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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

OR

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

For the transition period from ______________ to _______________

Commission file number 1-3187

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

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

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

Commission file number 1-13265

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

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

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

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

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

As of May 5, 2000, Reliant Energy, Incorporated had 293,420,705 shares of common stock outstanding, including 9,249,489 ESOP shares not deemed outstanding for financial statement purposes and excluding 4,802,426 shares held as treasury stock. As of May 5, 2000, all 1,000 shares of Reliant Energy Resources Corp. common stock were held by Reliant Energy, Incorporated.

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

RELIANT ENERGY, INCORPORATED
AND RELIANT ENERGY RESOURCES CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2000

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PART I. FINANCIAL INFORMATION

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31, 2000	THREE MONTHS ENDED MARCH 31, 1999
REVENUES	$ 4,234,103	$ 2,642,904
EXPENSES:		
Fuel and cost of gas sold	2,340,191	1,432,376
Purchased power	784,934	328,507
Operation and maintenance	469,877	395,787
Taxes other than income taxes	111,505	107,984
Depreciation and amortization	181,501	190,585
Total	3,888,008	2,455,239
OPERATING INCOME	346,095	187,665
OTHER INCOME (EXPENSE):		
Unrealized gain in Time Warner investment	1,523,683	--
Unrealized loss on indexed debt securities	(1,523,625)	(331,311)
Other, net	19,813	13,465
Total	19,871	(317,846)
INTEREST AND OTHER CHARGES:		
Interest	162,985	126,263
Distribution on trust preferred securities	13,892	9,791
Total	176,877	136,054
INCOME (LOSS) BEFORE INCOME TAXES AND PREFERRED DIVIDENDS	189,089	(266,235)
Income Tax Expense (Benefit)	55,936	(56,543)
INCOME (LOSS) BEFORE PREFERRED DIVIDENDS	133,153	(209,692)
Preferred Dividends	97	97
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 133,056	$ (209,789)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	$ 0.47	$ (0.74)

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	MARCH 31, 2000	DECEMBER 31, 1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 95,032	$ 89,078
Investment in Time Warner common stock	5,503,144	3,979,461
Accounts receivable - net	1,115,305	1,104,640
Accrued unbilled revenues	150,927	172,629
Fuel stock and petroleum products	96,557	152,292
Materials and supplies, at average cost	206,746	188,167
Price risk management assets	530,645	435,336
Prepayments and other current assets	70,862	131,666
Total current assets	7,769,218	6,253,269
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	20,392,526	20,133,720
Less accumulated depreciation and amortization	6,961,431	6,866,325
Property, plant and equipment - net	13,431,095	13,267,395
OTHER ASSETS:		
Goodwill and other intangibles - net	2,982,695	3,034,361
Equity investments and advances to unconsolidated subsidiaries	1,023,658	1,022,210
Regulatory assets	1,702,551	1,739,507
Price risk management assets	331,681	148,722
Other	819,671	755,472
Total other assets	6,860,256	6,700,272
Total Assets	$28,060,569	$26,220,936

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 2000	DECEMBER 31, 1999
CURRENT LIABILITIES:		
Short-term borrowings	$ 3,409,603	$ 2,879,211
Current portion of long-term debt	5,788,228	4,382,136
Accounts payable	1,033,915	1,036,839
Taxes accrued	247,589	227,058
Interest accrued	137,677	116,274
Dividends declared	110,132	110,811
Price risk management liabilities	500,371	431,135
Accumulated deferred income taxes	424,094	415,591
Business purchase obligation	--	431,570
Other	352,117	360,109
Total current liabilities	12,003,726	10,390,734
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	2,469,778	2,451,619
Unamortized investment tax credits	269,480	270,243
Price risk management liabilities	308,045	117,437
Benefit obligations	372,282	400,849
Business purchase obligation	--	596,303
Other	1,066,793	1,020,837
Total deferred credits and other liabilities	4,486,378	4,857,288
LONG-TERM DEBT	5,514,748	4,961,310
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 10)		
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	705,373	705,272
STOCKHOLDERS' EQUITY:		
Cumulative preferred stock	9,740	9,740
Common stock	3,198,006	3,182,751
Treasury stock	(120,602)	(93,296)
Unearned ESOP stock	(176,169)	(199,226)
Retained earnings	2,527,758	2,500,181
Accumulated other comprehensive loss	(88,389)	(93,818)
Total stockholders' equity	5,350,344	5,306,332
Total Liabilities and Stockholders' Equity	$ 28,060,569	$ 26,220,936

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	THREE MONTHS ENDED MARCH 31, 2000	THREE MONTHS ENDED MARCH 31, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) attributable to common stockholders	$ 133,056	$ (209,789)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	181,501	190,585
Deferred income taxes	6,334	(123,153)
Investment tax credits	(763)	(5,022)
Unrealized gain on Time Warner investment	(1,523,683)	--
Unrealized loss on indexed debt securities	1,523,625	331,311
Undistributed net loss of unconsolidated subsidiaries	1,318	74,362
Impairment of marketable equity securities	22,185	--
Changes in other assets and liabilities:		
Accounts receivable, net	8,838	25,001
Inventories	54,581	117,537
Accounts payable	(951)	(92,532)
Federal tax refund	52,817	--
Other, net	(8,906)	(94,068)
Net cash provided by operating activities	449,952	214,232
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(403,608)	(179,039)
Business acquisition	(986,539)	--
Investment and advances to unconsolidated affiliates	(2,800)	19,361
Other, net	32,351	(1,716)
Net cash used in investing activities	(1,360,596)	(161,394)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of trust preferred securities, net	--	362,994
Proceeds from long-term debt, net	41,967	--
Increase (decrease) in short-term borrowing, net	1,147,552	(74,736)
Payments of long-term debt	(157,537)	(176,542)
Payment of common stock dividends	(105,890)	(106,767)
Purchase of treasury stock	(27,306)	--
Other, net	15,565	(3,665)
Net cash provided by financing activities	914,351	1,284
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2,247	--
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,954	54,122
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	89,078	29,673
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 95,032	$ 83,795
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 111,309	$ 113,116
Income taxes	94	28,308

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Included in this combined Quarterly Report on Form 10-Q (Form 10-Q) for Reliant Energy, Incorporated (Reliant Energy), together with its subsidiaries (the Company), and for Reliant Energy Resources Corp. (Resources Corp.) and its subsidiaries (collectively, Resources) are Reliant Energy's and Resources Corp.'s consolidated interim financial statements and notes (Interim Financial Statements) including such companies' wholly owned and majority owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the combined Annual Report on Form 10-K of Reliant Energy (Reliant Energy Form 10-K) and Resources Corp. (Resources Corp. Form 10-K) for the year ended December 31, 1999.

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

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

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

Notes to Consolidated Financial Statements of Reliant Energy (Reliant Energy 10-K Notes): Note 1(d) (Regulatory Assets), Note 1(m) (Foreign Currency Adjustments), Note 2 (Business Acquisitions), Note 3 (Texas Electric Choice Plan and Discontinuance of SFAS No. 71 for Electric Generation Operations), Note 4 (Transition Plan), Note 5 (Derivative Financial Instruments), Note 6 (Jointly Owned Electric Utility Plant), Note 7 (Equity Investments and Advances to Unconsolidated Subsidiaries), Note 8 (Indexed Debt Securities (ACES and ZENS) and Time Warner Securities) and Note 14 (Commitments and Contingencies).

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

The Company recognizes repair and maintenance costs incurred in connection with planned major maintenance under the "accrual in advance" method for its non-rate regulated power generation operations. Under the accrual in advance method, the Company estimates the costs of planned major maintenance and accrues the related expense over the maintenance cycle. As of March 31, 2000 and December 31, 1999, the Company's maintenance reserve included in other deferred credits and in other liabilities in its Consolidated Balance Sheets was $63 million and $61 million, respectively.

(2) TEXAS ELECTRIC CHOICE PLAN AND DISCONTINUANCE OF SFAS NO. 71 FOR ELECTRIC GENERATION OPERATIONS

In June 1999, the Texas legislature adopted the Texas Electric Choice Plan (Legislation). The Legislation substantially amends the regulatory structure governing electric utilities in Texas in order to allow retail competition. In June 2001, pilot projects for 5% of each utility's combined load of all customer classes will begin under the Legislation. Retail competition for all other customers will begin on January 1, 2002. In preparation for that competition, the Company expects to make significant changes in the electric utility operations conducted through Reliant Energy HL&P, an unincorporated division of Reliant Energy. In addition, the Legislation requires the Public Utility Commission of Texas (Texas Utility Commission) to issue a number of new rules and determinations in implementing the Legislation. For additional information on the Legislation, see Note 3 of the Reliant Energy 10-K Notes.

Historically, Reliant Energy HL&P has applied the accounting policies established in Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). The Company believes that the Legislation provides sufficient detail regarding the deregulation of the Company's electric generation operations to require it to discontinue the use of SFAS No. 71 for those operations. Effective June 30, 1999, the Company discontinued SFAS No. 71 for its electric generation operations. For additional information on the effect on the Company's consolidated financial statements due to the discontinuance of SFAS No. 71 for electric generation operations, see Notes 1(d), 1(g) and 3 of the Reliant Energy 10-K Notes.

The transmission and distribution business of Reliant Energy HL&P will continue to be subject to cost-of-service rate regulation and will be responsible for the delivery of electricity to retail customers. Pursuant to the Legislation, on March 31, 2000, Reliant Energy HL&P filed proposed tariffs with the Texas Utility Commission, which are to be effective on January 1, 2002 for its transmission and distribution operations.

(3) ACQUISITION

On March 1, 2000, the Company purchased the remaining 48% of the shares of N.V. UNA (UNA), a Dutch power generation company, for $987 million. At December 31, 1999, the Company recorded the commitment for this purchase as a business purchase obligation in the Company's Consolidated Balance Sheet based on an exchange rate of 2.19 Dutch guilders (NLG) per U.S. dollar (the exchange rate on December 31, 1999). Effective October 1, 1999, the Company recorded 100% of the operating results of UNA. On a preliminary basis, the Company's fair value adjustments related to the acquisition of UNA primarily included increases in property, plant and equipment, long-term debt and related deferred taxes. The Company expects to finalize these fair value adjustments during 2000; however, the Company does not anticipate that any additional adjustments will be material. For additional information regarding the acquisition of UNA, see Note 2 of the Reliant Energy 10-K Notes.

(4) DEPRECIATION AND AMORTIZATION

The Company's depreciation expense for the first quarter of 2000 was $91 million, compared to $139 million for the same period in 1999. Goodwill amortization relating to acquisitions was $21 million for the first quarter of 2000 compared to $14 million for the same period in 1999. Other amortization expense, including amortization of regulatory assets, was $70 million and $38 million in the first quarter of 2000 and 1999, respectively.

In June 1998, the Texas Utility Commission issued an order approving a transition to competition plan (Transition Plan) filed by Reliant Energy HL&P in December 1997. Pursuant to the Transition Plan, the Company recorded $13 million of additional depreciation and redirected $51 million of transmission and distribution depreciation to generation assets for the three months ended March 31, 1999. For information regarding the additional depreciation of electric utility generating assets and the redirection of transmission and distribution depreciation to generation assets under the Transition Plan, see Note 1(g) of the Reliant Energy 10-K Notes. The Legislation provides that depreciation expense for transmission and distribution related assets may be redirected to generation assets from 1999 through 2001 for regulatory purposes. Because the electric generation operations portion of Reliant Energy HL&P discontinued application of SFAS No. 71 effective June 30, 1999, such operations can no longer record additional or redirected depreciation for financial reporting purposes. However, for regulatory purposes, the Company continues to redirect transmission and distribution depreciation to generation assets. As of March 31, 2000 and December 31, 1999, the cumulative amount of redirected depreciation for regulatory purposes was $447 million and $393 million, respectively.

The Company reassessed the economic lives of Reliant Energy HL&P's generation plant and equipment in 1999 and certain prospective depreciation rates were revised due to changing economic circumstances as a result of the Legislation. This change in depreciation rates reduced depreciation expense for Reliant Energy HL&P's generation plant and equipment by $18 million for the first quarter of 2000.

In 1999, the Company determined that approximately $800 million of Reliant Energy HL&P's electric generation assets was impaired. The Legislation provides for recovery of this impairment through regulated cash flows; therefore, a regulatory asset was recorded for an amount equal to the impairment in the Company's Consolidated Balance Sheets. The Company is amortizing this regulatory asset as it is recovered from regulated cash flows. During the three months ended March 31, 2000, the Company recorded $52 million of amortization expense related to the recoverable impaired plant costs and other deferred debits created from discontinuing SFAS No. 71.

Pursuant to the Legislation, the Company is allowed to recover generation related regulatory assets and liabilities reported in the Reliant Energy Form 10-K as of December 31, 1998. Therefore, the Company has discontinued amortizing certain generation related regulatory assets upon discontinuance of SFAS No. 71. For additional information regarding the discontinuance of SFAS No. 71 for electric generation operations, see Notes 1(d) and 3 of the Reliant Energy 10-K Notes.

