TW Preferred into TW Common, such loss would affect earnings. After conversion, such loss would be recognized as an adjustment to common stock equity through a reduction of other comprehensive income. However, there would be an offsetting increase in common stock equity through an increase in accumulated other comprehensive income on the Company's Statements of Consolidated Retained Earnings and Comprehensive Income for the fair value increase in the investment in TW Common. For additional information on the accounting treatment of the ACES and related accounting losses recorded in 1998, see Note 1(n) to the Company's Consolidated Financial Statements. An increase of 15% in the price of the TW Common above its December 31, 1998 market value of $62.062 per share would result in the recognition of an additional unrealized accounting loss (net of tax) of approximately $229.1 million. The Company believes that this additional unrealized loss for the ACES would be more than economically hedged by the unrecorded unrealized gain relating to the increase in the fair value of the TW Common underlying the investment in TW Preferred since the date of its acquisition.

For a discussion of the non-cash, unrealized accounting loss recorded in 1998 and 1997 related to the ACES, see "-- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Accounting Treatment of ACES" in Item 7 of this Form 10-K.

As discussed above under "-- Interest Rate Risk," the Company contributes to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project which held debt and equity securities as of December 31, 1998. The equity securities expose the Company to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at December 31, 1998, the resulting loss in fair value of these securities would not be material to the Company. Currently, the risk of an economic loss is mitigated as a result of the Company's regulated status as discussed above under "--Interest Rate Risk."

FOREIGN CURRENCY EXCHANGE RATE RISK

As further described in "Certain Factors Affecting Future Earnings of the Company and Its Subsidiaries -- Risks of International Operations" in Item 7 of this Form 10-K, the Company, through Reliant Energy International invests in certain foreign operations which to date have been primarily in South America. As of December 31, 1998, the Company's Consolidated Balance Sheets reflected $1.1 billion of foreign investments, a substantial portion of which represent investments accounted for under the equity method. These foreign investments expose the Company to risk of loss in earnings and cash flows due to the fluctuation in foreign currencies relative to the Company's consolidated reporting currency, the U.S. dollar. The Company accounts for adjustments resulting from translation of its investments with functional currencies other than the U.S. dollar as a charge or credit directly to a separate component of stockholders' equity. For further discussion of the accounting for foreign currency adjustments, see Note 1(p) in the Notes to the Company's Consolidated Financial Statements. The cumulative translation loss of $34 million, recorded as of December 31, 1998, will be realized as a loss in earnings and cash flows only upon the disposition of the related investment. The foreign currency loss in earnings and cash flows related to debt obligations held by foreign operations in currencies other than their own functional currencies was not material to the Company as of December 31, 1997.

In addition, certain of Reliant Energy International's foreign operations have entered into obligations in currencies other than their own functional currencies which expose the Company to a loss in earnings. In such cases, as the respective investment's functional currency devalues relative to the non-local currencies, the Company will record its proportionate share of its investments' foreign currency transaction losses related to the non-local currency denominated debt. At December 31, 1998, Light and Metropolitana had borrowings of approximately $3.2 billion denominated in non-local currencies. Because of the devaluation of the Brazilian real subsequent to December 31, 1998, Light and Metropolitana are expected to record a charge to earnings for the quarter ended March 31, 1999, primarily related to foreign currency transaction losses on their non-local currency denominated debt. For further discussion and analysis of the possible effect on the Company's Consolidated Financial Statements, see "Certain Factors Affecting Future Earnings of the Company and Its Subsidiaries - -- Risks of International Operations" in Item 7 of this Form 10-K.

The company attempts to manage and mitigate this foreign risk by properly balancing the higher cost of financing with local denominated debt against the risk of devaluation of that local currency and including a measure of the risk of devaluation in all its financial plans. In addition, where possible, Reliant Energy International attempts to structure its tariffs and revenue contracts to ensure some measure of adjustment due to changes in inflation and currency exchange rates; however, there can be no assurance that such efforts will compensate for the full effect of currency devaluation, if any.

ENERGY COMMODITY PRICE RISK

As further described in Note 2 to the Company's Consolidated Financial Statements, certain of the Company's subsidiaries utilize a variety of derivative financial instruments (Derivatives), including swaps and exchange-traded futures and options, as part of the Company's overall hedging strategies and for trading purposes. To reduce the risk from the adverse effect of market fluctuations in the price of electric power, natural gas, crude oil and refined products and related transportation, Resources and certain subsidiaries of the Company and Resources enter into futures transactions, forward contracts, swaps and options (Energy Derivatives) in order to hedge certain commodities in storage, as well as certain expected purchases, sales and transportation of energy commodities (a portion of which are firm commitments at the inception of the hedge). The Company's policies prohibit the use of leveraged financial instruments. In addition, Reliant Energy Services, a subsidiary of Resources, maintains a portfolio of Energy Derivatives to provide price risk management services and for trading purposes (Trading Derivatives).

The Company uses value-at-risk and a sensitivity analysis method for assessing the market risk of its derivatives.

With respect to the Energy Derivatives (other than Trading Derivatives) held by subsidiaries of the Company and Resources as of December 31, 1998, a decrease of 10% in the market prices of natural gas and electric power from year-end levels would decrease the fair value of these instruments by approximately $3 million. As of December 31, 1997, a decrease of 10% in the prices of natural gas would have resulted in a loss of $7 million in fair values of the Energy Derivatives (other than for trading purposes).

The above analysis of the Energy Derivatives utilized for hedging purposes does not include the favorable impact that the same hypothetical price movement would have on the Company's and its subsidiaries' physical purchases and sales of natural gas and electric power to which the hedges relate. The portfolio of Energy Derivatives held for hedging purposes is no greater than the notional quantity of the expected or committed transaction volume of physical commodities with equal and opposite commodity price risk for the same time periods. Furthermore, the Energy Derivative portfolio is managed to complement the physical transaction portfolio, reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Energy Derivatives held for hedging purposes associated with the hypothetical changes in commodity prices referenced above would be offset by a favorable impact on the underlying hedged physical transactions, assuming (i) the Energy Derivatives are not closed out in advance of their expected term, (ii) the Energy Derivatives continue to function effectively as hedges of the underlying risk and (iii) as applicable, anticipated transactions occur as expected.

