File No. _____

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM U-1

APPLICATION / DECLARATION

UNDER

THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

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None

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ITEM 1. DESCRIPTION OF PROPOSED TRANSACTION

A. INTRODUCTION AND REQUEST FOR COMMISSION ACTION

Reliant Energy, Incorporated ("REI") and Reliant Energy Regco, Inc. ("Regco") hereby file this Application/Declaration (this "Application") seeking approval from the Securities and Exchange Commission (the "Commission") under the Public Utility Holding Company Act of 1935, as amended (the "Act" or the "1935 Act"), in connection with the restructuring (the "Restructuring") of the utility operations of REI, a Texas public-utility holding company currently exempt from registration pursuant to Section 3(a)(2) of the Act.(1)

The Restructuring will involve the formation of Regco as a new holding company over REI's existing utility operations, which will be reorganized along functional and geographic lines. Upon completion of the Restructuring, Regco will have five public-utility subsidiaries: (i) the "T&D Utility," which will own and operate REI's transmission and distribution assets; (ii) "Texas Genco," which will own and operate REI's Texas generation assets; (iii) "Entex, Inc." which will provide gas distribution services to customers in Texas, Louisiana and Mississippi; (iv) "Arkla, Inc.," which will provide gas distribution services to customers in Texas, Louisiana, Arkansas and Oklahoma; and (v) "Minnegasco, Inc.," which will provide gas distribution services to customers in Minnesota.(2)

The Restructuring will proceed in stages. Under Texas law, the first stage, the separation of REI's electric utility operations into Texas Genco and the T&D Utility must be completed by January 1, 2002. Accordingly, the Applicants ask the Commission to issue an order authorizing Regco to acquire the securities of Texas Genco, the T&D Utility and Reliant Energy Resources, Inc. ("GasCo"), which currently conducts REI's gas utility operations through three unincorporated divisions, the Entex division, the Arkla division and the Minnegasco division. To enable REI to complete this part of the Restructuring in a timely fashion pursuant to Texas law, Applicants ask the Commission to issue an order (the "Initial Order") approving this aspect of the Restructuring as expeditiously as possible but, in any event, no later than September 30, 2001.

The second stage, the separation of REI's gas utility operations into Entex, Arkla and Minnegasco (the "GasCo Separation"), will require state, as well as Commission, approval and so may not be completed immediately. Accordingly, the Applicants ask the Commission to reserve jurisdiction over the acquisition by Regco of the securities of the Entex, Arkla and Minnegasco subsidiaries pending completion of the record with respect to this stage of the Restructuring.

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(1) Houston Indus., HCAR No. 26744, 1997 WL 414391 (July 24, 1997).

(2) To reduce tax inefficiency, Regco will hold its utility ownership interests through one or more special purpose subsidiaries (the "Intermediate Holding Companies"), similar to those approved by the Commission in National Grid Group plc, HCAR No. 27154, 2000 WL 279236 (Mar. 15, 2000). The Intermediate Holding Companies will be wholly-owned by Regco and will have no public or private institutional equity or debt holders.

Upon completion of the Restructuring, Applicants believe that Regco will qualify for exemption under Section 3(a)(1) of the Act. In the interim, however, there will be a period pending the GasCo Separation during which Regco will not be fully in compliance with the standards for exemption. Specifically, although the combined system will be "predominantly intrastate in character" and carry on its business "substantially in a single state," GasCo initially will be a material subsidiary with significant out-of-state operations. Upon completion of the second stage, however, Regco and each of its material utility subsidiaries will fully comply with the requirements of Section 3(a)(1).

To facilitate the implementation of the Restructuring, Applicants ask that the Commission's Initial Order grant Regco an order of exemption pursuant to Section 3(a)(1) of the Act, conditioned upon completion of the Restructuring and the GasCo Separation no later than two years from the acquisition by Regco of the securities of Texas Genco, the T&D Utility and GasCo pursuant to the Initial Order.

B. BACKGROUND

1. Overview of REI and Its Principal Subsidiaries

REI is a public-utility holding company exempt from registration under the Act pursuant to Section 3(a)(2). REI is incorporated and maintains its principal place of business in the State of Texas. Its common stock is listed on the New York and Chicago stock exchanges. REI's electric utility operations are conducted through its unincorporated Reliant Energy HL&P division ("HL&P"), while its gas utility operations are conducted through GasCo, a wholly-owned subsidiary. GasCo is a "gas utility company" as defined in Section 2(a)(4) of the Act.(3)

REI's existing electric and gas utility structure resulted from the merger of Houston Industries Incorporated ("Houston Industries") and NorAm Energy Corp. ("NorAm") in August 1997. Prior to the merger, Houston Industries' principal utility operations had been conducted through its integrated electric utility subsidiary, Houston Lighting & Power Company. NorAm had no electric utility operations but did engage in gas distribution operations. In the merger, Houston Industries merged into Houston Lighting & Power Company (which then adopted the name Houston Industries Incorporated). Houston Lighting & Power Company ("HL&P") became a division of the holding company, Houston Industries, and NorAm became a first tier, wholly-owned subsidiary of the holding company.(4)

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(3) A description of the REI electric system is set forth at Item 1, Section B.2. below. A description of the REI gas system is set forth at Item 1, Section B.3. below. Both systems are subject to effective state regulation, as discussed below.

(4) In 1999, the name of the holding company was changed from Houston Industries Incorporated to Reliant Energy, Incorporated, referred to herein as "REI," and the integrated electric utility became Reliant Energy HL&P, a division of REI. NorAm became Reliant Energy Resources Corp., referred to herein as "GasCo." A diagram of the current corporate structure of the REI system (the "Pre-Restructuring Structure") is attached hereto as Exhibit F-1.

REI conducts its nonutility operations, including merchant power generation and energy trading and marketing, largely through its nonutility subsidiary company, Reliant Resources, Inc. ("Unregco"), and Unregco's subsidiary companies. On May 4, 2001, Unregco completed an initial public offering of approximately 20% of its common stock. REI expects the offering to be followed by a distribution of the remaining common stock of Unregco to the shareholders of REI or its successor within 12 months (the "Distribution").(5)

2. The REI Electric System

Through its HL&P division, REI generates, purchases, transmits and distributes electricity to approximately 1.7 million customers in the State of Texas, primarily serving a 5,000-square-mile area on the Texas Gulf Coast, including the Houston metropolitan area. All of REI's generation and operating properties are located within Texas. As an electric utility, HL&P is subject to regulation by the Texas Commission and the provisions of the Texas Act, as that term is defined below.

As of December 31, 2000, HL&P owned and operated 12 electric generating stations (62 generating units) with a net generating capacity of 14,040 megawatts and 218 major substation sites (252 substations) having a total installed rated transformer capacity of 58,041 megavolt amperes. As of December 31, 2000, HL&P's peak load was 15,505 megawatts and its total net capability (including firm purchase power capacity) was 14,810 megawatts. HL&P relies primarily on natural gas, coal and lignite for the generation of electricity. In addition, HL&P purchases power from various qualifying facilities exercising their rights under the Public Utility Regulatory Policies Act of 1978. From time to time, as market conditions dictate, HL&P also purchases power from various wholesale market participants including qualifying facilities, EWGs, power marketers and other utilities. HL&P owns a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), a nuclear generating plant with two 1,250 megawatt nuclear generating units. HL&P's share of the South Texas Project is included in the capability data shown above.

REI is a member of the Electric Reliability Council of Texas, Inc. ("ERCOT"). ERCOT is one of ten Regional Reliability Councils in the North American Electric Reliability Council Organization. ERCOT represents a bulk electric system located entirely within the State of Texas and serves approximately 85% of the State's electrical load. Because of its intrastate status, the primary regulatory authority for HL&P and ERCOT is the Texas Commission, although the Federal Energy Regulatory Commission ("FERC") exercises limited authority. ERCOT serves as Independent System Operator for its member utilities.

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(5) In order to complete its restructuring in the manner contemplated in its approval from the Public Utility Commission of Texas ("Texas Commission"), REI hopes to receive all regulatory approvals for Stage 1 of the Restructuring and complete the Distribution by December 31, 2001. Additional information concerning the Distribution is contained in the Annual Report on Form 10-K of REI (Commission File Number 1-3187) for fiscal year ended December 31, 2000, filed with the Commission on March 22, 2001.

3. The REI Gas System

REI conducts natural gas distribution operations through three unincorporated divisions of GasCo: (i) the Entex Division, which serves approximately 1.5 million residential, commercial, industrial and transportation customers, located in Texas (including the Houston metropolitan area), Louisiana and Mississippi; (ii) the Arkla Division, which serves approximately 740,000 residential, commercial, industrial and transportation customers located in Texas, Louisiana, Arkansas, and Oklahoma; and (iii) the Minnegasco Division, which serves approximately 680,000 residential, commercial and industrial customers located in Minnesota. The largest communities served by Arkla are the metropolitan areas of Little Rock, Arkansas and Shreveport, Louisiana. Minnegasco serves the Minneapolis metropolitan area.

GasCo, through subsidiaries, also owns two interstate pipelines and a gas gathering system. Through Reliant Energy Gas Transmission Company ("REGT"), GasCo owns and operates a major interstate transmission system (approximately 6,100 miles of transmission lines) located in the United States mid-continent region. Through the Mississippi River Transmission Corporation ("MRT"), GasCo owns and operates a major interstate transmission system (approximately 2,100 miles of transmission lines) that extends from East Texas and Northern Louisiana to the St. Louis metropolitan area. A majority of Arkla's gas supply and a portion of Entex's gas supply are transported by REGT. Reliant Energy Field Services ("Field Services"), which is comprised of approximately 300 separate gathering systems connecting over 3,700 wells located in the mid-continent, delivers the majority of its gas into REGT's interstate pipeline system. Field Services gathers approximately 800 million cubic feet ("MMcf") of gas per day, approximately 470 MMcf of which is sourced from the Arkoma Basin, 180 MMcf of which is sourced from the Anadarko Basin and 150 MMcf of which is sourced from the ArkLaTex Basin.

Entex is subject to regulation by the Texas Railroad Commission ("TRC"), the Louisiana Public Service Commission (the "Louisiana Commission") and the Mississippi Public Service Commission (the "Mississippi Commission"). Arkla is subject to regulation by the TRC, the Louisiana Commission, the Arkansas Public Service Commission (the "Arkansas Commission") and the Corporation Commission of the State of Oklahoma (the "Oklahoma Commission"). Minnegasco is subject to regulation by the Minnesota Public Utilities Commission (the "Minnesota Commission"). REGT and MRT are subject to regulation by the FERC.

4. Integration and Geographic Overlap of Electric and Gas Utilities

REI's electric and gas systems substantially overlap as described above and as shown by the diagram attached as Exhibit E-1 to this Application. Each of REI and GasCo is an "integrated public utility system" under the Act as described in Sections B.3. and B.4. of Item 3 below.

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Additional information regarding the Restructuring, REI, GasCo and their respective subsidiaries is set forth in the following documents, each of which has been previously filed with the Commission and is incorporated herein by reference:

(i) Annual Report on Form 10-K of REI (Commission File Number 1-3187) and GasCo (Commission File Number 1-13265) for the fiscal year ended December 31, 2000, filed with the Commission on March 22, 2001;

(ii) Quarterly Report on Form 10-Q of REI (Commission File Number 1-3187) and GasCo (Commission File Number 1-13265) for the quarter ended March 31, 2001, filed with the Commission on May 15, 2001;

(iii) Current Reports on Form 8-K of REI and GasCo filed with the Commission on January 26, 2001 and April 16, 2001;

(iv) Annual Report Concerning Foreign Utility Companies on Form U-33-S of REI for the fiscal year ended December 31, 2000, filed with the Commission on April 30, 2001; and

(v) Amendment No. 8 to Registration Statement on Form S-1 of Reliant Resources, Inc. (Registration No. 333-48038) filed with the Commission on April 27, 2001.

C. OVERVIEW OF THE RESTRUCTURING

1. The Texas Act

S.B.7, known as the Texas Electric Choice Plan (the "Texas Act") substantially amends the regulatory structure governing electric utilities in Texas to allow full retail competition beginning on January 1, 2002. Under the Texas Act, the traditional vertically integrated utility is required to separate its generation, transmission and distribution, and retail activities. The transmission and distribution business retained by Regco will continue to be subject to cost-of-service rate regulation. The rates that will be in effect as of January 1, 2002 will be set upon the resolution of a rate case currently pending before the Texas Commission.

To facilitate a competitive market, each power generator, such as Texas Genco, that will be affiliated with a transmission and distribution utility will be required to sell at auction 15% of the output of its installed generating capacity. The first auction will be held later this year for power to be delivered after January 1, 2002. The obligation continues until January 1, 2007, unless before that date the Texas Commission determines that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial customers in the utility's service area is being served by retail electric providers not affiliated with the incumbent utility. An affiliated retail electric provider such as Unregco may not purchase capacity sold by its affiliated power generation company in the mandated capacity auction. Any differences between market power prices received by the Texas Genco and the Texas Commission's estimate of those prices, made for purposes of estimating stranded costs, will be accrued and included in a true-up of Regco's stranded costs in a final order of the Texas Commission. These costs will be recaptured pursuant to a securitization order of the Texas Commission.

Unregco will become the retail electric provider for all of REI's approximately 1.7 million residential, commercial and industrial customers located in the Houston metropolitan area who do not take action to select another retail electric provider. Under the market framework required by the Texas Act, retail electric providers such as Unregco that are affiliated with an incumbent utility(6) will be required to sell electricity to residential and small commercial customers within the utility's service territory at a specific price, which is referred to in the law as the "price to beat."(7) In contrast, new retail electric providers may sell electricity to REI's retail and small commercial customers at any price. The initial price to beat for Unregco will be 6% less than the average rates, on a bundled basis, in effect for REI on January 1, 1999, adjusted to take into account a new fuel factor as of December 31, 2001. Unregco will not be permitted to sell electricity to residential and small commercial customers in REI's service territory at prices other than the price to beat until January 1, 2005, unless the Texas Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers is committed to be served by other retail electric providers.(8)

By allowing nonaffiliated retail electric providers to provide retail electric service to customers in an electric utility's traditional service territory at any price, the Texas Act encourages competition among retail electric providers. The Texas Commission is currently developing regulations governing quality, reliability and other aspects of service from retail electric providers.(9)

2. Business Separation Plan

In July 2000, REI announced its intention to divide its businesses between two publicly-traded companies that will hold the regulated and unregulated businesses, respectively. The separation is intended, among other things, to satisfy the Texas Act's mandated "unbundling" of utility functions and allow REI to respond to the effects of deregulation without

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(6) Upon completion of the Distribution, the company will cease to be an affiliate of Regco for purposes of the 1935 Act. Unregco will, however, be deemed to be an affiliate of Regco for certain purposes of the Texas Act.

(7) The price to beat applies only to electric services provided to residential and small commercial customers. Electric services provided to large commercial and industrial customers may be provided at any negotiated price.

(8) Unregco may request that the Texas Commission adjust the fuel factor included in its price to beat not more than twice a year if Unregco can demonstrate that the existing fuel factor does not adequately reflect significant changes in the market price of natural gas and purchased energy used to serve retail customers.

(9) For more information regarding the provisions of the Texas Act, see "Our Business--Regulation--State Regulation" in Amendment No. 8 to Registration Statement on Form S-1 of Reliant Resources, Inc., on file with the Commission under Registration No. 333-48038, filed April 27, 2001 (the "Unregco Registration Statement"). The Unregco Registration Statement is included as Exhibit C-1 to this Application and incorporated by reference herein.

jeopardizing the continued successful integration of its regulated gas and electric operations or the ability of its nonregulated businesses to grow without traditional regulated utility constraints.

The Texas Commission has approved a business separation plan under which REI's existing electric utility operations will be separated into three separate businesses: generation, transmission and distribution, and retail sales.(10) Under the plan, Unregco will be the successor to REI as the retail electric provider to customers in the Houston metropolitan area when the Texas market opens to competition in January 2002. REI, which will be a subsidiary of Regco, will retain its existing transmission and distribution businesses, which will remain subject to traditional utility rate regulation. Regco will also initially retain REI's Texas generation assets, subject to an option by Unregco to purchase the capital stock of a newly-formed entity that will hold these assets ("Texas Genco"), as more fully described below.

Full implementation of the business separation plan will be completed in several steps over a period of four years. Significant components of the business separation plan are outlined in and will occur pursuant to a Master Separation Agreement.(11) As a preliminary

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(10) The specific form of the business separation was the result of a contested proceeding before the Texas Commission. Before receiving approval in that proceeding, REI had filed two other business separation plans that proposed alternative corporate structures. Both of those proposed plans were opposed in the proceedings before the Texas Commission for reasons explained below, and neither plan was approved.

REI's initial business separation plan contemplated the separation of HL&P's activities into three unincorporated divisions of the existing parent entity. These divisions were to be a power generation company, a transmission and distribution utility and a retail electric provider. This plan was opposed by the staff of the Texas Commission and certain intervenors in the proceeding because it did not place each of the three functional units in a separate corporation.

In response, REI filed an amended business separation plan, which contemplated that REI would create new first or second tier corporate subsidiaries to house the power generation company and the retail electric provider and that the transmission and distribution utility would continue as an unincorporated division of REI. Although supported by the commercial intervenors in the proceeding, this approach was opposed by the staff of the Texas Commission, based on the fact that the parent entity's transmission and distribution utility operations would be liable for a substantial amount of debt unrelated to its operations and that the regulated utility's credit would be used to support unregulated businesses. The Texas Commission indicated its preference for a plan that would not only place the three functional units in separate legal entities but would also result in the regulated transmission and distribution utility no longer being a creditor of or financing source for the unregulated business activities.

Thus, the business separation model which gives rise to this Application reflects the pattern of vigorous and effective state oversight to which the Commission has "watchfully deferred" in past matters. See Sierra Pacific Resources, HCAR No. 24566, 1988 WL 236860 (Jan. 28, 1988), aff'd sub nom., Environmental Action Inc. v. SEC, 895 F.2d 1255 (9th Cir. 1990).

(11) See the discussion under "Agreements Between Us and Reliant Energy" in the Unregco Registration Statement.

matter, REI formed Unregco as a subsidiary and transferred to Unregco, or to subsidiaries of Unregco, substantially all of REI's unregulated electric assets and operations and its stock in its unregulated subsidiaries, including its wholesale power, trading and communications operations. REI has conducted an initial public offering of approximately 20% of Unregco's stock. Unregco's business and the offering of its stock are more fully described in the Unregco Registration Statement.

The transactions that are the subject of this filing relate to the formation of Regco as a holding company for REI's regulated operations and the reorganization of those interests along functional and geographic lines.

(a) Formation of Regco and Disaggregation of Electric Utility Business.

REI has formed Regco as a wholly-owned subsidiary.(12) REI in turn will form Texas Genco as an indirect wholly-owned limited partnership subsidiary.(13) REI will convey its regulated assets used to generate electric power and energy for sale within Texas and the liabilities associated with those assets to Texas Genco.(14) REI will then merge with a newly-formed subsidiary of Regco, with Regco becoming the holding company for the regulated businesses.(15) REI will also distribute to Regco its remaining 80% interest in Unregco, the stock of its gas utility subsidiary, Reliant Energy Resources Corp. ("GasCo"), and certain financing and other subsidiaries. REI (the "T&D Utility"), as a subsidiary of Regco, will continue to hold REI's existing electric transmission and distribution businesses.

(b) Unregco Spin-Off

Thereafter, with the specific timing dependent on market conditions and obtaining appropriate approvals, Regco will effect a tax-free distribution to its shareholders of its remaining ownership interest in Unregco (approximately 80%). As a result of the distribution, Unregco will become a separate, publicly traded corporation. Upon the completion of the Restructuring, Unregco will have officers and directors separate from Regco, with the exception of two common independent directors and REI's Chairman, who will chair both the Regco and Unregco boards during a transition period not to exceed three years.

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(12) Regco was incorporated in Delaware on December 13, 2000. As part of the Restructuring, REI will either reincorporate Regco as a Texas corporation or use another Texas entity as the new holding company.

(13) Specifically, Regco will form a wholly-owned corporate subsidiary ("Genco Holdco"), which in turn will form two wholly-owned limited liability company subsidiaries of its own. The limited liability company subsidiaries will form and own all of the interests in Texas Genco, a limited partnership. Genco Holdco will liquidate into Regco, leaving Regco holding its Texas Genco interest indirectly through the two limited liability companies.

(14) With the exception of a few capitalized railcar leases, such assets will be free of material long-term debt. Contractual obligations, such as those for fuel purchases, purchases of services, equipment and other goods and services associated with the generation of electric energy and the assets conveyed, will be assumed by Texas Genco.

(15) To minimize tax inefficiencies with this structure, Regco will hold its utility interests through a newly-formed intermediate holding company.

(c) Disaggregation of Gas Utility Business

Upon obtaining the necessary regulatory approvals, including consent from or approval by the utility commissions of Arkansas, Oklahoma, Louisiana, Minnesota, and Mississippi, Regco will reorganize GasCo into three separate companies, Entex, Arkla and Minnegasco. Entex will be the successor to RERC, which will be reincorporated in Texas, and will own the natural gas pipelines and gathering business.(16)

(d) Texas Genco IPO and Option

The remaining steps in the business separation plan relate to the determination and recovery of "stranded costs" associated with REI's Texas generation assets.(17)

On or before June 30, 2002, Regco expects to conduct an initial public offering of approximately 20% of its Texas Genco common stock (the "Texas Genco IPO") or distribute such stock to its shareholders.(18) Creation of the minority public ownership interest in Texas Genco will permit REI to use the "partial stock valuation method" under the Texas Act for purposes of determining the stranded costs associated with its regulated generation assets.

Under the Texas Genco Option, Unregco will have the right to purchase all of Regco's equity interest in Texas Genco remaining after the Genco IPO, which retained equity interest will be at least 80%.(19) The Texas Genco Option is exercisable in January 2004. The exercise price for the option is determined by a market-based formula based on the formula employed by the Texas Commission for determining stranded costs under the partial stock valuation method referenced above.(20) The Texas Genco Option will be exercisable only if Regco distributes all of its Unregco interest to its shareholders as described above.

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(16) In 2000, REI discontinued certain international utility businesses, which were located primarily in Latin America. To the extent not disposed of prior to the Restructuring, those businesses will become subsidiaries of Regco.

(17) The term "stranded costs" generally refers to historic investments that had been expected to be recovered under regulation that cannot be recovered in a competitive market.

(18) In a series of transactions in connection with the Texas Genco IPO, the Texas Genco interests will be contributed to a newly-formed corporation ("Texas Genco, Inc."), which will be a wholly-owned subsidiary of Regco.

(19) The Texas Genco Option agreement provides that if Unregco purchases the Texas Genco shares under the Texas Genco Option, Unregco must also purchase all notes and other receivables from Texas Genco then held by Regco, at their principal amounts plus accrued interest. The Texas Genco Option agreement contains other provisions regarding the operation and capitalization of Texas Genco. For more information on these provisions, see "Texas Genco Option" in the Unregco Registration Statement.

(20) The per share exercise price under the option will equal the sum of (i) the average daily closing price on a national exchange for publicly held shares of common stock of Texas Genco

A set of charts detailing the steps of the Restructuring transactions is attached as Exhibit F-2.

Prior to the filing of this Application, Regco has received indicative investment grade debt ratings from three NRSROs: Moody's, Standard & Poor's and Fitch.

D. REGULATORY APPROVALS

As explained more fully in Item 4, various aspects of the Restructuring have been or will be submitted for review and/or approval by (i) the Texas Commission; (ii) the Louisiana Commission; (iii) the Arkansas Commission; (iv) the Oklahoma Commission; (v) the Minnesota Commission; (vi) the Mississippi Commission and (iv) the Nuclear Regulatory Commission (the "NRC"). Requisite filings have also been made with the Internal Revenue Service for appropriate rulings.

ITEM 2. FEES, COMMISSIONS AND EXPENSES

The fees, commissions and expenses to be paid or incurred, directly or indirectly, in connection with the Restructuring transactions requiring the approvals requested herein, including the solicitation of proxies and other related matters, are estimated as follows:

Commission filing fee for the Form S-4 relating to the Restructuring	*
Accountants' fees	*
Legal fees and expenses relating to the Act	*
Other legal fees and expenses	*
Shareholder communication and proxy solicitation	*
NYSE listing fees	*
Exchanging, printing and engraving of stock certificates	*
Financial advisory fees and expenses	*
Consulting fees	*

* To be filed by amendment.

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for the 30 consecutive trading days with the highest average closing price during the 120 trading days immediately preceding January 10, 2004, and (ii) a control premium, up to a maximum of 10%, to the extent a control premium is included in the valuation determination made by the Texas Commission relating to the market value of Texas Genco's common stock equity.

ITEM 3 APPLICABLE STATUTORY PROVISIONS

The following sections of the Act are or may be directly or indirectly applicable to the Restructuring:

Section of the Act	Transactions to which section or Rule is or may be applicable
Section 3(a)(1)	Exemption of Regco
Sections 9 and 10	Acquisition by Regco of Intermediate Holding Companies, Texas Genco, the T&D Utility and GasCo Acquisition by Regco of Entex, Arkla and Minnegasco Acquisition by Regco of Texas Genco, Inc.

Section 9(a)(2) of the Act makes it unlawful, without approval of the Commission under Section 10, "for any person . . . to acquire, directly or indirectly, any security of any public-utility company, if such person is an affiliate . . . of such company and of any other public utility or holding company, or will by virtue of such acquisition become such an affiliate."(21)

The proposed Restructuring will involve three sets of jurisdictional transactions under Section 9(a)(2):

(1) The acquisition by Regco of the Intermediate Holding Companies, Texas Genco, the T&D Utility and GasCo;

(2) The acquisition by Regco of Entex, Arkla and Minnegasco; and

(3) The acquisition by Regco of Texas Genco, Inc.

As set forth more fully below, the Restructuring complies with all of the applicable provisions of Section 10 of the Act and should therefore be approved by the Commission. Among other things:

- the Restructuring will not create detrimental interlocking relations or concentration of control;
- the Restructuring will not result in an unduly complicated capital structure for the Regco Group;

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(21) For purposes of Section 9(a)(2), an "affiliate" of a specified company means "any person that directly or indirectly owns, controls, or holds with power to vote, 5 per centum or more of the outstanding voting securities of such specified company." Act ss. 2(a)(11)(A).

- the Restructuring is in the public interest and the interests of investors and consumers;
- the Restructuring is consistent with Sections 8 and 11 of the Act; and
- the Restructuring will comply with--and indeed is in large part driven by the need to comply with--all applicable state laws.

In considering this Application, the Commission should recognize that the Restructuring involves no acquisition of additional utility systems or assets and no entry into new geographic areas or new businesses.

A. SECTION 10(b)

Section 10(b) of the Act provides that, if the requirements of Section 10(f) are satisfied, the Commission shall approve an acquisition under Section 9(a) unless:

(1) such acquisition will tend towards interlocking relations or the concentration of control of public-utility companies, of a kind or to an extent detrimental to the public interest or the interest of investors or consumers;

(2) in case of the acquisition of securities or utility assets, the consideration, including all fees, commissions, and other remuneration, to whomsoever paid, to be given, directly or indirectly, in connection with such acquisition is not reasonable or does not bear a fair relation to the sums invested in or the earning capacity of the utility assets to be acquired or the utility assets underlying the securities to be acquired; or

(3) such acquisition will unduly complicate the capital structure of the holding-company system of the applicant or will be detrimental to the public interest or the interest of investors or consumers or the proper functioning of such holding-company system.(22)

Each of the subsections of Section 10(b) is discussed below.

1. Section 10(b)(1)

The Restructuring will not give rise to any of the abuses that Section 10(b)(1) was intended to prevent. The purpose of Section 10(b)(1) is to prohibit utility acquisitions that result in an undue concentration of economic power.(23) Although the Restructuring will reorganize the

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(22) Act Section 10(b).