(5) COMPREHENSIVE INCOME

The Company had total comprehensive income of $138 million in the first quarter of 2000 and a total comprehensive loss of $259 million in the first quarter of 1999. In the first quarter of 2000, the Company recorded a $14 million after-tax impairment loss in the Company's Statement of Consolidated Income on marketable equity securities classified as "available for sale." The following table summarizes the components of total comprehensive income.

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN MILLIONS)	
Net income (loss)	$ 133	$(210)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(10)	(51)
Unrealized gain on available for sale securities	1	2
Plus: Reclassification adjustment for impairment loss on available for sale securities realized in net income	14	--
Comprehensive income (loss)	$ 138	$(259)

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

The following table summarizes the Company's consolidated long-term debt and short-term borrowings outstanding:

	MARCH 31, 2000		DECEMBER 31, 1999	
	LONG-TERM	CURRENT (1)	LONG-TERM	CURRENT (1)
	(IN MILLIONS)			
Short-term borrowings	$ --	$3,410	$ --	$2,879
Long-term debt - net:				
Indexed debt securities (2)	--	5,503	--	3,980
Debentures	1,761	--	1,795	--
First mortgage bonds	1,261	--	1,261	150
Pollution control bonds	1,046	--	1,046	--
Notes payable	1,427	284	839	251
Capital leases	12	1	12	1
Unamortized discount and premium	8	--	8	--
Total long-term debt	5,515	5,788	4,961	4,382
Total	$5,515	$9,198	$4,961	$7,261

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(1) Includes amounts due within one year.

(2) As these securities are indexed to Time Warner common stock, any increase in the value of Time Warner common stock results in a corresponding increase in Reliant Energy's obligation under the indexed debt securities. For additional information, see Note 8 of the Reliant Energy 10-K Notes.

(a) Short-term Borrowings.

As of March 31, 2000, the Company had credit facilities, which included the facilities of several financing subsidiaries, UNA and Resources Corp., that provided for an aggregate of $5.2 billion in committed credit (including the Euro 600 million facility discussed below) of which $1.2 billion was unused. In addition, one of the credit facilities included a $65 million sub-facility under which letters of credit may be obtained. Letters of credit under the sub-facility aggregated $40 million as of March 31, 2000.

In February 2000, the Company established a $650 million revolving credit facility that terminates on May 31, 2000. At March 31, 2000, borrowings under this facility were $650 million at an interest rate of 6.65%. In February 2000, the Company established a $200 million revolving credit facility that will terminate on May 31, 2000. At March 31, 2000, borrowings under this facility were $150 million at an interest rate of 6.52%.

(b) Long-term Debt.

In February 2000, the Company established a Euro 600 million three-year term loan facility of which $573 million (based on the exchange rate on March 31, 2000 of 0.9553 Euro per U.S. dollar) was outstanding at March 31, 2000 at an interest rate of 4.43%. Borrowings under this facility have been classified as long-term debt based upon the expiration date of the committed credit facility and the Company's intent and ability to borrow under such facility for more than one year.

In March 2000, the Company repaid $150 million of its 6.1% first mortgage bonds at maturity.

(7) EARNINGS PER SHARE

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

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Basic EPS Calculation:		
Income (loss) before preferred dividends	$ 133,153	$(209,692)
Less: Preferred dividends	97	97
Net income (loss) attributable to common stockholders	$ 133,056	$(209,789)
Weighted average shares outstanding	283,078	284,967
Basic EPS	$ 0.47	$ (0.74)
Diluted EPS Calculation:		
Net income (loss) attributable to common stockholders	$ 133,056	$(209,789)
Plus: Income impact of assumed conversions		
Interest on 6 1/4% trust preferred securities	7	--
Total effect assuming dilution	$ 133,063	$(209,789)
Weighted average shares outstanding	283,078	284,967
Plus: Incremental shares from assumed conversions (1)(2)		
Stock options	466	--
Restricted stock	684	--
6 1/4% trust preferred securities	23	--
Weighted average shares assuming dilution	284,251	284,967
Diluted EPS	$ 0.47	$ (0.74)

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(1) For the three months ended March 31, 2000, the computation of diluted EPS excludes purchase options for 1,153,000 shares of common stock that have exercise prices (ranging from $22.28 to $32.22 per share) greater than the $22.27 per share average market price.

(2) No assumed conversions were included in the computation of diluted EPS for the 1999 period because additional shares outstanding would result in an anti-dilutive per share amount. The computation of diluted EPS for the 1999 period excludes 730,000 shares of restricted stock, 27,000 shares for assumed conversion of trust preferred securities and purchase options for 661,000 shares of common stock, which would be anti-dilutive if exercised.

(8) CAPITAL STOCK

(a) Common Stock.

Reliant Energy has 700,000,000 authorized shares of common stock. At March 31, 2000, 298,185,768 shares of Reliant Energy common stock were issued and 283,997,861 shares of Reliant Energy common stock were outstanding. At December 31, 1999, 297,612,478 shares of Reliant Energy common stock were issued and 283,308,371 shares of Reliant Energy common stock were outstanding. Outstanding common shares exclude (a) shares pledged to secure a loan to Reliant Energy's Employee Stock Ownership Plan (9,379,489 and 10,679,489 at March 31, 2000 and December 31, 1999, respectively) and (b) treasury shares (4,808,418 and 3,624,618 at March 31, 2000 and December 31, 1999, respectively). Reliant Energy declared dividends of $0.375 per share in the first quarters of 2000 and 1999.

During the first quarter of 2000, Reliant Energy purchased 1,183,800 shares of its common stock at an average price of $23.07 per share or an aggregate purchase price of $27 million.

(b) Preference Stock.

In February 2000, Reliant Energy issued 6,825 shares of Series G preference stock to one of its financing subsidiaries. The series G preference stock is not deemed outstanding for financial reporting purposes because the sole holder is a wholly owned subsidiary of Reliant Energy.

(9) TRUST PREFERRED SECURITIES

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

For information regarding $173 million of convertible preferred securities previously issued to the public by a statutory business trust formed by Resources Corp., of which $1 million was outstanding at March 31, 2000 and December 31, 1999, see Note 11 of the Reliant Energy 10-K Notes and Note 5 of the Resources Corp. 10-K Notes. The sole asset of the trust consists of junior subordinated debentures of Resources Corp. having an interest rate and maturity date corresponding to the preferred securities, and the principal amount corresponding to the common and preferred securities issued by the trust.

(10) COMMITMENTS AND CONTINGENCIES

(a) Legal, Tax and Regulatory Proceedings.

In February 1996, the cities of Wharton, Galveston and Pasadena (original claimant cities) filed suit, for themselves and a class of all similarly situated cities in Reliant Energy HL&P's service area, against Reliant Energy and Houston Industries Finance Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. Plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. Because the franchise ordinances at issue affecting Reliant Energy HL&P expressly impose fees only on its own receipts and only from sales of electricity for consumption within a city, the Company regards all of plaintiffs' allegations as spurious and is vigorously contesting the case. The plaintiffs' pleadings asserted that their damages exceeded $250 million. The 269th Judicial District Court for Harris County granted partial summary judgment in favor of Reliant Energy dismissing all claims for franchise fees based on sales tax collections. Other motions for partial summary judgment were denied. A six week jury trial of the original claimant cities (but not the class of cities) ended on April 4, 2000 (three cities case). Although the jury found for Reliant Energy on many issues, they found in favor of the original claimant cities on three issues, and assessed a total of $4 million in actual and $30 million in punitive damages. However, the jury also found in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began. The trial court in the three cities case has not entered a judgment on the jury's verdict. Reliant Energy has asked the trial court to enter a judgment in its favor and against the original claimant cities, including the laches defense and also numerous points of law neither disposed of nor prejudiced by the jury verdict. The original claimant cities have asked the trial court to proceed with trials of claims relating to additional cities instead of entering a final judgment at the present time. On May 12, 2000, the trial court ordered the parties to mediation and requested additional briefing from the parties over the next 45 days concerning a possible de-certification of the class and the various other motions.

The extent to which issues eventually incorporated in the judgment in the three cities case may affect the claims of the other cities served by Reliant Energy HL&P cannot be assessed until judgments are final and no longer subject to appeal. However, the jury findings that support most of the actual damages and all of the punitive damages in the three cities case depend on theories of liability expressly disapproved by the Texas Supreme Court within the past decade. Therefore, the Company estimates the range of possible outcomes for the entire class to be between zero and $17 million inclusive of interest and attorneys' fees. Regardless of the judgment entered by the trial court in the three cities case, or as to the remaining cities, the case will be appealed promptly following the entry of an appealable judgment or order. The Company believes that the jury verdict in the three cities case resulted from serious errors of law and that the entire verdict will be set aside either by the trial court or by the appellate courts of Texas.

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

(b) Environmental Matters.

The Company is a defendant in litigation arising out of the environmental remediation of a site in Corpus Christi, Texas. The litigation was instituted in 1985 by adjacent landowners. The litigation is pending before the United States District Court for the Southern District of Texas, Corpus Christi Division. The site was operated by third parties as a metals reclaiming operation. Although the Company neither operated nor owned the site, certain transformers and other equipment originally sold by the Company may have been delivered to the site by third parties. The Company and others have remediated the site pursuant to a plan approved by appropriate state agencies and a federal court. To date, the Company has recovered or has commitments to recover from other responsible parties $2.2 million of the approximately $3 million it has spent on remediation.

In 1992, the United States Environmental Protection Agency (EPA) (a) identified the Company, along with several other parties, as "potentially responsible parties" (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) for the costs of cleaning up a site located adjacent to one of the Company's transmission lines in La Marque, Texas and (b) issued an administrative order for the remediation of the site. The Company believes that the EPA took this action solely on the basis of information indicating that the Company in the 1950s acquired record title to a portion of the land on which the site is located. The Company does not believe that it now or previously has held any ownership interest in the property covered by the order and has obtained a judgment to that effect from a court in Galveston County, Texas. Based on this judgment and other defenses that the Company believes to be meritorious, the Company has elected not to adhere to the EPA's administrative order, even though the Company understands that other PRPs are proceeding with site remediation.

To date, neither the EPA nor any other PRP has instituted an action against the Company for any share of the remediation costs for the site. However, if the Company was determined to be a responsible party, the Company could be jointly and severally liable along with the other PRPs for the aggregate remediation costs of the site (which the Company currently estimates to be approximately $80 million in the aggregate) and could be assessed substantial fines and damage claims. Although the ultimate outcome of this matter cannot be predicted at this time, the Company does not believe that this matter will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

(11) REPORTABLE SEGMENTS

The Company's determination of reportable segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. Financial information for UNA is included in the segment disclosures only for periods beginning after its acquisition date. For additional information regarding the acquisition date of UNA, see Note 2 of the Reliant Energy 10-K Notes. The Company has identified the following reportable segments: Electric Operations, Natural Gas Distribution, Interstate Pipelines, Wholesale Energy, Reliant Energy Europe, Reliant Energy Latin America and Corporate. For descriptions of the financial reporting segments, see Note 1(a) of the Reliant Energy 10-K Notes. Financial data for business segments are as follows:

	AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2000			
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
	(IN MILLIONS)			
Electric Operations	$ 947	$ --	$ 202	$ 9,999
Natural Gas Distribution	738	--	97	3,199
Interstate Pipelines	34	40	28	2,002
Wholesale Energy	2,038	137	(16)	3,223
Reliant Energy Europe	150	--	33	3,081
Reliant Energy Latin America	21	--	3	1,157
Corporate	306	14	(1)	6,189
Reconciling Elimination	--	(191)	--	(789)
Consolidated	$ 4,234	$ --	$ 346	$ 28,061

	FOR THE THREE MONTHS ENDED MARCH 31, 1999		
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
		(IN MILLIONS)	
Electric Operations	$ 850	$ --	$ 142
Natural Gas Distribution	678	--	98
Interstate Pipelines	26	40	28
Wholesale Energy	939	69	1
Reliant Energy Latin America	(51)	--	(78)
Corporate	201	19	(3)
Reconciling Elimination	--	(128)	--
Consolidated	$ 2,643	$ --	$ 188

Reconciliation of Operating Income to Net Income:

	THE THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN MILLIONS)	
Operating income	$ 346	$ 188
Interest expense	(163)	(126)
Net unrealized loss on indexed debt securities and Time Warner investment	--	(331)
Distribution on trust securities	(14)	(10)
Income tax benefit (expense)	(56)	57
Other income	20	12
Net income (loss) attributable to common stockholders	$ 133	$(210)

(12) SUBSEQUENT EVENT

On May 12, 2000, the Company purchased from Sithe Energies, Inc. the entities owning non-rate regulated power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having a net generating capacity of approximately 4,300 megawatts (MW). The purchase price for these entities was approximately $2.1 billion. The Company accounted for the acquisition as a purchase. Funds for the acquisition were made available through issuances of commercial paper supported by two committed bridge facilities, one in the amount of $1 billion and one in the amount of $1.15 billion. The $1 billion bridge facility is a 364-day revolving facility that expires in May 2001. The revolving commitment period for the $1.15 billion facility terminates in May 2001, and any outstanding borrowings at that time convert to a one-year term facility.