The disclosure with respect to the Energy Derivatives relies on the assumption that the contracts will exist parallel to the underlying physical transactions. If the underlying transactions or positions are liquidated prior to the maturity of the Energy Derivatives, a loss on the financial instruments may occur, or the options might be worthless as determined by the prevailing market value on their termination or maturity date, whichever comes first.

With respect to the Trading Derivatives held by Reliant Energy Services, consisting of natural gas, electric power, crude oil and refined products, physical forwards, swaps, options and exchange-traded futures, this subsidiary is exposed to losses in fair value due to changes in the price and volatility of the underlying derivatives. During the year ended December 31, 1998 and 1997, the highest, lowest and average monthly value-at-risk in the Trading Derivative portfolio was less than $5 million at a 95% confidence level and for a holding period of one business day. The Company uses the variance/covariance method for calculating the value-at-risk and includes the delta approximation for options positions.

The Company has established a Corporate Risk Oversight Committee comprised of corporate and business segment officers that oversees all corporate price and credit risk activities, including derivative trading activities discussed above. The committee's duties are to establish the Company's policies and to monitor and ensure compliance with risk management policies and procedures and the trading limits established by the Company's board of directors.

ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF RELIANT ENERGY RESOURCES CORP. AND CONSOLIDATED SUBSIDIARIES.

The following narrative and analysis should be read in combination with the consolidated financial statements and notes (Resources' Consolidated Financial Statements) of Reliant Energy Resources Corp. (formerly NorAm Energy Corp.) (Resources) contained in Item 8 of the Form 10-K of Resources.

RELIANT ENERGY RESOURCES CORP.

On August 6, 1997 (Acquisition Date), the former parent corporation (Former Parent) of Houston Industries Incorporated d/b/a Reliant Energy, Incorporated (Reliant Energy) merged with and into Reliant Energy, and NorAm Energy Corp. (Former Resources) merged with and into Resources. Effective upon the mergers (collectively, the Merger), each outstanding share of common stock of Former Parent was converted into one share of common stock (including associated preference stock purchase rights) of Reliant Energy, and each outstanding share of common stock of Former Resources was converted into the right to receive $16.3051 cash or 0.74963 shares of common stock of Reliant Energy. The aggregate consideration paid to Former Resources stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of Reliant Energy's common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion for Former Resources' common stock and common stock equivalents and $1.6 billion of Former Resources debt ($1.3 billion of which was long-term debt.)

The Merger was recorded under the purchase method of accounting with assets and liabilities of Resources reflected at their estimated fair values as of the Acquisition Date, resulting in a "new basis" of accounting. In Resources' Consolidated Financial Statements, periods which reflect the new basis of accounting are labeled as "Current Resources" and periods which do not reflect the new basis of accounting are labeled as "Former Resources." Former Resources' Statement of Consolidated Income for the seven months ended July 31, 1997 included certain adjustments from August 1, 1997 to the Acquisition Date for pre-merger transactions.

Effective January 1, 1998, Resources adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131). Because Resources is a wholly owned subsidiary of Reliant Energy, Resources' determination of reportable segments considers the strategic operating units under which Reliant Energy manages sales of various products and services to wholesale or retail customers in differing regulatory environments. In accordance with SFAS No. 131, Reliant Energy has identified the following reportable segments: Electric Operations, Natural Gas Distribution, Interstate Pipelines, Wholesale Energy Marketing and Generation (Wholesale Energy), International and Corporate. Of these segments, the following operations are conducted by Resources: Natural Gas Distribution, Interstate Pipelines, Wholesale Energy (which includes the energy trading and marketing operations and natural gas gathering operations of the Wholesale Energy segment but excludes the operations of Reliant Energy Power Generation, Inc.) and Corporate (excluding the impact of ACES).

Resources meets the conditions specified in General Instruction I to Form 10-K and is thereby permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies specified therein. Accordingly, Resources has omitted from this Combined Annual Report the information called for by Item 4 (submission of matters to a vote of security holders), Item 10 (directors and executive officers), Item 11 (executive compensation), Item 12 (security ownership of certain beneficial owners and management) and Item 13 (certain relationships and related transactions) of Form 10-K. In lieu of the information called for by Item 6 (selected financial data) and Item 7 (management's discussion and analysis of financial condition and results of operations) of Form 10-K, Resources has included the following Management's Narrative Analysis of the Results of Operations to explain material changes in the amount of revenue and expense items of Resources between 1998 and 1997. Reference is hereby made to Item 1 (business), Item 2 (properties), Item 3 (legal proceedings), Item 5 (market for common equity and related stockholder matters), Item 7A (quantitative and qualitative disclosures about market risk) and Item 9 (changes in and disagreements with accountants on accounting and financial disclosure) of this Combined Annual Report for additional information regarding Resources required by the reduced disclosure format of General Instruction I to Form 10-K.

CONSOLIDATED RESULTS OF OPERATIONS

Seasonality and Other Factors. Resources' results of operations are affected by seasonal fluctuations in the demand for and, to a lesser extent, the price of natural gas. Resources' results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates charged by Resources and its subsidiaries, competition in Resources' various business operations, debt service costs and income tax expense. For a discussion of certain other factors that may affect Resources' future earnings see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries - -- Competition -- Other Operations"; "-- Impact of the Year 2000 Issue and Other System Implementation Issues" and "-- Environmental Expenditures -- Mercury Contamination" in Item 7 of Reliant Energy's Form 10-K.

Accounting Impact of the Merger. The Merger created a new basis of accounting for Resources, resulting in new carrying values for certain of Resources' assets, liabilities and equity commencing upon the Acquisition Date. Resources' financial statements for periods subsequent to the Acquisition Date are not comparable to prior periods because of the following purchase accounting adjustments:

1. The impact of the amortization of newly-recognized goodwill ($39.4 million);

2. The amortization (to interest expense) of the revaluation of long-term debt ($9.8 million);

3. The removal of the amortization (to operating expense) previously associated with the pension and postretirement obligations ($2.1 million); and

4. The deferred income tax expense associated with these adjustments ($4.9 million).

Interest expense and related debt incurred by Reliant Energy to fund the cash portion of the purchase consideration has not been pushed down to Resources and its subsidiaries.