(23) Section 10(b)(1) is intended to avoid "an excess of concentration and bigness" that results

corporate relationships within the present REI system, it differs significantly from the vast majority of transactions analyzed under Section 10(b)(1) in that it will not involve the acquisition of additional utility systems or entry into new geographic markets and so will not involve any additional concentration of control of public-utility companies.

Further, the competitive effects of the Restructuring have been considered at length by the Texas Commission. Indeed, REI has undertaken the Restructuring in response to changes in Texas law designed to foster state competitive policy and further state regulatory oversight. Following the Restructuring, control of utility assets will not be more concentrated, but instead will be more diffused as a result of the competitive policy of the State of Texas.

For these reasons, the Restructuring will not tend towards interlocking relations or the concentration of control of public-utility companies of a kind or to the extent detrimental to the public interest or the interests of investors or consumers.

2. Section 10(b)(2)

Because the Restructuring does not involve the acquisition of securities or assets from a third party but instead entails a reorganization of the REI system, the consideration paid by Regco for the shares of the restructured subsidiary companies is only that de minimis amount as may be necessary to effect the corporate transactions. Therefore, the customary analysis under Section 10(b)(2) of the consideration paid in the transaction is not applicable to the Restructuring.

The overall fees, commissions and expenses that REI and Regco will incur in connection with the Restructuring, the amount of which will be filed by amendment, will be reasonable and fair in light of the size and complexity of the Restructuring and the anticipated benefits of the Restructuring to the public, investors and consumers. Further, they will be consistent with the percentages of such costs for previously approved, similar transactions.(24) Therefore, they meet the standards of Section 10(b)(2).

3. Section 10(b)(3)

Section 10(b)(3) requires the Commission to determine whether the Restructuring will result in an unduly complicated Regco capital structure or would be detrimental to the public interest, the interests of investors or consumers, or the proper functioning of Regco's system.

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in a "huge, complex and irrational system." American Elec. Power Co., HCAR No. 46 SEC Docket 1299, 1309 (Apr. 25, 1978). As such, Section 10(b)(1) is not concerned with a transaction such as the Restructuring which involves no acquisition of additional utility systems or assets, but is confined to the organization and relationships of integrated utilities.

(24) Compare CP&L Energy, HCAR No. 27284, 2000 WL 1741681 (Nov. 27, 2000); NiSource, HCAR No. 27263, 2000 WL 1629977 (Oct. 30, 2000); Exelon Corp., HCAR No. 27256, 2000 WL 1671969 (Oct. 19, 2000); Cinergy Corp., HCAR No. 26146, 1994 WL 596377 (Oct. 21, 1994); Entergy Corp., HCAR No. 25952, 1993 WL 541317 (Dec. 17, 1993); Northeast Utilities, HCAR No. 25548, 1992 WL 129531 (June 3, 1992).

It is contemplated that Regco will initially own 100% of the common equity of each of the Utility Subsidiaries. As noted above, to comply with Texas law, Regco plans to conduct an initial public offering of 20% of its Texas Genco common stock or distribute such stock to its shareholders on or before June 30, 2002. Creation of a minority public ownership interest in the Texas Genco is one of the methods prescribed in the Texas Act for the determination of stranded costs associated with REI's existing regulated generation assets in Texas, and so should not be deemed to create an unduly complicated capital structure within the meaning of Section 10(b)(3) of the Act.

Regco expects that both the gas and electric utility operations of Regco will maintain a minimum of 30% common equity capitalization and investment grade credit ratings from one or more Nationally Recognized Statistical Rating Organizations ("NRSROs"). Further, Regco itself expects to maintain an investment grade credit rating from one or more NRSROs.(25)

The investment grade ratings reflect certain underlying indicators of financial stability, including:

- A growing, stable customer rate base, which the Regco utilities have served for many years;
- A state regulatory regime which has avoided the mistakes of other deregulation plans by allowing for a market adjustment of retail rates;
- An abundance of power generation in Texas; and
- The ability, under the Texas Commission orders, to securitize utility assets and to service the related structured finance obligations to the special purpose entity formed for that financing through transaction charges which are creatures of state law.

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(25) It is appropriate for the Commission to consider credit ratings in determining whether a proposed transaction would be detrimental to the public interest or the interest of investors or consumers, or the proper functioning of the holding company system. NRSRO ratings are an important factor in many regulations. For example, the Commission requires investment grade status for a registrant seeking to register debt on Form S-3, and Investment Company Act Rule 3a-7 recognizes the role that NRSRO ratings play in the regulatory scheme where structured finance, special purpose vehicles are concerned. 17 C.F.R. ss. 270.3a-7 (concerning issues of asset-backed securities). The Commission commented in that context that "rating agency evaluations appear to address most of the [Investment Company] Act's concerns about abusive practices, such as self-dealing and overreaching by insiders, misvaluation of assets, and inadequate asset coverage." Exclusion from the Definition of Investment Company for Certain Structured Financings, ICAR No. 18736, 1992 WL 129535 (May 29, 1992).

Formal and informal recognition by the Commission of the importance of NRSRO determinations is a well-understood, established theme in the fabric of Commission regulation. As Investment Company Act Rule 3a-7 demonstrates, the Commission has considerable authority to determine the extent to which it gives weight to the factors underlying these ratings.

The investment grade rating also reflects the fact that the Restructuring will improve the "business risk profile"(26) of the regulated companies. The Restructuring will allow the market to distinguish between the risk profiles associated with REI's two most significant lines of business, a fact recognized by Standard & Poor's in its assessment of the business risk profile of REI currently and of each of Regco and Unregco following the Restructuring. Whereas Standard & Poor's currently has assigned REI a business risk profile of 5, it has assigned Regco a business risk profile of 3 (indicating a lower overall business risk) and Unregco a business risk profile of 7 to 8.

Under the Restructuring, Regco will remain almost in its entirety a regulated business: (i) it will no longer be responsible for making retail electric sales to customers, as that role will be the responsibility of Unregco's retail segment; (ii) Regco's T&D Utility is precluded by the Texas Act from selling electricity at retail; and (iii) unlike the regulated entity under most other deregulation schemes, REI, as a subsidiary of Regco, will have no obligation to serve as a provider of last resort and will only provide the wires and service to deliver the electricity from the generating company to the retail provider's customers. Nor will Regco retain the utility power sourcing obligation, which has traditionally been the origin of most risk for electric utilities. Generation will be the obligation of separate power generation companies, which incur the risks associated with obtaining fuel, constructing new generating capacity and selling power to the retail providers. Although Regco initially will retain the Texas Genco business as a separate subsidiary, it will not have an obligation to construct additional generation capacity, nor will it be responsible for sourcing power for retail customers.

Finally, the Restructuring will result in the movement of significant indebtedness away from the regulated utility to the Regco holding company, to comply with the directive of the Texas Commission. Based upon the foregoing, the Commission should find that the standards of Section 10(b)(3) are satisfied.(27)

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(26) A "business risk profile" is a metric used by Standard & Poor's to analyze the strength of an individual company within a specific industry. In developing a business risk profile of a company, Standard & Poor's analyzes the characteristics of the particular industry in which that company is involved, as well as the competitive position of that company relative to other companies within the industry. The rating scales for business risk profiles differ depending on the industry. Utilities are rated on a scale from 1 to 10, with 1 representing the least degree of risk. Companies with low business risk profiles - - usually transmission/distribution companies - are scored 1 through 4 and are considered to have "well above average" to "above average" business positions relative to the utilities industry as a whole. Those companies facing greater competitive threats - typically, power generating companies - are scored between 7 to 10, and are considered to have "below average" to "well below average" business positions relative to others in the utilities industry. See Standard & Poor's, Corporate Ratings Criteria 17 (2000). Effectively, the plan in this matter allocates the business risks associated with the unregulated business to Unregco and the lower risks associated with regulated business to Regco.

(27) Accord AES Corp., HCAR No. 27363, 2001 WL 286141 (Mar. 23, 2001) (finding the standard of Section 10(b)(3) satisfied by exempt holding company with 19% common equity capitalization on showing that parent debt would not represent a risk to utility ratepayers).

B. SECTION 10(c)

Section 10(c) of the Act provides that, notwithstanding the provisions of Section 10(b), the Commission shall not approve:

(1) an acquisition of securities or utility assets, or of any other interest, which is unlawful under the provisions of Section 8 or is detrimental to the carrying out of the provisions of Section 11; or

(2) the acquisition of securities or utility assets of a public-utility or holding company unless the Commission finds that such acquisition will serve the public interest by tending towards the economical and the efficient development of an integrated public-utility system.(28)

In the Restructuring, REI is simplifying its corporate structure for its regulated businesses and focusing on its core utility operations consistent with state-imposed utility restructuring legislation. Accordingly, the Commission should find that the standards of Section 10(c) are satisfied. While the Restructuring does not implicate the concerns toward which Section 10(c) is directed, the Applicants nevertheless provide the following discussion, which demonstrates compliance with the technical requirements of Sections 10(c), 8 and 11.

1. Section 10(c)(1)

Section 10(c)(1) requires consideration of provisions (Sections 8 and 11) that, by their terms, apply to registered holding companies and so, are not directly applicable to the proposed Regco acquisitions. Nonetheless, the proposed acquisitions satisfy the requirements of Section 10(c)(1).

Section 10(c)(1) requires that an acquisition be lawful under Section 8 of the Act. Section 8 prohibits an acquisition by a registered holding company of an interest in an electric utility and a gas utility that serve substantially the same territory without the express approval of the state commission when that state's law prohibits or requires approval of the acquisition. In the present case, Section 8 is not implicated because the Restructuring will not create any new situations of common ownership of combination systems within a given state. Following the Restructuring, Regco will continue to provide electric and gas utility services in the State of Texas. Because the Texas Act does not prohibit combination gas and electric utilities serving the same area, the Restructuring does not raise any issue under Section 8 or the first clause of Section 10(c)(1).

In addition, Section 10(c)(1) directs the Commission to disapprove an acquisition that would be detrimental to broad policies set forth in Section 11 of the Act. Section 11(b)(1) generally requires a registered holding company system to limit its operations "to a single integrated public-utility system [either gas or electric], and to such other businesses as are

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(28) Act Section 10(c).

reasonably incidental, or economically necessary or appropriate to the operations of such integrated public-utility system."(29) The Commission has explained that "the limitation set forth in Section 11(b)(1) is intended to eliminate the evils that Congress found to exist 'when the growth and extension of holding companies bears no relation to . . . the integration and coordination of related operating properties.'"(30) The particular evil at which Section 11(b)(1) is directed is not presented in this case, as the Restructuring does not involve any growth or extension of the REI system. For this reason, the Restructuring is not at all detrimental to the policy goals of Section 11(b)(1) of the Act.

The Commission consistently has recognized that strict compliance with the standards of Section 11 is not required where the resulting holding company is exempt under Section 3.(31) In this regard, the Commission has previously determined that a holding company may acquire utility assets that will not make up a single integrated system or comply fully with the (A)-(B)-(C) clauses of Section 11(b)(1), provided that there is "de facto" integration of contiguous utility properties and the holding company will be exempt from registration under Section 3 of the Act following the acquisition.(32) The proposed Restructuring in this matter is fully consistent with the de facto integration standards of Section 10(c)(1) that the Commission has applied to exempt holding companies in a number of cases. As discussed below, the REI electric system and GasCo gas system are each an "integrated public-utility system" within the meaning of Section 2(a)(29) of the Act.(33) The service territories of Regco's gas and electric systems will overlap. Moreover, the gas and electric systems have been combined for a number of years and share corporate services.

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(29) Act Section 11(b)(1) (emphasis added).

(30) New Century Energies, HCAR No. 27212, 2000 WL 1160583 at n.27 (Aug. 16, 2000) (quoting Act section 1(b)(4)) [hereinafter "2000 NCE Order"].

(31) See, e.g., Gaz Metropolitain, HCAR No. 26170, 1994 WL 666007 (Nov. 23, 1994).

(32) See, e.g., AES Corp., HCAR No. 27363, 2001 WL 286141 (Mar. 23, 2001) and cases cited therein.

(33) Section 2(a)(29) sets forth the definition of an "integrated public-utility system," as applied to electric and gas utility companies. Section 10(c)(2) of the Act prohibits the Commission from approving the acquisition of utility assets unless it finds that the acquisition will "[tend] toward the economical and efficient development of an integrated public-utility system." The Commission regularly considers the integration requirement set forth in these two sections in a single integration analysis, and the Applicants do so here. See, e.g., CP&L Energy, HCAR No. 27284, 2000 WL 1741681 at *8-16; NiSource, HCAR No. 27263, 2000 WL 1629977 at *14; Exelon, HCAR No. 27256, 2000 WL 1671969 at *10; 2000 NCE Order, HCAR No. 27212, 2000 WL 1160583 at *9; New Centuries Energies, HCAR No. 26748, 1997 WL 429612 at *9 (Aug. 1, 1997).

(a) The REI electric system is an integrated public-utility system

Section 2(a)(29)(A) of the Act defines the term "integrated public-utility system," as applied to electric utility properties, as:

> a system consisting of one or more units of generating plants and/or transmission lines and/or distributing facilities, whose utility assets, whether owned by one or more electric utility companies, are physically interconnected or capable of physical interconnection and which under normal conditions may be economically operated as a single interconnected and coordinated system confined in its operation to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation.(34)

The REI electric system currently satisfies all requirements of Section 2(a)(29)(A), and will continue to do so following the Restructuring. At present, the REI electric assets are all physically interconnected and are economically operated by a single entity as a single interconnected and coordinated system. The system's operations are confined to the State of Texas, primarily a 5,000-square-mile area on the Texas Gulf Coast.(35) Further, the REI electric system presently enjoys the advantages of localized management, efficient operations, and effective state regulation.

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(34) Act Section 2(a)(29)(A). On the basis of this statutory definition, the Commission has established four standards that must be met before it will find that an integrated public-utility system will result from a proposed acquisition of securities: (i) the utility assets of the system must be physically interconnected or capable of physical interconnection (the "interconnection requirement"); (ii) the utility assets, under normal conditions, must be economically operated as a single interconnected and coordinated system (the "economic and coordinated operation requirement"); (iii) the system must be confined in its operations to a single area or region (the "single area or region requirement"); and (iv) the system must not be so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation, and the effectiveness of regulation (the "no impairment requirement").

(35) A map of the REI electric system is included as Exhibit E-2 to this Application. In its 1995 Report on the Regulation of Public-Utility Holding Companies (the "1995 Report"), the Division recommended that the "single area or region" portion of the integration requirement "should be made . . . in light of the effect of technological advances on the ability to transmit electric energy economically over longer distance, and other developments in the industry, such as brokers and marketers, that affect the concept of geographic integration." 1995 Report at 73. The 1995 Report also recommends that primacy be given to "demonstrated economies and efficiencies to satisfy the integration requirements." Id.

The Restructuring will not alter the status quo with respect to these four integration standards because the transaction does not involve the acquisition or combination of any new utility assets. Accordingly, the Restructuring will not give rise to any integration concerns under Sections 11(b)(1) or 10(c)(2) with respect to REI's electric utility assets.

(b) The GasCo system is an integrated public-utility system

With respect to gas utility properties, the term "integrated public-utility system" is defined in Section 2(a)(29)(B) as:

> a system consisting of one or more gas utility companies which are so located and related that substantial economies may be effectuated by being operated as a single coordinated system confined in its operations to a single area or region, in one or more States, not so large as to impair (considering the state of the art and the area or region affected) the advantages of localized management, efficient operation and the effectiveness of regulation: Provided, That gas utility companies deriving natural gas from a common source of supply may be deemed to be included in a single area or region.(36)

Each standard of Section 2(a)(29)(B) must be read in connection with the other provisions of the Section and in light of the facts under consideration.(37) In recent orders, the Commission has noted developments that have occurred in the gas industry, and has interpreted the Act and analyzed proposed transactions in light of these changing circumstances.(38)

The GasCo system currently satisfies the criteria set forth in Section 2(a)(29)(B) and will continue to do so following the Restructuring.(39) While GasCo conducts its gas distribution operations through three unincorporated divisions, significant management functions, such as supply planning and gas acquisition services, as well as financial, accounting, tax, purchasing and other essential management functions are performed by a central management located in Houston.

Further, the GasCo system also procures natural gas from a common source of supply and therefore is deemed under Section 2(a)(29)(B) to operate in a single area or region.(40)

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(36) Act Section 2(a)(29)(B).

(37) See NiSource, HCAR No. 27263, 2000 WL 1629977 at *15.

(38) Id. It should be noted that the Division recommended in its 1995 Report that the Commission "respond realistically to the changes in the utility industry and interpret more flexibility each piece of the integration requirement." 1995 Report at 71.

(39) A map of the GasCo gas system is included as Exhibit E-3 to this Application.

(40) The Commission has often previously found that systems separated by intervening service territories are in the same region if they procure gas from a common source of supply. See, e.g.,

The Commission has stated that its consideration of "common source of supply" within the meaning of Section 2(a)(29)(B) is based on its understanding of the contemporary gas industry.(41) The Commission has stated that with respect to the concept of a common source of supply, the relevant inquiry today is whether the system utilities purchase substantial quantities of gas produced in the same supply basins and whether there is sufficient transportation capacity available in the marketplace to assure delivery on an economic and reliable basis.(42)

Minnegasco, Entex and Arkla have overlapping sources of gas supply. Currently, Reliant Energy Services, a subsidiary of Unregco, sells gas to Minnegasco and Arkla. A majority of this gas is purchased from the Mid-continent region. The Koch Gateway pipeline supplies gas to each of Arkla and Entex. Gulf South Pipeline provides gas transportation and storage services to both Arkla and Entex. Minnegasco and Entex both have substantial storage and transportation agreements with the Northern Natural Gas Company. All of Entex, Arkla and Minnegasco purchase gas from Dynegy. In addition, because of the centralized way in which GasCo conducts its bidding process for gas supplies, the local distribution companies could receive supplies from other common suppliers at any time. The Commission has stated that the risk sought to be addressed by the "single area" or region requirement is the potential for "scatteration" -- the ownership of widely dispersed utility properties that do not lend themselves to efficient operation and effective state regulation.(43) In the present case, there is no such risk as GasCo will be managed, operated and regulated in the same manner both before and after the Restructuring. For these reasons, GasCo satisfies the "single area or region" requirement.

The continued combination of these operations will not give rise to any of the abuses, like ownership of scattered utility properties, inefficient operations, lack of local management or evasion of state regulation, that Section 11(b)(1) of the Act was intended to address. The proposed Restructuring will facilitate the ability of state ratemaking authorities to carry out their statutory duties.

In addition, Section 11(b)(2) of the Act requires the Commission to ensure that "the corporate structure or continued existence of any company in the [registered] holding-

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NiSource, HCAR No. 27263, 2000 WL 1629977 at *17 (approving merger of two gas systems that were not contiguous); NIPSCO Indus., HCAR No. 26975, 1999 WL 61423 at *7 (Feb. 10, 1999) (citing cases).

(41) 2000 NCE Order, HCAR No. 27212, 2000 WL 1160583 at *18.

(42) Id. (citing NIPSCO Indus., HCAR No. 26975, 1999 WL 61423). Compare NiSource, HCAR No. 27263, 2000 WL 1629977 at *17.

(43) NiSource, HCAR No. 27263, 2000 WL 1629977 at *17. In this regard, the Commission has noted that the Act is particularly directed against the growth and extension of holding companies that bear no relation to the economy of management and operation or the integration and coordination of related operating properties and the lack of effective public regulation. Id. at n.33.

company system does not unduly or unnecessarily complicate the structure, or unfairly or inequitably distribute voting power among security holders, of such holding-company system." In a number of recent matters involving registered holding companies, the Commission has deemed it appropriate to "look through" intermediate holding companies or to treat them as a single company for purposes of analysis under Section 11(b)(2).(44) The Commission reasoned that the use of such intermediate holding companies does not implicate the abuses that Section 11(b)(2) was designed to address, where, as here, the intermediate holding companies will have no outside security holders, lenders or customers. In this matter as in National Grid the Intermediate Holding Companies will not serve as a means by which Regco seeks to diffuse control of the Utility Subsidiaries. Rather, these companies will be created as special-purpose entities for the sole purpose of helping the parties to capture economic efficiencies that might otherwise be lost in the proposed Restructuring.(45)

For these reasons, the Commission should find that the standards of Section 10(c)(1) are satisfied.

2. Section 10(c)(2)

The Restructuring will tend toward the economical and efficient development of an integrated public-utility system, thereby serving the public interest, as required by Section 10(c)(2) of the Act. Among other things, the Restructuring will separate the riskier unregulated businesses from Regco's utility operations. Second, the Restructuring will facilitate the continued implementation of various administrative measures designed to ensure economical and efficient operation of Regco's utility operations. Historically, the gas divisions of NorAm were operated as three separate systems with little or no attempt to integrate their operations. Following REI's acquisition of NorAm (GasCo), REI initiated efforts to centralize many of the activities and administrative functions of the gas and electric utility operations. Accounting and human resources have been centralized for Arkla, Entex and HL&P and preparations are underway for the inclusion of Minnegasco in that centralization. REI is also in the process of centralizing information systems, with that process to be completed in mid-2002. Other functions, such as meter reading, mapping and trenching for the gas and electric utilities, are being combined.

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(44) National Grid Group plc, HCAR No. 27154, 2000 WL 279236 (Mar. 15, 2000); Exelon Corp., HCAR No. 27259, 2000 WL 1568770 (Oct. 20, 2000). See also West Penn Ry. Co., HCAR No. 953, 1938 WL 32259 (Jan. 3, 1938) (authorizing continued existence of intermediate holding company) and West Texas Util. Co., HCAR No. 4068, 1943 WL 30591 (Jan. 25, 1943) (reserving jurisdiction under section 11(b)(2) in connection with acquisition creating a "great-grandfather" company). In National Grid, the Commission explained that: "These decisions rest upon our determination that the economic benefits associated with the additional corporate layers outweighed the potential for harm and the possibility that there could be a recurrence of the financial abuses that the Act was intended to eliminate."

(45) The corporate structure of Regco as it will exist after completion of the Restructuring is included as Exhibit F-3 hereto.

As noted above, the Commission has previously determined that structural changes, such as the formation of a holding company or the Restructuring at issue here, can provide advantages that will tend to produce economies and efficiencies in utility operations and benefit both utility ratepayers and investors.(46) Although some of the anticipated economies and efficiencies will be fully realizable only in the longer term, they are properly considered in determining whether the standards of Section 10(c)(2) have been met.(47) While some potential benefits - such as the reduction in business risk - - cannot be precisely estimated, they should be considered by the Commission.(48)

C. SECTION 10(f)

Section 10(f) of the Act provides that:

> The Commission shall not approve any acquisition as to which an application is made under this section unless it appears to the satisfaction of the Commission that such State laws as may apply in respect of such acquisition have been complied with, except where the Commission finds that compliance with such State laws would be detrimental to the carrying out of the provisions of section 11.(49)

As described in Item 4 of this Application, REI has obtained, or is in the process of obtaining, orders from the affected state commissions. The Applicants ask the Commission to reserve jurisdiction over the disaggregation of GasCo pending receipt of these orders.

D. SECTION 3(a)(1)

Section 3(a)(1) of the Act provides that the Commission:

> shall exempt any holding company, and every subsidiary company thereof as such, from any provision or provisions of this title, unless and except insofar as it finds the exemption detrimental to the public interest or the interest of investors or consumers, if such holding company, and every subsidiary company thereof which is a public-utility company from which such holding company derives, directly or indirectly, any material part of its income, are predominantly intrastate in character and carry on their business

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(46) See, e.g., National Grid, HCAR No. 27154, 2000 WL 279236.

(47) See American Elec. Power Co., HCAR No. 20633, 1978 WL 19453 (July 21, 1978).

(48) See Centerior Energy Corp., HCAR No. 24073, 1986 WL 626506 at *7 (Apr. 29, 1986) ("[S]pecific dollar forecasts of future savings are not necessarily required; a demonstrated potential for economies will suffice even when these are not precisely quantifiable.").

(49) Act Section 10(f).

substantially in a single State in which such holding company and every such subsidiary company thereof are organized.(50)

1. Upon completion of the Restructuring, Regco will qualify for an order of exemption under Section 3(a)(1) of the Act.(51)

When the Restructuring is completed, Regco and each of its material Utility Subsidiaries, Texas Genco and the T&D Utility, will be incorporated in Texas and both Regco and each of Texas Genco and the T&D Utility will be "predominantly intrastate in character and carry on their business substantially" in Texas.

(a) Use of Net Utility Revenues

Although the statute speaks in terms of "income," the Commission has considered a variety of numerical indicators and traditionally placed the greatest reliance on a comparison of revenues. In its February 1999 NIPSCO order,(52) the Commission focused on net utility revenue (gross revenue less cost of gas for gas utilities or cost of fuel for electric utilities) in order to eliminate distortions between gas utility revenue and electric utility revenue. In the instant case, a focus on net utility revenue is even more appropriate. The T&D Utility will not have "gross operating revenues" (in the sense historically focused on by the Commission) because it will have no fuel cost component included in its revenues. Texas Genco's gross operating revenues are influenced to a large degree by its fuel costs, and GasCo's gross operating revenues are influenced to an even greater degree by its fuel costs, which are essentially a pass-through. Therefore, the Applicants respectfully submit that net revenues should be the relevant focus of the Commission's review in this instance.

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(50) Act Section 3(a)(1).

(51) For tax purposes, Regco will hold the Utility Subsidiaries through a Delaware limited liability company ("Utility Holding LLC"). Also for tax reasons, the Texas Genco interest will be held through a single member limited liability company. From a 1935 Act perspective, these Intermediate Holding Companies will be "conduits" wholly-owned by Regco that have no public or private institutional equity or debt holders. In National Grid Group plc, HCAR No. 27154, 2000 WL 279236, the Commission found it appropriate to "look through" intermediate holding companies that were formed for tax reasons and that did not engage in any other business.

(52) NIPSCO Indus., HCAR No. 26975, 1999 WL 61423 (Feb. 10, 1999).

(b) Regco and each of its material Utility Subsidiaries will be incorporated in Texas

In the February 1999 NIPSCO order, the Commission found that an out-of-state utility subsidiary which contributed the following percentages of the consolidated holding company figures would not be a material subsidiary for purposes of Section 3(a)(1):

PERCENTAGE OF GROSS OPERATING REVENUES	PERCENTAGE OF NET OPERATING REVENUES
16.0% - 16.2%	10.8% - 11.2%

Set forth below for Regco is the range of the pro forma projected percentages of gross operating revenues and net operating revenues for each of the Utility Subsidiaries for years 2002 through 2004:(53)

	PERCENTAGE OF GROSS OPERATING REVENUES	PERCENTAGE OF NET OPERATING REVENUES
GENCO	32.3% - 36.5%	34.6% - 39.3%
T&D UTILITY	20.5% - 22.3%	37.9% - 40.8%
ENTEX	17.2% - 18.3%	9.3% - 10.0%
ARKLA	10.8% - 11.4%	6.8% - 7.2%
MINNEGASCO	14.7% - 16.2%	6.6% - 7.3%
REGCO	100%	100%

Based on REI's current post-Restructuring projections, none of Entex, Arkla and Minnegasco would account for the 10.8% to 11.2% of net utility revenues approved in NIPSCO and so should not be deemed to be material Utility Subsidiaries following NIPSCO. While Texas Genco and the T&D Utility be material subsidiaries, they will be incorporated and operate exclusively in Texas, thus satisfying the requirement discussed below that all material utility subsidiaries be predominantly intrastate and carry on their business substantially in a single state.

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(53) The projections in this filing are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ from those expressed or implied by these statements. Numbers for 2001 are not included because electric utility revenues (wires, retail sales and Texas generation sales) will be reported on a consolidated basis.