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

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

The Company is a diversified international energy services company, providing energy and energy services in North America, Western Europe and Latin America. It operates one of the United States' largest electric utilities in terms of kilowatt-hour (KWH) sales, and its three natural gas distribution divisions together form the United States' third largest natural gas distribution operation in terms of customers served. The Company invests in international and domestic electric utility privatizations and the development of non-rate regulated power generation projects. The Company is also an interstate natural gas pipeline, providing gas transportation, supply, gathering and storage. It also engages in wholesale energy marketing and trading.

The Company's financial reporting segments include: Electric Operations, Natural Gas Distribution, Interstate Pipelines, Wholesale Energy, Reliant Energy Europe, Reliant Energy Latin America and Corporate. For segment reporting information, see Note 11 to the Company's Interim Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN MILLIONS, EXCEPT PER SHARE DATA)	
Revenues	$ 4,234	$ 2,643
Operating Expenses	(3,888)	(2,455)
Operating Income	346	188
Other Income	20	13
Interest Expense and Other Charges	(177)	(136)
Net Unrealized Loss on Indexed Debt Securities and Time Warner Investment	--	(331)
Income Tax (Expense) Benefit	(56)	56
Net Income (Loss) Attributable to Common Stockholders	$ 133	$ (210)
Basic and Diluted Earnings (Loss) Per Share	$ 0.47	$ (0.74)

First Quarter of 2000 Compared to First Quarter of 1999. The Company reported consolidated net income of $133 million ($0.47 per share) for the first quarter of 2000 compared to a consolidated net loss of $210 million ($0.74 per share) in the first quarter of 1999. The 1999 results reflect a $215 million after-tax, non-cash, unrealized accounting loss on indexed debt securities and a $91 million after-tax, non-cash loss resulting from the effect of the devaluation of the Brazilian real on equity earnings of the Company's Brazilian investments.

After adjusting for the charges described above, the Company would have had consolidated net income of $96 million ($0.34 per share) in the first quarter of 1999 compared to $133 million ($0.47 per share) in the first quarter of 2000. The $37 million increase in consolidated net income was primarily due to increased earnings from the Electric Operations segment and the addition of earnings from the Reliant Energy Europe segment established in the fourth quarter of 1999 with the acquisition of UNA, a Dutch power generation company. For additional information on the acquisition of UNA, see Note 3 to the Company's Interim Financial Statements and Note 2 to the Reliant Energy 10-K Notes. These effects were partially offset by lower earnings for Wholesale Energy and Reliant Energy Latin America.

For a discussion of changes in operating income, see the discussions of operating income (loss) by segment below.

Other income increased by approximately $7 million in the first quarter of 2000 compared to the same period in 1999 primarily due to interest income on an IRS refund received in February 2000 of $26 million and distributions in the first quarter of 2000 from corporate venture capital investments of $7 million. An impairment loss of $22 million on marketable equity securities classified as "available for sale" recorded in the first quarter of 2000 partially offset the interest and investment income.

The Company incurred interest expense and other charges of $177 million and $136 million for the first quarter of 2000 and 1999, respectively. The increase resulted from higher levels of short-term borrowings and long-term debt in the first quarter of 2000 compared to the same period in 1999 partially offset by a decrease in the average interest rate for long-term debt in the first quarter of 2000. These increases were associated in part with borrowings for the acquisition of shares of UNA in the fourth quarter of 1999, the Company's additional investment in Time Warner common stock in the third quarter of 1999, other acquisitions and capital expenditures.

The effective tax rate for the first quarter of 2000 and 1999 was 30% and 21%, respectively. After adjusting for the unrealized accounting loss on indexed debt securities and the loss due to the devaluation of the Brazilian real (discussed above), the adjusted effective tax rate for the first quarter of 1999 was 38%. The decrease in the effective tax rate for the first quarter of 2000 compared to the adjusted effective tax rate for the same period in 1999 was primarily due to the discontinuance of SFAS No. 71 for the generation operations of Electric Operations as well as the tax holiday relating to the Dutch electricity industry which applies to income earned by UNA. For information regarding the discontinuance of SFAS No. 71 for the generation operations of Electric Operations, see Note 3 of the Reliant Energy 10-K Notes. For information regarding the UNA tax holiday, see Note 13 of the Reliant Energy 10-K Notes and "--Reliant Energy Europe" below.

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

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN MILLIONS)	
Electric Operations	$ 202	$ 142
Natural Gas Distribution	97	98
Interstate Pipelines	28	28
Wholesale Energy	(16)	1
Reliant Energy Europe (1)	33	--
Reliant Energy Latin America	3	(78)
Corporate	(1)	(3)
Total Consolidated	$ 346	$ 188

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(1) Reliant Energy Europe does not have comparative 1999 results as it was established in the fourth quarter of 1999.

ELECTRIC OPERATIONS

Electric Operations are conducted under the name Reliant Energy HL&P. Electric Operations provides electric generation, transmission, distribution and sales to approximately 1.7 million customers in a 5,000 square mile area on the Texas Gulf Coast, including Houston, the nation's fourth largest city.

In June 1999, the Texas legislature adopted Legislation which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail competition beginning on January 1, 2002. Prior to the adoption of the Legislation, Electric Operations' earnings were capped at an agreed overall rate of return formula on a calendar year basis as part of the Transition Plan approved by the Texas Utility Commission effective January 1, 1998. As a result of the Transition Plan, any earnings prior to the Legislation above the maximum allowed return cap on invested capital were offset by additional depreciation of Electric Operations' electric generation assets. For more information regarding the Legislation, see Note 2 of the Company's Interim Financial Statements and Note 3 of the Reliant Energy 10-K Notes.

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN MILLIONS)	
Operating Revenues:		
Base Revenues	$ 602	$ 568
Reconcilable Fuel Revenues	345	282
Total Operating Revenues	947	850
Operating Expenses:		
Fuel and Purchased Power	358	292
Operation and Maintenance	210	203
Depreciation and Amortization	99	136
Other Operating Expenses	78	77
Total Operating Expenses	745	708
Operating Income	$ 202	$ 142
Electric Sales Including Unbilled (MMWH):		
Residential	3,677	3,518
Commercial	3,722	3,551
Industrial	8,133	7,405
Other	694	819
Total Sales Including Unbilled	16,226	15,293
Average Cost of Fuel (Cents/MMBtu)	192.1	175.4

In the first quarter of 2000, Electric Operations' operating income increased $60 million compared to the same period of 1999. Revenue growth and a decrease in depreciation expense primarily accounted for this increase.

Primarily as a result of strong customer growth and increased customer usage, Electric Operations increased base revenues $34 million for the three months ended March 31, 2000, compared to the same period of 1999.

Reconcilable fuel revenues and fuel and purchased power expenses increased as a result of the higher cost of natural gas ($2.65 and $1.95 per MMBtu in the first quarters of 2000 and 1999, respectively), higher costs per unit for purchased power ($26.40 and $19.27 per MWH in the first quarter of 2000 and 1999, respectively) and increased customer growth and usage, which increased production. This was partially offset by higher lignite mine reclamation costs of $17 million incurred in the first quarter of 1999.

Operation and maintenance expenses and other operating expenses for the first quarter of 2000 increased by $7 million compared to the same period in 1999 largely due to increased transmission costs.

Depreciation and amortization expense decreased $37 million in the first quarter of 2000 when compared to the same period in 1999. For information regarding items that affect depreciation and amortization expense of Electric Operations pursuant to the Legislation and the Transition Plan, see Note 4 of the Company's Interim Financial Statements.

NATURAL GAS DISTRIBUTION

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

The Company has retained a financial advisor to assist it in evaluating strategic alternatives for Reliant Energy Arkla and Reliant Energy Minnegasco, including divestiture.

	THREE MONTHS ENDED MARCH 31, 2000	1999
	(IN MILLIONS)	
Operating Revenues:		
Base Revenues	$ 269	$ 267
Recovered Gas Costs Revenues	469	411
Total Operating Revenues	738	678
Operating Expenses:		
Natural Gas	463	414
Operation and Maintenance	117	108
Depreciation and Amortization	35	33
Other Operating Expenses	26	25
Total Operating Expenses	641	580
Operating Income	$ 97	$ 98
Throughput Data (in Bcf):		
Residential and Commercial Sales	122	124
Industrial Sales	14	14
Transportation	15	13
Total Throughput	151	151

Natural Gas Distribution's operating income decreased by $1 million in the first quarter of 2000 compared to the same period in 1999. Recovered gas costs revenues and natural gas expenses increased $58 million and $49 million, respectively, primarily as a result of an increase in the price of purchased gas. Operating revenues for the first quarter of 2000 include a $12 million effect of financial instruments entered into to protect natural gas distribution earnings against unseasonably warm weather during peak gas heating months.

INTERSTATE PIPELINES

Interstate Pipelines, consisting of two wholly owned subsidiaries of Resources Corp., provides interstate gas transportation and related services.

The Company has retained a financial advisor to assist it in evaluating strategic alternatives for Interstate Pipelines, including divestiture.

	THREE MONTHS ENDED MARCH 31, 2000	1999
	(IN MILLIONS)	
Operating Revenues	$ 74	$ 66
Operating Expenses:		
Natural Gas	11	6
Operation and Maintenance	19	16
Depreciation and Amortization	12	12
Other Operating Expenses	4	4
Total Operating Expenses	46	38
Operating Income	$ 28	28
Throughput Data (in MMBtu):		
Natural Gas Sales	4	4
Transportation	262	231
Elimination (1)	(3)	(4)
Total Throughput	263	231

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(1) Elimination of volumes both transported and sold.

Interstate Pipelines' operating income remained flat at $28 million in the first quarter of 2000 compared to the first quarter of 1999. Increases in operating expenses offset slight increases in operating margins.

WHOLESALE ENERGY

Wholesale Energy's activities include the acquisition, development, operation, and sales of capacity, energy and ancillary services from domestic unregulated power generation facilities; wholesale energy trading, marketing and risk management activities in North America; and domestic natural gas gathering activities. Wholesale Energy conducts its operations through (a) Reliant Energy Power Generation, Inc. (collectively with its subsidiaries, Power Generation), (b) Reliant Energy Services, Inc. (Reliant Energy Services) and (c) Reliant Energy Field Services, Inc.

The Company has retained a financial advisor to assist it in evaluating strategic alternatives for Reliant Energy Field Services, Inc., including divestiture.

Power Generation acquires and develops non-rate regulated power generation facilities. On May 12, 2000, Power Generation purchased from Sithe Energies, Inc. the entities owning non-rate regulated power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having a net generating capacity of approximately 4,300 MW. The purchase price for these entities was approximately $2.1 billion. The Company expects that Power Generation will actively pursue the acquisition of additional generation assets as well as the development of additional non-rate regulated generation projects. The Company believes that the timing and success of Power Generation's future efforts could result in substantial expenditures in the future.

The Company believes its energy trading, marketing and risk management activities complement its strategy of developing and acquiring non-rate regulated generation assets in key markets. Reliant Energy Services purchases fuel to supply Power Generation's existing generation assets and also sells the electricity produced by these assets. As a result, the Company has made, and expects to continue to make, significant investments in developing Reliant Energy Services' infrastructure including software, trading and risk control resources.

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN MILLIONS)	
Operating Revenues	$ 2,175	$1,008
Operating Expenses:		
Natural Gas	1,424	720
Purchased Power	688	241
Operation and Maintenance	69	38
Depreciation and Amortization	8	6
Other Operating Expenses	2	2
Total Operating Expenses	2,191	1,007
Operating Income	$ (16)	$ 1
Operations Data:		
Natural Gas (in Bcf):		
Sales	573	363
Gathering	71	61
Total	644	424
Electricity (in million MWH):		
Wholesale Power Sales	28.4	10.3

Wholesale Energy had an operating loss of $16 million for the first quarter of 2000 compared to operating income of $1 million for the same period in 1999. Improved trading margins and volumes for natural gas and power as well as improved margins from generation plants in California, Florida and Texas were partially offset by a decline in margins from trading activities in other commodities. Higher operating expenses at Reliant Energy Services and increased maintenance costs, development costs and administrative and general expenses at Power Generation also contributed to the decline in operating income. Timing differences from planned outages in California primarily accounted for the increased maintenance costs at Power Generation.

Wholesale Energy's operating revenues increased $1.2 billion in the first quarter of 2000 compared to the same period in 1999 primarily due to an increase in gas and power sales volumes. Wholesale Energy's purchased natural gas costs increased $704 million in the first quarter of 2000 due to increased gas sales volume and a higher average cost of gas in the first quarter of 2000. Wholesale Energy's purchased power expense increased $447 million primarily due to higher power sales volumes in the first quarter of 2000. Operation and maintenance expense for Wholesale Energy increased $31 million due to the timing differences from planned outages of Power Generation's California plants, the operation of generation plants in Florida and Texas, which did not exist in the first quarter of 1999, and development costs and staffing increases to support increased trading and other new business activities.

RELIANT ENERGY EUROPE

The Company established its Reliant Energy Europe business segment in the fourth quarter of 1999 with the acquisition of UNA. For additional information, see Note 3 of the Company's Interim Financial Statements and Note 2 of the Reliant Energy 10-K Notes. Reliant Energy Europe owns, operates and sells power from generation facilities in the Netherlands and plans to participate in the emerging wholesale energy trading and marketing industry in the Netherlands and in Western Europe.