Because results of operations and other financial information for periods before and after the Acquisition Date are not comparable, Resources is presenting certain financial data on: (i) an actual basis for Resources for 1998 and 1997 and (ii) a pro forma basis for 1997 as if the Merger had taken place at the beginning of the period. These results do not necessarily reflect the results which would have been obtained if the Merger had actually occurred on the dates indicated or the results that may be expected in the future.

The following table sets forth selected financial and operating data on an actual and pro forma basis for the years ended December 31, 1998 and 1997, followed by a discussion of significant variances in period-to-period results:

SELECTED FINANCIAL RESULTS:

	ACTUAL			UNAUDITED PRO FORMA (1)	
	YEAR ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	YEAR ENDED DECEMBER 31, 1997	ACTUAL TO PRO FORMA PERCENTAGE CHANGE
	(THOUSANDS OF DOLLARS)				
Operating Revenues	$ 6,758,412	$ 2,526,182	$ 3,313,591	$ 5,839,773	16%
Operating Expenses	6,448,107	2,434,282	3,141,295	5,597,716	15%
Operating Income	310,305	91,900	172,296	242,057	28%
Merger Transaction Costs (2)		1,144	17,256		
Consolidated	310,305	90,756	155,040	242,057	28%
Interest Expense, Net	111,337	47,490	78,660	112,996	(1%)
Distributions on Subsidiary Trust Securities	632	279	6,317	1,479	(57%)
Other (Income) and Deductions	(7,318)	(2,243)	(7,210)	(9,453)	(23%)
Income Tax Expense	111,830	24,383	31,398	71,093	57%
Extraordinary (Gain), Less Taxes			(237)		
Net Income	$ 93,824	$ 20,847	$ 46,112	$ 65,942	42%

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(1) Pro forma results reflect purchase accounting adjustments as if the Merger had occurred on January 1, 1997.

(2) For expenses associated with the completion of the business combination with Reliant Energy, see Note 1(o) to Resources' Consolidated Financial Statements.

1998 Compared to 1997 (Actual). Resources' consolidated net income for 1998 was $94 million compared to consolidated net income of $67 million in 1997. The increase in net income for 1998 as compared to 1997 was due to increased operating income from several business segments as discussed below, partially offset by a decrease in operating income from Resources' Natural Gas Distribution segment due to the effects of warm weather. Also contributing to the increase in net income was a reduction in interest expense due to the refinancing of debt and reduced interest expense due to debt fair value devaluation at the time of the Merger.

Resources operating revenues for 1998 were $6.8 billion as compared to $5.8 billion in 1997. The $900 million, or 16% increase was primarily attributable to a $1.4 billion increase in wholesale trading revenue. Wholesale trading revenue increased due to increased power and natural gas trading volumes. The increase in trading revenues was offset by reduced revenues at Resources' Natural Gas Distribution unit of approximately $400 million, principally due to warmer weather.

Resources operating expenses for 1998 were $6.4 billion compared to $5.6 billion in 1997. The $800 million, or 16% increase was primarily due to increased natural gas and purchased power expenses associated with increased wholesale trading activities. The increase in operating expenses was offset by decreased natural gas purchases at Resources' Natural Gas Distribution unit because of lower volumes resulting from the warmer weather.

Operating income increased in 1998 by $65 million over 1997 due to improved operating results at Interstate Pipelines, Corporate retail operations and Wholesale Energy, partially offset by the unfavorable effects of warm weather on the operations of Natural Gas Distribution. Operating income for 1997 included approximately $18 million of merger-related costs that did not recur in 1998. Improved results at Interstate Pipelines were due to continued cost control initiatives and reduced benefits expenses, as well as the effects of a rate case settlement and a dispute settlement which contributed to the increase in operating income. In addition, margins at Wholesale Energy improved over margins in 1997; however, this effect was partially offset by increased staffing expenses to support increased sales and marketing efforts and an increase in credit reserves. Improved results at Wholesale Energy were also due to the fact that operating income in 1997 for Wholesale Energy was negatively impacted by hedging losses associated with sales under peaking contracts and losses from the sale of natural gas held in storage and unhedged in the first quarter of 1997 totaling $17 million.

1998 (Actual) Compared to 1997 (Pro Forma). Resources' consolidated net income for 1998 was $94 million compared to pro forma net income of $66 million in 1997. The increase in earnings for 1998 as compared to pro forma 1997 was due to increased operating income from several business segments, as discussed below, offset by the effects of unfavorable weather at Resources' Natural Gas Distribution unit. Also contributing to the increase in earnings is a reduction in interest expense due to the refinancing of debt.

Resources operating revenues for 1998 were $6.8 billion compared to pro forma operating revenues of $5.8 billion in 1997. The $919 million, or 16% increase was primarily attributable to an $1.4 billion increase in wholesale trading revenue. Wholesale trading revenue increased due to increased electric and natural gas trading volumes. The increase in trading revenues was offset by reduced revenues at Resources' Natural Gas Distribution unit of approximately $400 million, principally due to warmer weather.

Resources operating expenses for 1998 were $6.4 billion compared to pro forma operating expense of $5.6 billion in 1997. The $800 million, or 16% increase was primarily due to increased natural gas and purchased power expenses associated with increased wholesale trading activities. The increase in operating expense was offset by decreased natural gas purchases at Resources' Natural Gas Distribution unit because of lower volumes resulting from warmer weather.

Operating income increased in 1998 by $68 million over pro forma 1997 due to improved operating results at Interstate Pipelines, Corporate retail operations and Wholesale Energy, partially offset by the unfavorable effects of Warm weather on the operations of Natural Gas Distribution. Improved results at Interstate Pipelines are due to continued cost control initiatives and reduced benefits expenses as well as the effects of a rate case settlement and a dispute settlement. In addition, margins at Wholesale Energy improved over margins in 1997, however, this effect was partially offset by increased staffing expenses to support increased sales and marketing efforts and an increase in credit reserves at Wholesale Energy also contributed to the increase in operating income. Operating income in 1997 for Wholesale Energy was negatively impacted by hedging losses associated with sales under peaking contracts and losses from the sale of natural gas held in storage and unhedged in the first quarter of 1997 totaling $17 million.