(c) Regco and each of its material Utility Subsidiaries will be "predominantly intrastate and carry on their business substantially" in Texas

In the NIPSCO order, the Commission found the "predominantly and substantially" standard satisfied where the out-of-state utility operations represented no more than the following percentages of total utility operations:

PERCENTAGE OF GROSS OPERATING REVENUES	PERCENTAGE OF NET OPERATING REVENUES
19.2% - 19.8%	13.0% - 13.7%

Under the language of the statute, the "predominantly and substantially" test must be applied both on a consolidated basis to the combined utility operations and on a corporate basis to each material Utility Subsidiary.

In the instant matter, the utility operations of both Texas Genco and the T&D Utility will be 100% within Texas. On a consolidated basis, the range of projected contributions of gross and net operating revenues from Regco's out-of-state operations for 2002 through 2004 are set forth below:

	PERCENTAGE OF GROSS OPERATING REVENUES OUTSIDE OF TEXAS	PERCENTAGE OF NET OPERATING REVENUES OUTSIDE OF TEXAS
REGCO	28.5% - 30.3%	14.7% - 15.9%

While the contribution of gross and net operating revenues from out-of-state operations will be slightly higher than approved in NIPSCO, they are consistent with language of the statute and the policies underlying the exemption.

The Act does not prescribe a particular standard or test for determining whether a holding company is "predominantly" and "substantially" intrastate. The plain meaning of the words, however, would accurately describe the concentration of Regco's utility operations in Texas. The Commission has construed "predominant" to mean "superior in power, influence, effectiveness, number or degree; having ascendency or control; prevalent over others" and "substantial" as "being that specified to a large degree or in the main; of or relating to the main part of something."(54) On a net basis, more than 80% of Regco's operating revenues will be from operations in Texas and so Regco

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(54) Northern States Power Co., HCAR No. 12655, 1954 WL 1361 (Sept. 16, 1954). In Northern States, the Commission stated that "[i]n determining the intent of Congress in the use of the word 'predominantly,' we are required to construe the statute according to a fair interpretation of its terms. In the absence of some considerations apparent upon the fact of the statute or embodied in legislative history, unusual meanings of words must be avoided and ordinary definitions allowed . . . ." Id. (quoting Union Elec. Co., 5 S.E.C. 252, 261 (1939)).

will be predominantly intrastate in character and operate substantially in a single state, within the ordinary understanding of those terms.

The "spill-over" of out-of-state operations is also well within the range established by the Commission's interpretation of similar language in Section 3(a)(2) of the Act. In a 1997 decision involving the predecessor to REI, the Commission found that an entity that was a public-utility company as well as a holding company and which received approximately one-third of its consolidated utility revenues from a subsidiary company was "predominantly" a public-utility company within the meaning of Section 3(a)(2) of the Act.(55) In this matter, in contrast, it is anticipated that less than 20% of Regco's net utility revenues will be from out-of-state operations.

The legislative history makes clear that a central purpose of the Act is "simply to provide a mechanism to create conditions under which effective Federal and State regulation will be possible."(56) The disaggregation of the electric utility operations in this matter is being undertaken to comply with the requirements of Texas law while the GasCo Separation will provide greater transparency for the regulators of the company's gas utility operations. Further, the Commission has previously found REI to satisfy the requirements for exemption. It is appropriate for the Commission to find the formal requirements for exemption satisfied in a matter such as the instant one, which involves an internal reorganization intended to facilitate the effectiveness of state law.

(d) The proposed exemption will not be detrimental to the public interest or the interest of investors or consumers

As noted above, notwithstanding an applicant's compliance with the objective requirements for exemption, the Commission can deny or condition an exemption "insofar as [the Commission] find the exemption detrimental to the public interest or the interest of investors or consumers." The 1995 Report discusses the background and administration of the Act's exemptive provisions and explains that: "Congress subjected holding companies to the requirements of the Act because meaningful state regulation of their abuses was often obstructed by their control of subsidiaries in several states and by the constitutional doctrines limiting state economic regulation."(57) The legislative history makes clear that exemptions from registration are available where the holding company is susceptible to effective state regulation or is otherwise not the type of company at which the Act was directed.(58)

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(55) Houston Indus., HCAR No. 26744, 1997 WL 414391 (July 24, 1997). Section 3(a)(2) provides an exemption if, among other things, the holding company is "predominantly" a public-utility company.

(56) S. Rep. No. 74-621 at 11 (1935).

(57) 1995 Report at 109, n.4.

(58) See S. Rep. No. 74-621 (1935).

Both of those factors are present in the instant matter. As noted above, the Restructuring has been or will be subject to review by the Texas Commission, the Arkansas Commission, the Louisiana Commission, the Mississippi Commission, the Oklahoma Commission and the Minnesota Commission, and cannot be fully implemented without the approval or consent of each of these commissions. The Commission has traditionally given great deference to the views of the affected state regulators.(59)

Further, the exemption of Regco will not give rise to any of the evils that the Act was intended to address. In the first instance, the Restructuring does not involve the acquisition of new operations or the growth and extension of a holding company system. To the contrary, it simply involves the reorganization of an existing exempt holding company along functional and geographic lines. The proposed Restructuring will not have an adverse effect on REI's existing gas and electric utility operations, or the way that those operations are regulated by the states but, instead, will facilitate regulation of Regco's utility operations by providing increased transparency and greater insulation for each of the Utility Subsidiaries.

2. To enable them to comply with the Texas Act while obtaining the necessary state approvals, Applicants seek an order of exemption under Section 3(a)(1) that is conditioned upon completion of the Restructuring within two years(60)

In the recent AES order, the Commission granted the applicant an exemption from registration conditioned upon the company's divestiture of certain interests within two years of the date of consummation of the transaction. Although there was a temporary variance from the standards for exemption, the Commission noted that it had, in other contexts, "relaxed the strict requirements of the Act and granted temporary relief, where the overall consequence is to make nearer the ultimate goal of compliance."(61) Here, as in AES, the degree of state involvement will tend to ensure that there is no detriment to the protected interests during the interim period.

Specifically, Applicants ask the Commission to issue an order on or before September 30, 2001, authorizing Regco to acquire the securities of Texas Genco, the T&D Utility and GasCo and, in connection with such approval, to grant Regco an order of exemption under Section 3(a)(1) that is conditioned upon completion of the GasCo Separation within two years of the acquisition by Regco of the securities of Texas Genco, the T&D Utility and GasCo.

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(59) See, e.g., NIPSCO Indus., HCAR No. 26975, 1999 WL 61423 ("The Commission has given weight to a state's judgment concerning the ability to exercise effective regulatory control."), citing Wisconsin Energy Corp., HCAR No. 24267, 1986 WL 626747 (Dec. 18, 1986) ("[T]he judgment of a state's legislature and public service commission as to what will benefit their constituents is entitled to considerable deference when not in conflict with the policies of the Act"); see also Northern States Power Co., HCAR No. 12655, 1954 WL 1361 (Sept. 16, 1954) ("The considered conclusion of the local authorities, deriving their power from specific State legislation, should be given great weight in determining whether the public interest would in fact be adversely affected . . . ."), cited with approval in Houston Indus., supra.

(60) AES Corp., HCAR No. 27363, 2001 WL 286141 (Mar. 23, 2001).

(61) Id. (quotations omitted).

ITEM 4. REGULATORY APPROVALS

Set forth below is a summary of the regulatory approvals that REI has obtained or expects to obtain in connection with the Restructuring.

A. STATE PUBLIC UTILITY REGULATION

1. The Texas Commission

As described in Item 1 above, the Restructuring was prompted by, among other things, the unbundling of retail, transmission and distribution and generation functions required by the Texas Act. The Restructuring is subject to the jurisdiction of the Texas Commission under Section 39.051 of the Texas Act. REI, as an electric utility company, also is generally subject to the jurisdiction of the Texas Commission pursuant to Sections 14.001 and 32.001 of the Texas Utilities Code. By order dated March 15, 2001 (the "Texas Order"), the Texas Commission approved the Restructuring described in this Application in connection with its approval of REI's Business Separation Plan. A copy of the Texas Order is attached as Exhibit D-1.

2. The Arkansas Commission

Under Section 23-3-101 of the Arkansas Code, "organizations or reorganizations" of public utilities, such as the disaggregation of GasCo, are subject to the supervision and control of the Arkansas Commission and no such organization or reorganization shall be given effect without the approval of that commission.

3. The Louisiana Commission

The General Order of the Louisiana Commission dated March 18, 1984 provides, among other things, that a utility receive either approval by, or a letter of non-opposition from, the Louisiana Commission before transferring control or ownership of any of its "assets, common stock or other indicia of control" to another entity. Certain of the transactions associated with the Restructuring will require either approval or a statement of non-opposition from the Louisiana Commission under this General Order.

4. The Mississippi Commission

The disaggregation of GasCo is expected to require approval of the Mississippi Commission pursuant to Section 77-3-23 of the Mississippi Code.

5. The Oklahoma Commission

The disaggregation of GasCo is expected to require approval of the Oklahoma Commission under Title 17, Sec. 191.1 et. seq. of the Oklahoma Statutes.

6. The Minnesota Commission

Sections 216B.49 and 216B.50 of the Minnesota Statutes generally require approval of the Minnesota Commission for the issuance of securities by a public utility in Minnesota and the sale, acquisition, lease or rent of an operating unit or system.

B. ATOMIC ENERGY ACT

REI owns a 30.8% interest in the South Texas Project electric generating station, a nuclear generating plant consisting of two 1,250 MW generating units, and holds Nuclear Regulatory Commission ("NRC") licenses with respect to its interest. As part of the Restructuring, this interest is being transferred to Texas Genco, which will be a subsidiary of Regco. Section 184 of the Atomic Energy Act provides that no license may be directly or indirectly transferred unless the NRC finds that the transfer is in accordance with the provisions of the Atomic Energy Act and gives its consent in writing. REI is seeking approval from the NRC for the transfer of control of its NRC licenses and the ownership by Regco of Texas Genco in connection with the Restructuring. NRC approvals necessary for the transfer of NRC licenses in connection with the exercise of the Texas Genco Option will be sought in connection with the exercise of the option.

C. INTERNAL REVENUE CODE

REI is in the process of seeking private letter rulings from the Internal Revenue Service relating to the Restructuring. Once obtained, these rulings would, among other things, confirm the tax-free treatment of the spin-off of Unregco stock to occur in the Restructuring.

ITEM 5. PROCEDURE

The Applicants respectfully request that the Commission issue its Initial Order approving those aspects of the Restructuring for which the record has been completed and granting the other relief sought herein as quickly as possible, but in no event later than September 3, 2001. Applicants further request that the Commission reserve jurisdiction over separation of GasCo. into the Entex, Arkla and Minnegasco subsidiaries, pending completion of the record.

The Applicants hereby waive a recommended decision by a hearing officer of the Commission and agree that the Division of Investment Management may assist in the preparation of the decision of the Commission.

ITEM 6. EXHIBITS AND FINANCIAL STATEMENTS

Exhibits
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Exhibit A: Constituent Instruments

A-1: Certificate of Incorporation of Reliant Energy Regco, Inc.

A-2: Bylaws of Reliant Energy Regco, Inc.

Exhibit B: Intentionally omitted, not applicable

Exhibit C:	Registration Statements
C-1:	Amendment No. 8 to Registration Statement on Form S-1 of Reliant Resources, Inc. (Registration No. 333-48038), as amended (previously filed with the Commission on April 27, 2001 and incorporated by reference herein)
Exhibit D:	Applications and Orders of Certain Commissions list in Item 4
D-1:	Order of the Texas Commission, dated March 15, 2001
D-2:	Application to the Arkansas Commission (to be filed by amendment)
D-3:	Order of the Arkansas Commission (to be filed by amendment)
D-4:	Application to the Louisiana Commission (to be filed by amendment)
D-5:	Order of the Louisiana Commission (to be filed by amendment)
D-6	Application to the Mississippi Commission (to be filed by amendment)
D-7:	Order of the Mississippi Commission (to be filed by amendment)
D-8:	Application to the Oklahoma Commission (to be filed by amendment)
D-9:	Order of the Oklahoma Commission (to be filed by amendment)
D-10:	Application to the Minnesota Commission (to be filed by amendment)
D-11:	Order of the Minnesota Commission (to be filed by amendment)
D-12:	Application of STP Nuclear Operating Company to the Nuclear Regulatory Commission, dated May 31, 2001
D-13:	Order of the Nuclear Regulatory Commission (to be filed by amendment)
Exhibit E:	Maps of interconnection or relationships of properties
E-1:	Map of REI Electric and Gas Systems
E-2:	Map of REI electric system
E-3:	Map of GasCo gas system
Exhibit F:	Corporate Structure of REI and Regco
F-1:	Pre-Restructuring Structure of REI system

F-2: Corporate structure of REI/Regco through the stages of the Restructuting

F-3: Post-Restructuring corporate structure of Regco

EXHIBIT G: Regco Utility Revenues

G-1: Chart detailing percentage of Regco Utility Revenues (confidential treatment requested)

Financial Statements

1. Statement of Applicants

Reference is made to the following documents, each of which is incorporated by reference herein: (i) Annual Report on Form 10-K of REI (Commission File Number 1-3187) and GasCo (Commission File Number 1-13265) for the fiscal year ended December 31, 2000, filed with the Commission on March 22, 2001; and (ii) Quarterly Report on Form 10-Q of REI and GasCo for the quarterly period ended March 31, 2001, filed with the Commission on May 15, 2001.

2. Statement of Top Registered Holding Company

None

3. Statement of Company Whose Securities Are Being Acquired or Sold

Intentionally omitted, not applicable

4. Statement of Changes

None

ITEM 7. INFORMATION AS TO ENVIRONMENTAL EFFECTS

The Restructuring, which is a corporate restructuring, neither involves a "major federal action" nor " significantly affects the quality of the human environment," as those terms are used in Section 102(2)(c) of the National Environmental Policy Act. Consummation of the Restructuring will not result in changes in the operations of the parties that would have any impact on the environment. No federal agency is preparing an Environmental Impact Statement with respect to this matter.

SIGNATURE

Pursuant to the requirements of the Public Utility Holding Company Act of 1935, as amended, the Applicants have duly caused this Application/Declaration to be signed on their behalf by the undersigned thereunto duly authorized.

Date: June 7, 2001

RELIANT ENERGY, INCORPORATED

By: /s/ Rufus S. Scott

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

RELIANT ENERGY REGCO, INC.

By: /s/ Rufus S. Scott

Rufus S. Scott
Assistant Corporate Secretary

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CERTIFICATE OF INCORPORATION

OF

RELIANT ENERGY REGCO, INC.

FIRST: The name of the Corporation is Reliant Energy Regco, Inc. (hereinafter the "Company").

SECOND: The address of the registered office of the Company in the State of Delaware is Corporation Trust Center, 1209 Orange Street, City of Wilmington, County of New Castle, Zip Code 19801, and the name of the registered agent of the Company at such address is The Corporation Trust Company.

THIRD: The purpose of the Company is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "DGCL").

FOURTH: The total number of shares of all classes of stock which the Company shall have authority to issue is 1,000 shares of common stock, par value $1.00 per share ("Common Stock"). Each share of Common Stock shall entitle the holder thereof to one vote on each matter voted upon by the stockholders of the Company. Shares of Common Stock may be issued for such consideration and for such corporate purposes as the Board of Directors of the Company (the "Board of Directors") may from time to time determine.

FIFTH: The name and address of the incorporator is:

Name	Address
Richard B. Dauphin	1111 Louisiana Houston, Texas 77002

SIXTH: The powers of the incorporator are to terminate upon the filing of the Certificate of Incorporation with the office of the Secretary of State of the State of Delaware. The person whose name and mailing address is set out immediately below is to serve as the sole director of the Company until the first annual meeting of stockholders or until his successor or successors are elected and qualify:

Name	Address
R. Steve Letbetter	1111 Louisiana Houston, Texas 77002

SEVENTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Company, and for further definition, limitation, and regulation of the powers of the Company and of its directors and stockholders.

(a) The business and affairs of the Company shall be managed by or under the direction of the Board of Directors except as otherwise provided by law.

(b) The number of directors of the Company shall be as from time to time fixed by, or in the manner provided in, the Bylaws of the Company (the "Bylaws"). Election of directors need not be by written ballot unless the Bylaws so provide.

(c) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby authorized to exercise all such powers and do all such acts and things as may be exercised or done by the Company, subject, nevertheless, to the provisions of the statutes of the State of Delaware, this Certificate of Incorporation, and any Bylaws adopted by the stockholders; provided, however, that no Bylaws thereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such Bylaws had not been adopted.

(d) In furtherance of, and not in limitation of, the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend, change, add to, or repeal the Bylaws of the Company.

EIGHTH: Meetings of the stockholders may be held within or without the State of Delaware, as the Bylaws may provide. The books of the Company may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the Bylaws.

NINTH: A director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability:

(a) for any breach of the director's duty of loyalty to the Company or its stockholder or stockholders;

(b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

(c) under Section 174 of the DGCL, as the same exists or hereafter may be amended; or

(d) for any transaction from which the director derived an improper personal benefit.

If the DGCL is amended after the date of filing of this Certificate of Incorporation to authorize corporate action further eliminating or limiting of the personal liability of directors, then the liability of a director of the Company, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended DGCL. Any repeal or modification of this ARTICLE NINTH by the stockholders of the Company shall be

prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Company existing at the time of such repeal or modification.

TENTH: Whenever a compromise or arrangement is proposed between the Company and its creditors or any class of them and/or between the Company and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Company or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Company under the provisions of Section 291 of the DGCL or on the application of trustees in dissolution or of any receiver or receivers appointed for the Company under the provisions of Section 279 of the DGCL, order a meeting of the creditors or class of creditors, and/or the stockholders or a class of stockholders of the Company as the case may be, agree to any compromise or arrangement and to any reorganization of the Company as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which said application has been made, be binding on all of the creditors or class of creditors, and/or the stockholders or a class of stockholders of the Company as the case may be, and also on the Company.

ELEVENTH: The Company reserves the right to amend, alter, change, or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by the laws of the State of Delaware. All rights herein conferred are granted subject to this reservation.

I, the undersigned, being the incorporator hereinbefore named, for the purpose of forming a corporation under the laws of the State of Delaware, do make, file, and record this Certificate of Incorporation, do certify that the facts herein stated are true and accordingly, have hereunto set my hand this 13th day of December, 2000.

Richard B. Dauphin

BYLAWS

OF

RELIANT ENERGY REGCO, INC.

(hereinafter called the "Company")

ARTICLE I
CAPITAL STOCK

Section 1.1. Certificates Representing Shares. The shares of stock of the Company shall be represented by certificates of stock, signed in the name of the Company (a) by the Chairman of the Board, the President or a Vice President and (b) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Company, certifying the number of shares of stock in the Company owned by the holder named in the certificate. Any or all of the signatures of such officers on the certificate may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he were such officer at the date of its issuance.

Section 1.2. Lost, Stolen or Destroyed Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Company alleged to have been lost, stolen or destroyed, upon the receipt of an affidavit of the fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issuance of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to give the Company a bond sufficient to indemnify it against any claim that may be made against the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 1.3. Transfers of Stock. Stock of the Company shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of stock shall be made on the books of the Company only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 1.4. Beneficial Owners. The Company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

Section 1.5. Dividends. Dividends upon the capital stock of the Company, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property or in shares of capital stock of the Company. Before payment of any dividend, there may be set aside out of any funds of the Company available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Company, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

ARTICLE II
STOCKHOLDERS

Section 2.1 Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2.2. Annual Meetings. The annual meetings of the stockholders shall be held on such date and at such time as shall be designated from time to time by the board of directors of the Company (the "Board of Directors") and stated in the notice of the meeting, at which meetings the stockholders shall elect by a plurality vote a Board of Directors and transact such other business as may properly be brought before the meeting.

Section 2.3. Special Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation of the Company, as amended from time to time (the "Certificate of Incorporation"), special meetings of the stockholders, for any purpose or purposes, may be called at any time by the Board of Directors, the Chairman of the Board, if any, the President or the Secretary of the Company and shall be called by any such officer at the request in writing of a majority of the Board of Directors or at the request in writing of stockholders owning a majority of the capital stock of the Company issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 2.4. Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the Certificate of Incorporation or these Bylaws, the written notice of any meeting shall be given not less than ten nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the Company.

Section 2.5. Record Date. The Board of Directors may fix a date, not less than ten nor more than 60 days preceding the date of any meeting of the stockholders, as a record date for determination of stockholders entitled to notice of, or to vote at, such meeting. The Board of Directors shall not close the books of the Company against transfers of shares during the whole or any part of such period.

Section 2.6. Quorum. Except as otherwise provided by law, by the Certificate of Incorporation, or by these Bylaws, the presence in person or by proxy of the holders of a majority of the outstanding shares of stock of the Company entitled to vote thereat, shall be necessary and sufficient to constitute a quorum at all meetings of the stockholders for the transaction of business. In the absence of a quorum, the stockholders so present may, by majority vote, adjourn the meeting from time to time in the manner provided in Section 2.9 of these bylaws until a quorum shall attend. Shares of its own stock belonging to the Company or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Company, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Company or any such other corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

Section 2.7. Organization. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in his absence by the President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall keep the records of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.8. Voting; Proxies. Except as otherwise provided by the Certificate of Incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by him which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Company. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors of election unless so determined by the holders of shares of stock having a majority of the votes which could be cast by the holders of all outstanding shares of stock entitled to vote thereon which are present in person or by proxy at such meeting. At all meetings of stockholders for the election of directors, a plurality of the votes cast shall be sufficient to elect. All other elections and questions shall, unless otherwise provided by law, the Certificate of Incorporation or these Bylaws, be decided by the vote of the holders of shares of stock having a majority of the votes which could be cast by the holders of all shares of stock entitled to vote thereon which are present in person or represented by proxy at the meeting.

Section 2.9. Adjournments. Any meetings of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the Company may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned

meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.10. List of Stockholders Entitled to Vote. The officer of the Company who has charge of the stock ledger of the Company shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Company who is present.

Section 2.11. Stock Ledger. The stock ledger of the Company shall be the only evidence as to which stockholders are entitled (a) to vote in person or by proxy at any meeting of stockholders, or (b) to examine either the stock ledger, the list required by Section 2.10 of this Article II or the books of the Company.

Section 2.12. Action by Consent of Stockholders in Lieu of Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any annual or special meeting of the stockholders of the Company may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III
DIRECTORS

Section 3.1. Number and Tenure. The business and affairs of the Company shall be managed by the Board of Directors. The number of directors constituting the whole Board of Directors shall be fixed by the affirmative vote of a majority of the members at any time constituting the Board of Directors or by the stockholders at the annual meeting or a special meeting. Except as provided in Section 3.2 of this Article, directors shall be elected by a plurality of the votes cast at annual meetings of the stockholders, and each director so elected shall hold office for the full term to which he shall have been elected and until his successor is duly elected and qualified, or until his earlier death, resignation or removal. Any director may resign at any time upon notice to the Company. A director need not be a stockholder of the Company or a resident of the State of Delaware.

Section 3.2. Vacancies. Any newly created directorship or any vacancy occurring in the Board of Directors for any cause may be filled by an affirmative vote of a majority of the remaining directors then in office, though less than a quorum, or by a plurality of votes cast at a

meeting of stockholders, and each director so elected shall hold office for the remainder of the full term in which the new directorship was created or the vacancy occurred and until such director's successor is duly elected and qualified, or until his earlier death, resignation or removal.

Section 3.3. Regular Meetings. Regular meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board of Directors may from time to time determine, and if so determined, notices thereof need not be given.

Section 3.4. Special Meetings. Special meetings of the Board of Directors may be held at any time, whenever called by the Chairman of the Board, if any, the President or a majority of directors then in office, at such place or places within or without the State of Delaware as may be stated in the notice of the meeting. Notice of the time and place of a special meeting must be given by the person or persons calling such meeting at least 24 hours before the special meeting.

Section 3.5. Meetings by Conference Telephone. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, members of the Board of Directors of the Company, or any committee designated by the Board of Directors, may participate in a meeting of the Board of Directors or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 3.5 shall constitute presence in person at such meeting.

Section 3.6. Quorum; Vote Required for Action. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws, at all meetings of the Board of Directors a majority of the whole Board of Directors shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at any meeting of the Board of Directors at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 3.7. Organization. Meetings of the Board of Directors shall be presided over by the Chairman of the Board, if any, or in his absence by the President, or in their absences by a chairman chosen at the meeting. The Secretary of the Company shall act as secretary of the meeting, but in his absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 3.8. Actions of the Board by Consent in Lieu of Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors or such committee.

Section 3.9. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, designate one or more committees, each committee to

consist of one or more of the directors of the Company. The Board of Directors may designate one or more of the directors of the Company. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in place of any absent or disqualified member. Any committee, to the extent permitted by law and to the extent provided in the resolution of the Board of Directors establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers which may require it. Each committee shall keep regular minutes and report to the Board of Directors when required.

The designation of any such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed upon it or him by law, nor shall such committee function where action of the Board of Directors is required under applicable law. The Board of Directors shall have the power at any time to change the membership of any such committee and to fill vacancies in it. A majority of the members of any such committee shall constitute a quorum. Each such committee may elect a chairman and appoint such subcommittees and assistants as it may deem necessary. Except as otherwise provided by the Board of Directors, meetings of any committee shall be conducted in the same manner as the Board of Directors conducts its business pursuant to this Article III as the same shall from time to time be amended. Any member of any such committee elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of a member of a committee shall not of itself create contract rights.

Section 3.10. Compensation and Reimbursement of Expenses. The directors shall receive such compensation for their services as shall be determined by the Board of Directors and may be paid their expenses, if any, of attendance at each meeting of the Board of Directors. No such reimbursement shall preclude any director from serving the Company in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like reimbursement for attending committee meetings.

ARTICLE IV
OFFICERS

Section 4.1. General. The officers of the Company shall consist of a President and a Secretary and such other officers and agents as the Board of Directors may from time to time elect or appoint, which may include, without limitation, a Chairman of the Board, one or more Vice Presidents (whose seniority and titles may be specified by the Board of Directors), a Treasurer, one or more Assistant Treasurers, and one or more Assistant Secretaries. Each officer shall hold office until his successor shall have been duly elected and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. Any

number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these Bylaws. The officers of the Company need not be stockholders of the Company nor, except in the case of the Chairman of the Board, if any, need such officers be directors of the Company. Each officer shall hold office until the first meeting of the Board of Directors after the annual meeting of stockholders next succeeding his election, and until his successor is elected and qualified or until his earlier death, resignation or removal. Any officer may resign at any time upon written notice to the Company. The Board of Directors may remove any officer with or without prejudice to the contractual rights of such officer, if any, with the Company. Election or appointment of an officer or an agent shall not of itself create contractual rights. Any vacancy occurring in any office of the Company by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board of Directors at any regular or special meeting.

Section 4.2. Powers and Duties. The officers of the Company shall have such powers and duties as generally pertain to their offices, except as modified herein or by the Board of Directors, as well as such powers and duties as from time to time may be conferred by the Board of Directors.

Section 4.3. Voting Securities Owned by the Company. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Company may be executed in the name and on behalf of the Company by the Chairman of the Board, if any, the President or any Vice President and any such officer may, in the name of and on behalf of the Company take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Company may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Company might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time, confer like powers upon any other person or persons.

ARTICLE V
INDEMNIFICATION

Section 5.1. Right to Indemnification. The Company shall indemnify and hold harmless each Indemnitee (as this and all other capitalized words are defined in Section 5.13 of this Article) to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended. The rights of an Indemnitee provided under the preceding sentence shall include, but not be limited to, the right to be indemnified to the fullest extent permitted by Section 145(b) of the DGCL in Proceedings by or in the right of the Company and to the fullest extent permitted by Section 145(a) of the DGCL in all other Proceedings.

Section 5.2. Expenses. If an Indemnitee is, by reason of his Corporate Status, a witness in or is a party to any Proceeding, and is successful on the merits or otherwise, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If the Indemnitee is a party to and is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to any Matter in such Proceeding, the Company shall indemnify the Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf relating to each such Matter. The termination of any Matter in such a

Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Matter.