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

UNA, the other large unaffiliated Dutch generating companies and the Dutch distribution companies currently operate under various agreements which regulate, among other things, the rates UNA may charge for its generation output. Under the Cooperative Agreement (OvS Agreement), UNA and the other generators agree to sell their generating output to a national production pool (SEP) in exchange for a standardized remuneration. The remuneration includes fuel cost, capital cost and the cost of operations and maintenance expenses. UNA operates under the protocol (Protocol), an agreement under which the generators agree to provide capacity and energy to distributors for a total payment of NLG 3.4 billion (approximately $1.6 billion U.S. dollars) over the period 1997 through 2000, plus compensation of actual fuel costs. The OvS Agreement will substantially expire by the beginning of 2001. The Protocol, which was entered into in order to facilitate the transition from a regulated energy market into an unregulated energy market, will also substantially expire by the beginning of 2001.

Beginning 2001, UNA will begin operating in a deregulated market. The Company anticipates that UNA will undergo a significant decline in revenues in 2001 attributable to the deregulation of the market. In addition, the imposition of Dutch corporate tax rates on UNA in 2002 will affect operating results at Reliant Energy Europe. In 2000 and prior years, UNA was not subject to a corporate income tax.

For additional information on these and certain other factors that may affect the future results of operations of Reliant Energy Europe, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company -- Competition -- Reliant Energy Europe Operations and -- Entry into the European Market" in the Reliant Energy Form 10-K.

RELIANT ENERGY LATIN AMERICA

Reliant Energy Latin America includes the results of operations of Reliant Energy International, Inc. (Reliant Energy International) and the international operations of Resources. Reliant Energy Latin America participates in the privatization of generation and distribution facilities and independent power projects primarily in Latin America.

Reliant Energy is evaluating selling the Company's Latin American assets in order to pursue business opportunities that are more in line with its strategies for the U.S. and Western Europe.

	THREE MONTHS ENDED MARCH 31, 2000	1999
	(IN MILLIONS)	
Operating Revenues	$21	$(51)
Operating Expenses:		
Fuel	8	12
Operation and Maintenance	7	14
Depreciation and Amortization	3	1
Total Operating Expenses	18	27
Operating Income (Loss)	$ 3	$(78)

Reliant Energy Latin America had operating income of $3 million in the first quarter of 2000 compared to an operating loss of $78 million for the same period in 1999. The 1999 loss reflects a $91 million after-tax, non-cash charge relating to the Company's share of foreign exchange losses incurred by its Brazilian affiliates, with respect to their non-local currency denominated borrowings. These devaluation losses stem from the Brazilian government's January 1999 decision to allow the Brazilian real to float against other foreign currencies. Excluding the losses related to the devaluation, operating income decreased $10 million from the first quarter of 1999 primarily due to lower earnings from equity investments.

CORPORATE

Corporate includes the operations of certain non-rate regulated retail services businesses, a communications business offering enhanced data, voice and other services to customers in Texas, certain real estate holdings and unallocated corporate costs.

In the first quarter of 2000, Corporate had an operating loss of $1 million compared to an operating loss of $3 million for the same period in 1999. The decrease in operating loss occurred primarily from decreased corporate expenses due to the timing of corporate allocations to the other segments. Decreased earnings from the unregulated retail business partially offset the decrease in corporate expenses.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

For information on developments, factors and trends that may have an impact on the Company's future earnings, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company" in the Reliant Energy Form 10-K, which is incorporated herein by reference. For information regarding proposed tariffs filed by Reliant Energy HL&P relating to its transmission and distribution operations, see Note 2 of the Company's Interim Financial Statements.

FINANCIAL CONDITION

The following table summarizes the net cash provided by/used in operating, investing and financing activities for the three months ended March 31, 2000 and 1999:

	THREE MONTHS ENDED MARCH 31, 2000	1999
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities	$ 450	$ 214
Investing activities	(1,361)	(161)
Financing activities	914	1

Net cash provided by operations in the three months ended March 31, 2000 increased $236 million compared to the same period in 1999 primarily due to (a) a $78 million federal tax refund received in the first quarter of 2000, (b) increased sales at Electric Operations due to strong customer growth and increased customer usage, (c) incremental cash flows provided by UNA, which was acquired in the fourth quarter of 1999, and (d) other changes in working capital.

Net cash used in investing activities increased $1.2 billion in the three months ended March 31, 2000 compared to the same period in 1999 primarily due to the purchase of the remaining 48% of the shares of UNA for $987 million on March 1, 2000, as well as, increased capital expenditures related to the construction of domestic non-rate regulated power generation projects by Wholesale Energy.

Cash flows provided by financing activities increased $913 million in the three months ended March 31, 2000 compared to the same period in 1999 primarily due to cash received from short-term borrowings. Purchases by Reliant Energy of its common stock during the first quarter of 2000 totaling $27 million partially offset this increase. The Company utilized the net borrowings incurred during the first quarter of 2000 to fund the remaining purchase obligation of UNA, to support increased capital expenditures by Wholesale Energy and for general corporate purposes, including the repayment of indebtedness. The Company obtained the funds for the remaining UNA purchase obligation on March 1, 2000, in part from a Euro 600 million (approximately $584 million) three-year term loan facility established in February 2000 and through short-term borrowings and excess operating cash flows. In the first quarter of 2000, a financing subsidiary of the Company borrowed $650 million under a $650 million revolving credit facility established in February 2000 that terminates on May 31, 2000. This financing subsidiary used the proceeds to purchase Series G Preference Stock of Reliant Energy. Reliant Energy used the proceeds from the sale of Preference Stock for general corporate purposes, including the repayment of indebtedness. In addition, in March 2000, the Company borrowed $150 million under a $200 million revolving credit facility established in the first quarter of 2000 that terminates on May 31, 2000. The Company used the proceeds from these borrowings for general corporate purposes, including the repayment of indebtedness. Borrowings under the revolving credit facilities terminating on May 31, 2000 are expected to be refinanced with debt or repaid with internally generated funds.

FUTURE SOURCES AND USES OF CASH FLOWS

Credit Facilities. As of March 31, 2000, the Company had credit facilities, including the facilities of several financing subsidiaries, Resources Corp. and UNA, which provided for an aggregate of $5.2 billion in committed credit (including the Euro 600 million facility discussed above). As of March 31, 2000, $4 billion was outstanding under these facilities, including commercial paper of $1.6 billion. Unused credit facilities totaled $1.2 billion as of March 31, 2000.

Shelf Registrations. As of March 31, 2000, the Company had shelf registration statements providing for the issuance of $230 million aggregate liquidation value of its preferred stock, $580 million aggregate principal amount of its debt securities and $125 million of trust preferred securities and related junior subordinated debt securities. In addition, the Company has a shelf registration for 15 million shares of common stock, which would have been worth approximately $353 million as of March 31, 2000 based on the closing price of the common stock as of such date.

Securitization. Reliant Energy HL&P filed an application with the Texas Utility Commission requesting a financing order authorizing the issuance of transition bonds relating to Reliant Energy HL&P's generation related regulatory assets by a special purpose entity organized by the Company, pursuant to the Legislation. The Company estimates that approximately $750 million of transition bonds will be authorized by the Texas Utility Commission. The offering and sale of the transition bonds will be registered under the Securities Act of 1933 and are expected to be consummated in 2001, or if conditions permit, late 2000.

Acquisition of Sithe Assets. On May 12, 2000, the Company purchased from Sithe Energies, Inc. the entities owning non-rate regulated power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having a net generating capacity of approximately 4,300 MW. The purchase price for these entities was approximately $2.1 billion. The Company accounted for the acquisition as a purchase. Funds for the acquisition were made available through issuances of commercial paper supported by two committed bridge facilities, one in the amount of $1 billion and one in the amount of $1.15 billion. The $1 billion bridge facility is a 364-day revolving facility that expires in May 2001. The revolving commitment period for the $1.15 billion facility terminates in May 2001, and any outstanding borrowings at that time convert to a one-year term facility.

Reliant Energy Latin America Capital Contributions and Advances. As of March 31, 2000, Reliant Energy Latin America expects to make capital contributions or advances during the last three quarters of 2000 totaling approximately $133 million as a result of debt service payments and operating cash flow short falls at certain of its affiliates. Of this amount, capital contributions of $30 million were made in April 2000. The Company expects that part of these capital contributions will be paid from a return of capital from one of its investments, dividends from certain of its operating companies, proceeds from the sale of certain of its investments and from additional capital contributions from Reliant Energy.

Other Sources/Uses of Cash. The liquidity and capital requirements of the Company are affected primarily by capital programs and debt service requirements. The Company expects to continue to participate as a bidder in future acquisitions of independent power projects and privatizations of generation facilities. Any resulting capital requirements are expected to be met with excess cash flows from operations, proceeds from project financings and proceeds from Company borrowings. Additional capital expenditures depend upon the nature and extent of future project commitments, some of which may be substantial. Although the Company believes that its current level of cash and borrowing capability along with future cash flows from operations are sufficient to meet the existing operational needs of its businesses, the Company may, when it deems necessary, or when it develops or acquires new businesses and assets, supplement its available cash resources by seeking funds in the equity or debt markets.

NEW ACCOUNTING ISSUES

Effective January 1, 2001, the Company is required to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain hedging instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. The Company is in the process of determining the effect of adoption of SFAS No. 133 on its consolidated financial statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK OF THE COMPANY

The Company has financial instruments that involve various market risks and uncertainties. For information regarding the Company's exposure to risks associated with interest rates, equity market prices, foreign currency exchange rate risk and energy commodity prices, see Item 7A of the Reliant Energy Form 10-K which is incorporated herein by reference. These risks have not materially changed from the market risks disclosed in the Reliant Energy Form 10-K.

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

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

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
REVENUES	$ 3,099,337	$ 1,828,064
EXPENSES:		
Natural gas and purchased power	2,704,950	1,458,695
Operation and maintenance	160,104	138,902
Depreciation and amortization	52,122	50,018
Taxes other than income taxes	31,352	30,272
	2,948,528	1,677,887
OPERATING INCOME	150,809	150,177
OTHER INCOME (EXPENSE):		
Interest expense, net	(31,687)	(29,662)
Distribution on trust preferred securities	(95)	(99)
Other, net	(17,105)	3,031
	(48,887)	(26,730)
INCOME BEFORE INCOME TAXES	101,922	123,447
Income Tax Expense	46,786	52,474
NET INCOME	$ 55,136	$ 70,973

See Notes to Resources' Interim Financial Statements

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

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	MARCH 31, 2000	DECEMBER 31, 1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 71,189	$ 81,347
Accounts and notes receivable, principally customer	948,059	980,560
Unbilled revenue	122,244	150,961
Materials and supplies, at average cost	34,383	35,121
Fuel, gas and petroleum products	31,376	80,135
Price risk management assets	530,645	435,336
Prepayments and other current assets	37,519	46,666
Total current assets	1,775,415	1,810,126
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	3,351,586	3,298,478
Less accumulated depreciation and amortization	367,953	324,596
Property, plant and equipment, net	2,983,633	2,973,882
OTHER ASSETS:		
Goodwill, net	1,969,779	1,983,004
Prepaid pension asset	105,746	110,626
Price risk management assets	331,681	148,722
Other	196,769	186,437
Total other assets	2,603,975	2,428,789
TOTAL ASSETS	$7,363,023	$7,212,797

See Notes to Resources' Interim Financial Statements

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

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

LIABILITIES AND STOCKHOLDER'S EQUITY

	MARCH 31, 2000	DECEMBER 31, 1999
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 248,416	$ 223,451
Short-term borrowings	368,200	534,584
Accounts payable, principally trade	803,548	776,546
Accounts and notes payable - affiliated companies, net	19,910	95,601
Interest accrued	28,000	27,965
Taxes accrued	106,350	48,266
Customer deposits	32,714	33,255
Price risk management liabilities	500,371	431,135
Other	99,940	119,111
Total current liabilities	2,207,449	2,289,914
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	558,316	532,725
Payable under capacity lease agreement	41,000	41,000
Benefit obligations	140,631	161,144
Price risk management liabilities	308,045	117,437
Other	181,829	187,473
Total deferred credits and other liabilities	1,229,821	1,039,779
LONG-TERM DEBT	1,193,111	1,220,631
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 7)		
RESOURCES OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF RESOURCES	957	967
STOCKHOLDER'S EQUITY:		
Common stock	1	1
Paid-in capital	2,463,831	2,463,831
Retained earnings	270,008	214,872
Accumulated other comprehensive loss	(2,155)	(17,198)
Total stockholder's equity	2,731,685	2,661,506
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 7,363,023	$ 7,212,797

See Notes to Resources' Interim Financial Statements

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

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

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 55,136	$ 70,973
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,122	50,018
Deferred income taxes	9,673	4,500
Impairment of marketable equity securities	22,185	--
Changes in other assets and liabilities:		
Accounts and notes receivable	61,218	12,052
Accounts receivable/payable, affiliates	31,747	(38,293)
Inventories	49,497	141,926
Other current assets	9,147	(18,501)
Accounts payable	27,002	(73,233)
Interest and taxes accrued	58,119	55,116
Other current liabilities	(19,712)	(25,822)
Net price risk management assets	(18,424)	(18,262)
Restricted deposits	(9,770)	(31,042)
Other, net	(14,719)	(15,093)
Net cash provided by operating activities	313,221	114,339
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(58,119)	(45,540)
Other, net	11,127	(1,769)
Net cash used in investing activities	(46,992)	(47,309)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	--	(6,042)
Decrease in short-term borrowings, net	(166,384)	--
Increase (decrease) in notes with affiliates, net	(107,438)	(33,400)
Other, net	(2,565)	(3,757)
Net cash used in financing activities	(276,387)	(43,199)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,158)	23,831
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	81,347	26,576
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 71,189	$ 50,407
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 33,922	$ 30,939
Income taxes	93	(2,549)

See Notes to Resources' Interim Financial Statements

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION-- see Note 1 to the Company's Interim Financial Statements.