Resources estimates that its total direct cost of resolving the Year 2000 issues will be between $5 and $6 million. This estimate includes approximately $3.4 million spent through year-end 1998. For additional information regarding Year 2000 issues, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company and its Subsidiaries -- Impact of the Year 2000 Issue and Other System Implementation Issues" in Item 7 of the Form 10-K of Reliant Energy, which has been jointly filed with the Resources Form 10-K.

NEW ACCOUNTING ISSUES

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- New Accounting Issues" in Item 7 of the Form 10-K of Reliant Energy, which has been jointly filed with the Resources Form 10-K, for discussion of certain new accounting issues.

RESOURCES 10-K NOTES

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(c) Regulatory Assets and Regulation.

In general, Resources' Interstate Pipelines operations are subject to regulation by the Federal Energy Regulatory Commission, while its Natural Gas Distribution operations are subject to regulation at the state or municipal level. Historically, all of Resources' rate-regulated businesses have followed the accounting guidance contained in Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). Resources discontinued application of SFAS No. 71 to REGT in 1992. As a result of the continued application of SFAS No. 71 to MRT and the Natural Gas Distribution operations, Resources' financial statements contain assets and liabilities which would not be recognized by unregulated entities.

At December 31, 1998 Resources' Consolidated Balance Sheet included approximately $12 million in regulatory assets recorded as deferred debits. These assets represent probable future revenue to Resources associated with certain incurred costs as these costs are recovered through the rate making process. These costs are being recovered through rates over varying periods up to 40 years.

(2) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Price Risk Management and Trading Activities.

Resources, through its subsidiary, Reliant Energy Services, offers energy price risk management services primarily in the natural gas, electric and crude oil and refined product industries. Reliant Energy Services provides these services by utilizing a variety of derivative financial instruments, including fixed and variable-priced physical forward contracts, fixed-price swap agreements, variable-price swap agreements, exchange-traded energy futures and option contracts, and swaps and options traded in the over-the-counter financial markets (Trading Derivatives). Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between industry pricing publications or exchange quotations.

Prior to 1998 Reliant Energy Services applied hedge accounting to certain physical commodity activities that qualified for hedge accounting. In 1998, Reliant Energy Services adopted mark-to-market accounting for all of its price risk management and trading activities. Accordingly, as of such date, such Trading Derivatives are recorded at fair value with realized and unrealized gains (losses) recorded as a component of operating revenues in Resources' Consolidated Statements of Income. The recognized, unrealized balance is recorded as price risk management assets/liabilities and deferred debits/credits on Resources' Consolidated Balance Sheets (See Note 1(r)).

The notional quantities, maximum terms and the estimated fair value of Trading Derivatives at December 31, 1998 are presented below (volumes in billions of British thermal units equivalent (BBtue) and dollars in millions):

1998	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)

Natural gas..	937,264	977,293	9
Electricity..	122,950	124,878	3
Crude oil and products.......................................	205,499	204,223	3

1998	FAIR VALUE		AVERAGE FAIR VALUE (a)	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Natural gas	$ 224	$ 213	$ 124	$ 108
Electricity	34	33	186	186
Crude oil and products	29	23	21	17
	$ 287	$ 269	$ 331	$ 311

The notional quantities, maximum terms and the estimated fair value of derivative financial instruments at December 31, 1997 are presented below (volumes in BBtue and dollars in millions):

1997	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
Natural gas	85,701	64,890	4
Electricity	40,511	42,976	1

1997	FAIR VALUE		AVERAGE FAIR VALUE (A)	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
Natural gas	$ 46	$ 39	$ 56	$ 48
Electricity	6	6	3	2
	$ 52	$ 45	$ 59	$ 50

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(a) Computed using the ending balance of each month.

In addition to the fixed-price notional volumes above, Reliant Energy Services also has variable-priced agreements, as discussed above, totaling 1,702,977 and 101,465 BBtue as of December 31, 1998 and 1997, respectively. Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Resources' exposure to market or credit risks.

All of the fair values shown in the table above at December 31, 1998 and substantially all at December 31, 1997 have been recognized in income. The fair value as of December 31, 1998 and 1997 was estimated using quoted prices where available and considering the liquidity of the market for the Trading Derivatives. The prices are subject to significant changes based on changing market conditions.

At December 31, 1998, $22 million of the fair value of the assets and $41 million of the fair value of the liabilities are recorded as long-term in deferred debits and deferred credits, respectively, on Resources' Consolidated Balance Sheets.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum and average terms disclosed herein are not indicative of likely future cash flows, as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and Resources' risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

In addition to the risk associated with price movements, credit risk is also inherent in Resources', and its subsidiaries' risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The following table shows the composition of the total price risk management assets of Reliant Energy Services as of December 31, 1998.

	INVESTMENT GRADE (1)	TOTAL
	(THOUSANDS OF DOLLARS)	
Energy marketers	$ 102,458	$ 123,779
Financial institutions	61,572	61,572
Gas and electric utilities	46,880	48,015
Oil and gas producers	7,197	8,323
Industrials	1,807	3,233
Independent power producers	1,452	1,463
Others	45,421	46,696
Total	$ 266,787	293,081
Credit and other reserves		(6,464)
Energy price risk management assets(2)		$ 286,617

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(1) "Investment Grade" is primarily determined using publicly available credit ratings along with the consideration of credit support (e.g., parent company guarantees) and collateral, which encompass cash and standby letters of credit.

(2) Resources has credit risk exposure with respect to two investment grade customers, each of which represents an amount greater than 5% but less than 10% of Price Risk Management Assets.

(b) Non-Trading Activities.

To reduce the risk from market fluctuations in the price of electric power, natural gas and related transportation, Resources and certain of its subsidiaries enter into futures transactions, swaps and options (Energy Derivatives) in order to hedge certain natural gas in storage, as well as certain expected purchases, sales and transportation of natural gas and electric power (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements, although usage to date for this purpose has not been material. Resources applies hedge accounting with respect to its derivative financial instruments.