Section 5.3. Request for Indemnification. To obtain indemnification, an Indemnitee shall submit to the Secretary of the Company a written request with such information as is reasonably available to the Indemnitee regarding the basis for such claim for indemnification. The Secretary of the Company shall promptly advise the Board of Directors of such request. An Indemnitee shall be advanced Expenses, within ten days after requesting them, to the fullest extent permitted by Section 145(e) of the DGCL

Section 5.4. Determination of Indemnification. The Indemnitee's entitlement to indemnification shall be determined in accordance with Section 145(d) of the DGCL. If entitlement to indemnification is to be determined by Independent Counsel, the Company shall furnish notice to the Indemnitee within ten days after receipt of the request for indemnification, specifying the identity and address of the Independent Counsel. The Indemnitee may, within 14 days after receipt of such written notice of selection, deliver to the Company a written objection to such selection. Such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of Independent Counsel and the objection shall set forth with particularity the factual basis of such assertion. If there is an objection to the selection of Independent Counsel, either the Company or the Indemnitee may petition the Court of Chancery of the State of Delaware or any other court of competent jurisdiction for a determination that the objection is without a reasonable basis and/or for the appointment of Independent Counsel selected by the Court.

Except in the event that the determination of entitlement to indemnification is to be made by Independent Counsel, if the person or persons authorized under this Section to determine entitlement to indemnification shall not have made and furnished to the Indemnitee in writing a determination of whether the Indemnitee is entitled to indemnification within 30 days after receipt by the Company of the Indemnitee's request therefor, a determination of entitlement to indemnification shall be deemed to have been made, and the Indemnitee shall be entitled to such indemnification unless the Indemnitee knowingly misrepresented a material fact in connection with the request for indemnification or such indemnification is prohibited by law. The termination of any Proceeding or of any Matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Article) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, or with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his conduct was unlawful.

Section 5.5. Payments to Independent Counsel. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred acting pursuant to this Article and in any proceeding to which it is a party or witness in respect of its investigation and written report and shall pay all reasonable fees and expenses incident to the procedures in which such Independent Counsel was selected or appointed. No Independent Counsel may serve if a timely objection has been made to his selection until a court has determined that such objection is without a reasonable basis.

Section 5.6. Right to Bring Suit. In the event that:

(a) a determination is made pursuant to Section 5.4 that the Indemnitee is not entitled to indemnification under this Article;

(b) advancement of Expenses is not timely made pursuant to Section 5.3 of this Article;

(c) Independent Counsel has not made and delivered a written opinion determining the request for indemnification (i) within 90 days after being appointed by the court, or (ii) within 90 days after objections to his selection have been overruled by the court, or (iii) within 90 days after the time for the Company or the Indemnitee to object to his selection; or

(d) payment of indemnification is not made within five days after a determination of entitlement to indemnification;

the Indemnitee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of his entitlement to such indemnification or advancement of Expenses. In the event that a determination shall have been made that the Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section shall be conducted in all respects as a de novo trial on the merits and indemnitee shall not be prejudiced by reason of that adverse determination. If a determination shall have been made or deemed to have been made that the Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 5.6, or otherwise, unless the Indemnitee knowingly misrepresented a material fact in connection with the request for indemnification, or such indemnification is prohibited by law.

The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section 5.6 that the procedures and presumptions of this Article are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all provisions of this Article. In the event that the Indemnitee, pursuant to this Section 5.6, seeks a judicial adjudication to enforce his rights under, or to recover damages for breach of, this Article, the Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all Expenses actually and reasonably incurred by him in such judicial adjudication, but only if he prevails therein. If it shall be determined in such judicial adjudication that the Indemnitee is entitled to receive part but not all of the indemnification or advancement of Expenses sought, the Expenses incurred by the Indemnitee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

Section 5.7. Nonexclusivity of Rights. The rights to receive indemnification and advancement of Expenses as provided by this Article shall not be deemed exclusive of any other rights to which an Indemnitee may at any time be entitled under applicable law, the Certificate of Incorporation, the Bylaws, any agreement, a vote of stockholders or disinterested directors, or otherwise.

Section 5.8. Other Indemnification. The Company's obligation, if any, to indemnify any Indemnitee who was or is serving at its request as a director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise or nonprofit entity shall be reduced by any amount such Indemnitee may collect as indemnification from such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise or nonprofit entity.

Section 5.9. Amendment or Repeal. No amendment, alteration or repeal of this Article or any provision thereof shall be effective as to any Indemnitee for acts, omissions, events and circumstances that occurred, in whole or in part, before such amendment, alteration or repeal.

Section 5.10. Survival of Rights. The provisions of this Article shall continue as to an Indemnitee whose Corporate Status has ceased and shall inure to the benefit of his heirs, executors and administrators.

Section 5.11. Insurance. The Company may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Company or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Company would have the power to indemnify such person against such expense, liability or loss under Delaware law.

Section 5.12. Indemnity Agreements. The Company may enter into indemnity agreements with the persons who are members of its Board of Directors from time to time, and with such officers, employees and agents as the Board may designate, such indemnity agreements to provide in substance that the Company will indemnify such persons to the full extent contemplated by this Article.

Section 5.13. Definitions. For purposes of this Article:

"Corporate Status" describes the status of a person who is or was a director, officer, employee, agent or fiduciary of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise or nonprofit entity which such person is or was serving at the request of the Company.

"DGCL" means the Delaware General Corporation Law as set forth in Title 8 of the Delaware Code.

"Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

"Indemnitee" includes any person who was or is made, or is threatened to be made a party or is otherwise involved in any Proceeding by reason of his Corporate Status.

"Independent Counsel" means a law firm, or member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the five years previous to his selection or appointment has been, retained to represent (a) the Company or Indemnitee in any matter material to either such party or (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder.

"Matter" is a claim, a material issue or a substantial request for relief.

"Proceeding" includes any action, suit, arbitration, alternate dispute resolution proceeding, investigation, administrative hearing or any other proceeding, whether civil, criminal, administrative, or investigative, except one initiated by an Indemnitee pursuant to Section 5.6 of this Article to enforce his rights under this Article.

Section 5.14. Communications. Any communication required or permitted to be made to the Company shall be addressed to the Secretary of the Company and any such communication to an Indemnitee shall be addressed to his home address unless he specifies otherwise.

Section 5.15. Legality. If any provision or provisions of this Article shall be held to be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby; and, to the fullest extent possible, the provisions of this Article shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

ARTICLE VI
MISCELLANEOUS

Section 6.1 Disbursements. All checks or demands for money and notes of the Company shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 6.2. Fiscal Year. The fiscal year of the Company shall be fixed by resolution of the Board of Directors.

Section 6.3. Corporate Seal. The Corporate Seal shall have inscribed thereon the name of the Company and the words "Corporate Seal, Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

Section 6.4. Interested Directors. No contract or transaction between the Company and one or more of its directors or officers, or between the Company and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorized the contract or transaction, or solely because his or their votes are counted for such purpose, if:

(a) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and

the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum;

(b) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) the contract or transaction is fair as to the Company as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction. Any director of the Company may vote upon any contract or other transaction between the Company and any subsidiary or affiliated corporation without regard to the fact that he is also a director of such subsidiary or affiliated corporation.

Section 6.5. Amendments. These Bylaws may be altered, amended or repealed, in whole or in part, or new Bylaws may be adopted, by the stockholders or by the Board of Directors; provided, however, that notice of such alteration, amendment, repeal or adoption of new Bylaws be contained in the notice of such meeting of stockholders or Board of Directors, as the case may be. All such alterations, amendments, repeals or adoptions must be approved by either the holders of a majority of the outstanding capital stock entitled to vote thereon or by a majority of the Board of Directors then in office.

[STAMP]

DOCKET NO. 21956

RELIANT ENERGY, INCORPORATED BUSINESS SEPARATION PLAN FILING PACKAGE	)))	PUBLIC UTILITY COMMISSION OF TEXAS

ORDER

This Order addresses the application of Reliant Energy, Incorporated (Reliant) for approval of its Second Amended Plan(1) to separate its business activities. Reliant modified this amended business-separation plan in filed rebuttal testimony and in live testimony at the hearing. The Commission approves in part and denies in part Reliant's business separation plan, as amended and modified, as discussed in this Order.

At the hearing on November 8, 2000, the parties presented the administrative law judge (ALJ) with a decision point list (DPL) for the Commission's convenience.(2) The DPL was organized in a matrix format and provided a summary of each party's position on the issues to be heard in this proceeding. On December 7, 2000, the Policy Development Division filed a version of the DPL that included summaries of the parties' post-hearing briefs and a section that memorialized the Commission's rulings. The DPL is attached to this Order as Attachment A to provide a summary of the parties' positions on the issues.

I. INTRODUCTION

An electric utility is required under PURA(3) Section 39.051 to file a plan with the Commission to separate its business activities from one another into the following units: a power generation company (PGC), a retail electric provider (REP), and a transmission and distribution utility (TDU).(4) Reliant Energy-HL&P (HL&P) is an unincorporated division of Reliant. HL&P owns

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(1) Amendment No. 2 to Reliant Energy's Business Separation Plan Filing Package (Aug. 9, 2000) (Second Amended Plan).

(2) Parties' Joint Exhibit 1 (Nov. 8, 2000).

(3) Public Utility Regulatory Act, TEX. UTIL. CODE ANN. Sections 11.001-64.158 (Vernon 1998 & Supp. 2001) (PURA).

(4) PURA Section 39.051(b).

and operates for compensation in Texas generation, transmission, and distribution facilities to sell and furnish electricity in Texas.(5)

In its Second Amended Plan, Reliant proposed to ultimately divide into two publicly traded corporations, REGCO and UNREGCO. REGCO would hold the TDU, the local gas distribution companies (Arkla, Entex, and Minnegasco), some other regulated natural gas operations, and at least initially, the PGC (ERCOT GENCO). REGCO would also hold limited unregulated domestic assets (Northwind Houston L.P. and Reliant Energy Thermal Systems) and certain Central and South American assets. UNREGCO would hold the REP and Reliant's unregulated domestic and European businesses, and would have the option to purchase ERCOT GENCO in January 2004 discussed below.

Reliant proposed to first create UNREGCO as a subsidiary and then transfer other subsidiary companies to it as described in the separation plan. The retail functions of HL&P would be transferred to UNREGCO (UNREGCO REP). Next, an initial public offering (IPO) of up to 20% of UNREGCO's common stock would be made; the remaining 80% would be held by Reliant. Reliant would then form REGCO and restructure its regulated business to cause REGCO to become the parent entity for Reliant, Reliant Energy Resources Corp., and the remaining subsidiaries (except certain financing subsidiaries) that were not transferred to UNREGCO, and to hold the remaining 80% of UNREGCO's stock. As part of this restructuring, the generating assets owned by Reliant that serve ERCOT(6) would be transferred to ERCOT GENCO, a new subsidiary of REGCO created to hold these assets. Reliant then functionally becomes only a TDU. The date on which this restructuring would be completed is referred to as the Restructuring Date and is projected to occur in mid-2001.

On or after the Restructuring Date, Reliant proposed that REGCO would distribute its remaining ownership interest in UNREGCO to REGCO's shareholders. The date on which this step would be completed is referred to as the Distribution Date and is projected to occur in mid-2001.

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(5) As used in this Order and denominated in the Second Amended Plan, HL&P refers to the former integrated utility. During the separation process, Reliant functionally becomes only a TDU.

(6) The Electric Reliability Council of Texas.

No later than June 30, 2002, an initial public offering of approximately 20% of ERCOT GENCO's common stock would be made. REGCO would retain at least an 80.1% equity interest in ERCOT GENCO, subject to UNREGCO's option to acquire this interest in 2004. If this option were exercised, REGCO would agree not to compete with UNREGCO in the generation of electricity in ERCOT for a period of at least five years.

A. AFFILIATION OF REGCO AND UNREGCO

Reliant proposed that REGCO would own at least 80.1% of the stock of UNREGCO prior to the Distribution Date. Due to this common stock ownership, no party contested the fact that UNREGCO and its subsidiaries would be affiliates of REGCO and its subsidiaries as defined in PURA Section 11.003(2) after the Restructuring Date and prior to the Distribution Date. The Commission concurs with the parties on this point.

Reliant and the parties disagreed, however, regarding whether REGCO and its subsidiaries would be considered affiliates of UNREGCO and its subsidiaries under PURA Sections 11.003(2) or 11.006 after the Distribution Date. Reliant argued that, after the Distribution Date, REGCO and UNREGCO would be separate, publicly traded companies. Initially, there would be three common directors of both REGCO and UNREGCO, and one of the common directors, R. Steve Letbetter, would serve as chairman of the board of directors of both companies. In addition, UNREGCO would hold an option to purchase all of REGCO's remaining ownership interest in ERCOT GENCO, which could be exercised in January 2004.

The Commission finds that these factors--the sharing of directors, the common chair, and the stock option--evidence control and the ability to exercise substantial influence over the policies and actions of the utility of a sufficient degree to support a determination of affiliation. Consequently, pursuant to PURA Section 11.006, the Commission finds that REGCO and its subsidiaries will be affiliates of UNREGCO and its subsidiaries after the Distribution Date. The Commission notes that the stock option has a limited life and that the sharing of directors may cease in the future. Accordingly, the Commission concludes that Reliant may request reconsideration of this finding based on a change in relevant circumstances.

B. PRICE TO BEAT

While the Commission decides in this Order that the issues related to the price to beat should be resolved in the Commission's rulemaking proceeding concerning the price to beat,(7) the Commission is sensitive to the potential impact to the proposed separation that could result from delaying a decision on this issue. Reliant proposed a price to beat adjustment mechanism that included a baseline for purchased power costs and adjustments to the baseline fuel factor twice per year by the same percentage as the change in purchased power prices from the baseline price. The Commission notes that, while the price to beat was intended to be a price cap, the adjustment mechanism in PURA Section 39.202(1) allows the cap to be pierced to reflect significant changes in the market price of natural gas or purchased power. Consequently, the Commission concludes that it was the Legislature's intent, in providing for this adjustment, to ensure that an affiliated REP would not be selling power below market costs. Because problems result from forcing a utility to sell power at a fixed price that is below market costs, it is readily apparent to this Commission that a market-based adjustment is necessary to ensure that the price to beat remains above wholesale costs. While such an approach cannot guarantee any minimum amount of headroom, it should preclude any affiliated REP from having to sell electricity at a legislatively mandated rate that is below the market price.

C. ERCOT GENCO STOCK OPTION

The Commission finds that Reliant's proposed separation meets the requirements of PURA Section 39.051 whether the option for UNREGCO to acquire REGCO's shares of the stock of ERCOT GENCO in January 2004 is exercised or allowed to lapse. An electric utility may accomplish the separation mandated by PURA Section 39.051 by having separate affiliated companies owned by a common holding company. Reliant proposes to go one step further by having separate corporations, and consequently, there is no need for the Commission to approve the stock option as a separate matter. The proposed stock option is an integral part of the Second Amended Plan, which the Commission finds in this Order meets the separation requirements in PURA Section 39.051.

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(7) At the time of hearing, Project No. 21409, relating to the Price to Beat, was pending. Subsequently, P.U.C. SUBST. R. 25.41 was approved at the February 22, 2001 open meeting.

The Commission's approval of Reliant's Second Amended Plan does not preclude a review in 2004 during the PURA Section 39.262 true-up proceeding of whether Reliant pursued commercially reasonable means to reduce its potential stranded costs, including good-faith efforts to renegotiate above-cost fuel and purchased power contracts or the exercise of prudent business practices to protect the value of its assets.

D. THE NUCLEAR DECOMMISSIONING TRUST

Reliant proposed that ERCOT GENCO would receive HL&P's 30.8% interest in the South Texas Project (STP) and the South Texas Project Nuclear Operating Company, as well as HL&P's interest in the qualified and non-qualified nuclear decommissioning trusts. Reliant proposed that ERCOT GENCO would share with the other owners of STP the obligation to decommission the nuclear facility as required by Nuclear Regulatory Commission rules. Reliant requested that the TDU indemnify ERCOT GENCO for any costs associated with decommissioning in excess of the amounts contained in the decommissioning trust.

Costs associated with nuclear decommissioning obligations will continue to be subject to cost of service regulation and will be included as a nonbypassable charge to retail customers.(8) Retail customers, therefore, will continue to be responsible for these costs and must pay these charges, as with all other nonbypassable charges, as a condition for receiving retail electric service. The TDU has an obligation to collect all nonbypassable charges, including these decommissioning charges. PURA Section 39.205 makes clear that these charges are for the benefit of ERCOT GENCO, or its successor in interest with respect to the STP, to meet its obligation in regards to decommissioning this nuclear plant. Accordingly, the Commission concludes that it is unnecessary for the TDU to indemnify ERCOT GENCO for any costs associated with nuclear decommissioning obligations.

H. FINDINGS OF FACT

APPLICANT AND THE APPLICATION

1. Reliant Energy-HL&P (HL&P) is an unincorporated division of Reliant Energy, Incorporated (Reliant), which is the applicant in this docket. HL&P owns and operates

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(8) See PURA Section 39.205.

for compensation in Texas generation, transmission, and distribution facilities to sell and furnish electricity in Texas.

2. Reliant seeks approval of its proposal to separate its business activities, including those of its subsidiaries, into a power generation company (PGC), a retail electric provider (REP), and a transmission and distribution utility (TDU), and certain other related requests as detailed in the application. This application does not seek to change any rates charged or received by an electric utility.

PROCEDURAL HISTORY

3. Reliant filed its initial business separation plan as required by PURA Section 39.051(e) on January 10, 2000.

4. On January 14, 2000, the competitive-energy-services portion of Reliant's business separation plan was severed from this docket and assigned Docket No. 21985.(9)

5. Notice of Reliant's application for approval of its initial business separation plan was published in the Houston Chronicle on February 4 and February 11, 2000. Notice was also sent by first class mail to all persons and entities who were party to Reliant's last rate case and by e-mail to all parties in Commission Project No. 21083.(10) Notice was also provided in the Texas Register on January 28, 2000.(11)

6. On February 16, 2000, this case was referred to the State Office of Administrative Hearings (SOAH) to resolve prehearing matters, including discovery disputes and other issues. The Commission requested SOAH to return the docket to the Commission on March 7, 2000, for purposes of a hearing to be conducted by the Commission on March 13, 2000.

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(9) Competitive Energy Services Issues Severed from Reliant Energy, Inc. Business Separation Plan Filing Package, Docket No. 21956, Docket No. 21985 (Jun. 8, 2000).

(10) Cost Unbundling and Separation of Business Activities, Including Separation of Competitive Energy Services and Distributive Generation, Project No. 21083 (Feb. 9, 2000).

(11) See Tex. Reg. 626 (Jan. 28, 2000).

7. Intervenors in this proceeding are the Office of Public Utility Counsel (OPC), Enron Energy Services, Inc. (Enron), Texas Legal Services Center, Texas Ratepayers' Organization to Save Energy, PG&E Corporation (PG&E), the State of Texas, New Energy Texas, L.L.C., Rayburn Country Electric Cooperative, Inc., Texas Industrial Energy Consumers (TIEC), Commercial Ratepayer Coalition, Consumers Union, Public Citizen of Texas, City of Houston, South Texas Electric Cooperative (STEC), The Nautilus Energy Resources, Inc., Gulf Chemical and Metallurgical Corporation, Competitive Marketers Alliance (CMA), Shell Energy Services Co., L.L.C. (Shell), Competitive Power Advocates (CPA), and the Gulf Coast Coalition of Cities (GCCC).

8. Commission Staff participated as a party representing the public interest.

9. The following parties were denied Intervenor status: Central Power & Light Company, Fowler Energy Company, Southwestern Electric Power Company, West Texas Utilities Company, and TXU Electric Company-Retail.

10. On March 2, 2000, the SOAH ALJ granted the joint request of Reliant and Commission Staff to extend the procedural schedule to allow the parties time to review Reliant's first amendment to its business separation plan.(12)

11. On March 27,2000, Reliant filed its first amendment to its business separation plan and a non-unanimous stipulation regarding the legal structure of the separated entities and inter-company debt issues.(13) The following parties were signatories to the stipulation: Reliant, Enron, STEC, CMA, PG&E, and Shell. The following three parties, while not signatories, represented that they did not oppose the stipulation: CPA, TIEC, and Commercial Ratepayers Coalition. Commission Staff and OPC objected to approval of the business separation plan as amended.

12. On May 3, 2000, Reliant flied a motion requesting that the hearing on the merits scheduled for May 4, 2000 be postponed to account for a proposed sale of two of

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(12) Amendment No. 1 to Reliant Energy's Business Separation Plan (Mar. 27, 2000).

(13) Nonunanimous Stipulation Regarding Legal Structure and Inter-Company Debt Issues (Mar. 27, 2000).

Reliant's local gas distribution companies, Arkla and Minnegasco. Commission Staff and OPC supported the motion. The Commission's ALJ denied the motion.

13. The Commission held a hearing on the merits of the first-amended plan on May 4, 2000. At the conclusion of the hearing, final action on the amended plan was deferred to allow the parties to engage in discussion and negotiation in an effort to reach a unanimous agreement on the plan.

14. The following parties were represented at the May 4, 2000 hearing: Reliant, Commission Staff, OPC, the State of Texas, Shell, and PG&E. The following exhibits were admitted into evidence: Reliant Exhibits 1-4 and OPC Exhibit 1.

15. On May 18, 2000, the parties filed a status report stating that they had been unable to come to agreement, and with one exception regarding inter-company debt, the parties maintained their positions on the non-unanimous stipulation and the amended business separation plan.

16. Reliant filed a supplement to its first-amended plan on May 24, 2000.

17. At the open meeting on May 31, 2000, Reliant advised the Commission that many issues were still outstanding, such as the possible sale of Arkla and Minnegasco, the timing of business separation, and issues regarding debt refinancing. The Commission directed Reliant to provide a status report in August 2000.

18. On June 8, 2000, the Commission entered a final order in Docket No. 21985 approving a unanimous settlement regarding competitive energy services.

19. At the June 29, 2000 open meeting, Reliant advised the Commission that it was working on an alternative approach to its business separation.

20. On August 9, 2000, Reliant filed its Second Amended Plan.(14)

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(14) Amendment No. 2 to Reliant Energy's Business Separation Plan Filing Package (Aug. 9, 2000) (Second Amended Plan).

21. Notice of Reliant's Second Amended Plan was published in the Houston Chronicle on September 6, September 21, and September 25, 2000.

22. On October 23, 24, 26, and 27, 2000, Intervenors and Commission Staff filed direct testimony. On October 30, 2000, Reliant filed rebuttal testimony.

23. On November 8, 2000, the Commission held a hearing on the merits of the Second Amended Plan. The following parties were represented at the hearing: Reliant, the Commission Staff, OPC, the City of Houston, GCCC, and the Aligned Parties (consisting of Enron, CPA, and New Energy). The following exhibits were admitted into evidence: Reliant Energy Exhibits 5-9, Aligned Parties Exhibits 1-20, GCCC Exhibit 1, City of Houston Exhibits 1-4, OPC Exhibits 2-3, Staff Exhibit 1, and Joint Exhibit 1.

24. Parties filed post-hearing briefs on November 17, 2000 and reply briefs on November 22, 2000.

25. At the open meeting on December 1, 2000, the Commission held further discussions regarding the Second Amended Plan. The Commission decided all issues presented, except for Reliant's proposals regarding price to beat issues.

26. At the open meeting on January 11, 2001, the Commission rendered a decision on the price to beat issues.

BUSINESS SEPARATION PLAN

27. HL&P is an unincorporated division of Reliant and is currently an integrated electric utility.

28. Reliant's initial plan proposed separating HL&P into three unincorporated divisions of Reliant: a PGC, a REP, and a TDU.

29. Reliant's first amendment to its business separation plan proposed the creation of new first or second tier corporate subsidiaries of Reliant for the PGC and the REP, and called for the TDU to be an unincorporated division of Reliant. This plan also proposed significant intercompany debt that would have been owed by the utility parent to unregulated subsidiaries.

30. The Second Amended Plan would divide Reliant into two publicly traded corporations. One corporation (REGCO) would hold the TDU, the local gas distribution companies (Arkla, Entex, and Minnegasco), certain other regulated natural gas operations, and, at least initially, the PGC (ERGOT GENCO). REGCO would also hold limited unregulated domestic assets (Northwind Houston, L.P. and Reliant Energy Thermal Systems) and certain Central and South American assets. The second corporation (UNREGCO) would hold Reliant's currently unregulated domestic and European businesses, including the REP. In addition, UNREGCO would have the option to purchase ERCOT GENCO in January 2004.

31. Under the Second Amended Plan, Reliant proposed to separate UNREGCO and REGCO in the following series of steps, which are more fully described in the Second Amended Plan. Following approval of the plan, UNREGCO would conduct an IPO of up to 20% of its common stock. Reliant would then restructure its regulated business to cause REGCO to become the parent entity for Reliant, Reliant Energy Resources Corp., and the other subsidiaries (except certain financing subsidiaries) that were not transferred to UNREGCO, and to convey the ERCOT generating assets owned by HL&P to ERCOT GENCO. The date on which this restructuring would be completed is referred to as the Restructuring Date and is projected to occur in mid-2001. On or after the Restructuring Date, Reliant proposed that REGCO would distribute its remaining ownership interest in UNREGCO to its shareholders. The date on which this step would be completed is referred to as the Distribution Date and is projected to occur in mid-2001.

32. Under the Second Amended Plan, the TDU will not be primarily responsible for any debt not associated with utility assets. In addition, there will be no significant refinancing costs resulting from the proposed restructuring.

IMPACT OF PLAN ON VALUATION OF ASSETS FOR PURPOSES OF DETERMINING STRANDED COSTS

33. During the November 8, 2000 hearing, Mr. Stephen C. Schaeffer, Senior Vice President, Regulation, testified that Reliant would refund any excess market value of generation assets over the book value of the asset.(15) Mr. Shaeffer stated that Reliant's position was

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(15) Tr. at 390-91, 393-95 (Nov. 8, 2000).

that PURA only allowed a company to recover the book value of a generation asset if a company has engaged in mitigation.(16)

WAIVERS AND AUTHORIZATIONS

34. Reliant requested that the Commission authorize HL&P to purchase its capacity and energy needs from ERCOT GENCO at cost and without competitive bidding(17) during the period between the Restructuring Date and Choice Date.(18) Reliant's request would relieve HL&P from the requirement to have a tariff for this service or seek competitive bids before agreeing to purchase power from ERCOT GENCO. No party contested this request.

35. Reliant requested a waiver of P.U.C. SUBST. R.25.272 and 25.273, which are related to the relationships and conduct between affiliates, for HL&P's purchases of power from ERCOT GENCO between the Restructuring Date and the Choice Date. No party contested this request.

36. Reliant requested that the Commission treat HL&P and ERCOT GENCO as if they were still part of the same integrated utility during the period between the Restructuring Date and the Choice Date for purposes of any fuel reconciliations, annual reports, and Federal Energy Regulatory Commission Form 1. No party contested this request.

37. Although Reliant is not required by PURA to separate its business activities until the Choice Date, under its proposed plan, separation will begin prior to that date. Under the plan, HL&P's generation assets will be transferred to ERCOT GENCO on the Restructuring Date, but HL&P will continue to be obligated to serve its existing customers until the Choice Date. The progressive unbundling proposed by Reliant would place unnecessary burdens on the company unless it is allowed to continue to act, for these limited purposes and over this limited time period, as an integrated utility. Accordingly, the Commission finds that the requested waivers as described in findings of

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(16) Id. at 394-95.

(17) As required by P.U.C. SUBST. R.25.272 and 25.273.

(18) The Choice Date is the date on which full, electric retail competition begins or January 1, 2002, unless the Commission exercises its discretion to delay customer choice pursuant to PURA Section 39.103.

fact 34 through 36 are reasonable and should be approved, provided that no purchase agreements for capacity or energy may extend past the Choice Date.