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

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

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

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

For information regarding environmental matters and legal proceedings, see Note 7.

(2) DEPRECIATION AND AMORTIZATION

Resources' depreciation expense for the first quarter of 2000 was $37 million, compared to $36 million for the same period in 1999. Amortization expense, primarily relating to goodwill amortization, was $15 million for the first quarter of 2000 compared to $14 million for the same period in 1999.

(3) RESOURCES OBLIGATED MANDATORILY REDEEMABLE TRUST PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF RESOURCES -- see Note 9 to the Company's Interim Financial Statements.

(4) COMPREHENSIVE INCOME

Resources had total comprehensive income of $70 million and $73 million in the first quarter of 2000 and 1999, respectively. In the first quarter of 2000, Resources recorded a $14 million after-tax impairment loss in Resources' Statement of Consolidated Income on marketable equity securities classified as "available for sale." The following table summarizes the components of total comprehensive income.

	FOR THE THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN MILLIONS)	
Net income	$ 55	$ 71
Other comprehensive income:		
Unrealized gain on available for sale securities	1	2
Plus: Reclassification adjustment for impairment loss on available for sale securities realized in net income	14	--
Comprehensive income	$ 70	$ 73

(5) RELATED PARTY TRANSACTIONS

Reliant Energy Services supplies natural gas to, purchases electricity for resale from, and provides marketing and risk management services to unregulated power plants in deregulated markets. These power plants were acquired and/or are operated by Power Generation or its subsidiaries. For the three months ended March 31, 2000 and 1999, the sales and services to Reliant Energy and its affiliates totaled $44 million and $11 million, respectively. Purchases of electricity from Reliant Energy and its affiliates were $28 million and $3 million for the three months ended March 31, 2000 and 1999, respectively.

Reliant Energy provides certain corporate services to Resources, which are allocated to Resources or direct billed to Resources, including management support, financial and tax accounting, information system support, treasury support, legal services, regulatory support and other general services.

Notes receivable to Reliant Energy and its subsidiaries, which are not owned by Resources, included in accounts and notes payable-affiliated companies, totaled $46 million at March 31, 2000. Net borrowings from Reliant Energy and its subsidiaries, which are not owned by Resources, included in accounts and notes payables-affiliated companies, totaled $62 million at December 31, 1999. Interest income/expense on such receivables/ borrowings was immaterial for the three months ended March 31, 2000 and 1999. As of March 31, 2000 and December 31, 1999, net accounts payable to Reliant Energy and its subsidiaries, which are not owned by Resources, was $66 million and $34 million, respectively.

(6) REPORTABLE SEGMENTS

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

Reliant Energy has identified the following reportable segments in which Resources has operations: Natural Gas Distribution, Interstate Pipelines, Wholesale Energy, Reliant Energy Europe and Corporate. For descriptions of the financial reporting segments, see Note 9 of the Resources Corp. 10-K Notes. The following table summarizes financial data for the business segments:

	AS OF AND FOR THE THREE MONTHS ENDED MARCH 31, 2000			
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME	TOTAL ASSETS
		(IN MILLIONS)		
Natural Gas Distribution ...	$ 738	$ --	$ 97	$ 3,199
Interstate Pipelines	34	40	28	2,002
Wholesale Energy	2,038	137	(16)	3,223
Reliant Energy Europe	150	--	33	3,081
Corporate	306	14	(1)	6,189
Reconciling Elimination	--	(191)	--	(789)
Elimination of Non-Resources Operations	(167)	--	10	(9,542)
Consolidated	$ 3,099	$ --	$ 151	$ 7,363

	FOR THE THREE MONTHS ENDED MARCH 31, 1999		
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME
		(IN MILLIONS)	
Natural Gas Distribution ...	$ 678	$ --	$ 98
Interstate Pipelines	26	40	28
Wholesale Energy	939	69	1
Corporate	201	19	(3)
Reconciling Elimination	--	(128)	--
Elimination of Non-Resources Operations	(16)	--	26
Consolidated	$ 1,828	$ --	$ 150

(7) ENVIRONMENTAL MATTERS AND LEGAL PROCEEDINGS

To the extent that potential environmental remediation costs are quantified within a range, Resources establishes reserves equal to the most likely level of costs within the range and adjusts such accruals as better information becomes available. In determining the amount of the liability, future costs are not discounted to their present value and the liability is not offset by expected insurance recoveries. If justified by circumstances within Resources' business subject to SFAS No. 71, corresponding regulatory assets are recorded in anticipation of recovery through the rate making process.

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

At March 31, 2000 and December 31, 1999, Resources had accrued $18.6 million and $18.8 million, respectively, for remediation of the Minnesota sites. At March 31, 2000, the estimated range of possible remediation costs was $10 million to $49 million. The low end of the range was determined based on only those sites presently owned or known to have been operated by Resources, assuming use of Resources' proposed remediation methods. The upper end of the range was determined based on the sites once owned by Resources, whether or not operated by Resources. The cost estimates of the FMGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

Other Minnesota Matters. At March 31, 2000 and December 31, 1999, Resources had recorded accruals of approximately $1 million (with a maximum estimated exposure of approximately $13 million), for other environmental matters for which remediation may be required.

In its 1995 rate case, Reliant Energy Minnegasco was allowed to recover approximately $7 million annually for remediation costs. In 1998, Reliant Energy Minnegasco received approval to reduce its annual recovery rate to zero. Remediation costs are subject to a true-up mechanism whereby any over or under recovered amounts, net of certain insurance recoveries, plus carrying charges, are deferred for recovery or refund in the next rate case. At March 31, 2000 and December 31, 1999, Reliant Energy Minnegasco had over recovered $13 million, including insurance recoveries. At March 31, 2000 and December 31, 1999, Reliant Energy Minnegasco had recorded a liability of $19.8 million and $20.0 million, respectively, to cover the cost of future remediation. Reliant Energy Minnegasco expects that approximately 40% of its accrual as of March 31, 2000 will be expended within the next five years. The remainder will be expended on an ongoing basis for an estimated 40 years. In accordance with the provisions of SFAS No. 71, a regulatory asset has been recorded equal to the liability accrued. Resources believes the difference between any cash expenditures for these costs and the amount recovered in rates during any year will not be material to Resources' financial position, results of operations or cash flows.

Issues relating to the identification and remediation of MGPs are common in the natural gas distribution industry. Resources has received notices from the EPA and others regarding its status as a PRP for other sites. Based on current information, Resources has not been able to quantify a range of environmental expenditures for potential remediation expenditures with respect to other MGP sites.

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

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

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

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

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

Resources Corp. meets the conditions specified in General Instruction H to Form 10-Q and is permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies. Accordingly, Resources has omitted from this report the information called for by Item 3 (quantitative and qualitative disclosure about market risk) of Part I and the following Part II items of Form 10-Q: Item 2 (changes in securities and use of proceeds), Item 3 (defaults upon senior securities) and Item 4 (submission of matters to a vote of security holders). The following discussion explains material changes in the amount of revenue and expense items of Resources between the three months ended March 31, 2000 and 1999. Reference is made to Management's Narrative Analysis of the Results of Operations in Item 7 of Resources Corp. Form 10-K, the Resources Corp. 10-K Notes referred to herein and Resources Corp.'s Interim Financial Statements contained in this Form 10-Q.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED MARCH 31,	
	2000	1999
	(IN THOUSANDS)	
Operating Revenues	$ 3,099,337	$ 1,828,064
Operating Expenses	(2,948,528)	(1,677,887)
Operating Income - Net	150,809	150,177
Interest Expense	(31,687)	(29,662)
Distributions on Trust Preferred Securities	(95)	(99)
Other Income (Expense) - Net	(17,105)	3,031
Income Tax Expense	(46,786)	(52,474)
Net Income	$ 55,136	$ 70,973

Resources' net income decreased $16 million in the first quarter of 2000 compared to the same period in 1999. This decrease was primarily due to an increase in interest expense and an after-tax impairment loss of $14 million on equity marketable securities classified as "available for sale" in the first quarter of 2000.

Resources' revenues increased $1.3 billion between the two periods primarily due to an increase in sales volumes of natural gas and electric power and a higher average cost of natural gas. Similar increases in operating expenses were due primarily to increased natural gas and purchased power sales volumes, a higher average cost of natural gas and increased general and administrative expenses. Operating income for Resources was consistent between the two periods. Improved trading margins in natural gas and electric power were offset by decreased trading margins for other commodities for the Wholesale Energy segment, while operating margins for the Interstate Pipelines and Natural Gas Distribution segments were relatively flat between the two periods. General and administrative expenses, included in operation and maintenance expense, increased due to higher levels of trading and marketing staffing and increased operating costs to support the higher sales and expanded marketing efforts of the Wholesale Energy segment and start-up costs of the European trading and marketing operations.

To minimize Resources' risks associated with fluctuations in the price of natural gas and transportation, Resources, primarily through Reliant Energy Services, enters into futures transactions, swaps and options in order to hedge against market price changes affecting (a) certain commitments to buy, sell and move electric power, natural gas, crude oil and refined products, (b) existing natural gas storage and heating oil inventory, (c) future power sales and natural gas purchases by generation facilities, (d) crude oil and refined products and (e) certain anticipated transactions, some of which carry off-balance sheet risk. Reliant Energy Services also enters into commodity and weather derivatives in its trading and price risk management activities. For a discussion of Resources' accounting treatment of derivative instruments, see Note 2 to the Resources Corp. 10-K Notes and "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of the Reliant Energy Form 10-K.

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

Reliant Energy has retained a financial advisor to assist it in evaluating strategic alternatives for Reliant Energy Arkla, Reliant Energy Minnegasco, Reliant Energy Field Services, Inc. and Interstate Pipelines, including divestiture.

For a discussion of certain other factors that may affect Resources' future earnings see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company -- Competition -- Other Operations," "--Environmental

Expenditures" and "-- Other Contingencies " in the Reliant Energy Form 10-K.

NEW ACCOUNTING ISSUES

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Reliant Energy:

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

Resources Corp.:

For a description of legal proceedings affecting Resources, please review Note 7 to Resources Corp.'s Interim Financial Statements, Item 3 of the Resources Corp. Form 10-K and Note 8 of the Resources Corp. 10-K Notes, which are incorporated herein by reference.

ITEM 5. OTHER INFORMATION.

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

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

- state and federal legislative or regulatory developments,
- national or regional economic conditions,
- industrial, commercial and residential growth in service territories of the Company,
- the timing and extent of changes in commodity prices and interest rates,
- weather variations and other natural phenomena,
- growth in opportunities for the Company's diversified operations,
- the results of financing efforts,
- the ability to consummate and the timing of the consummation of pending acquisitions and dispositions,
- the speed, degree and effect of continued electric industry restructuring in North America and Western Europe,
- risks incidental to the Company's overseas operations, including the effects of fluctuations in foreign currency exchange rates, and
- other factors discussed in this and other filings by Reliant Energy and Resources Corp. with the Securities and Exchange Commission.

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

On May 3, 2000, the Reliant Energy Board of Directors adopted and approved changes to the Reliant Energy, Bylaws and amended and restated the Bylaws effective as of May 3, 2000. See Exhibit 3 to the Reliant Energy Form 10-Q.

Extension of Shareholder Rights Plan. On May 3, 2000, the Board of Directors of Reliant Energy approved the extension of Reliant Energy's shareholder rights plan for an additional ten-year period, through July 11, 2010. See Exhibit 99(b) to the Reliant Energy Form 10-Q for a description of Reliant Energy's (a) common stock and associated rights to purchase preference stock, (b) preferred stock and (c) preference stock, which description is incorporated herein by reference.

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

(a) Exhibits.