Certain subsidiaries of Resources also utilize interest rate derivatives (principally interest rate swaps) in order to adjust the portion of its overall borrowings which are subject to interest rate risk and also utilize such derivatives to effectively fix the interest rate on debt expected to be issued for refunding purposes.

For transactions involving either Energy Derivatives or interest rate derivatives, hedge accounting is applied only if the derivative (i) reduces the price risk of the underlying hedged item and (ii) is designated as a hedge at its inception. Additionally, the derivatives must be expected to result in financial impacts which are inversely correlated to those of the item(s) to be hedged. This correlation (a measure of hedge effectiveness) is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied.

In the case of interest rate swaps associated with existing obligations, cash flows and expenses associated with the interest rate derivative transactions are matched with the cash flows and interest expense of the obligation being hedged, resulting in an adjustment to the effective interest rate. When interest rate swaps are utilized to effectively fix the interest rate for an anticipated debt issuance, changes in the market value of the interest rate derivatives are deferred and recognized as an adjustment to the effective interest rate on the newly issued debt.

Unrealized changes in the market value of Energy Derivatives utilized as hedges are not generally recognized in Resources' Consolidated Statements of Income until the underlying hedged transaction occurs. Once it becomes probable that an anticipated transaction will not occur, deferred gains and losses are recognized. In general, the financial impact of transactions involving these Energy Derivatives is included in Resources' Statements of Consolidated Income under the captions (i) fuel expenses, in the case of natural gas transactions and (ii) purchased power, in the case of electric power transactions. Cash flows resulting from these transactions in Energy Derivatives are included in Resources' Statements of Consolidated Cash Flows in the same category as the item being hedged.

At December 31, 1998, subsidiaries of Resources were fixed-price payors and fixed-price receivers in Energy Derivatives covering 42,498 billion British thermal units (BBtu) and 3,930 BBtu of natural gas, respectively. At December 31, 1997, subsidiaries of Resources were fixed-price payors and fixed-price receivers in Energy Derivatives covering 38,754 BBtu and 7,647 BBtu of natural gas, respectively. Also, at December 31, 1998 and 1997, subsidiaries of Resources were parties to variable-priced Energy Derivatives totaling 21,437 BBtu and 3,630 BBtu of natural gas, respectively. The weighted average maturity of these instruments is less than one year.

The notional amount is intended to be indicative of Resources' and its subsidiaries' level of activity in such derivatives, although the amounts at risk are significantly smaller because, in view of the price movement correlation required for hedge accounting, changes in the market value of these derivatives generally are offset by changes in the value associated with the underlying physical transactions or in other derivatives. When Energy Derivatives are closed out in advance of the underlying commitment or anticipated transaction, however, the market value changes may not offset due to the fact that price movement correlation ceases to exist when the positions are closed, as further discussed below. Under such circumstances, gains (losses) are deferred and recognized as a component of income when the underlying hedged item is recognized in income.

The average maturity discussed above and the fair value discussed in Note 10 are not necessarily indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and Resources' risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(c) Trading and Non-trading -- General Policy.

In addition to the risk associated with price movements, credit risk is also inherent in Resources' and its subsidiaries' risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. While as yet Resources and its subsidiaries have experienced only minor losses due to the credit risk associated with these arrangements, Resources has off-balance sheet risk to the extent that the counterparties to these transactions may fail to perform as required by the terms of each such contract. In order to minimize this risk, Resources and/or its subsidiaries, as the case may be, enter into such contracts primarily with those counterparties with a minimum Standard & Poor's or Moody's rating of BBB- or Baa3, respectively. For long-term arrangements, Resources and its subsidiaries periodically review the financial condition of such firms in addition to monitoring the effectiveness of these financial contracts in achieving Resources' objectives. Should the counterparties to these arrangements fail to perform, Resources would seek to compel performance at law or otherwise or obtain compensatory damages in lieu thereof. Resources might be forced to acquire alternative hedging arrangements or be required to honor the underlying commitment at then-current market prices. In such event, Resources might incur additional loss to the extent of amounts, if any, already paid to the counterparties. In view of its criteria for selecting counterparties, its process for monitoring the financial strength of these counterparties and its experience to date in successfully completing these transactions, Resources believes that the risk of incurring a significant financial statement loss due to the non-performance of counterparties to these transactions is minimal.

Resources' policies prohibit the use of leveraged financial instruments.

(4) LONG-TERM AND SHORT-TERM FINANCING

(a) Short-term Financing.

In 1998, Resources met its short-term financing needs primarily through a bank facility, bank lines of credit, a receivables facility and the issuance of commercial paper. In March 1998, Resources replaced its $400 million revolving credit facility with a five-year $350 million revolving credit facility (Resources Credit Facility). Borrowings under the Resources Credit Facility are unsecured and bear interest at a rate based upon either the London interbank offered rate (LIBOR) plus a margin, a base rate or a rate determined through a bidding process. The Resources Credit Facility is used to support Resources' issuance of up to $350 million of commercial paper. There were no commercial paper borrowings and no loans outstanding under the Resources Credit Facility at December 31, 1998. Borrowings under Resources' prior credit facility at December 31, 1997 were $340 million. In addition, Resources had $50 million of outstanding loans under uncommitted lines of credit at December 31, 1997 having a weighted average interest rate of 6.82%.

A $65 million committed bank facility under which Resources obtained letters of credit and all of Resources' uncommitted lines of credit were terminated in 1998. Subsequent to the December 1998 termination, Resources obtained letters of credit under an uncommitted line. Resources expects to amend the Resources Credit Facility in March 1999 to add a $65 million letter of credit subfacility.