38. A part of the Second Amended Plan, customer care functions would be retail functions that would be transferred to UNREGCO in 2001. During the period between the Distribution Date and the Choice Date, UNREGCO customer-care employees would provide services that involve access to utility-customer information only to the REGCO utilities that serve those customers. Reliant requested a waiver of the following affiliate transaction rules for the period prior to the Choice Date to allow UNREGCO to provide customer care services to HL&P, so long as customer care employees comply with the Code of Conduct as if they were utility employees: P.U.C. SUBST. R. 25.272(d)(2) (sharing of employees, facilities, or other resources), 25.272(d)(3) (sharing of officers and directors, property, equipment, computer systems, information systems, and corporate support services, 25.272(d)(5) (sharing of office space), 25.272(e)(2) (transactions with competitive affiliates), and 25.272(g)(1) (proprietary customer information). No party contested this request.

39. The Commission finds that the arrangement discussed in finding of fact 38 will allow HL&P to continue to provide quality service to its customers while it moves forward with its proposed separation. Compliance with the Code of Conduct provisions will limit, if not eliminate, any competitive advantage UNREGCO might gain by having access to customer information. Accordingly, the Commission finds that the requested waivers as described in finding of fact 38 are reasonable and should be approved.

AFFILIATED RETAIL ELECTRIC PROVIDER

40. Under Chapter 39 of PURA, an affiliated REP is afforded certain benefits and subjected to certain obligations. PURA Section 39.051 provides that an electric utility may unbundle into "separate nonaffiliated companies or separate affiliated companies owned by a common holding company or through the sale of assets to a third party." An affiliated REP is defined by PURA Section 31.002(2) as being either an affiliate or a successor in interest of the electric utility certificated to serve the area. HL&P, which is the electric utility certificated to serve the subject area, proposed to ultimately separate its REP into a

subsidiary of UNREGCO. The Commission agrees with the parties and finds that the UNREGCO REP will be the successor in interest to the retail component of HL&P. Accordingly, the Commission finds the UNREGCO REP is an affiliated REP within the meaning of PURA Section 31.002(2).

AFFILIATION OF REGCO AND UNREGCO

41. Reliant proposed that REGCO own at least 80% of the stock of UNREGCO prior to the Distribution Date. UNREGCO and its subsidiaries would be affiliates of REGCO and its subsidiaries pursuant to PURA Section 11.003(2) after the Restructuring Date and prior to the Distribution Date. No party contested this issue. The Commission finds that the ownership of 80% of UNREGCO's shares by REGCO brings them and their affiliates within the definition of affiliate in PURA Section 11.003(2).

42. Reliant proposed that after the Distribution Date, REGCO and UNREGCO would be separate, publicly traded companies. Initially there would be three common directors of both REGCO and UNREGCO and one of the common directors, R. Steve Letbetter, would serve as chairman of both Boards of Directors during a transition period. The Commission finds that UNREGCO and its subsidiaries will be affiliates of REGCO and its subsidiaries pursuant to PURA Sections 11.003(2) and 11.006 after the Distribution Date because REGCO and UNREGCO will have a common chairman and common directors and UNREGCO will hold an option to purchase 80% of ERCOT GENCO's stock, which will initially be held by REGCO. The Commission also finds that Reliant may request reconsideration of this finding based on a change in circumstances.

ERCOT GENCO CAPACITY AUCTION

43. Reliant originally proposed to auction up to 100% of the capacity of ERCOT GENCO in the capacity auctions required by PURA Section 39.153. Under the Second Amended Plan, Reliant proposed that, beginning with the first capacity auction through January 1, 2007, ERCOT GENCO would auction 50% of its capacity in the capacity auctions held pursuant to the Commission's rule. As part of this proposal, Reliant requested that the REP be allowed to participate in the capacity auctions. Reliant further proposed that the

UNREGCO REP have the option to purchase the remaining 50% of the ERCOT GENCO's capacity at the price(s) established at the auction.

44. In the rebuttal testimony of Charles S. Griffey filed on October 30, 2000, Reliant modified its proposal in the Second Amended Plan regarding the auctioning and sale of the PGC's capacity.(19) As modified, Reliant proposed that ERCOT GENCO would auction entitlements to 15% of its capacity according to the Commission's rules and that UNREGCO would not participate in the auction or purchase this 15%.(20) In addition, ERCOT GENCO would auction the remaining 85% of its capacity in a separate, open auction in which UNREGCO could participate. Reliant also sought a determination that this proposal was reasonable and satisfies the requirements of PURA Section 39.262.

45. PURA Section 39.153(a) requires certain utilities to sell entitlements to at least 15% of its generation capacity. PURA Section 39.153(c) precludes an affiliated REP from purchasing any entitlements from its affiliate's auction. The Commission finds that Reliant's modified proposal as described in finding of fact 44 satisfies the 15% requirement and the proscription on affiliate participation in PURA.

46. The Commission finds that it is not necessary to consider ERCOT GENCO's disposition of its remaining capacity in the context of ruling on the adequacy of its proposed separation under PURA Section 39.051. Further, the Commission makes no finding concerning whether Reliant's proposal concerning the capacity auction satisfies any requirements found in PURA Section 39.262.

PRICE TO BEAT

47. One component of the price to beat will be the fuel factor established under PURA Section 39.202(b). This fuel-factor component may be adjusted up to twice per year to reflect significant changes in the market price of natural gas and purchased power. In its initial plan, Reliant proposed adjustments tied to the capacity auction. This proposal was

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(19) Rebuttal Testimony of Charles S. Griffey at 9-10 (Oct. 30, 2000).

(20) At the time of hearing, Project No. 21405, relating to Capacity Auctions, was pending. Subsequently, P.U.C. SUBST. R. 25.381 was adopted at the December 1, 2000 open meeting.

modified in the Second Amended Plan. The proposal was further modified in Reliant's rebuttal testimony.

48. The Commission is considering a proposed rule regarding the price to beat. When adopted, this rule will specify the manner in which the price to beat will be established and adjusted.(21)

49. The Commission concludes that a separate decision on price-to-beat issues should not be made in this docket. Consequently, the Commission finds that it is appropriate that all issues related to the price to beat, including the initial fuel factor and any adjustments to the fuel factor, be considered in Project No. 21409.

50. Reliant's affiliated REP will be subject to the Commission's final rule on price to beat and will be required to adopt a price to beat and an adjustment mechanism in accordance with that rule.

THE ERCOT GENCO STOCK OPTION TRANSACTION

51. As part of the separation of its business activities, Reliant proposed to grant UNREGCO an option to purchase all of REGCO's capital stock in ERCOT GENCO. This stock option could be exercised between January 10, 2004 and January 24, 2004. The exercise price for the option would be calculated with an equation that uses a market valuation formula based on the partial stock valuation method currently contained in PURA Section 39.263(h)(3). If a control premium is included in the valuation determination made by the Commission under PURA Section 39.262(h)(3), the exercise price paid by UNREGCO under the stock option would be adjusted in the same amount as the premium, up to a maximum of 10%.

52. The Commission finds that Reliant's proposed separation meets the requirements of PURA Section 39.051 whether the stock option is exercised or allowed to lapse. Consequently, there is no need for the Commission to approve the stock option as a separate matter.

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(21) As previously noted, at the time of hearing, Project No. 21409, relating to the Price to Beat, was pending. Subsequently, P.U.C. SUBST. R. 25.41 was approved at the February 22, 2001 open meeting.

The proposed stock option is an integral part of the Second Amended Plan, which the Commission finds in this Order meets the separation requirements in PURA Section 39.051.

53. The Commission's approval of Reliant's Second Amended Plan does not preclude a review in the 2004 true-up proceeding of whether Reliant pursued reasonable means to reduce its potential stranded costs, including good-faith efforts to renegotiate above-cost fuel and purchased power contracts or the exercise of normal business practices to protect the value of its assets.

54. The Commission finds that the granting of the stock option and the transfer of the stock of ERCOT GENCO to UNREGCO, if the option is exercised, would be part of the unbundling required by PURA Section 39.051. Accordingly, the transfer would not be subject to PURA Sections 14.101, 35.034, 35.035, or 39.158.

55. The Commission finds that due to the complexity of the option for ERCOT GENCO's stock, good cause exists to waive P.U.C. SUBST. R. 25.342(d)(4), to the extent applicable.

OPERATION OF ERCOT GENCO

56. Reliant proposed that ERCOT GENCO would use operations, maintenance, and management personnel from HL&P until the Choice Date. The Commission finds that this is reasonable for purposes of PURA Section 39.262 and should not be subject to re-examination in the 2004 true-up proceeding pursuant to PURA Section 39.262(c).

57. Reliant also proposed that after the Choice Date and continuing until the expiration of the option on ERCOT GENCO's stock, UNREGCO would provide ERCOT GENCO with certain fuel and energy management services. After the Restructuring Date, UNREGCO would provide ERCOT GENCO with environmental, safety and health, and technical services, until the expiration of UNREGCO's option to purchase the shares of ERCOT GENCO. The Commission finds that it is reasonable for ERCOT GENCO to rely upon UNREGCO to provide these services for purposes of PURA Section 39.262. The Commission further finds that the decision to obtain these services should not be subject to re-examination in the 2004 true-up proceeding pursuant to PURA Section 39.262(c). The Commission finds that such approval does not create any exemption from any fuel

reconciliations conducted pursuant to the Commission's rules and that this decision does not make any predetermined findings regarding typical fuel reconciliation issues.

THE NUCLEAR DECOMMISSIONING TRUST

58. Reliant proposed that ERCOT GENCO would receive HL&P's 30.8% interest in the South Texas Project (STP) and the South Texas Project Nuclear Operating Company, as well as HL&P's interest in the qualified and non-qualified nuclear decommissioning trusts. Reliant proposed that ERCOT GENCO would share with the other owners of STP the obligation to decommission the nuclear facility as required by Nuclear Regulatory Commission rules. The Commission finds that Reliant's proposal is reasonable and should be approved.

59. The Commission finds that any costs associated with nuclear decommissioning obligations will continue to be subject to cost of service rate regulation and will be included as a nonbypassable charge to retail customers. The Commission further finds that the TDU will collect decommissioning charges on behalf of ERCOT GENCO for the amounts required to be paid by ratepayers.

60. Reliant requested that the TDU indemnify ERCOT GENCO for any costs associated with decommissioning in excess of the amounts contained in the decommissioning trust. The Commission finds that it is not necessary to approve the indemnity requested by Reliant.

AGREEMENTS NOT REDUCED TO WRITING

61. As part of its application, Reliant requested that the Commission approve several agreements relating to the ERCOT GENCO capacity purchase option, the ERCOT GENCO stock purchase option, and the various service agreements between UNREGCO and REGCO. None of these agreements have been finalized and reduced to writing.

62. It is not appropriate for the Commission to approve any agreements that are part of the Second Amended Plan but that have not been finalized and reduced to writing, including those relating to the ERCOT GENCO capacity purchase option, the ERCOT GENCO stock purchase option, and the various service agreements between UNREGCO and REGCO.

ADDITIONAL REVIEW OF AFFILIATE TRANSACTIONS

63. Several parties urged that Commission approval of the Second Amended Plan be conditioned upon further review of transactions between the TDU and its affiliates. The Commission concludes that existing requirements regarding affiliate transaction are adequate and that approval of the Second Amended Plan should not be conditioned upon additional review of affiliate transactions.

ACCOUNTING ORDER

64. Reliant requested an accounting order that tracks the provisions of PURA Section 39.262(d)(2).

65. PURA Section 39.262(d)(2) provides that the difference between the price of power obtained through the capacity auctions under PURA Sections 39.153 and 39.156 and the projected price of power used in the ECOM model to estimate stranded costs under PURA Section 39.201 will be reconciled and credited or billed to the TDU. The Commission finds that it is reasonable to track the difference between actual and projected costs.

III. CONCLUSIONS OF LAW

1. HL&P is a public utility, as defined in PURA Section 11.004, and an electric utility, as defined in PURA Section 31.002(b).

2. This application does not constitute a major rate proceeding as defined by P.U.C. PROC. R. 22.2.

3. Reliant is required to separate its business activities into a PGC, a REP, and a TDU under PURA Section 39.051(a) and to file a plan to accomplish this separation under PURA Section 39.051(c).

4. The Commission has jurisdiction and authority over Reliant's business separation plan under PURA Section 39.051.

5. Notice of Reliant's business separation plan was provided in compliance with the Administrative Procedure Act(22) and P.U.C. PROC. R. 22.55.

6. Reliant's Second Amended Plan complies with the requirement of PURA Section 39.051 that Reliant separate HL&P's business activities from one another into a PGC, a REP, and a TDU.

7. Good cause exists to waive the applicable portions of P.U.C. SUBST. R. 25.272 and 25.273 to allow HL&P to purchase its capacity and energy needs from ERCOT GENCO at costs without a tariff for this service or without seeking competitive bids as described in findings of fact 34 and 35, provided that no purchase agreements for capacity or energy may extend past the Choice Date.

8. The Commission finds that Reliant's request to treat HL&P and ERCOT GENCO as if they were still part of the same integrated utility during the period between the Restructuring Date and the Choice Date for purposes of any fuel reconciliations, annual reports, and Federal Energy Regulatory Commission Form 1 is in the public interested and should be granted.

9. Good cause exist to waive the following portions of P.U.C. SUBST. R. 25.272 to allow UNREGCO to provide customer care services to HL&P as described in findings of fact 38 and 39: P.U.C. SUBST. R. 25.272(d)(2) (sharing of employees, facilities, or other resources), 25.272(d)(3) (sharing of officers and directors, property, equipment, computer systems, information systems, and corporate support services, 25.272(d)(5) (sharing of office space), 25.272(e)(2) (transactions with competitive affiliates), and 25.272(g)(1) (proprietary customer information).

10. As the successor in interest to the retail functions formerly performed by HL&P, UNREGCO REP will be an affiliated REP as defined in PURA Section 31.002.

11. Prior to the Distribution Date, UNREGCO and its subsidiaries and affiliates will be affiliates of REGCO and its subsidiaries and affiliates as defined in PURA Section 11.003(2).

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(22) TEX. GOV'T CODE ANN. Section 2001.001-901 (Vernon 2000 & Supp. 2001).

12. After the Distribution Date, the subsidiaries and affiliates of REGCO and UNREGCO will be affiliates due to the ability to exercise substantial influence and common control as provided by PURA Section 11.006

13. ERCOT GENCO's auction of entitlements to 15% of its capacity meets the requirements of PURA Section 39.153(a). UNREGCO REP is proscribed by PURA Section 39.153(c) from participating in the purchase of entitlements through the auction required by PURA Section 39.153(a).

14. It is reasonable to consider all issues related to the price to beat in the Commission's rulemaking proceeding instead of this docket.

15. If UNREGCO exercises its option for the stock of ERCOT GENCO, the transfer of that stock is part of the business separation required by PURA Section 39.051 and is not subject to PURA Sections 39.158, 14.101, 35.034, or 35.035.

16. Good cause exists to waive P.U.C. SUBST. R 25.342(d)(4), to the extent applicable, with respect to the option for the stock of ERCOT GENCO.

17. The decision to use operations, maintenance, and management personnel from HL&P to provide these functions for ERCOT GENCO until the Choice Date is not subject to review in the 2004 true-up proceeding pursuant to PURA Section 39.262(c).

18. The decision to use UNREGCO to provide ERCOT GENCO with certain fuel and energy management service between the Choice Date and the expiration of UNREGCO's option on ERCOT GENCO stock is not subject to review in the 2004 true-up proceeding pursuant to PURA Section 39.262(c).

19. The decision to use UNREGCO to provide ERCOT GENCO with environmental, safety and health, and technical services between the Restructuring Date and the expiration of UNREGCO's option on ERCOT GENCO stock is found reasonable and not subject to review in the 2004 true-up proceeding pursuant to PURA Section 39.262(c).

20. The Commission's approval of Reliant's Second Amended Plan does not preclude a review in 2004 during the PURA Section 39.262 true-up proceeding of whether Reliant pursued

commercially reasonable means to reduce its potential stranded costs, including good-faith efforts to renegotiate above-cost fuel and purchased power contracts or the exercise of normal business practices to protect the value of its assets.

21. The Commission declines to approve agreements that are part of the Second Amended Plan that have not been finalized and reduced to writing.

22. Pursuant to PURA Section 39.205, any remaining costs associated with Reliant's share of nuclear decommissioning obligations for the STP continue to be subject to cost of service rate regulation and shall be included as a nonbypassable charge to retail customers by the TDU on behalf of ERCOT GENCO.

23. No additional review of Reliant's TDU affiliate transactions is required beyond what is set forth in PURA and Commission rules.

24. Issuance of an accounting order as described in findings of fact 64 and 65 is consistent with PURA Section 39.262(d)(2). Approval of this method of accounting does not constitute approval of any costs or earnings.

IV. ORDERING PARAGRAPHS

Based upon the record, the findings of fact and conclusions of law set forth herein, and for the reasons stated above, the Commission orders:

1. Reliant's requests for waivers, as described in Finding of Fact Nos. 34 through 39 are granted.

2. The subsidiaries and affiliates of REGCO and UNREGCO are affiliates under PURA Section 11.006 and shall comply with all requirements applicable to affiliates. Reliant may request that the Commission re-evaluate this determination when circumstances on which the decision is based change.

3. ERCOT GENCO shall auction at least 15% of its capacity pursuant to PURA Section 39.153 and P.U.C. SUBST. R. 25.381.

4. The decision to use operations, maintenance, and management personnel from HL&P to provide these functions for ERCOT GENCO until the Choice Date shall not be further reviewed in the PURA Section 39.262 true-up proceeding.

5. The decision to use UNREGCO to provide ERCOT GENCO with certain fuel and energy management service between the Choice Date and the expiration of UNREGCO's option on ERCOT GENCO stock shall not be further reviewed in the 2004 true-up proceeding pursuant to PURA Section 39.262(c).

6. The decision to use UNREGCO to provide ERCOT GENCO with environmental, safety and health, and technical services between the Restructuring Date and the expiration of UNREGCO's option on ERCOT GENCO stock shall not be further reviewed in the 2004 true-up proceeding pursuant to PURA Section 39.262(c).

7. HL&P prior to the Choice Date and the TDU thereafter are directed to collect the decommissioning costs for the 30.8% interest in the STP, and to transfer all such funds to the owner of that interest or to the decommissioning trust for the benefit of such owner.

8. Reliant shall account for the difference between the price of power obtained in the capacity auction and the projections for the cost of power that were used in the ECOM model.

9. Except as otherwise specifically addressed in this order, Reliant's Second Amended Plan, as amended and modified, is approved and adopted.

10. All relief not specifically granted in this Order is denied for lack of merit.

SIGNED AT AUSTIN, TEXAS the 15th day of March 2001.

PUBLIC UTILITY COMMISSION OF TEXAS

/s/ PAT WOOD, III

PAT WOOD, III, CHAIRMAN

/s/ JUDY WALSH

JUDY WALSH, COMMISSIONER

/s/ BRETT A. PERLMAN

BRETT A. PERLMAN, COMMISSIONER

[STP NUCLEAR OPERATING COMPANY LOGO]

May 31, 2001
NOC-AE-01001112
File No.: G20, G21
10CFR50.80

U.S. Nuclear Regulatory Commission
Attention: Samuel J. Collins
Director, Office of Nuclear Reactor Regulation
Washington, DC 20555-0001

South Texas Project
Units 1 and 2
Docket Nos. STN 50-498 and STN 50-499
Application for Order and Conforming
Administrative Amendments for Transfers of Licenses

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended (the Act), and 10 CFR 50.80, STP Nuclear Operating Company (STPNOC), acting on behalf of Reliant Energy HL&P (formerly known as Houston Lighting & Power Company and referred to herein as HL&P), hereby requests that the Nuclear Regulatory Commission (NRC) consent to the direct and indirect transfers of control of HL&P's ownership interest in the South Texas Project Electric Generating Station, Units 1 and 2 (STPEGS), described in greater detail below. HL&P seeks consent to the following transfers:

(1) An indirect transfer of control of HL&P's interest in STPEGS in connection with the formation of a new parent holding company of HL&P, currently referred to as "Regco."

(2) A direct transfer of control of HL&P's interest in STPEGS to a Texas partnership, currently known as "Texas Genco LP," which will be indirectly wholly owned by Regco.

(3) A direct transfer of control of Texas Genco LP's interest in STPEGS to a Texas corporation, currently known as "Texas Genco, Inc.," which will be indirectly owned and controlled by Regco.

The transfers to Texas Genco LP and Texas Genco, Inc. will require conforming administrative license amendments to replace HL&P on the licenses. STPNOC will provide the NRC with the actual names of these entities prior to issuance of any conforming amendments.

In connection with each transfer of its 30.8% undivided ownership interest in STPEGS, HL&P's corresponding 30.8% interest in STPNOC, a not-for-profit Texas corporation, will also be transferred. However, this is not a controlling interest in STPNOC, and therefore, there will be no transfer of control of STPNOC's licenses to operate STPEGS on behalf of the owners. If the NRC concludes that such transfers of interest in STPNOC also require prior NRC consent, such consent is hereby requested.

HL&P is an unincorporated business division of Reliant Energy, Incorporated (Reliant Energy). In order to comply with Texas law requiring the restructuring of the electric utility industry in Texas, and for other business reasons, Reliant Energy is restructuring its business units, including the HL&P

interest in STPEGS, in several steps over the next few years in accordance with the Business Separation Plan approved by the Public Utility Commission of Texas (Texas PUC).

The first step in the restructuring involving a potential license transfer will occur in the fourth quarter of 2001, when Reliant Energy will create a company, currently referred to as Regco, which will become the parent holding company of Reliant Energy. The existing shareholders of Reliant Energy will become shareholders of Regco, and these same shareholders will continue to exercise ultimate control over HL&P's interest in STPEGS. Also in this step, Reliant Energy plans to form an intermediate entity as a wholly owned, but non-operating, subsidiary of Regco, that will directly or indirectly hold Regco's interests in its utility subsidiaries. This entity, to be known as "Utility Holding LLC," is inserted for economic efficiency in the transaction, but will have no operating responsibility or control. To the extent that NRC views the creation of Regco as the parent of Reliant Energy, and/or the formation of Utility Holding LLC, to be an indirect transfer of control requiring NRC consent, such consent is requested.

The second step will occur when Reliant Energy forms a partnership, currently known as Texas Genco LP, which will be indirectly wholly owned by Regco. HL&P will transfer all of its regulated generation assets in Texas, including its 30.8% undivided ownership interest in STPEGS, to Texas Genco LP after Regco becomes the parent of Reliant Energy. This transfer may occur contemporaneously with Regco becoming the parent holding company or some time thereafter. HL&P seeks consent to such transfer of its interest in STPEGS to Texas Genco LP.

The third step will occur by mid-2002, when Reliant Energy will form a corporation, currently known as Texas Genco, Inc., which will be indirectly owned and controlled by Regco. Texas Genco LP will then transfer all of its assets to Texas Genco, Inc. HL&P seeks consent to this proposed transfer of Texas Genco LP's interest in STPEGS to Texas Genco, Inc.

Through the attached Application for Order and Conforming Administrative Amendments for Transfers of Licenses (Application), HL&P requests that NRC consent to these transfers, and (1) to the extent necessary, authorize Regco to become the parent holding company of HL&P (an unincorporated division of Reliant Energy); (2) authorize Texas Genco LP to possess a 30.8% undivided ownership interest in STPEGS under essentially the same conditions and authorizations as included in HL&P's existing NRC licenses for STPEGS; and (3) authorize Texas Genco, Inc. to possess a 30.8% undivided ownership interest in STPEGS under essentially the same conditions and authorizations as included in HL&P's existing NRC licenses for STPEGS. The information contained in this Application demonstrates that each company will possess the requisite qualifications to own a 30.8% undivided ownership interest in STPEGS. It is anticipated that STPNOC will at all times remain the licensed operator of the facility. HL&P also requests NRC consent to certain conforming administrative amendments to the STPEGS licenses to reflect the proposed transfers.

In summary, the proposed transfers will be consistent with the requirements set forth in the Act, NRC regulations, and the relevant NRC licenses and orders. No physical changes will be made to STPEGS and there will be no changes in the day-to-day operation of STPEGS as a result of these transfers. The proposed transfers and conforming administrative amendments will not involve any changes to the current STPEGS licensing basis. They will neither have any adverse impact on the public health and safety, nor be inimical to the common defense and security. This Application therefore respectfully requests that the NRC consent to the transfers in accordance

with 10 CFR 50.80 and approve the conforming administrative amendments pursuant to 10 CFR 50.92 and 10 CFR 2.1315.

The actual dates for the transfers of the 30.8% interest in STPEGS will be dependent upon HL&P's schedule and the receipt of all required regulatory approvals and rulings. Under Texas law and the terms of its Business Separation Plan, Reliant Energy has committed to separate HL&P's generation assets by January 1, 2002. Therefore, HL&P requests that NRC review this Application on a schedule that will permit the issuance of NRC consent to the transfers of licenses, and approval of the conforming administrative license amendments, as promptly as possible, and in any event by October 31, 2001. Such consent should be immediately effective upon issuance, and should permit the transfers and the implementation date of the conforming amendments for each step to occur at any time until December 31, 2002. Further, HL&P requests that the conforming amendments be made effective upon the date of transfers. STPNOC will inform NRC if there are any significant changes in the status of the other required approvals or any other developments that have an impact on the schedule. In addition, STPNOC will provide the NRC with the date of the transfers to Texas Genco LP and Texas Genco, Inc., and the names selected for each of these two companies no later than seven days prior to the respective transfer dates so that appropriate license amendments may be issued.

The Application includes a proprietary, separately bound Addendum with Attachment 11A of the Application, which contains confidential commercial or financial information. HL&P requests that Attachment 11A be withheld from public disclosure pursuant to 10 CFR 9.17(a)(4) and the policy reflected in 10 CFR 2.790, as described in the Affidavit of David G. Tees, provided in Attachment 13 to the Application. A non-proprietary version of this document suitable for public disclosure is provided as Attachment 11 to the Application.

If NRC requires additional information concerning this license transfer request, please contact Mr. Scott Head, Manager, Licensing at (361) 972-7136. Service on STPNOC and HL&P of comments, hearing requests or intervention petitions, or other pleadings, if applicable, should be made to Mr. John E. Matthews at Morgan, Lewis and Bockius, LLP, 1800 M Street, NW, Washington, DC 20036-5869 (tel: 202-467-7524; fax: 202-467-7176; e-mail: jmatthews@morganlewis.com).

J. J. Sheppard
Vice President,
Engineering & Technical Services

jtc
Enclosure: Application

cc: without proprietary attachment unless otherwise noted

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UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

In the Matter of	)	
	)	
STP Nuclear Operating Company	)	Docket Nos. 50-498
	)	50-499
	)	
South Texas Project	)	
Units 1 and 2	)	

AFFIRMATION

I, J. J. Sheppard, being duly sworn, hereby depose and state that I am Vice President, Engineering & Technical Services of STP Nuclear Operating Company; that I am duly authorized to sign and file with the Nuclear Regulatory Commission the attached application for order and conforming administrative amendments for transfers of licenses; that I am familiar with the content thereof; and that the matters set forth therein with regard to STP Nuclear Operating Company are true and correct to the best of my knowledge and belief.

J. J. Sheppard
Vice President,
Engineering & Technical Services

STATE OF TEXAS	)	
	)	
COUNTY OF MATAGORDA	)	

Subscribed and sworn to before me, a Notary Public in and for the State of Texas, this _____ day of _____, 2001.

Notary Public in and for the
State of Texas

UNITED STATES OF AMERICA

NUCLEAR REGULATORY COMMISSION

In the Matter of	)	
	)	
STP Nuclear Operating Company	)	Docket Nos. 50-498
	)	50-499
	)	
South Texas Project	)	
Units 1 and 2	)	

AFFIRMATION

I, David G. Tees, being duly sworn, hereby depose and state that I am Senior Vice President for Generation Operations of Houston Lighting & Power Company; that I am familiar with the content of the attached application for order and conforming administrative amendments for transfers of licenses; and that the matters set forth therein with regard to Houston Lighting & Power Company are true and correct to the best of my knowledge and belief.