Reliant Energy:

Exhibit 3	Amended and Restated Bylaws of Reliant Energy as adopted and amended by the Board of Directors on May 3, 2000.
Exhibit 4	Amendment No. 1 to Rights Agreement, dated as of May 8, 2000, between Reliant Energy and Chase Bank of Texas, National Association, as Rights Agent.
Exhibit 12	Ratio of Earnings to Fixed Charges and Preferred Dividends.
Exhibit 27	Financial Data Schedule.
Exhibit 99(a)	Items incorporated by reference from the Reliant Energy Form 10-K: Item 3 "Legal Proceedings," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company," Item 7A "Quantitative and Qualitative Disclosures About Market Risk" and Notes 1(d) (Regulatory Assets), 1(m) (Foreign Currency Adjustments), 2 (Business Acquisitions), 3 (Texas Electric Choice Plan and Discontinuance of SFAS No. 71 for Electric Generation Operations), 4 (Transition Plan), 5 (Derivative Financial Instruments), 6 (Jointly Owned Electric Utility Plant), 7 (Equity Investments and Advances to Unconsolidated Subsidiaries), 8 (Indexed Debt Securities (ACES and ZENS) and Time Warner Securities) and 14 (Commitments and Contingencies) of the Reliant Energy 10-K Notes.
Exhibit 99(b)	Description of Reliant Energy's (a) common stock and associated rights to purchase preference stock, (b) preferred stock and (c) preference stock.

Resources Corp.:

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

(b) Reports on Form 8-K.

Reliant Energy:

None.

Resources Corp.:

None.

SIGNATURE

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

RELIANT ENERGY, INCORPORATED
(Registrant)

By: /s/ Mary P. Ricciardello

Mary Ricciardello
Senior Vice President and Chief Accounting Officer

Date: May 15, 2000

SIGNATURE

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

RELIANT ENERGY RESOURCES CORP.
(Registrant)

By: /s/ Mary P. Ricciardello

Mary Ricciardello
Senior Vice President and Chief Accounting Officer

Date: May 15, 2000

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
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EXHIBIT 3

AMENDED AND RESTATED BYLAWS

OF

RELIANT ENERGY, INCORPORATED

Adopted and Amended by Resolution of the Board of Directors on
May 3, 2000

ARTICLE I

CAPITAL STOCK

Section 1. Share Ownership. Shares for the capital stock of the Company may be certificated or uncertificated. Owners of shares of the capital stock of the Company shall be recorded in the share transfer records of the Company and ownership of such shares shall be evidenced by a certificate or book entry notation in the share transfer records of the Company. Any certificates representing such shares shall be signed by the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or a Vice President and either the Secretary or an Assistant Secretary and shall be sealed with the seal of the Company, which signatures and seal may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon such 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 2. Shareholders of Record. The Board of Directors of the Company may appoint one or more transfer agents or registrars of any class of stock of the Company. The Company may be its own transfer agent if so appointed by the Board of Directors. The Company shall be entitled to treat the holder of record of any shares of the Company as the owner thereof for all purposes, and shall not be bound to recognize any equitable or other claim to, or interest in, such shares or any rights deriving from such shares, on the part of any other person, including (but without limitation) a purchaser, assignee or transferee, unless and until such other person becomes the holder of record of such shares, whether or not the Company shall have either actual or constructive notice of the interest of such other person.

Section 3. Transfer of Shares. The shares of the capital stock of the Company shall be transferable in the share transfer records of the Company by the holder of record thereof, or his duly authorized attorney or legal representative. All certificates representing shares surrendered for transfer, properly endorsed, shall be canceled and new certificates for a like number of shares shall be issued therefor. In the case of lost, stolen, destroyed or mutilated certificates representing shares for which the Company has been requested to issue new certificates, new certificates or other evidence of such new shares may be issued upon such conditions as may be required by the Board of Directors or the Secretary for the protection of the Company and any transfer agent or registrar. Uncertificated shares shall be transferred in the share transfer records of the Company upon the written instruction originated by the appropriate person to transfer the shares.

Section 4. Shareholders of Record and Fixing of Record Date. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or entitled to receive a distribution by the Company (other than a distribution involving a purchase or redemption by the Company of any of its own shares) or a share dividend, or in order to make a determination of shareholders for any other proper purpose (other than determining shareholders entitled to consent to action by shareholders proposed to be taken without a meeting of shareholders), the Board of Directors may provide that the share transfer records shall be closed for a stated period of not more than sixty days, and in the case of a meeting of shareholders not less than ten days, immediately preceding the meeting, or it may fix in advance a record date for any such determination of shareholders, such date to be not more than sixty days, and in the case of a meeting of shareholders not less than ten days, prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the share transfer records are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive a distribution (other than a distribution involving a purchase or redemption by the Company of any of its own shares) or a share dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such distribution or share dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as herein provided, such determination shall apply to any adjournment thereof except where the determination has been made through the closing of the share transfer records and the stated period of closing has expired.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 1. Place of Meetings. All meetings of shareholders shall be held at the registered office of the Company, in the City of Houston, Texas, or at such other place within or without the State of Texas as may be designated by the Board of Directors or officer calling the meeting.

Section 2. Annual Meeting. The annual meeting of the shareholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors or as may otherwise be stated in the notice of the meeting. Failure to designate a time for the annual meeting or to hold the annual meeting at the designated time shall not work a dissolution of the Company.

Section 3. Special Meetings. Special meetings of the shareholders may be called by the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President, the Secretary, the Board of Directors, the holders of not less than one-tenth of all of the shares outstanding and entitled to vote at such meeting or such other persons as may be authorized in the Articles of Incorporation of the Company.

Section 4. Notice of Meeting. Written or printed notice of all meetings stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President, the Secretary or the officer or person calling the meeting to each shareholder of record entitled to vote at such meetings. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the shareholder at his address as it appears on the share transfer records of the Company, with postage thereon prepaid.

Any notice required to be given to any shareholder, under any provision of the Texas Business Corporation Act, as amended (TBCA), the Articles of Incorporation of the Company or these Bylaws, need not be given to a shareholder if notice of two consecutive annual meetings and all notices of meetings held during the period between those annual meetings, if any, or all (but in no event less than two) payments (if sent by first class mail) of distributions or interest on securities during a 12-month period have been mailed to that person, addressed at his address as shown on the share transfer records of the Company, and have been returned undeliverable. Any action or meeting taken or held without notice to such person shall have the same force and effect as if the notice had been duly given. If such a person delivers to the Company a written notice setting forth his then current address, the requirement that notice be given to that person shall be reinstated.

Section 5. Voting List. The officer or agent having charge of the share transfer records for shares of the Company shall make, at least ten days before each meeting of shareholders, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office of the Company and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share transfer records shall be prima facie evidence as to who are the shareholders entitled to examine such list or to vote at any meeting of shareholders. Failure to comply with any requirements of this Section 5 shall not affect the validity of any action taken at such meeting.

Section 6. Voting; Proxies. Except as otherwise provided in the Articles of Incorporation of the Company or as otherwise provided in the TBCA, each holder of shares of capital stock of the Company entitled to vote shall be entitled to one vote for each share standing in his name on the records of the Company, either in person or by proxy executed in writing by him or by his duly authorized attorney-in-fact. A proxy shall be revocable unless expressly provided therein to be irrevocable and the proxy is coupled with an interest. At each election of directors, every holder of shares of the Company entitled to vote shall have the right to vote, in person or by proxy, the number of shares owned by him for as many persons as there are directors to be elected, and for whose election he has a right to vote, but in no event shall he be permitted to cumulate his votes for one or more directors.

Section 7. Quorum and Vote of Shareholders. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, the holders of a majority of shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders, but, if a quorum is not represented, a majority in interest of those represented may adjourn the meeting from time to time. Directors shall be elected by a plurality of the votes cast by the holders of shares entitled to vote in the election of directors at a meeting of shareholders at which a quorum is present. With respect to each matter other than the election of directors as to which no other voting requirement is specified by law, the Articles of Incorporation of the Company or in this Section 7 or in Article VII of these Bylaws, the affirmative vote of the holders of a majority of the shares entitled to vote on that matter and represented in person or by proxy at a meeting at which a quorum is present shall be the act of the shareholders. With respect to a matter submitted to a vote of the shareholders as to which a shareholder approval requirement is applicable under the shareholder approval policy of the New York Stock Exchange, Rule 16b-3 under the Securities Exchange Act of 1934, as amended (Exchange Act), or any provision of the Internal Revenue Code, in each case for which no higher voting requirement is specified by law, the Articles of Incorporation of the Company or these Bylaws, the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, that matter at a meeting at which a quorum is present shall be the act of the shareholders, provided that approval of such matter shall also be conditioned on any more restrictive requirement of such shareholder approval policy, Rule 16b-3 or Internal Revenue Code provision, as applicable, being satisfied. With respect to the approval of independent public accountants (if submitted for a vote of the shareholders), the affirmative vote of the holders of a majority of the shares entitled to vote on, and voted for or against, that matter at a meeting of shareholders at which a quorum is present shall be the act of the shareholders.

Section 8. Presiding Officer and Conduct of Meetings. The Chairman of the Board, if there is one, or in his absence, the Chief Executive Officer, if there is one, or in his absence, the President shall preside at all meetings of the shareholders or, if such officers are not present at a meeting, by such other person as the Board of Directors shall designate or if no such person is designated by the Board of Directors, the most senior officer of the Company present at the meeting. The Secretary of the Company, if present, shall act as secretary of each meeting of shareholders; if he is not present at a meeting, then such person as may be designated by the presiding officer shall act as secretary of the meeting. Meetings of shareholders shall follow reasonable and fair procedure. Subject to the foregoing, the conduct of any meeting of shareholders and the determination of procedure and rules shall be within the absolute discretion of the officer presiding at such meeting (Chairman of the Meeting), and there shall be no appeal from any ruling of the Chairman of the Meeting with respect to procedure or rules. Accordingly, in any meeting of shareholders or part thereof, the Chairman of the Meeting shall have the sole power to determine appropriate rules or to dispense with theretofore prevailing rules. Without limiting the foregoing, the following rules shall apply:

(a) If disorder should arise which prevents continuation of the legitimate business of meeting, the Chairman of the Meeting may announce the adjournment of the meeting; and upon so doing, the meeting shall be immediately adjourned.

(b) The Chairman of the Meeting may ask or require that anyone not a bona fide shareholder or proxy leave the meeting.

(c) A resolution or motion proposed by a shareholder shall only be considered for vote of the shareholders if it meets the criteria of Article II, Section 9 (Proper Business -- Annual Meeting of Shareholders) or Article II, Section 10 (Proper Business -- Special Meeting of Shareholders), as the case may be. The Chairman of the Meeting may propose any resolution or motion for vote of the shareholders.

(d) The order of business at all meetings of shareholders shall be determined by the Chairman of the Meeting.

(e) The Chairman of the Meeting may impose any reasonable limits with respect to participation in the meeting by shareholders, including, but not limited to, limits on the amount of time taken up by the remarks or questions of any shareholder, limits on the number of questions per shareholder and limits as to the subject matter and timing of questions and remarks by shareholders.

(f) Before any meeting of shareholders, the Board of Directors may appoint three persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the Chairman of the Meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election at the meeting of the shareholders and the number of such inspectors shall be three. If any person appointed as inspector fails to appear or fails or refuses to act, the Chairman of the Meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill such vacancy.

The duties of the inspectors shall be to:

(i) determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies and ballots;

(ii) receive votes or ballots;

(iii) hear and determine all challenges and questions in any way arising in connection with the vote;

(iv) count and tabulate all votes;

(v) report to the Board of Directors the results based on the information assembled by the inspectors; and

(vi) do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

Notwithstanding the foregoing, the final certification of the results of the election or other matter acted upon at a meeting of shareholders shall be made by the Board of Directors.

All determinations of the Chairman of the Meeting shall be conclusive unless a matter is determined otherwise upon motion duly adopted by the affirmative vote of the holders of at least 80% of the voting power of the shares of capital stock of the Company entitled to vote in the election of directors held by shareholders present in person or represented by proxy at such meeting.

Section 9. Proper Business -- Annual Meeting of Shareholders. At any annual meeting of shareholders, only such business shall be conducted as shall be a proper subject for the meeting and shall have been properly brought before the meeting. To be properly brought before an annual meeting of shareholders, business (other than business relating to (i) any nomination of directors, which is governed by Article III, Section 3, or (ii) any alteration, amendment or repeal of the Bylaws or any adoption of new Bylaws, which is governed by Article VII hereof) must (a) be specified in the notice of such meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise be properly brought before the meeting by or at the direction of the Chairman of the Meeting or the Board of Directors (or any duly authorized committee thereof) or (c) otherwise (i) be properly requested to be brought before the meeting by a shareholder of record entitled to vote in the election of directors generally, in compliance with the provisions of this Section 9 and (ii) constitute a proper subject to be brought before such meeting. For business to be properly brought before an annual meeting of shareholders, any shareholder who intends to bring any matter (other than a matter relating to (i) any nomination of directors, which is governed by Article III, Section 3, or (ii) any alteration, amendment or repeal of the Bylaws or any adoption of new Bylaws, which is governed by Article VII hereof) before an annual meeting of shareholders and is entitled to vote on such matter must deliver written notice of such shareholder's intent to bring such matter before the annual meeting of shareholders, either by personal delivery or by United States mail, postage prepaid, to the Secretary of the Company. Such notice must be received by the Secretary not less than 90 days nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. In no event shall the public disclosure of an adjournment of an annual meeting of shareholders commence a new time period for the giving of a shareholder's notice as described above.