Under a trade receivables facility (Receivables Facility) which expires in August 1999, Resources sells, with limited recourse, an undivided interest (limited to a maximum of $300 million) in a designated pool of accounts receivable. The amount of receivables sold and uncollected was $300 million at December 31, 1998 and at December 31, 1997. The weighted average interest rate was approximately 5.54% at December 31, 1998 and 5.65% at December 31, 1997. Certain of Resources' remaining receivables serve as collateral for receivables sold and represent the maximum exposure to Resources should all receivables sold prove ultimately uncollectible. Resources has retained servicing responsibility under the Receivables Facility for which it is paid a servicing fee. Pursuant to SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities", Resources accounts for amounts transferred pursuant to the Receivables Facility as collateralized borrowings. As a result, these receivables are recorded as assets on Resources' Consolidated Balance Sheet and amounts received by Resources pursuant to this facility are recorded as a current liability under the caption "Receivables Facility."

(b) Long-term Debt.

Resources' consolidated long-term debt outstanding, which is summarized in the following table, is noncallable and without sinking fund requirements except as noted. Carrying amounts and amounts due in one year reflect $33.2 million and $3.4 million, respectively, for fair value adjustments recorded in connection with the Merger.

	DECEMBER 31, 1998			
			CARRYING AMOUNTS	
	EFFECTIVE RATE	PRINCIPAL AMOUNT	NON-CURRENT PORTION	CURRENT PORTION
		(MILLIONS OF DOLLARS)		
Medium-term notes, Series A and B due through 2001, weighted average rate of 8.96% at December 31, 1998	6.4%	$ 165.6	$ 177.6	
8.875% Series due 1999	6.3%	200.0		$ 202.7
7.5% Series due 2000	6.4%	200.0	203.1	
8.9% Series due 2006	6.8%	145.1	163.4	
6% Convertible Subordinated Debentures due 2012	6.5%	109.6	104.6	
10% Series due 2019(1)	8.8%	42.8	47.6	
6 1/2% Series due 2008	6.5%	300.0	300.0	
6 %% Series due 2003	6.4%	517.0	517.0	
Other				0.7
		$ 1,680.1	$ 1,513.3	$ 203.4

	DECEMBER 31, 1997			
			CARRYING AMOUNTS	
	EFFECTIVE RATE	PRINCIPAL AMOUNT	NON-CURRENT PORTION	CURRENT PORTION
			(MILLIONS OF DOLLARS)	
Medium-term notes, Series A and B due through 2001, weighted average rate of 8.90% at December 31, 1997	6.4%	$ 241.6	$ 183.8	$ 78.8
Bank Term Loan due 1998	6.2%	150.0		153.3
8.875% Series due 1999	6.3%	200.0	207.2	
7.5% Series due 2000	6.4%	200.0	205.0	
8.9% Series due 2006	6.8%	145.1	165.1	
6% Convertible Subordinated Debentures due 2012	6.5%	116.3	107.2	
10% Series due 2019(1)	8.8%	42.8	47.8	
Other	4.1%	0.6	0.6	
		$ 1,096.4	$ 916.7	$ 232.1

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(1) In the fourth quarter of 1997 Resources purchased $101.4 million aggregate principal amount of its 10% Debentures due 2019 at an average price of 111.98% plus accrued interest. Because Resources' debt was stated at fair market value as of the Acquisition Date, the loss on the reacquisition of these debentures was not material.

Consolidated maturities of long-term debt and sinking fund requirements for Resources are approximately $207 million for 1999, $228 million in 2000, $151 million in 2001, $7 million in 2002 and $7 million in 2003.

Resources' retirements and reacquisitions of long-term debt are summarized in the following table. In cases where premiums were paid or discounts were realized in association with these reacquisitions and retirements, such amounts are reported in Resources' Statements of Consolidated Income as "Extraordinary gain (loss) on early retirement of debt, less taxes" and are net of taxes of $0.1 million and ($2.5) million in 1997 and 1996, respectively. For retirements and reacquisitions after the Acquisition Date, gains or losses on early retirement are immaterial since the carrying amounts reflect the fair value adjustments described above.

	YEAR ENDED DECEMBER 31,	
	1998(1)	1997(1)
Reacquisition of 10% Debentures due 2019		$ 101.4
Reacquisition of 6% Convertible Subordinated Debentures due 2012(2)	$ 6.7	5.8
Retirement, at maturity, of Medium Term Notes(3)	76.0	52.0
Retirement of Bank Term Loan due 2000	150.0	
Retirement of 9.875% Notes due 1997		225.0
Net (gain) loss on reacquisition of debt, less taxes		(0.2)
	$ 232.7	$ 384.0

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(1) Excludes the conversion of 6% Convertible Subordinated Debentures due 2012 in the amount of approximately $0 and $.7 million at December 31, 1998 and December 31, 1997, respectively.
(2) These reacquired debentures may be credited against sinking fund requirements.
(3) Weighted average interest rate of 8.75% and 9.25% in 1998 and 1997, respectively.

In June 1996, Resources exercised its right to exchange the $130 million principal amount of its $3.00 Convertible Exchangeable Preferred Stock, Series A for its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and have the right at any time on or before the maturity date thereof to convert each Subordinated Debenture into 0.65 shares of common stock of Reliant Energy and $14.24 in cash. The Subordinated Debentures are callable beginning in 1999 at redemption prices beginning at 105.0% and declining to par in November 2009. Resources is required to make annual sinking fund payments of $6.5 million on the Subordinated Debentures which began on March 15, 1997 and will continue on each succeeding March 15 up to and including March 15, 2011. Resources (i) may credit against the sinking fund requirements any Subordinated Debentures redeemed by Resources and Subordinated Debentures which have been converted at the option of the holder and (ii) may deliver purchased Subordinated Debentures in satisfaction of the sinking fund requirements. Resources satisfied its 1998 sinking fund requirement of $6.5 million by delivering Subordinated Debentures purchased in 1996 and 1997.

In February 1998, Resources issued $300 million principal amount of 6.5% debentures due February 1, 2008. The proceeds from the sale of the debentures were used to repay short-term indebtedness of Resources, including the indebtedness incurred in connection with the 1997 purchase of $101 million aggregate principal amount of its 10% debentures and the repayment of $53 million aggregate principal amount of Resources debt that matured in December 1997 and January 1998. In connection with the issuance of the 6.5% debentures, Resources received approximately $1 million upon unwinding a $300 million treasury rate lock agreement, which was tied to the interest rate on 10-year treasury bonds. The rate lock agreement was executed in January 1998, and proceeds from the unwind will be amortized over the 10 year life of Resources' 6.5% debentures.