David G. Tees
Senior Vice President
Generation Operations

STATE OF TEXAS	)
	)
COUNTY OF HARRIS	)

Subscribed and sworn to before me, a Notary Public in and for the State of Texas, this _____ day of _____, 2001.

Notary Public in and for the
State of Texas

[STP NUCLEAR OPERATING COMPANY LOGO] [RELIANT ENERGY/HL&P LOGO]

APPLICATION FOR ORDER AND CONFORMING ADMINISTRATIVE AMENDMENTS FOR TRANSFERS OF LICENSES

May 31, 2001

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submitted by

STP NUCLEAR OPERATING COMPANY
AND
HOUSTON LIGHTING & POWER COMPANY

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION, UNITS 1 AND 2
NRC FACILITY OPERATING LICENSE NOS. NPF-76 AND NPF-80
DOCKET NOS. STN 50-498 AND STN 50-499

APPLICATION FOR ORDER AND CONFORMING
ADMINISTRATIVE AMENDMENTS FOR TRANSFERS OF LICENSES

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I. INTRODUCTION

This Application requests the consent of the Nuclear Regulatory Commission ("NRC") to the proposed direct and indirect transfers of control of Reliant Energy HL&P's ("HL&P") 30.8% undivided ownership interest in the South Texas Project Electric Generating Station, Units 1 and 2 ("STPEGS") described herein.

STPEGS is composed of two 1,250 megawatt (Mwe) (net) nuclear power plants, each consisting of a Westinghouse four-loop pressurized water reactor and other associated plant equipment, and related site facilities. STPEGS is located in southwest Matagorda County, approximately 12 miles south-southwest of Bay City and 10 miles north of Matagorda Bay. STP Nuclear Operating Company ("STPNOC") is the licensed operator for STPEGS, pursuant to licenses issued by the NRC. The two units currently are jointly owned by four entities in the following percentages:

Houston Lighting & Power Company	30.8
City Public Service Board of San Antonio	28.2
Central Power & Light Company	25.0
City of Austin, Texas	16.0

These same entities own corresponding percentage shares of STPNOC, a not-for-profit Texas corporation.

HL&P seeks consent to the following transfers:

(1) An indirect transfer of control of HL&P's interest in STPEGS in connection with the formation of a new parent holding company of HL&P, currently referred to as "Regco."

(2) A direct transfer of control of HL&P's interest in STPEGS to a Texas partnership, currently known as "Texas Genco LP," which will be indirectly wholly owned by Regco.

(3) A direct transfer of control of Texas Genco LP's interest in STPEGS to a Texas corporation, currently known as "Texas Genco, Inc.," which will be indirectly owned and controlled by Regco.

The transfers to Texas Genco LP and Texas Genco, Inc. will require conforming administrative license amendments to replace HL&P on the licenses. STPNOC will provide NRC with the actual names of these entities prior to issuance of any conforming amendments.

HL&P requests that NRC consent to these transfers, and (1) to the extent necessary, authorize Regco to become the parent holding company of HL&P (an unincorporated division of Reliant Energy); (2) authorize Texas Genco LP to possess a 30.8% undivided ownership interest in STPEGS under essentially the same conditions and authorizations as included in HL&P's existing NRC licenses for STPEGS; and (3) authorize Texas Genco, Inc. to possess a 30.8% undivided ownership interest in STPEGS under essentially the same conditions and authorizations as included in HL&P's existing NRC licenses for STPEGS. No physical changes will be made to STPEGS as a result of these transfers, and there will be no changes in the day-to-day operation of STPEGS. It is anticipated that STPNOC will at all times remain the licensed operator of the facility. HL&P also requests NRC consent to certain conforming administrative amendments to the STPEGS licenses to reflect the proposed transfers.

In connection with each transfer of its 30.8% undivided ownership interest in STPEGS, HL&P's corresponding 30.8% interest in STPNOC, a Texas not-for-profit corporation, will also be transferred. However, this is not a controlling interest in STPNOC, and therefore, there will be no transfer of control of STPNOC's licenses to operate STPEGS on behalf of the owners. If NRC concludes that such transfers of interest in STPNOC also require prior NRC consent, such consent is hereby requested.

A Safety Analysis performed by STPNOC of the conforming license amendments requested upon transfer to Texas Genco LP is provided as Attachment 1, and this analysis confirms that the amendments do no more than conform the license to reflect the transfer action.

As such, the amendments are subject to NRC's generic determination of no significant hazards consideration for license amendments to reflect transfers. See 10 CFR 2.1315. Annotated changes to the Unit 1 and Unit 2 licenses are provided as Attachments 2 and 3, respectively, and Unit 1 and 2 licenses with the proposed changes incorporated are provided as Attachments 4 and 5, respectively.

A Safety Analysis performed by STPNOC of the conforming license amendments requested upon transfer to Texas Genco, Inc. is provided as Attachment 6, and this analysis confirms that the amendments do no more than conform the license to reflect the transfer action. As such, the amendments are subject to NRC's generic determination of no significant hazards consideration for license amendments to reflect transfers. See 10 CFR 2.1315. Annotated changes to the Unit 1 and Unit 2 licenses are provided as Attachments 7 and 8, respectively, and Unit 1 and 2 licenses with the proposed changes incorporated are provided as Attachments 9 and 10, respectively.

II. STATEMENT OF PURPOSE OF THE TRANSFERS AND NATURE OF THE TRANSACTION MAKING THE TRANSFERS NECESSARY OR DESIRABLE

HL&P is an unincorporated business division of Reliant Energy, Incorporated ("Reliant Energy") that conducts Reliant Energy's regulated electric utility operations in Texas. In addition to its transmission and distribution system within its service territory in Texas, HL&P operates approximately 14,000 MW of net generation capacity in Texas, including its 30.8% undivided ownership interest in STPEGS. Reliant Energy owns and operates other generating assets in the United States, Netherlands, Latin America, and India, and is developing other generating projects in the United States. (In 2000, Reliant Energy elected to terminate its international operations in Latin America and India and is proceeding to dispose of those interests.) Through its wholly-owned first-tier subsidiary, Reliant Energy Resources

Corporation, Reliant Energy also conducts regulated gas utility operations in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas, and owns interstate pipelines and associated gathering facilities.

Texas has adopted restructuring legislation, which requires that regulated electric utility operations in Texas be separated into at least three separate business activities: (1) power generation; (2) transmission and distribution; and (3) retail electric. Texas Utilities Code See Section 39.051. Thus, pursuant to this legislation, Reliant Energy is required to transfer its generation assets, including its interest in STPEGS, to one or more separate companies by January 1, 2002. Reliant Energy's plans for meeting these requirements are described in its Business Separation Plan, as amended, which was approved in all material respects by the Public Utility Commission of Texas ("Texas PUC") on December 1, 2000. See Texas PUC Order, Docket 21956 (issued March 15, 2001). The features of the Business Separation Plan that are directly relevant to the transfers of control of HL&P's interest in STPEGS are briefly described below.

In accordance with the Business Separation Plan approved by the Texas PUC, Reliant Energy has transferred its unregulated domestic and certain foreign businesses to a wholly-owned subsidiary, Reliant Resources, Incorporated ("Reliant Resources"), which is a Delaware corporation formed on August 9, 2000. On May 4, 2001, Reliant Resources sold approximately 20% of its common stock in an initial public offering (IPO). Reliant Energy retains more than 80% of the shares of Reliant Resources, but plans to distribute all of its shares in Reliant Resources to its shareholders. These transactions do not involve any transfer of control of HL&P's interest in STPEGS, and do not require any NRC consent. However, as described in greater detail below, Reliant Resources will retain an option (known as the "Texas Genco

Option") that is exercisable in 2004, pursuant to which it could acquire a significant ownership interest in Reliant Energy's currently-regulated generating assets in Texas, including its interest in STPEGS. No NRC consent is being sought in connection with the Texas Genco Option at this time.

The first step in the restructuring involving a potential NRC license transfer will occur in the fourth quarter of 2001, when Reliant Energy will create a company, currently referred to as Regco, which will become a parent holding company of Reliant Energy. The existing shareholders of Reliant Energy will become shareholders of Regco, and these same shareholders will continue to exercise ultimate control over HL&P's interests in STPEGS. For purposes of economic efficiency, Reliant Energy plans to form an intermediate entity under Delaware law, to be known as "Utility Holding, LLC," as a wholly owned, but non-operating subsidiary of Regco that will directly or indirectly hold Regco's interests in its utility subsidiaries. To the extent that NRC views the creation of Regco as the parent of Reliant Energy, and/or the formation of Utility Holding LLC, to be an indirect transfer of control requiring NRC consent, such consent is requested by this Application.

The second step will occur when Reliant Energy forms a partnership, currently known as Texas Genco LP, which will be indirectly wholly owned by Regco through Utility Holding LLC and its subsidiaries. HL&P will transfer all of its regulated generation assets in Texas, including its 30.8% undivided ownership interest in STPEGS, to Texas Genco LP after Regco becomes the parent of Reliant Energy. This transfer may occur contemporaneously with Regco becoming the parent holding company or some time thereafter. HL&P seeks consent to such transfer of its interest in STPEGS to Texas Genco LP.

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The third step will occur by mid-2002, when Reliant Energy will form a corporation, currently known as Texas Genco, Inc., which will be indirectly owned and controlled by Regco through Utility Holding LLC. Texas Genco LP will then transfer all of its assets to Texas Genco, Inc. HL&P seeks consent to this proposed transfer of Texas Genco LP's interest in STPEGS to Texas Genco, Inc. A simplified organizational chart depicting the corporate structure associated with each step in the restructuring covered by this Application involving the transfer of HL&P's interest in STPEGS is attached as Figure 1 of this Application.

Following the transfer of assets to Texas Genco, Inc., it is expected that approximately 20% of the stock of Texas Genco, Inc. will be the subject of an IPO that would take place some time in mid-2002. This transaction would be undertaken in order to establish a value for the generation assets under the Texas restructuring legislation. If the IPO is not conducted, HL&P contemplates that approximately 20% of the common stock of Texas Genco, Inc. would be distributed to Regco's shareholders. Neither transaction would involve any transfer of control of the 30.8% undivided ownership interests in STPEGS, because approximately 80% of the shares of Texas Genco, Inc. would continue to be directly or indirectly owned by Regco, and Texas Genco, Inc. would continue to be directly or indirectly controlled by Regco. Pursuant to the Texas Genco Option, Reliant Resources may exercise a right in January 2004 to acquire the approximately 80% interest in Texas Genco, Inc. that is not part of the contemplated IPO. If Reliant Resources does not exercise its option, Regco would likely sell or otherwise dispose of its remaining interest in Texas Genco, Inc. at that time. HL&P recognizes that any exercise of the Texas Genco Option or other disposition of this approximately 80% ownership interest in Texas Genco, Inc. would involve a transfer of control of the 30.8% share of STPEGS that would also require prior NRC approval. A request for NRC consent in connection with such a future

transfer will be sought at an appropriate time prior to the exercise of the Texas Genco Option or other disposition of this interest.

III. GENERAL CORPORATE INFORMATION REGARDING REGCO

A. NAME OF PROPOSED PARENT HOLDING COMPANY

The name for the proposed parent holding company has not yet been established. It is currently referred to as Regco.

B. ADDRESS

1111 Louisiana, Houston, TX 77002.

C. DESCRIPTION OF BUSINESS OR OCCUPATION

Regco will be a corporation organized under the laws of the State of Texas that will own regulated electric and gas utilities. Reliant Energy is in the process of seeking approval for the formation of this entity from the U.S. Securities and Exchange Commission ("SEC") under the Public Utility Holding Company Act of 1935, as amended ("PUHCA"). Reliant Energy is applying for an exemption from registration under PUHCA on the ground that the resulting structure of Regco will be predominantly intrastate in character. If such an exemption is not granted, Regco will seek to register with the SEC as a registered public utility holding company under PUHCA.

D. ORGANIZATION AND MANAGEMENT

1. STATE OF ESTABLISHMENT AND PLACE OF BUSINESS

Regco will be a Delaware corporation with its principal place of business in the State of Texas.

2. PRINCIPAL SENIOR EXECUTIVES, OFFICERS AND DIRECTORS

The names, titles, and mailing addresses of the principal senior executives and officers of

Regco, all of whom are citizens of the United States, are set forth below.

D. M. McClanahan	President
S.C. Schaeffer	Executive Vice President
J.S. Brian	Senior Vice President and Chief Accounting Officer
Preston Johnson, Jr.	Senior Vice President, Human Resources
S.E. Rozzell	Senior Vice President, General Counsel and Corporate Secretary
Marc Kilbride	Vice President and Treasurer

Officers' address: 1111 Louisiana, Houston, TX 77002.

The names and addresses of the directors of Regco, all of whom will be citizens of the United States, will be provided when the directors are selected. It is contemplated that most of the existing directors of Reliant Energy will become directors of Regco. The Chairman and two of the current directors of the Reliant Energy are expected to serve as directors of both Regco and Reliant Resources.

Directors' address: 1111 Louisiana, Houston, TX 77002.

IV. GENERAL CORPORATE INFORMATION REGARDING TEXAS GENCO LP

A. NAME OF PROPOSED NEW LICENSEE

The name for the proposed new licensee has not yet been established. It is currently referred to as Texas Genco LP.

B. ADDRESS

1111 Louisiana, Houston, TX 77002.

C. DESCRIPTION OF BUSINESS OR OCCUPATION

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Texas Genco LP will be a limited partnership organized under the laws of the State of Texas, engaged in the business of developing, owning, and operating electric generating assets. In accordance with the Business Separation Plan approved by the Texas PUC, Texas Genco LP will acquire all of HL&P's existing electric generating assets.

D. ORGANIZATION AND MANAGEMENT

1. STATE OF ESTABLISHMENT AND PLACE OF BUSINESS

Texas Genco LP will be a Texas partnership with its principal place of business in the State of Texas. The General Partner and Limited Partner of Texas Genco LP will be limited liability corporations incorporated in Delaware and wholly owned by Regco.

2. PRINCIPAL SENIOR EXECUTIVES, OFFICERS AND MANAGEMENT COMMITTEE

The General Partner of Texas Genco LP will be a wholly owned indirect subsidiary of Regco, as will the Limited Partner. The name, title, and mailing address of the principal senior executive and officer of Texas Genco LP, who is a citizen of the United States, is set forth below.

David G. Tees President

Officer's address: 1111 Louisiana, Houston, TX 77002.

The names and addresses of other principal senior executives and officers, all of whom will be citizens of the United States, will be provided when they are appointed.

The names and addresses of the members of the Management Committee of the General Partner, all of whom will be citizens of the United States, will be provided when the management structure of Texas Genco LP is determined.

Members' address: 1111 Louisiana, Houston, TX 77002.

V. GENERAL CORPORATE INFORMATION REGARDING TEXAS GENCO, INC.

A. NAME OF PROPOSED NEW LICENSEE

The name for the proposed second new licensee has not yet been established. It is currently referred to as Texas Genco, Inc.

B. ADDRESS

1111 Louisiana, Houston, TX 77002.

C. DESCRIPTION OF BUSINESS OR OCCUPATION

Texas Genco, Inc. will be a corporation organized under the laws of the State of Texas, engaged in the business of developing, owning, and operating electric generating assets. In accordance with the Business Separation Plan approved by the Texas PUC, Texas Genco, Inc. will acquire all of Texas Genco LP's electric generating assets.

D. ORGANIZATION AND MANAGEMENT

1. STATE OF ESTABLISHMENT AND PLACE OF BUSINESS

Texas Genco, Inc. will be a Texas corporation with its principal place of business in the State of Texas.

2. DIRECTORS, PRINCIPAL SENIOR EXECUTIVES AND OFFICERS

Texas Genco, Inc. will be a wholly owned indirect subsidiary of Regco. The names, titles, and mailing addresses of the directors, principal senior executives and officers of Texas Genco, Inc., all of whom will be citizens of the United States, will be provided when the management structure of Texas Genco, Inc. is determined, but it is expected that the individuals serving as senior officers of Texas Genco LP will serve as officers of Texas Genco, Inc. when it is formed.

VI. FOREIGN OWNERSHIP OR CONTROL

Regco will be a publicly traded company whose securities will be traded on the New York Stock Exchange and widely held. Texas Genco LP and Texas Genco, Inc. will be indirectly owned and controlled by Regco. After the IPO or distribution to Regco's shareholders of its shares, Texas Genco, Inc. will be publicly traded on a national stock exchange. Reliant Energy is not currently owned, controlled, or dominated by any alien, foreign corporation, or foreign government. Based upon filings with the SEC, Reliant Energy is not aware of any alien, foreign corporation, or foreign government that holds more than 5% of the securities of Reliant Energy. Reliant Energy's shareholders will initially own 100% of the stock of Regco, and thereafter, the shares of Regco will be widely held. Therefore, there is no reason to believe that Regco will be owned, controlled, or dominated by any alien, foreign corporation, or foreign government. All of the directors and officers of Regco, Texas Genco, Inc., and the company which will be the General Partner controlling Texas Genco LP will be United States citizens. Thus, Regco, Texas Genco LP, and Texas Genco, Inc. will not be under foreign ownership, domination, or control within the meaning of the Atomic Energy Act of 1954, as amended.

VII. TECHNICAL QUALIFICATIONS

There will be no physical changes to STPEGS and no changes in the day-to-day operations of STPEGS in connection with the transfers. It is anticipated that STPNOC will at all times remain the licensed operator of the facility.

VIII. FINANCIAL QUALIFICATIONS

HL&P is currently an "electric utility" within the meaning of 10 CFR 50.2, and exempt from financial qualifications review pursuant to 10 CFR 50.33(f). Immediately upon formation of Regco as the parent holding company of HL&P, HL&P will continue to be the licensee and

will remain financially qualified to own its interest in STPEGS. Thereafter, the licensed interest in STPEGS will be transferred to Texas Genco LP, and later to Texas Genco, Inc. Without regard to whether Texas Genco LP or Texas Genco, Inc. qualify as an "electric utility" under in 10 CFR 50.2, these entities will be financially qualified to own a 30.8% interest in STPEGS during the remaining term of the STPEGS licenses in accordance with 10 CFR 50.33(f), upon the transfer of HL&P's interest in STPEGS.

A. PROJECTED OPERATING REVENUES AND OPERATING COSTS

Texas Genco LP and Texas Genco, Inc. will own and operate the approximately 14,000 MWe of net electrical generating capacity currently owned and operated by HL&P, and the operations of the two companies will not be materially different. Thus, for purposes of financial qualifications review, these two companies are referred to together as "Texas Genco," and the following information confirms that each will possess, or have reasonable assurance of obtaining, the funds necessary to cover its pro rata share of the estimated operating costs of STPEGS for the period of the licenses in accordance with 10 CFR 50.33(f)(2) and the Standard Review Plan on Power Reactor Licensee Financial Qualifications and Decommissioning Funding Assurance (NUREG-1577, Rev. 1) ("Standard Review Plan"). HL&P has prepared a Projected Income Statement for Texas Genco, including specific line items reflecting the operation of its 30.8% interests in STPEGS, for the five-year period from January 1, 2002 until December 31, 2006. (The same five-year financial pro forma applies to both Texas Genco LP and Texas Genco, Inc.). Copies of the Projected Income Statement, related schedules, and Projected Opening Balance Sheet are contained in Attachment 11A. HL&P requests that Attachment 11A be withheld from public disclosure, as described in the Section 2.790 Affidavit provided in Attachment 13. Redacted versions of these projections, suitable for public disclosure, are contained in Attachment 11.

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The Projected Income Statement shows that anticipated revenues from sales of capacity and energy from STPEGS provide reasonable assurance of an adequate source of funds to meet Texas Genco's pro rata share of STPEGS's ongoing operating expenses. Until January 1, 2002, Texas Genco will recover its costs through traditional ratemaking mechanisms under the rates in effect for HL&P. After January 1, 2002, Texas Genco will sell its generation in the wholesale power markets at auction until 2004, when Reliant Resources may exercise its option to acquire Regco's ownership interest in Texas Genco. The Projected Income Statement through 2006 shows that anticipated revenues from sales of capacity and energy from all of Texas Genco's approximately 14,000 MWe of net generating capacity, averaging an estimated $2 billion per year, provides assurance that Texas Genco will have an adequate source of funds to its pro rata share of STPEGS's ongoing operating expenses. Even after Texas Genco begins to sell its generation in the wholesale power markets, Regco is committed to funding Texas Genco's external capital needs until the IPO of approximately 20% of the common stock of Texas Genco, Inc., in mid-2002. This will provide an additional source of funds during the period leading up to the IPO.

B. DECOMMISSIONING FUNDING

The financial qualifications of HL&P and Texas Genco to own a 30.8% undivided ownership interest in STPEGS are further demonstrated by the fact that HL&P and then Texas Genco will provide financial assurance for decommissioning funding in accordance with 10 CFR 50.75. HL&P currently maintains and will continue to maintain decommissioning trust funds that have been established to provide funding for decontamination and decommissioning of HL&P's 30.8% undivided ownership interest in STPEGS. When HL&P's 30.8% undivided

ownership interest in STPEGS is transferred to Texas Genco LP, HL&P will also transfer its decommissioning trust funds to Texas Genco LP. Texas Genco LP will later transfer these trust funds to Texas Genco, Inc., along with the interest in STPEGS. These entities will at all times maintain these external sinking funds segregated from their assets and outside their administrative control in accordance with the requirements of 10 CFR 50.75(e)(1)(i) and (ii).

In addition, HL&P or its successor will collect from its electric utility ratepayers costs associated with the decommissioning of the 30.8% interest in STPEGS "pursuant to a non-bypassable charge" (within the meaning of 10 CFR 50.75(e)(1)(ii)(B)), and transfer all such funds to Texas Genco or to the decommissioning trust for the benefit of Texas Genco. Texas Genco, in turn, will deposit the amounts received from HL&P for this purpose into the decommissioning trust. These decommissioning funding arrangements were specifically approved by the Texas PUC. See Texas PUC Order, Docket 21956 (March 15, 2001). These arrangements assure that Texas Genco will have the total amount of funds estimated to be needed for decommissioning pursuant to 10 CFR 50.75(c), 50.75(f) and 50.82.

In addition, the Texas Genco Nuclear Decommissioning Master Trust Fund Agreement will be in a form that is acceptable to the NRC and will provide, in addition to other required clauses, that: (a) investments in the securities or other obligations of Reliant Energy, Reliant Resources, Regco, their affiliates, or their successors or assigns will be prohibited, except for investments in funds tied to market indices or other non-nuclear sector collective, commingled or mutual funds; (b) investments in any entity owning one or more nuclear power plants shall be prohibited, except for investments in funds tied to market indices or other non-nuclear sector collective, commingled or mutual funds; (c) investments made in the trust shall adhere to the standards for such investments established by the Texas PUC (e.g., 16 Texas Admin. Code Section

25.301); (d) except for taxes and administrative costs, no disbursements or payments from the trust shall be made by the trustee unless the trustee has first provided thirty (30) days' prior written notice of such disbursement or payment to the NRC Director, Office of Nuclear Reactor Regulation, and the trustee has not received prior written notice of an objection from the NRC Director, Office of Nuclear Reactor Regulation by the later of (1) the date that is thirty days after the giving of such notice, or (2) the date of disbursement; and (e) the NRC Director, Office of Nuclear Reactor Regulation, shall be given thirty (30) days' prior written notice of any material modification to the trust agreement. Texas Genco will take all necessary steps to ensure that the decommissioning trust is maintained in accordance with this Application. A copy of a form of Nuclear Decommissioning Master Trust Fund Agreement for Texas Genco is provided as Attachment 12.

As is amply demonstrated above, in accordance with 10 CFR 50.75, reasonable assurance exists that Texas Genco will obtain the funds necessary to cover its share of the estimated decommissioning costs of STPEGS at the end of licensed operation.

IX. ANTITRUST INFORMATION

This Application post-dates the issuance of the STP operating licenses, and therefore no antitrust review is required or authorized. Based upon the Commission's decision in Kansas Gas and Electric Co., et al. (Wolf Creek Generating Station, Unit 1), CLI-99-19, 49 NRC 441 (1999), the Atomic Energy Act of 1954, as amended, does not require or authorize antitrust reviews of post-operating license transfer applications.

X. RESTRICTED DATA AND CLASSIFIED NATIONAL SECURITY INFORMATION

The proposed transfers do not contain any Restricted Data or other Classified National Security Information or any change in access to such Restricted Data or Classified National

Security Information. STPNOC's existing restrictions on access to Restricted Data and Classified National Security Information are unaffected by the proposed transfers.

XI. ENVIRONMENTAL CONSIDERATIONS

The requested consent to transfers of the STPEGS licenses and accompanying administrative amendments are exempt from environmental review because they fall within the categorical exclusion contained in 10 CFR 51.22(c)(21), for which neither an Environmental Assessment nor an Environmental Impact Statement is required. Moreover, the proposed transfers do not involve any amendment to the facility operating licenses or other change that would directly affect the actual operation of STPEGS in any substantive way. The proposed transfers and changes to the facility operating licenses do not involve an increase in the amounts, or a change in the types, of any radiological effluents that may be allowed to be released off-site, and involve no increase in the amounts or change in the types of non-radiological effluents that may be released off-site. Further, there is no increase in the individual or cumulative operational radiation exposure, and the proposed transfers and facility operating license changes have no environmental impact.

XII. PRICE-ANDERSON INDEMNITY AND NUCLEAR INSURANCE

In accordance with 10 CFR 140.92, Art. IV.2, HL&P requests NRC consent to the assignments and transfers of HL&P's interest in the Price-Anderson indemnity agreement for STPEGS to Texas Genco LP and Texas Genco, Inc. in connection with its consent to the proposed transfers of licenses to these entities. The Projected Income Statement of Texas Genco provides adequate assurance that Texas Genco LP and Texas Genco, Inc. will be able to pay their pro rata share of the total retrospective premium of $10 million per STPEGS unit ($20 million total), pursuant to 10 CFR 140.21(e)-(f). Prior to the transfers of licenses, Texas Genco LP or

Texas Genco, Inc. will obtain, and/or STPNOC will obtain on their behalf, all required nuclear property damage insurance pursuant to 10 CFR 50.54(w) and nuclear energy liability insurance pursuant to Section 170 of the Atomic Energy Act of 1954, as amended, and 10 CFR Part 140.

XIII. OTHER REQUIRED REGULATORY APPROVALS

Other major regulatory approvals and rulings that may be required in connection with the Business Separation Plan involving the proposed transfers of HL&P's STPEGS ownership interest include approvals and rulings from the Texas PUC, the SEC, and the Internal Revenue Service. The Texas PUC has already approved the Business Separation Plan, and it is anticipated that other required approvals and rulings will be obtained by the fourth quarter of 2001.

XIV. EFFECTIVE DATES

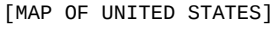
Under Texas law, and the terms of the Business Separation Plan approved by the Texas PUC, Reliant Energy has committed to complete the separation of HL&P's generation assets by January 1, 2002. HL&P requests that the NRC review this Application on a schedule that will permit the issuance of NRC consent to the transfers of licenses, and approval of the conforming administrative license amendments, as promptly as possible, and in any event by October 31, 2001. HL&P also requests that NRC consent to the transfers of HL&P's interest in STPEGS be made immediately effective upon issuance, and permit the transfers and the implementation date of the conforming amendments for each step of the restructuring to occur at any time until December 31, 2002. Furthermore, HL&P requests that the conforming amendments be made effective upon the date of the transfers. STPNOC will inform NRC if there are any significant changes in the status of the other required approvals or any other developments that have an impact on the schedule.