To be in proper written form, a shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting of shareholders (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (b) the name and address, as they appear on the Company's books and records, of the shareholder proposing such business, (c) evidence reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of capital stock of the Company of which such shareholder is the beneficial owner, (d) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business and (e) a representation that such shareholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. No business shall be conducted at an annual meeting of shareholders except in accordance with the procedures set forth in this Section 9. Beneficial ownership shall be determined in accordance with Rule 13d-3 under the Exchange Act. When used in these Bylaws, "person" has the meaning ascribed to such term in Section 2(a)(2) of the Securities Act of 1933, as amended, as the context may require.

Within thirty days after such shareholder shall have submitted the aforesaid items, the Secretary or the Board of Directors of the Company shall determine whether the proposed business has been properly requested to be brought before the annual meeting of shareholders and shall notify such shareholder in writing of its determination. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the proposed business otherwise has not been properly requested, then such proposal by such shareholder shall not be voted upon by the shareholders of the Company at such annual meeting of shareholders. The Chairman of the Meeting shall, if the facts warrant, determine and declare to the meeting that a proposal made by a shareholder of the Company pursuant to this Section 9 was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded.

Nothing in this Section 9 shall be interpreted or construed to require the inclusion of information about any such proposal in any proxy statement distributed by, at the direction of, or on behalf of the Board of Directors or the Company.

Section 10. Proper Business -- Special Meeting of Shareholders. At any special meeting of shareholders, only such business shall be conducted as shall have been stated in the notice of such meeting or shall otherwise have been properly brought before the meeting by or at the direction of the Chairman of the Meeting or the Board of Directors (or any duly authorized committee thereof).

ARTICLE III

DIRECTORS

Section 1. Classification of Board of Directors; Qualifications. (a) The business and affairs of the Company shall be managed by the Board of Directors.

Each director elected by the holders of Preferred Stock pursuant to Section 6 of Division A of Article VI of the Articles of Incorporation of the Company (or elected by such directors to fill a vacancy) shall serve for a term ending upon the earlier of the election of his successor or the termination at any time of a right of the holders of Preferred Stock to elect members of the Board of Directors.

At each annual election, the directors chosen to succeed those whose terms then expire shall be of the same class as the directors they succeed, unless, by reason of any intervening changes in the authorized number of directors, the Board of Directors shall designate one or more directorships whose term then expires as directorships of another class in order more nearly to achieve equality of number of directors among the classes.

Notwithstanding the rule that the three classes shall be as nearly equal in number of directors as possible, in the event of any change in the authorized number of directors, each director then continuing to serve as such shall nevertheless continue as a director of the class of which he or she is a member until the expiration of his or her current term, or his or her prior death, resignation, disqualification or removal. If any newly created directorship may, consistent with the rule that the three classes shall be as nearly equal in number of directors as possible, be allocated to any of the three classes, the Board of Directors shall allocate it to that available class whose term of office is due to expire at the earliest date following such allocation. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(b) No person shall be eligible to serve as a director of the Company subsequent to the annual meeting of shareholders occurring on or after the first day of the month immediately following the month of such person's seventieth birthday. Any vacancy on the Board of Directors resulting from any director being rendered ineligible to serve as a director of the Company by the immediately preceding sentence shall be filled by the shareholders entitled to vote thereon at such annual meeting of shareholders. Any director chosen to succeed a director who is so rendered ineligible to serve as a director of the Company shall be of the same class as the director he or she succeeds.

No person shall continue to serve as a member of the Board of Directors if the director ceases for any reason to hold the principal employment or position he or she held at the time first elected to the Board of Directors and does not secure a comparable employment or position, as determined in the sole judgment of the Board of Directors, within one year thereof.

No person who is also an employee of the Company or one of its corporate affiliates shall continue to serve as a member of the Board of Directors after his or her retirement, termination or downward change in status in the Company, as determined in the sole judgment of the Board of Directors.

The Board of Directors may waive any qualification set forth above in this Section 1(b) if it determines that the director has special skill, experience or distinction having value to the Company that is not readily available or transferable. Any such waiver shall be made by a majority of the Board of Directors, excluding the director whose disqualification is being waived.

No person shall be eligible for election or reelection or to continue to serve as a member of the Board of Directors who is an officer, director, agent, representative, partner, employee, or nominee of, or otherwise acting at the direction of, or acting in concert with, (a) a "public-utility company" (other than any direct or indirect subsidiary of the Company) as such term is defined in Section 2(a)(5) of the Public Utility Holding Company Act of 1935, as in effect on May 1, 1996 (35 Act), or (b) an "affiliate" (as defined in either Section 2(a)(11) of the 35 Act or in Rule 405 under the Securities Act of 1933, as amended) of any such "public-utility company" specified in clause (a) immediately preceding.

Any vacancies on the Board of Directors resulting from the disqualification of a director by virtue of the above qualifications may be filled as provided in Section 2 of this Article III.

The above qualifications and limitations notwithstanding, each director shall serve until his successor shall have been duly elected and qualified, unless he or she shall resign, become disqualified, disabled or shall otherwise be removed.

Section 2. Newly Created Directorships and Vacancies. Newly created directorships resulting from any increase in the number of directors may be filled by the affirmative vote of a majority of the directors then in office for a term of office continuing only until the next election of one or more directors by the shareholders entitled to vote thereon, or may be filled by election at an annual or special meeting of the shareholders called for that purpose; provided, however, that the Board of Directors shall not fill more than two such directorships during the period between two successive annual meetings of shareholders. Except as provided in Section 1 of this Article III, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause may be filled by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors, or may be filled by election at an annual or special meeting of the shareholders called for that purpose. Any director elected to fill any such vacancy shall hold office for the remainder of the full term of the director whose departure from the Board of Directors created the vacancy and until such newly elected director's successor shall have been duly elected and qualified.

Notwithstanding the foregoing paragraph of this Section 2, whenever holders of outstanding shares of Preference Stock are entitled to elect members of the Board of Directors pursuant to the provisions of Section 6 of Division A of Article VI of the Articles of Incorporation of the Company, any vacancy or vacancies resulting by reason of the death, resignation, disqualification or removal of any director or directors or any increase in the number of directors shall be filled in accordance with the provisions of such section.

Section 3. Nomination of Directors. Nominations for the election of directors may be made by the Board of Directors or by any shareholder (Nominator) entitled to vote in the election of directors. Such nominations, other than those made by the Board of Directors, shall be made in writing pursuant to timely notice delivered to or mailed and received by the Secretary of the Company as set forth in this Section 3. To be timely in connection with an annual meeting of shareholders, a Nominator's notice, setting forth the name and address of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety days nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with any election of a director at a special meeting of the shareholders, a Nominator's notice, setting forth the name of the person to be nominated, shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than forty-seven days' notice or prior public disclosure of the date of the special meeting of the shareholders is given or made to the shareholders, the Nominator's notice to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. At such time, the Nominator shall also submit written evidence, reasonably satisfactory to the Secretary of the Company, that the Nominator is a shareholder of the Company and shall identify in writing (a) the name and address of the Nominator, (b) the number of shares of each class of capital stock of the Company owned beneficially by the Nominator, (c) the name and address of each of the persons with whom the Nominator is acting in concert, (d) the number of shares of capital stock beneficially owned by each such person with whom the Nominator is acting in concert, and (e) a description of all arrangements or understandings between the Nominator and each nominee and any other persons with whom the Nominator is acting in concert pursuant to which the nomination or nominations are to be made. At such time, the Nominator shall also submit in writing (i) the information with respect to each such proposed nominee that would be required to be provided in a proxy statement prepared in accordance with Regulation 14A under the Exchange Act and (ii) a notarized affidavit executed by each such proposed nominee to the effect that, if elected as a member of the Board of Directors, he will serve and that he is eligible for election as a member of the Board of Directors. Within thirty days (or such shorter time period that may exist prior to the date of the meeting) after the Nominator has submitted the aforesaid items to the Secretary of the Company, the Secretary of the Company shall determine whether the evidence of the Nominator's status as a shareholder submitted by the Nominator is reasonably satisfactory and shall notify the Nominator in writing of his determination. The failure of the Secretary of the Company to find such evidence reasonably satisfactory, or the failure of the Nominator to submit the requisite information in the form or within the time indicated, shall make the person to be nominated ineligible for nomination at the meeting at which such person is proposed to be nominated. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded. Beneficial ownership shall be determined in accordance with Rule 13d-3 under the Exchange Act.

Section 4. Place of Meetings and Meetings by Telephone. Meetings of the Board of Directors may be held either within or without the State of Texas, at whatever place is specified by the officer calling the meeting. Meetings of the Board of Directors may also be held by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in such a meeting by means of conference telephone or similar communications equipment shall constitute presence in person at such meeting, except where a director participates in a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. In the absence of specific designation by the officer calling the meeting, the meetings shall be held at the principal office of the Company.

Section 5. Regular Meetings. The Board of Directors shall meet each year immediately following the annual meeting of the shareholders for the transaction of such business as may properly be brought before the meeting. The Board of Directors shall also meet regularly at such other times as shall be designated by the Board of Directors. No notice of any kind to either existing or newly elected members of the Board of Directors for such annual or regular meetings shall be necessary.

Section 6. Special Meetings. Special meetings of the Board of Directors may be held at any time upon the call of the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or the Secretary of the Company or a majority of the directors then in office. Notice shall be sent by mail, facsimile or telegram to the last known address of the director at least two days before the meeting, or oral notice may be substituted for such written notice if received not later than the day preceding such meeting. Notice of the time, place and purpose of such meeting may be waived in writing before or after such meeting, and shall be equivalent to the giving of notice. Attendance of a director at such meeting shall also constitute a waiver of notice thereof, except where he attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Except as otherwise provided by these Bylaws, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 7. Quorum and Voting. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, a majority of the number of directors fixed in the manner provided in these Bylaws as from time to time amended shall constitute a quorum for the transaction of business. Except as otherwise provided by law, the Articles of Incorporation of the Company or these Bylaws, the affirmative vote of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. Any regular or special directors' meeting may be adjourned from time to time by those present, whether a quorum is present or not.

Section 8. Compensation. Directors shall receive such compensation for their services as shall be determined by the Board of Directors.

Section 9. Removal. No director of the Company shall be removed from his office as a director by vote or other action of the shareholders or otherwise except (a) with cause, as defined below, by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of the Company entitled to vote in the election of directors, voting together as a single class, or (b) without cause by (i) the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose or (ii) the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of capital stock of the Company entitled to vote in the election of directors, voting together as a single class.

Except as may otherwise be provided by law, cause for removal of a director shall be construed to exist only if: (a) the director whose removal is proposed has been convicted, or where a director is granted immunity to testify where another has been convicted, of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal; (b) such director has been found by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors called for that purpose or by a court of competent jurisdiction to have been negligent or guilty of misconduct in the performance of his duties to the Company in a matter of substantial importance to the Company; or (c) such director has been adjudicated by a court of competent jurisdiction to be mentally incompetent, which mental incompetency directly affects his ability as a director of the Company.

Notwithstanding the first paragraph of this Section 9, whenever holders of outstanding shares of Preference Stock are entitled to elect members of the Board of Directors pursuant to the provisions of Section 6 of Division A of Article VI of the Articles of Incorporation of the Company, any director of the Company may be removed in accordance with the provisions of such section.

No proposal by a shareholder to remove a director of the Company, regardless of whether such director was elected by holders of outstanding shares of Preference Stock (or elected by such directors to fill a vacancy), shall be voted upon at a meeting of the shareholders unless such shareholder shall have delivered or mailed in a timely manner (as set forth in this Section 9) and in writing to the Secretary of the Company (a) notice of such proposal, (b) a statement of the grounds, if any, on which such director is proposed to be removed, (c) evidence, reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of the capital stock of the Company beneficially owned by such shareholder, (d) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Company, if any, with whom such shareholder is acting in concert, and of the number of shares of each class of the capital stock of the Company beneficially owned by each such beneficial owner, and (e) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Company (excluding the director proposed to be removed), to the effect that, if adopted at a duly called special or annual meeting of the shareholders of the Company by the required vote as set forth in the first paragraph of this Section 9, such removal would not be in conflict with the laws of the State of Texas, the Articles of Incorporation of the Company or these Bylaws. To be timely in connection with an annual meeting of shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. To be timely in connection with the removal of any director at a special meeting of the shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than forty days nor more than sixty days prior to the date of such meeting; provided, however, that in the event that less than forty-seven days' notice or prior public disclosure of the date of the special meeting of shareholders is given or made to the shareholders, the shareholder's notice and other aforesaid items to be timely must be so received not later than the close of business on the seventh day following the day on which such notice of date of the meeting was mailed or such public disclosure was made. Within thirty days (or such shorter period that may exist prior to the date of the meeting) after such shareholder shall have delivered the aforesaid items to the Secretary of the Company, the Secretary and the Board of Directors of the Company shall respectively determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such shareholder in writing of their respective determinations. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such shareholder may not be voted upon by the shareholders of the Company at such meeting of shareholders. The presiding person at each meeting of shareholders shall, if the facts warrant, determine and declare to the meeting that a proposal to remove a director of the Company was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded. Beneficial ownership shall be determined as specified in accordance with Rule 13d-3 under the Exchange Act.