In November 1998, Resources sold $500 million aggregate principal amount of its 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes). Included within the TERM Notes is an embedded option sold to an investment bank which gives the investment bank the right to remarket the TERM Notes in 2003 if it chooses to exercise the option. The net proceeds of $514 million from the offering of the TERM Notes were used for general corporate purposes, including the repayment of (i) $178.5 million of Resources' outstanding commercial paper and (ii) a $150 million term loan of Resources that matured on November 13, 1998. The TERM Notes are unsecured obligations of Resources which bear interest at an annual rate of 6 3/8% through November 1, 2003. On November 1, 2003, the holders of the TERM Notes are required to tender their notes at 100% of their principal amount. The portion of the proceeds attributable to the option premium will be amortized over the stated term of the securities. If the option is not exercised, Resources will repurchase the TERM Notes at 100% of their principal amount on November 1, 2003. If the option is exercised, the TERM Notes will be remarketed on a date, selected by Resources, within the 52-week period beginning November 1, 2003. During such period and prior to remarketing, the TERM Notes will bear interest at rates, adjusted weekly, based on an index selected by Resources. If the TERM Notes are

remarketed, the final maturity date of the TERM Notes will be November 1, 2013, subject to adjustment, and the effective interest rate on the remarketed TERM Notes will be 5.66% plus Resources' applicable credit spread at the time of such remarketing.

(b) Restrictions on Debt.

Under the provisions of the Resources Credit Facility, Resources' total debt is limited to 55% of its total capitalization. This provision did not significantly restrict Resources' ability to issue debt or to pay dividends in 1998. At December 31, 1998, Resources' total debt to total capitalization equaled 40%.

(5) TRUST SECURITIES

In June 1996, a Delaware statutory business trust (Resources Trust) established by Resources issued in a public offering $172.5 million of convertible preferred securities and sold approximately $5.3 million of Resources Trust common stock (106,720 shares, representing 100% of the Resources Trust's common equity) to Resources. The convertible preferred securities have a distribution rate of 6.25% payable quarterly in arrears, a stated liquidation amount of $50 per convertible preferred security and must be redeemed by 2026. The proceeds from the sale of the preferred and common securities were used by Resources Trust to purchase $177.8 million of 6.25% Convertible Junior Subordinated Debentures from Resources having an interest rate corresponding to the distribution rate of the convertible preferred securities and a maturity date corresponding to the mandatory redemption date of the convertible preferred securities. Under existing law, interest payments made by Resources for the junior subordinated debentures are deductible for federal income tax purposes. Resources has the right at any time and from time to time to defer interest payments on the junior subordinated debentures for successive periods not to exceed 20 consecutive quarters for each such extension period. In such case, (1) quarterly distributions on the junior subordinated debentures would also be deferred and (2) Resources has agreed to not declare or pay any dividend on any common or preferred stock, except in certain instances.

The Resources Trust is accounted for as a wholly owned consolidated subsidiary of Resources. The junior subordinated debentures are the sole assets of the Resources Trust. Resources has fully and unconditionally guaranteed, on a subordinated basis, the Resources Trust's obligations, including the payment of distributions and all other payments, with respect to the convertible preferred securities. The convertible preferred securities are mandatorily redeemable upon the repayment of the related junior subordinated debentures at their stated maturity or earlier redemption. Each convertible preferred security is convertible at the option of the holder into $33.62 of cash and 1.55 shares of Reliant Energy common stock. During 1998, convertible preferred securities aggregating $15.5 million were converted, leaving $0.9 million liquidation amount of convertible preferred securities outstanding at December 31, 1998.

(8) COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments.

The following table sets forth certain information concerning Resources' obligations under operating leases:

Minimum Lease Commitments at December 31, 1998(1)
(millions of dollars)

1999	$ 19
2000	15
2001	14
2002	10
2003	9
2004 and beyond	61
Total	$ 128

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(1) Principally consisting of rental agreements for building space and data processing equipment and vehicles (including major work equipment); approximately $16 million represents rental agreements with Reliant Energy.

Resources has a master leasing agreement which provides for the lease of vehicles, construction equipment, office furniture, data processing equipment and other property. For accounting purposes, the lease is treated as an operating lease. At December 31, 1998, the unamortized value of equipment covered by the master leasing agreement was $26.9 million. Resources does not expect to lease additional property under this lease agreement.

Total rental expense for all leases was $25.0 million, $24.0 million and $33.4 million in 1998, 1997 and 1996, respectively.

(b) Letters of Credit.

At December 31, 1998, Resources had letters of credit incidental to its ordinary business operations totaling approximately $30 million under which Resources is obligated to reimburse drawings, if any.

(c) Indemnity Provisions.

At December 31, 1998, Resources had a $5.8 million accounting reserve on its Consolidated Balance Sheets in "Estimated obligations under indemnification provisions of sale agreements" for possible indemnity claims asserted in connection with its disposition of former subsidiaries or divisions, including the sale of (i) Louisiana Intrastate Gas Corporation, a former subsidiary engaged in the intrastate pipeline and liquids extraction business (1992); (ii) Arkla Exploration Company, a former subsidiary engaged in oil and gas exploration and production activities (June 1991); and (iii) Dyco Petroleum Company, a former subsidiary engaged in oil and gas exploration and production (1991).

(d) Sale of Receivables.

Certain of Resources' receivables are collateral for receivables which have been sold pursuant to the terms of the Receivables Facility. For information regarding these receivables, see Note 4(a).

(e) Gas Purchase Claims.

In conjunction with settlements of "take-or-pay" claims, Resources has prepaid for certain volumes of gas, which prepayments have been recorded at their net realizable value and, to the extent that Resources is unable to realize at least the carrying amount as the gas is delivered and sold, Resources' earnings will be reduced, although such reduction is not expected to be material. In addition to these prepayments, Resources is a party to a number of agreements which require it to either purchase or sell gas in the future at prices which may differ from then prevailing market prices or which require it to deliver gas at a point other than the expected receipt point for volumes to be purchased. To the extent that Resources expects that these commitments will result in losses over the contract term, Resources has established reserves equal to such expected losses. As of December 31, 1998, these reserves were not material.