XV. CONCLUSION

Based upon the foregoing information, STPNOC respectfully requests, on behalf of HL&P, that the NRC issue an Order consenting to the transfers of the Facility Operating Licenses, Nos. NPF-76 and NPF-80, for HL&P's 30.8% undivided ownership interest in STPEGS, and approving the associated conforming administrative amendments.

REI ELECTRIC AND GAS SYSTEMS

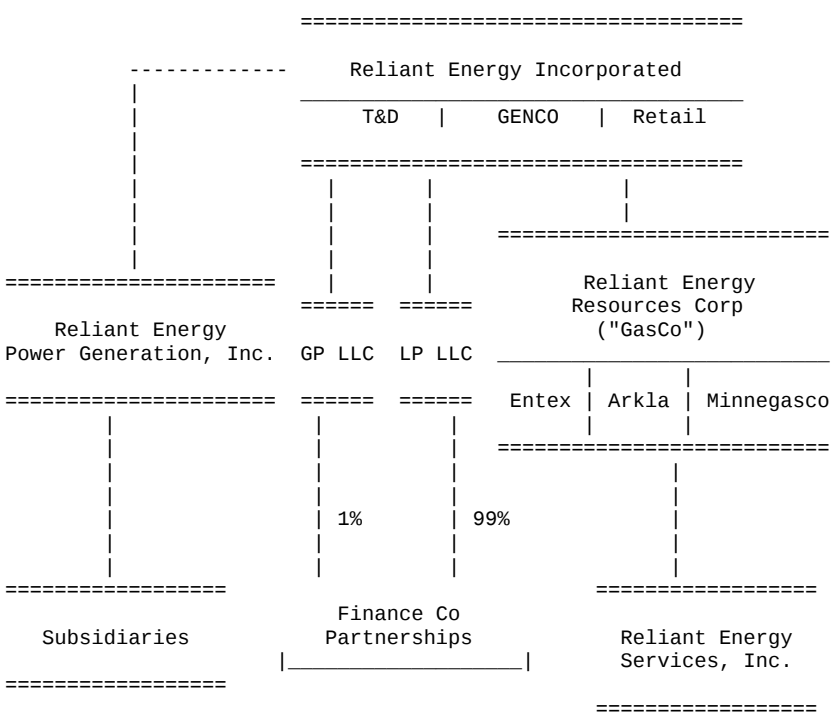
REI GAS SYSTEM



REI ELECTRIC SYSTEM

[MAP OF THE STATE OF TEXAS]

STRUCTURE PRIOR TO DECEMBER 31, 2000
RELIANT ENERGY, INCORPORATED
AND MAJOR SUBSIDIARIES



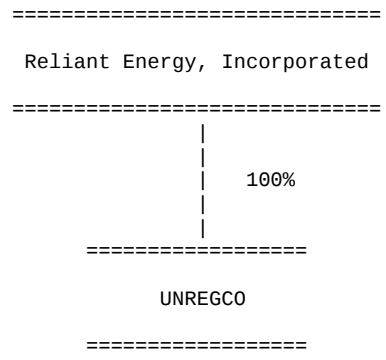
All ownership is 100%, except as indicated.

T&D, GENCO and Retail are separate operations of the integrated electric utility known as Reliant Energy HL&P which is an unincorporated division of Reliant Energy, Incorporated.

Entex, Arkla, and Minnegasco are unincorporated divisions of Reliant Energy Resources Corp. ("GasCo").

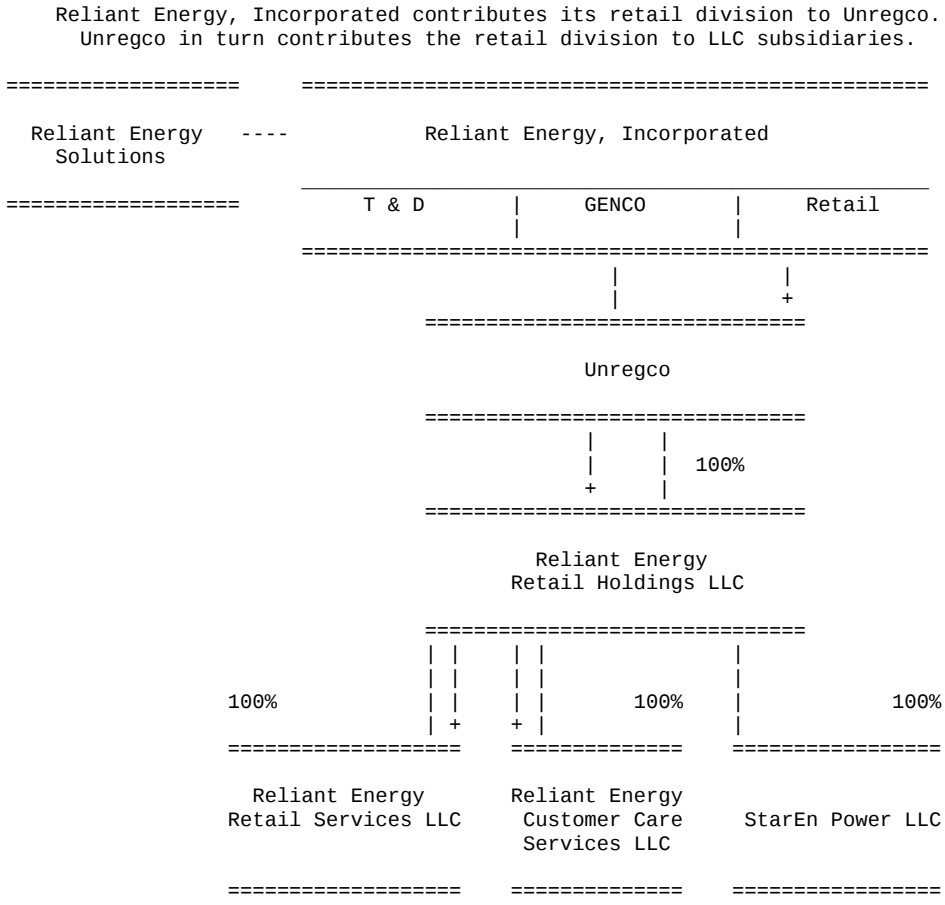
Step 1

Reliant Energy, Incorporated forms UNREGCO



Steps 2,3,4 and 5

Reliant Energy, Incorporated contributes its retail division to Unregco. Unregco in turn contributes the retail division to LLC subsidiaries.

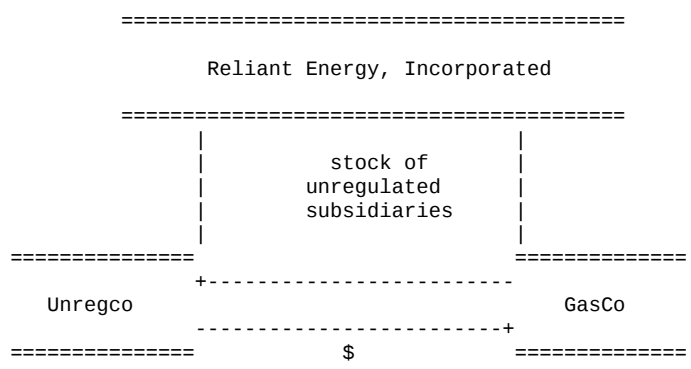


- - Reliant Energy Customer Care Services LLC will contract with Reliant Energy, Incorporated to continue to serve the electric customers of Reliant Energy, Incorporated until retail electricity sales in Texas are deregulated on January 1, 2002.

- - Reliant Energy Retail Services LLC, as the successor to Reliant Energy's regulated electric sales business, will begin selling electricity to customers who do not choose another retail provider by January 1, 2002. Prior to January 1, 2002, Reliant Energy Retail Services LLC will take steps to begin the retail provider function.

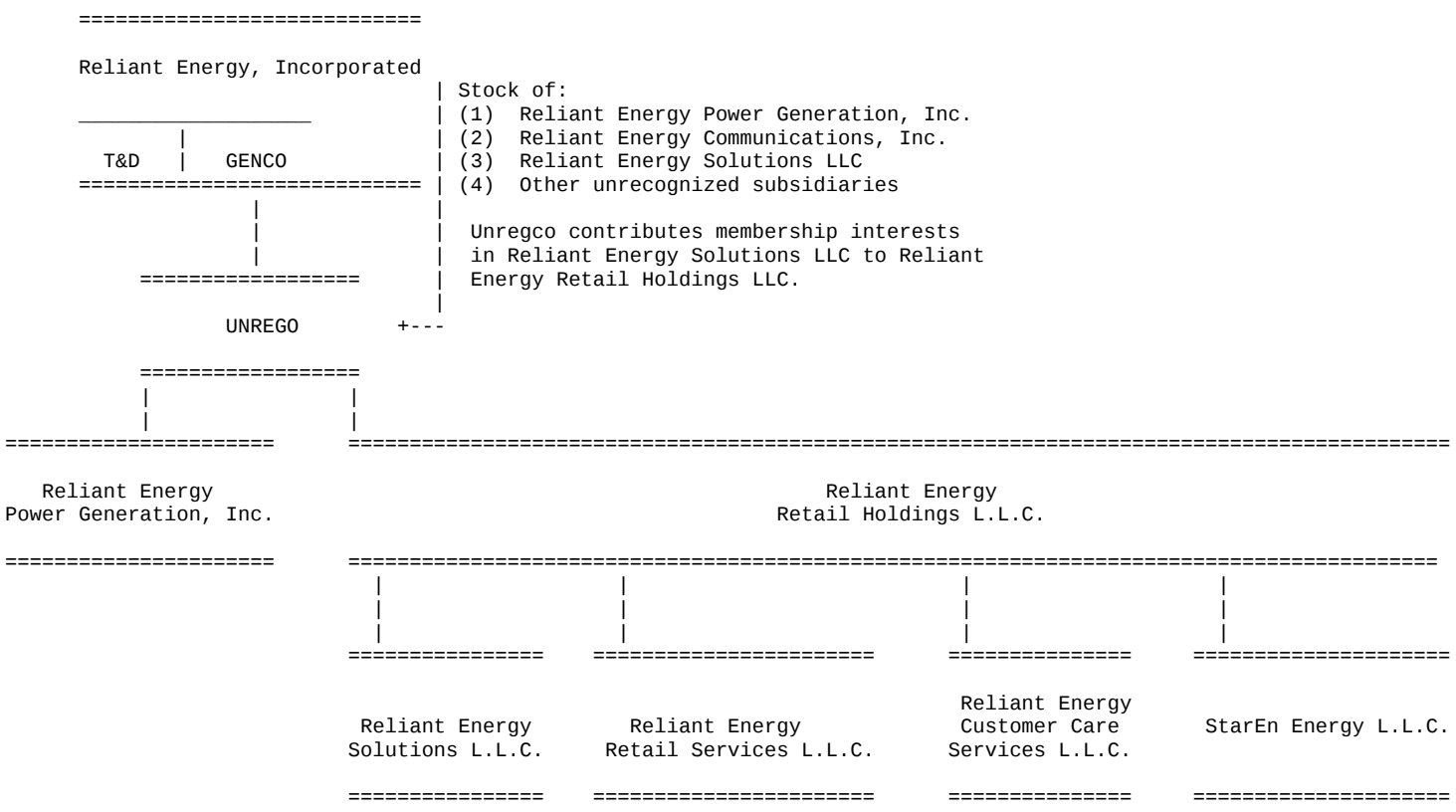
Step 6

GasCo sells various of its
unregulated businesses to Unregco



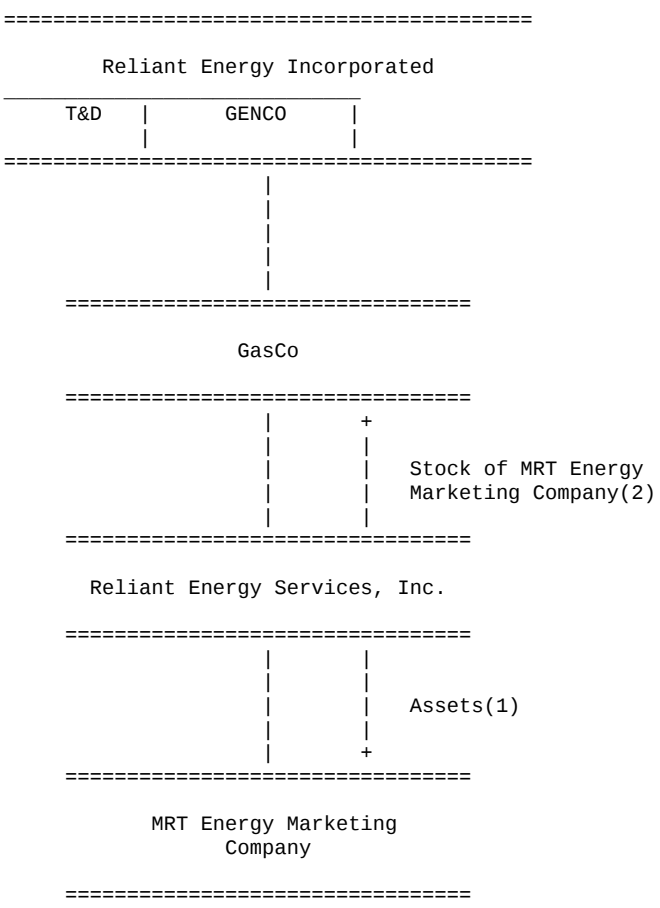
Step 7

Reliant Energy, Incorporated contributes its unregulated businesses to UNREGCO



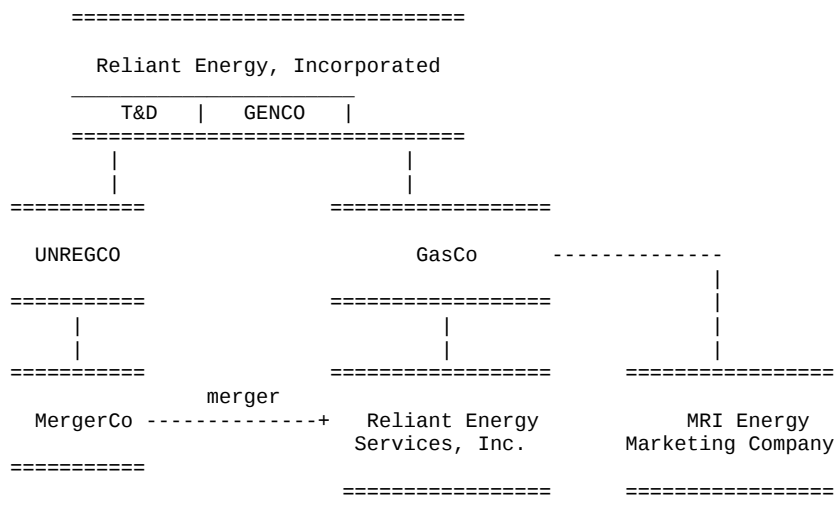
Steps 8 and 9

Reliant Energy Services, Inc. contributes MRT Energy Marketing assets to a wholly owned subsidiary and then distributes the stock of that subsidiary (MRT Energy Marketing Company) to GasCo



Step 10

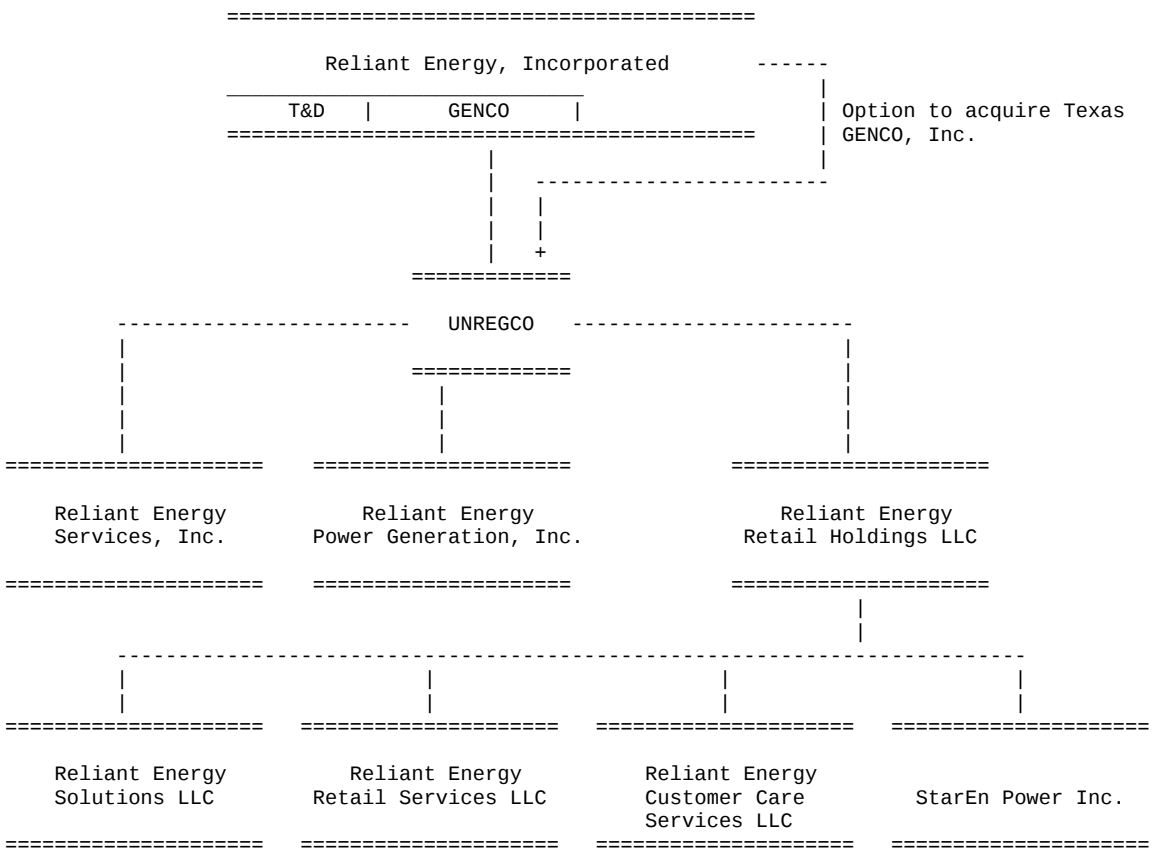
Newly formed subsidiary of UNREGCO
merges into GasCo



Reliant Energy Services, Inc. becomes a first-tier subsidiary of UNREGCO.

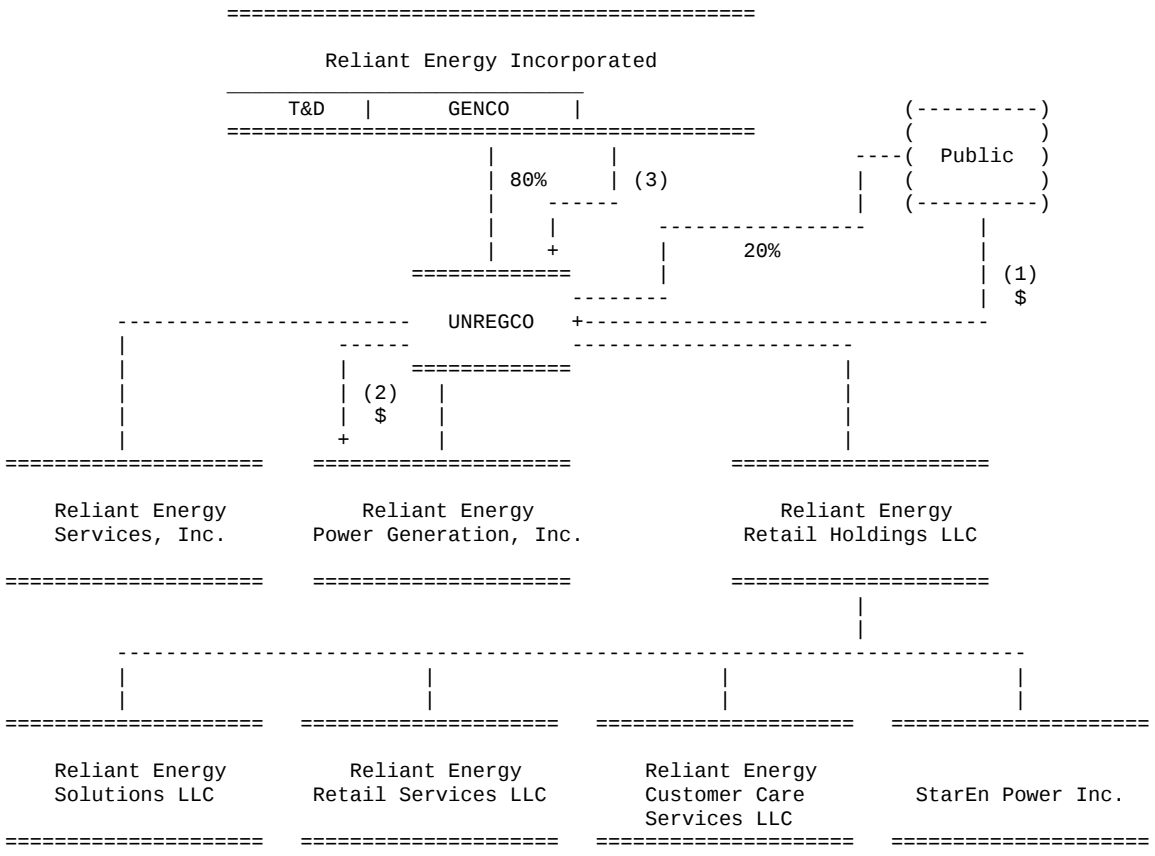
Step 11

Reliant Energy, Incorporated contributes to UNREGCO an option to acquire the capital stock of Texas GENCO exercisable in 2004.



Step 12

UNREGCO issues 20% of its only outstanding class of stock in an initial public offering.



Steps 13, 14, 15 and 16

Reliant Energy, Incorporated forms REGCO as a wholly owned Delaware subsidiary. REGCO reincorporates in Texas.

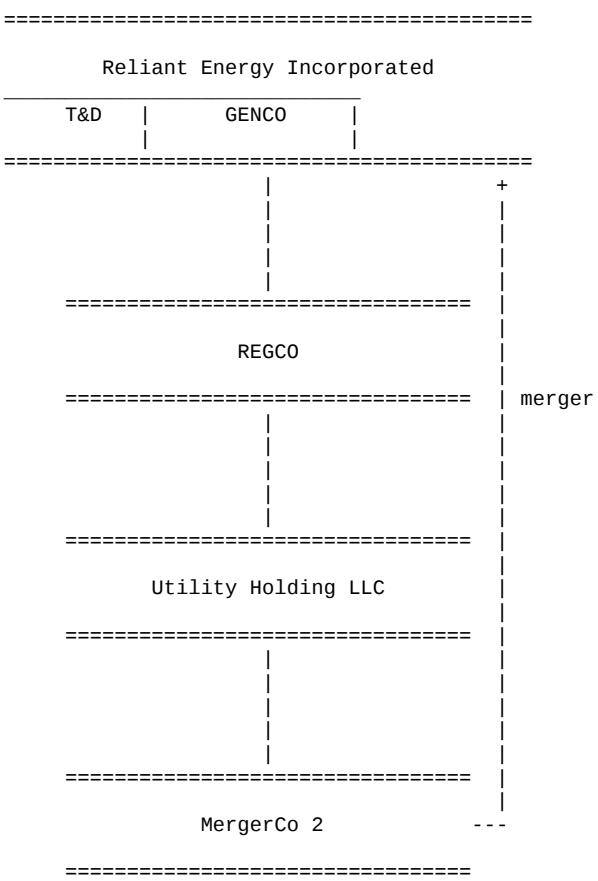
REGCO in turn forms Utility Holding LLC as a wholly owned subsidiary.

Utility Holding LLC forms MergerCo 2 as a wholly owned subsidiary.

MergerCo 2 merges with and into Reliant Energy, Incorporated.

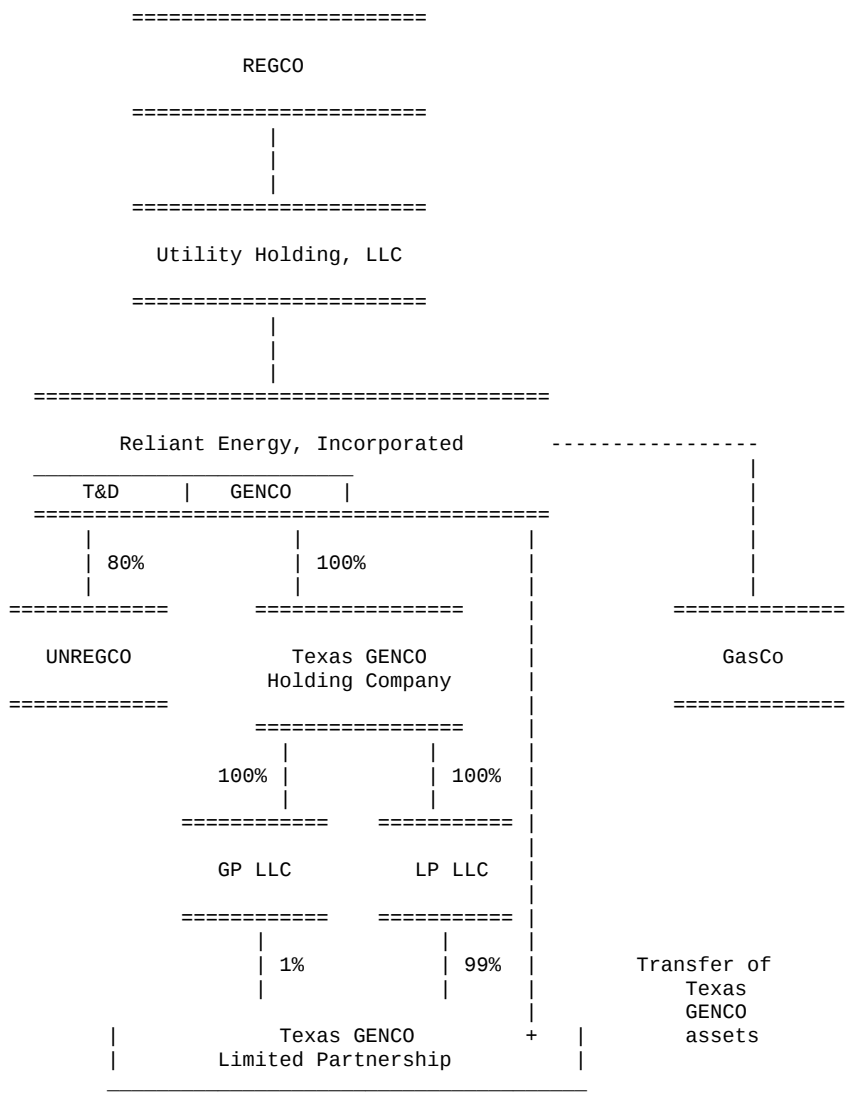
REGCO becomes the holding company for the Reliant Energy, Incorporated group.

Reliant Energy, Incorporated does not reincorporate in Delaware.