(f) Transportation Agreement.

Resources had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) which contemplated that Resources would transfer to ANR an interest in certain of Resources' pipeline and related assets. The interest represented capacity of 250 Mmcf/day. Under the ANR Agreement, an ANR affiliate advanced $125 million to Resources. Subsequently, the parties restructured the ANR Agreement and Resources refunded in 1995 and 1993, respectively, $50 million and $34 million to ANR or an affiliate. Resources recorded $41 million as a liability reflecting ANR's or its affiliates' use of 130 Mmcf/ day of capacity in certain of Resources' transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to an ANR affiliate. The ANR Agreement will terminate in 2005 with a refund of the remaining balance.

(g) Environmental Matters.

To the extent that potential environmental remediation costs are quantified within a range, Resources establishes reserves equal to the most likely level of costs within the range and adjusts such accruals as better information becomes available. In determining the amount of the liability, future costs are not discounted to their present value and the liability is not offset by expected insurance recoveries. If justified by circumstances within Resources' business subject to SFAS No. 71, corresponding regulatory assets are recorded in anticipation of recovery through the rate making process.

Manufactured Gas Plant Sites. Resources and its predecessors operated a manufactured gas plant (MGP) adjacent to the Mississippi River in Minnesota formerly known as Minneapolis Gas Works (FMGW) until 1960. Resources has substantially completed remediation of the main site other than ongoing water monitoring and treatment. There are six other former MGP sites in the Minnesota service territory. Remediation has been completed on one site. Of the remaining five sites, Resources believes that two were neither owned nor operated by Resources; two were owned by Resources at one time but were operated by others and are currently owned by others; and one site was previously owned and operated by Resources but is currently owned by others. Resources believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 1998, Resources had estimated a range of $12 million to $70 million for possible remediation of the Minnesota sites. The low end of the range was determined based on only those sites presently owned or known to have been operated by Resources, assuming use of Resources' proposed remediation methods. The upper end of the range was determined based on the sites once owned by Resources, whether or not operated by Resources. The cost estimates of the FMGW 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.

At December 31, 1998 and 1997, Resources had recorded accruals of $5.4 million and $3.3 million, respectively (with a maximum estimated exposure of approximately $8 million and $18 million at December 31, 1998 and 1997, respectively) and an offsetting regulatory asset for environmental matters in connection with a former fire training facility, a landfill and an underground gas storage facility for which future remediation may be required. This accrual is in addition to the accrual for MGP sites as previously discussed.

In its 1995 rate case, Reliant Energy Minnegasco was allowed to recover approximately $7 million annually for remediation costs. In 1998, Reliant Energy Minnegasco received approval to reduce its annual recovery rate to zero. Remediation costs are subject to a true-up mechanism whereby any over or under recovered amounts, net of certain insurance recoveries, plus carrying charges, would be deferred for recovery or refund in the next rate case. At December 31, 1998 and 1997, Reliant Energy Minnegasco had over recovered $13 million and $1.8 million, respectively. At December 31, 1998 and 1997, Minnegasco had recorded a liability of $20.7 million and $21.7 million, respectively, to cover the cost of future remediation. In addition, at December 31, 1998, Minnegasco had receivables from insurance settlements of $.6 million. These insurance settlements will be collected in 1999. Minnegasco expects that approximately 43% of its accrual as of December 31, 1998 will be expended within the next five years. The remainder will be expended on an ongoing basis for an estimated 40 years. In accordance with the provisions of SFAS No. 71, a regulatory asset has been recorded equal to the liability accrued. Minnegasco is continuing to pursue recovery of at least a portion of these costs from insurers. Minnegasco believes the difference between any cash expenditures for these costs and the amount recovered in rates during any year will not be material to Resources' overall cash requirements, results of operations or cash flows.

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

Mercury Contamination. Like other natural gas pipelines, Resources' pipeline operations have in the past employed elemental mercury in meters used on its pipelines. Although the mercury has now been removed from the meters, it is possible that small amounts of mercury have been spilled at some of those sites in the course of normal maintenance and replacement operations and that such spills have contaminated the immediate area around the meters with elemental mercury. Such contamination has been found by Resources at some sites in the past, and Resources has conducted remediation at sites found to be contaminated. Although Resources is not aware of additional specific sites, it is possible that other contaminated sites exist and that remediation costs will be incurred for such sites. Although the total amount of such costs cannot be known at this time, based on experience by Resources and others in the natural gas industry to date and on the current regulations regarding remediation of such sites, Resources believes that the cost of any remediation of such sites will not be material to Resources' financial position, results of operation or cash flows.

Potentially Responsible Party Notifications. From time to time Resources and its subsidiaries have been notified that they are PRP's with respect to properties which environmental authorities have determined warrant remediation under state or federal environmental laws and regulations. In October 1994 the EPA issued such a notice with respect to the South 8th Street landfill site in West Memphis, Arkansas, and in December 1995, the Louisiana Department of Environmental Quality advised that one of Resources' subsidiaries had been identified as a PRP with respect to a hazardous waste site in Shreveport, Louisiana.

In 1998, MRT received a notice of potential liability from the EPA regarding MRT's PRP status with respect to the Gurley Pit Superfund Site. The notice stated that MRT is a PRP for the response costs at this site because MRT allegedly generated materials that were disposed of at the site. MRT subsequently notified the EPA that it does not believe that it has liability because it did not have operations in the state from which the material was allegedly hauled. In December 1998, MRT learned that the South 8th Street Superfund Site Group and the EPA reached a tentative settlement regarding the South 8th Street and Gurley Pit Superfund Sites.

Considering the information currently known about such sites and the involvement of Resources or its subsidiaries in activities at these sites, Resources does not believe that these matters will have a material adverse effect on Resources' financial position, results of operation or cash flows.

Resources is a party to litigation (other than that specifically noted) which arises in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that the effect on Resources' Consolidated Financial Statements, if any, from the disposition of these matters will not be material.