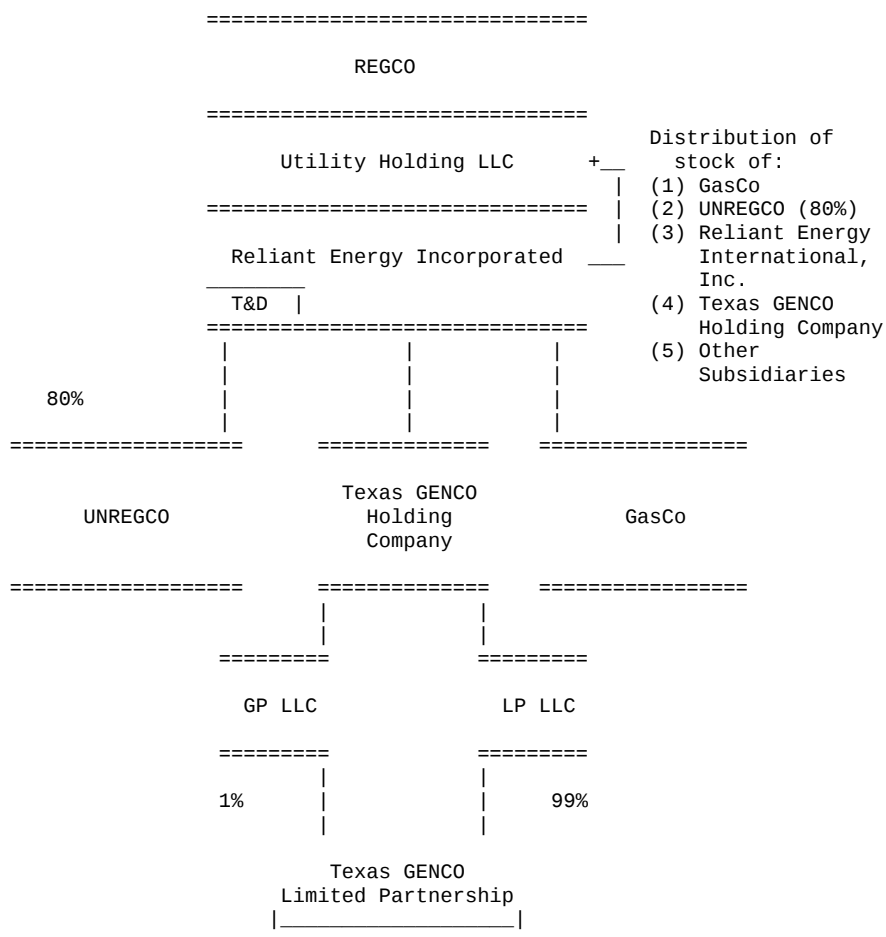
Steps 17, 18 and 19

Reliant Energy, Incorporated forms Texas GENCO Holding Company, two LLC Subsidiaries, and Texas GENCO Limited Partnership. Reliant Energy, Incorporated transfers its Texas GENCO assets to Texas GENCO Limited Partnership.



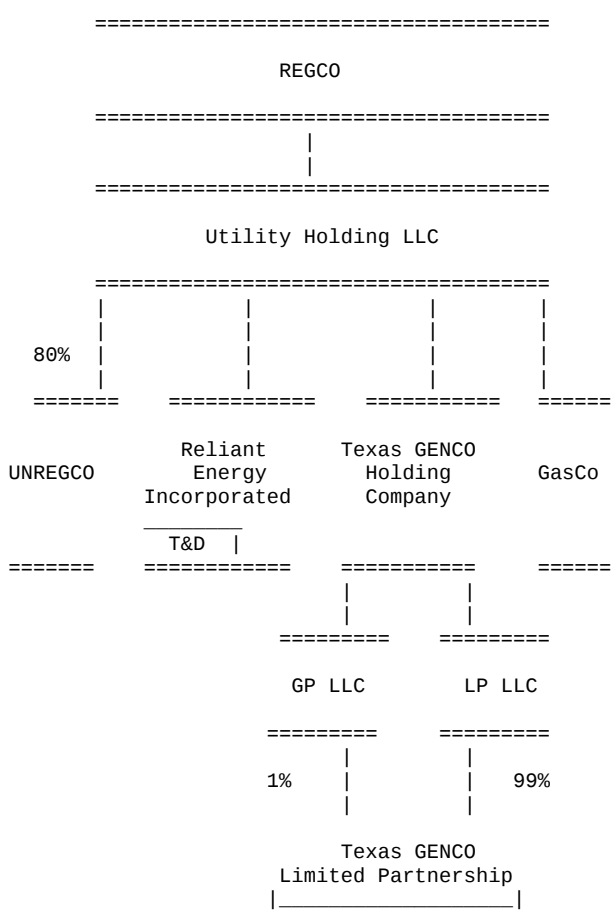
Step 20

Reliant Energy, Incorporated distributes the stock of all subsidiaries to Utility Holding LLC.

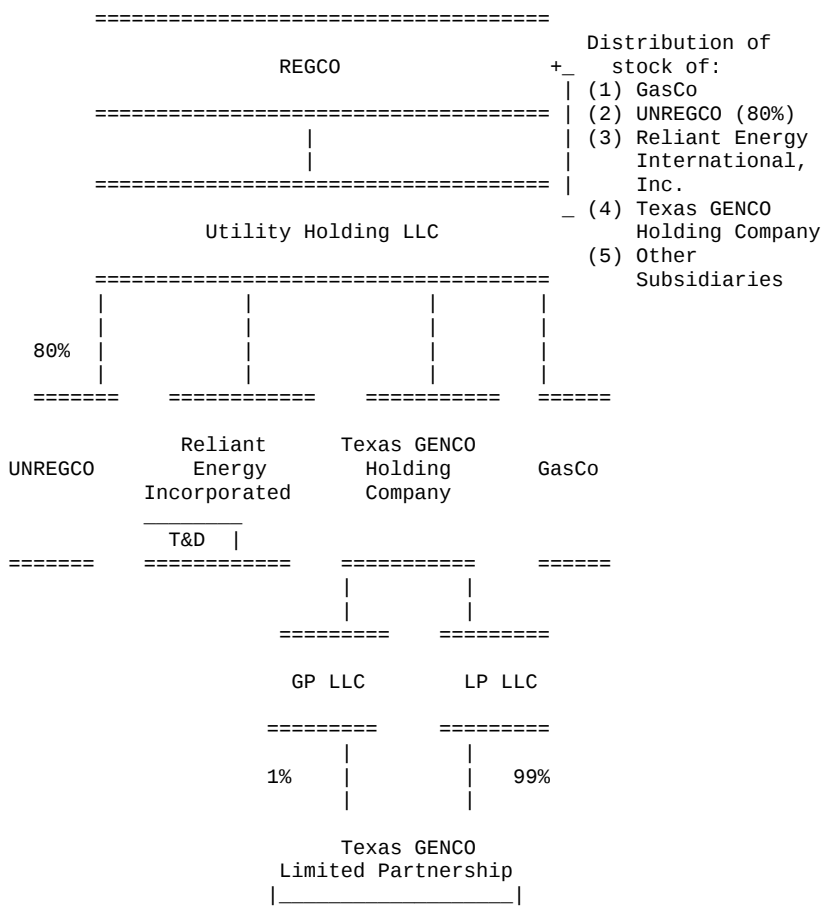


Overview following
Step 20

Utility Holding LLC owns all of the former subsidiaries of Reliant Energy, Incorporated.

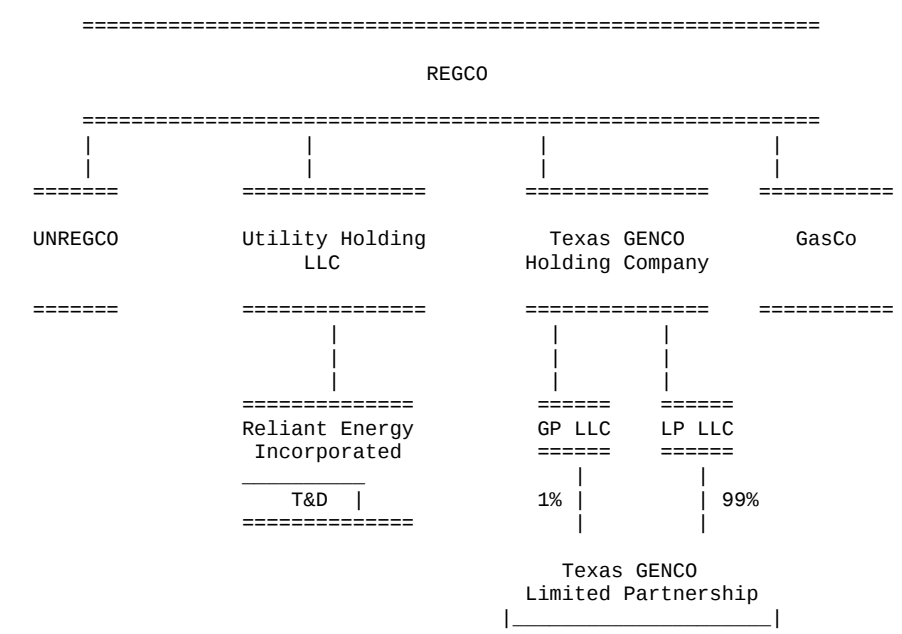


Utility Holding LLC in turn distributes the stock of all former subsidiaries of Reliant Energy, Incorporated to REGCO. REGCO assumes all long-term indebtedness of Reliant Energy, Incorporated (except for the first mortgage bonds).



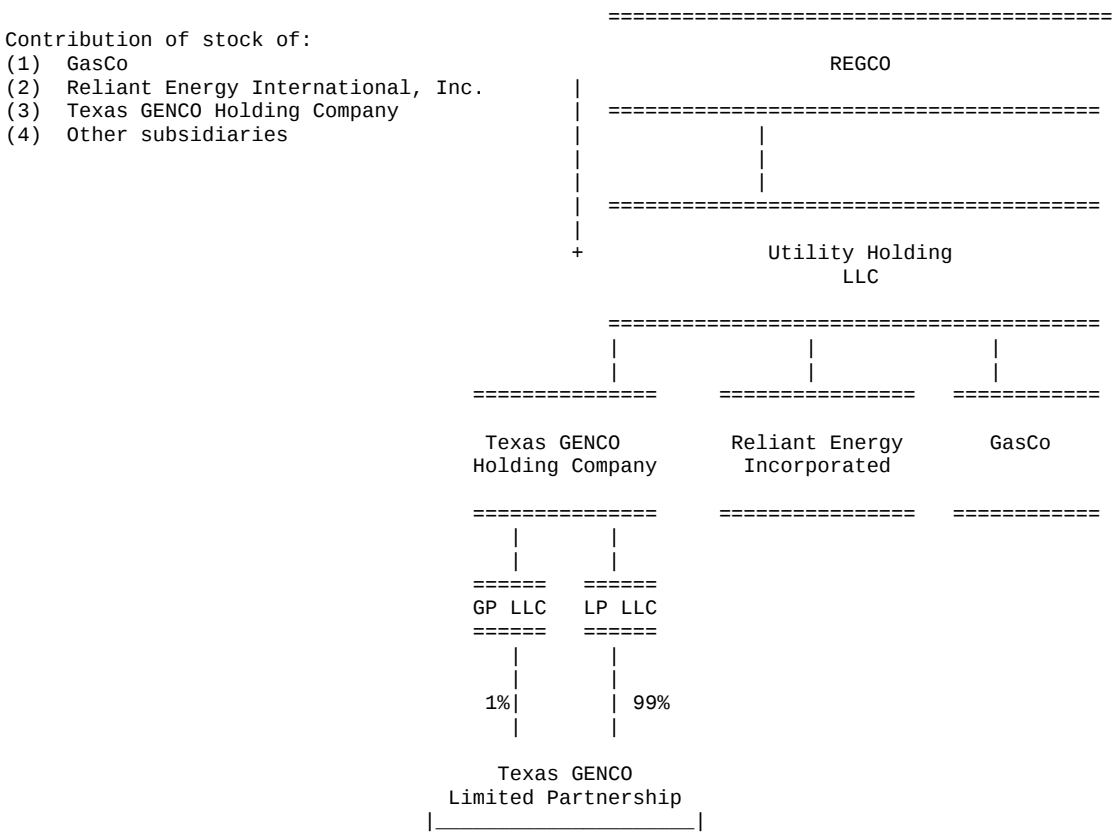
Overview following
Step 21

REGCO owns all of the former subsidiaries of Reliant Energy, Incorporated.



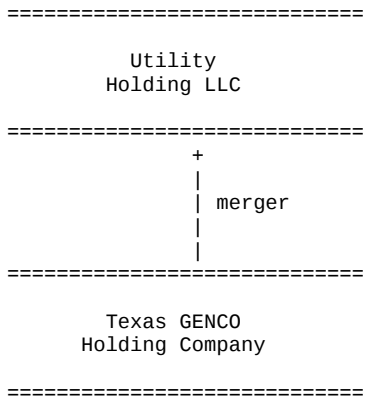
Step 22

REGCO contributes the stock of Texas GENCO Holding Company, Reliant Energy Resources Corp., Reliant Energy International, Inc. and the Other Subsidiaries to Utility Holding LLC



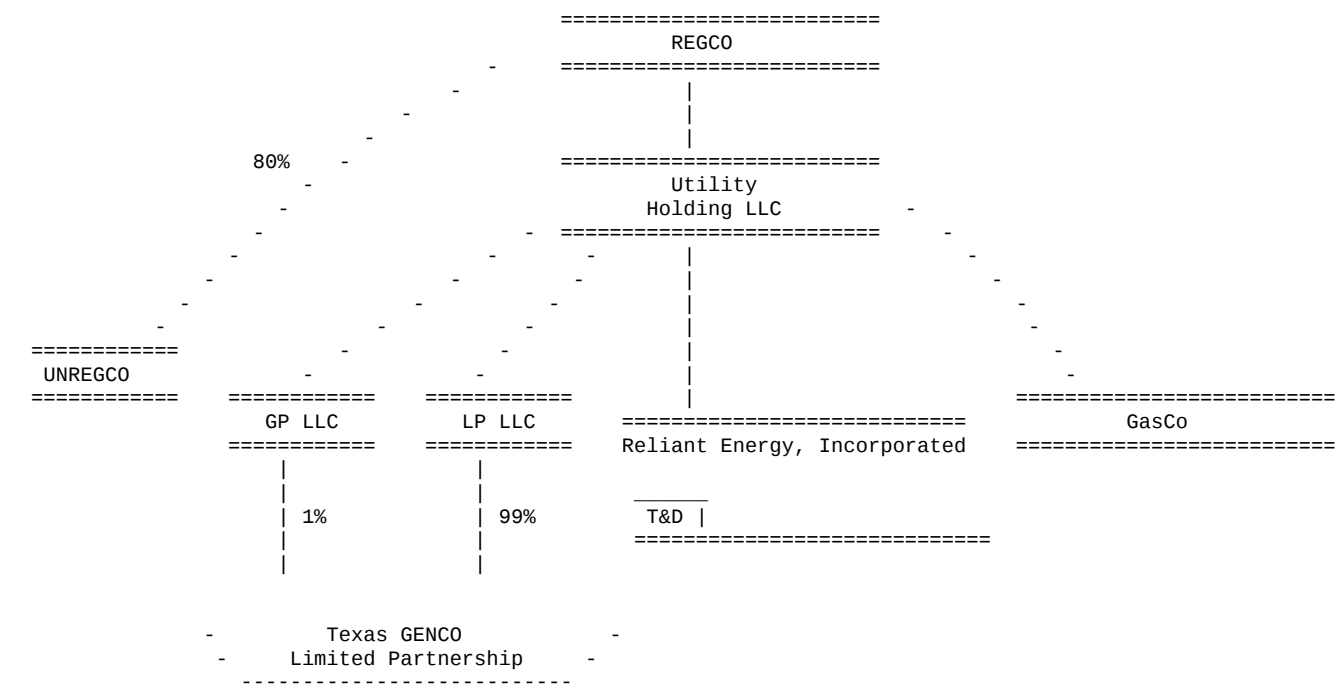
Step 23

Texas GENCO Holding Company merges into Utility Holding LLC



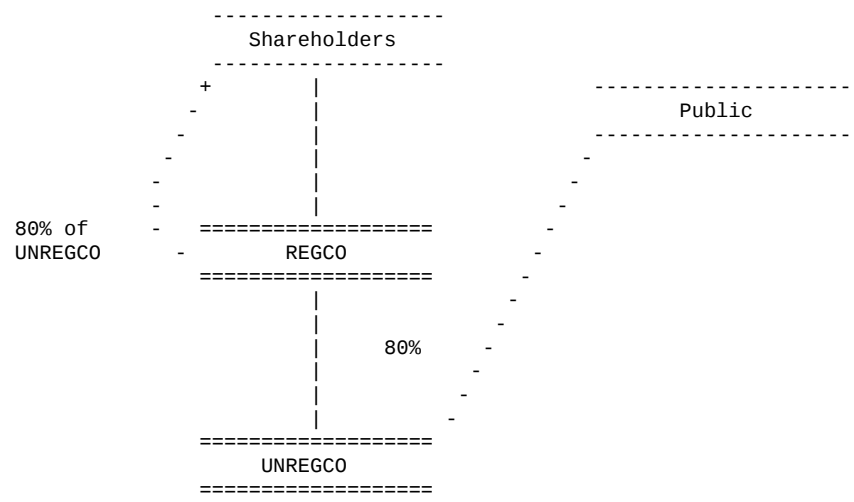
Overview following
Step 23

Reliant structure following formation of the holding company.



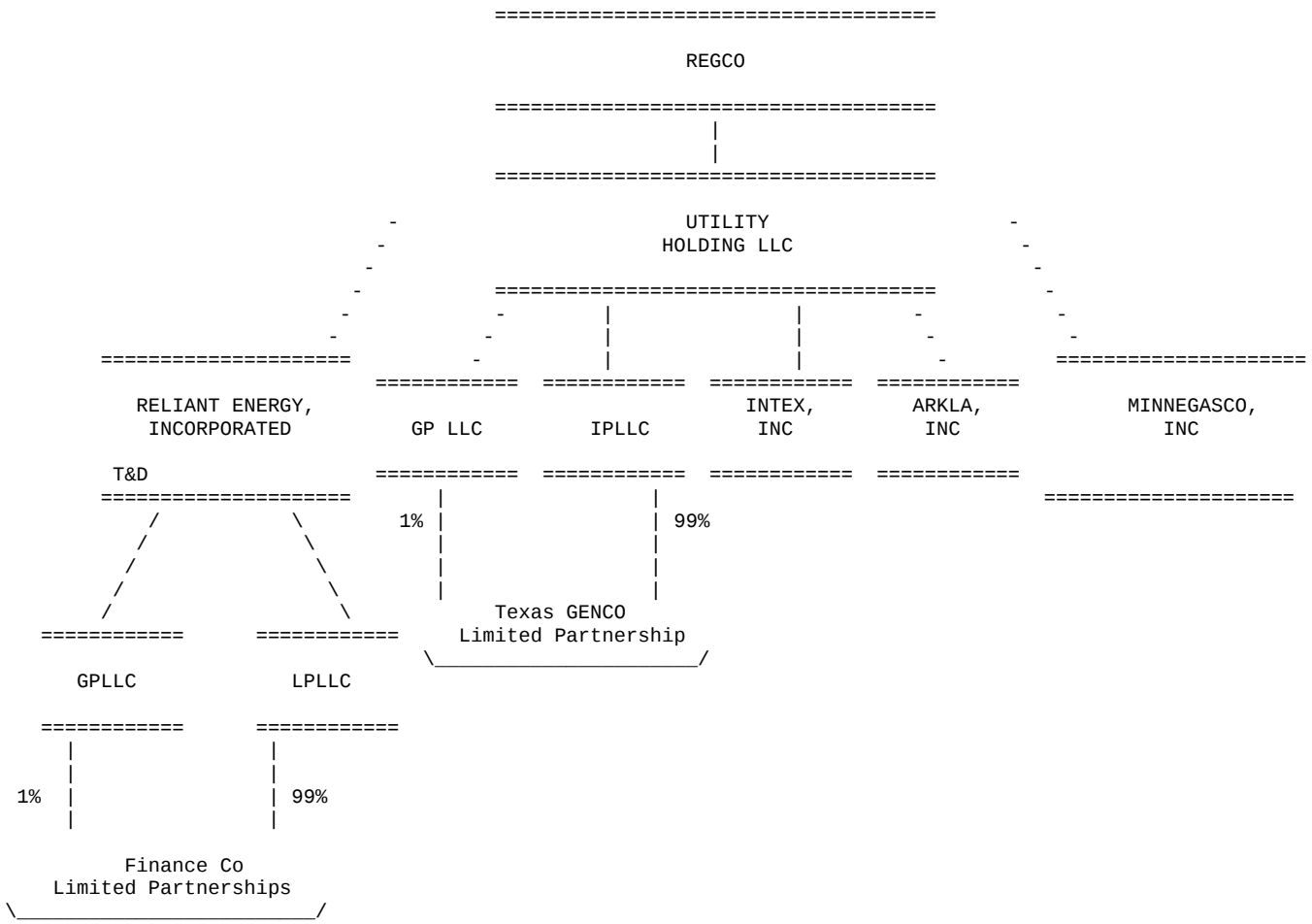
Step 24

REGCO distributes all of its UNREGCO stock pro rata to the REGCO shareholders.



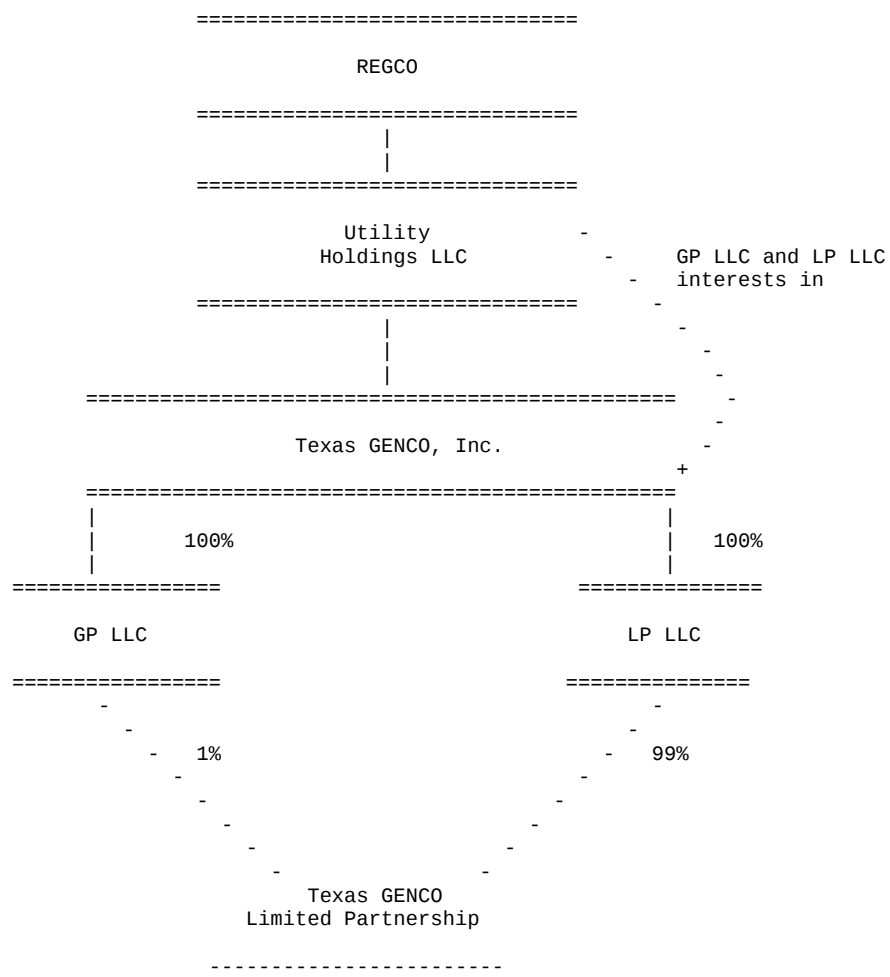
Overview following
Step 24

DISAGGREGATION OF GASCO



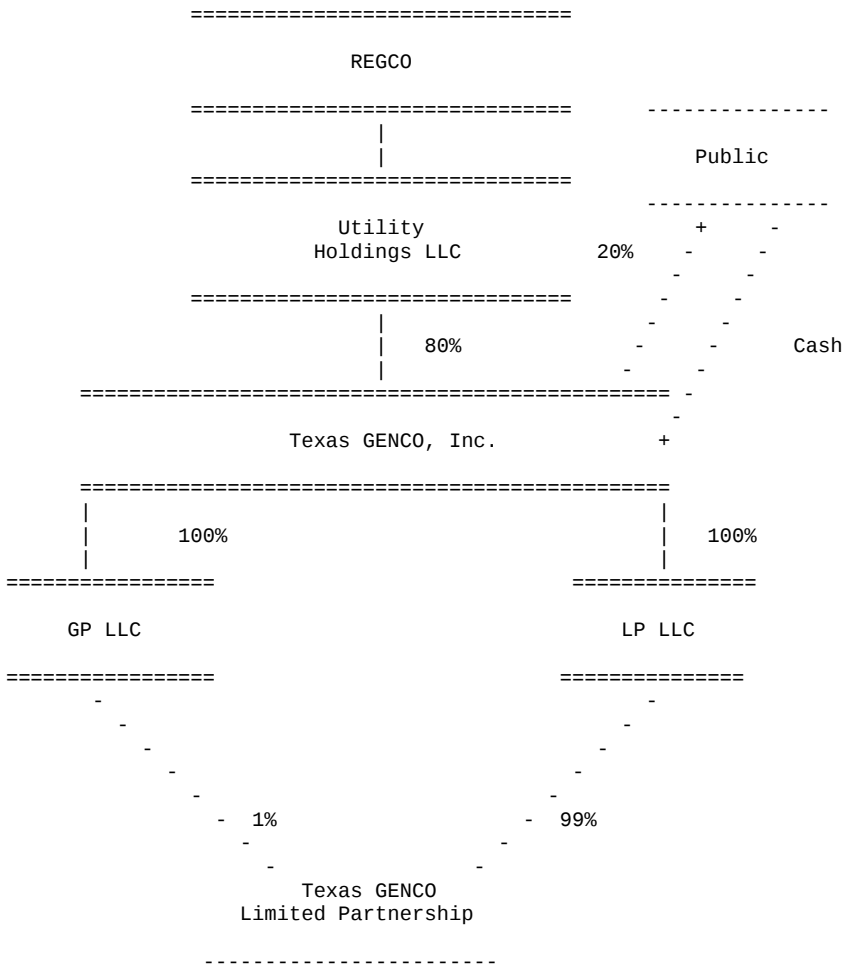
Step 25

In 2002, Utility Holding LLC contributes the interests in GP LLC and LP LLC to Texas GENCO, Inc.



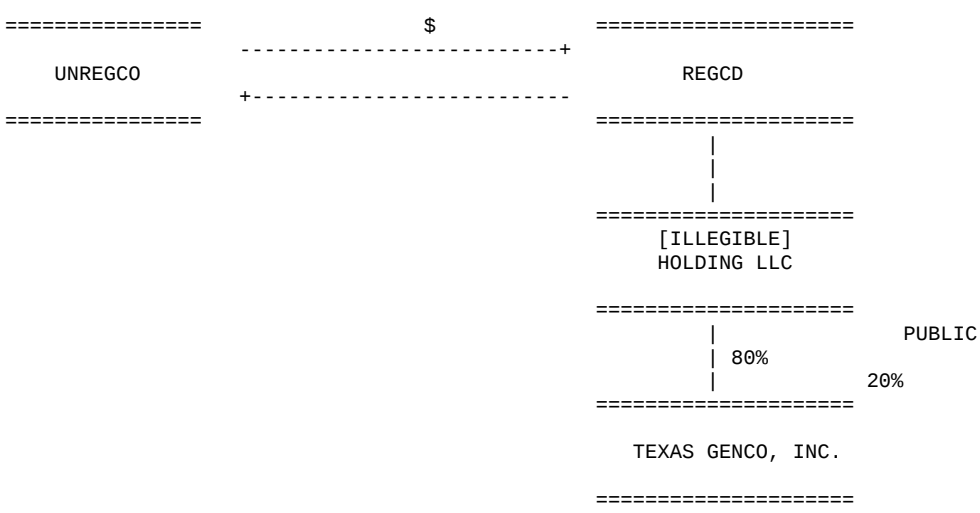
Step 26

In 2002, Texas GENCO, Inc. issues 20% of its stock in an initial public offering. Alternatively, Utility Holding LLC may distribute 20% of the Texas GENCO, Inc. stock to Regco, and Regco in turn may distribute 20% of the Texas GENCO, Inc. stock to Regco's shareholders.



Step 27

In 2004, UNREGCO may exercise the option to acquire 80% of Texas GENCO, Inc.



REGCO 3(a)(1) STRUCTURE