Section 10. Executive and Other Committees. The Board of Directors, by resolution or resolutions adopted by a majority of the full Board of Directors, may designate one or more members of the Board of Directors to constitute an Executive Committee, and one or more other committees, which shall in each case be comprised of such number of directors as the Board of Directors may determine from time to time. Subject to such restrictions as may be contained in the Company's Articles of Incorporation or that may be imposed by the TBCA, any such committee shall have and may exercise such powers and authority of the Board of Directors in the management of the business and affairs of the Company as the Board of Directors may determine by resolution and specify in the respective resolutions appointing them, or as permitted by applicable law, including, without limitation, the power and authority to (a) authorize a distribution, (b) authorize the issuance of shares of the Company and (c) exercise the authority of the Board of Directors vested in it pursuant to Article 2.13 of the TBCA or such successor statute as may be in effect from time to time. Each duly-authorized action taken with respect to a given matter by any such duly-appointed committee of the Board of Directors shall have the same force and effect as the action of the full Board of Directors and shall constitute for all purposes the action of the full Board of Directors with respect to such matter.

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 cannot be delegated to a committee thereof 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. The Board of Directors shall name a chairman at the time it designates members to a committee. Each such committee shall 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 accordance with the provisions of Sections 4 and 6 of 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.

ARTICLE IV

OFFICERS

Section 1. Officers. 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. The Board of Directors may delegate to the Chairman of the Board and/or the Chief Executive Officer the authority to appoint additional officers and agents of the Company. Each officer shall hold office until his successor shall have been duly elected or appointed and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. Any two or more offices may be held by the same person. Except for the Chairman of the Board, if any, no officer need be a director.

Section 2. Vacancies; Removal. Whenever any vacancies shall occur in any office by death, resignation, increase in the number of offices of the Company, or otherwise, the officer so elected shall hold office until his successor is chosen and qualified. The Board of Directors may at any time remove any officer of the Company, 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 an officer or agent shall not of itself create contract rights.

Section 3. Powers and Duties of Officers. The officers of the Company shall have such powers and duties as generally pertain to their offices as well as such powers and duties as from time to time shall be conferred by the Board of Directors.

ARTICLE V

INDEMNIFICATION

Section 1. General. The Company shall indemnify and hold harmless the Indemnitee (as this and all other capitalized words are defined in this Article or in Article 2.02-1 of the TBCA), to the fullest extent permitted, or not prohibited, by the TBCA or other applicable law as the same exists or may hereafter be amended (but in the case of any such amendment, with respect to Matters occurring before such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment). The provisions set forth below in this Article are provided as means of furtherance and implementation of, and not in limitation on, the obligation expressed in this Section 1.

Section 2. Advancement or Reimbursement of Expenses. The rights of the Indemnitee provided under Section 1 of this Article shall include, but not be limited to, the right to be indemnified and to have Expenses advanced (including the payment of expenses before final disposition of a Proceeding) in all Proceedings to the fullest extent permitted, or not prohibited, by the TBCA or other applicable law. If the Indemnitee is not wholly successful, on the merits or otherwise, in a 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 Matter. The termination of any Matter in a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such Matter. In addition, to the extent the Indemnitee is, by reason of his Corporate Status, a witness or otherwise participates in any Proceeding at a time when he is not named a defendant or respondent in the Proceeding, he shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. The Indemnitee shall be advanced Expenses, within ten days after any request for such advancement, to the fullest extent permitted, or not prohibited, by Article 2.02-1 of the TBCA; provided that the Indemnitee has provided to the Company all affirmations, acknowledgments, representations and undertakings that may be required of the Indemnitee by Article 2.02-1 of the TBCA.

Section 3. Determination of Request. Upon written request to the Company by an Indemnitee for indemnification pursuant to these Bylaws, a determination, if required by applicable law, with respect to an Indemnitee's entitlement thereto shall be made in accordance with Article 2.02-1 of the TBCA; provided, however, that notwithstanding the foregoing, if a Change in Control shall have occurred, such determination shall be made by Special Legal Counsel selected by the Indemnitee, unless the Indemnitee shall request that such determination be made in accordance with Article 2.02-1F (1) or (2). The Company shall pay any and all reasonable fees and expenses of Special Legal Counsel incurred in connection with any such determination. If a Change in Control shall have occurred, the Indemnitee shall be presumed (except as otherwise expressly provided in this Article) to be entitled to indemnification under this Article upon submission of a request to the Company for indemnification, and thereafter the Company shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. The presumption shall be used by Special Legal Counsel, or such other person or persons determining entitlement to indemnification, as a basis for a determination of entitlement to indemnification unless the Company provides information sufficient to overcome such presumption by clear and convincing evidence or the investigation, review and analysis of Special Legal Counsel or such other person or persons convinces him or them by clear and convincing evidence that the presumption should not apply.

Section 4. Effect of Certain Proceedings. 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 the Indemnitee to indemnification or create a presumption that (a) the Indemnitee did not conduct himself in good faith and in a manner which he reasonably believed, in the case of conduct in his official capacity as a director of the Company, to be in the best interests of the Company, or, in all other cases, that at least his conduct was not opposed to the Company's best interests, or (b) with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his conduct was unlawful.

Section 5. Expenses of Enforcement of Article. In the event that an Indemnitee, pursuant to this Article, seeks a judicial adjudication to enforce his rights under, or to recover damages for breach of, rights created under or pursuant to 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 said 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 Indemnitee in connection with such judicial adjudication shall be reasonably prorated in good faith by counsel for the Indemnitee. Notwithstanding the foregoing, if a Change in Control shall have occurred, Indemnitee shall be entitled to indemnification under this Section regardless of whether indemnitee ultimately prevails in such judicial adjudication.

Section 6. Nonexclusive Rights. The rights of indemnification and to receive advancement of Expenses as provided by this Article shall not be deemed exclusive of any other rights to which the Indemnitee may at any time be entitled under applicable law, the Articles of Incorporation of the Company, these Bylaws, agreement, insurance, arrangement, a vote of shareholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Article or any provision thereof shall be effective as to any Indemnitee for acts, events and circumstances that occurred, in whole or in part, before such amendment, alteration or repeal. 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 7. Invalidity. 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.

Section 8. Definitions. For purposes of this Article:

"Change of Control" means a change in control of the Company occurring after the date of adoption of these Bylaws in any of the following circumstances: (a) there shall have occurred an event required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Exchange Act, whether or not the Company is then subject to such reporting requirement; (b) any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company or a corporation or other entity owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of stock of the

Company, shall have become the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities without prior approval of at least two-thirds of the members of the Board of Directors in office immediately prior to such person attaining such percentage interest; (c) the Company is a party to a merger, consolidation, share exchange, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board of Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors thereafter; (d) during any fifteen month period, individuals who at the beginning of such period constituted the Board of Directors (including for this purpose any new director whose election or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board of Directors.

"Corporate Status" means the status of a person who is or was a director, officer, partner, venturer, proprietor, trustee, employee (including an employee acting in his Designated Professional Capacity), or agent or similar functionary of the Company or of any other foreign or domestic corporation, partnership, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise which such person is or was serving in such capacity at the request of the Company. The Company hereby acknowledges that unless and until the Company provides the Indemnitee with written notice to the contrary, the Indemnitee's service as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of an Affiliate of the Company shall be conclusively presumed to be at the Company's request. An Affiliate of the Company shall be deemed to be (a) any foreign or domestic corporation in which the Company owns or controls, directly or indirectly, 5% or more of the shares entitled to be voted in the election of directors of such corporation; (b) any foreign or domestic partnership, joint venture, proprietorship or other enterprise in which the Company owns or controls, directly or indirectly, 5% or more of the revenue interests in such partnership, joint venture, proprietorship or other enterprise; or (c) any trust or employee benefit plan the beneficiaries of which include the Company, any Affiliate of the Company as defined in the foregoing clauses (a) and (b) or any of the directors, officers, partners, venturers, proprietors, employees, agents or similar functionaries of the Company or of such Affiliates of the Company.

"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 is, or is threatened to be made, a witness in or a party to any Proceeding as described in Section 1 or 2 of this Article by reason of his Corporate Status.

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

"Proceeding" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution proceeding, investigation, administrative hearing and any other proceeding, whether civil, criminal, administrative, investigative or other, any appeal in such action, suit, arbitration, proceeding or hearing, or any inquiry or investigation, whether conducted by or on behalf of the Company, a subsidiary of the Company or any other party, formal or informal, that the Indemnitee in good faith believes might lead to the institution of any such action, suit, arbitration, proceeding, investigation or hearing, except one initiated by an Indemnitee pursuant to Section 5 of this Article.

"Special Legal 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 the Indemnitee in any matter material to either such party; (b) any other party to the Proceeding giving rise to a claim for indemnification hereunder; or (c) the beneficial owner, directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding voting securities. Notwithstanding the foregoing, the term "Special Legal Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's rights to indemnification under these Bylaws.

For the purposes of this Article, an employee acting in his "Designated Professional Capacity" shall include, but not be limited to, a physician, nurse, psychologist or therapist, registered surveyor, registered engineer, registered architect, attorney, certified public accountant or other person who renders such professional services within the course and scope of his employment, who is licensed by appropriate regulatory authorities to practice such profession and who, while acting in the course of such employment, committed or is alleged to have committed any negligent acts, errors or omissions in rendering such professional services at the request of the Company or pursuant to his employment (including, without limitation, rendering written or oral opinions to third parties).

Section 9. Notice. Any communication required or permitted to the Company under this Article shall be addressed to the Secretary of the Company and any such communication to the Indemnitee shall be addressed to his home address unless he specifies otherwise and shall be personally delivered or delivered by overnight mail or courier delivery.

Section 10. Insurance and Self-Insurance Arrangements. The Company may procure or maintain insurance or other similar arrangements, at its expense, to protect itself and any Indemnitee against any expense, liability or loss asserted against or incurred by such person, incurred by him in such a capacity or arising out of his Corporate Status as such a person, whether or not the Company would have the power to indemnify such person against such expense or liability. In considering the cost and availability of such insurance, the Company (through the exercise of the business judgment of its directors and officers) may, from time to time, purchase insurance which provides for any and all of (a) deductibles, (b) limits on payments required to be made by the insurer, or (c) coverage which may not be as comprehensive as that previously included in insurance purchased by the Company. The purchase of insurance with deductibles, limits on payments and coverage exclusions will be deemed to be in the best interest of the Company but may not be in the best interest of certain of the persons covered thereby. As to the Company, purchasing insurance with deductibles, limits on payments, and coverage exclusions is similar to the Company's practice of self-insurance in other areas. In order to protect the Indemnitees who would otherwise be more fully or entirely covered under such policies, the Company shall indemnify and hold each of them harmless as provided in Section 1 or 2 of this Article, without regard to whether the Company would otherwise be entitled to indemnify such officer or director under the other provisions of this Article, or under any law, agreement, vote of shareholders or directors or other arrangement, to the extent (i) of such deductibles, (ii) of amounts exceeding payments required to be made by an insurer or (iii) that prior policies of officer's and director's liability insurance held by the Company or its predecessors would have provided for payment to such officer or director. Notwithstanding the foregoing provision of this Section, no Indemnitee shall be entitled to indemnification for the results of such person's conduct that is intentionally adverse to the interests of the Company. This Section is authorized by Section 2.02-1(R) of the TBCA as in effect on May 1, 1996, and further is intended to establish an arrangement of self-insurance pursuant to that section.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 1. Offices. The principal office of the Company shall be located in Houston, Texas, unless and until changed by resolution of the Board of Directors. The Company may also have offices at such other places as the Board of Directors may designate from time to time, or as the business of the Company may require. The principal office and registered office may be, but need not be, the same.

Section 2. Resignations. Any director or officer may resign at any time. Such resignations shall be made in writing and shall take effect at the time specified therein, or, if no time be specified, at the time of its receipt by the Chairman of the Board, if there is one, the Chief Executive Officer, if there is one, the President or the Secretary. The acceptance of a resignation shall not be necessary to make it effective, unless expressly so provided in the resignation.

Section 3. Seal. The Corporate Seal shall be circular in form, shall have inscribed thereon the name of the Company and may be used by causing it or a facsimile thereof to be impressed or affixed or otherwise reproduced.

Section 4. Separability. If one or more of the provisions of these Bylaws shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision hereof and these Bylaws shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein.

ARTICLE VII

AMENDMENT OF BYLAWS

Section 1. Vote Requirements. The Board of Directors shall have the power to alter, amend or repeal the Bylaws or adopt new Bylaws by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Board of Directors, subject to repeal or change by the affirmative vote of the holders of at least 80% of the voting power of all the shares of the Company entitled to vote in the election of directors, voting together as a single class.

Section 2. Shareholder Proposals. No proposal by a shareholder made pursuant to Section 1 of this Article VII may be voted upon at an annual meeting of shareholders unless such shareholder shall have delivered or mailed in a timely manner (as set forth in this Section 2) and in writing to the Secretary of the Company (a) notice of such proposal and the text of the proposed alteration, amendment or repeal, (b) evidence reasonably satisfactory to the Secretary of the Company, of such shareholder's status as such and of the number of shares of each class of capital stock of the Company of which such shareholder is the beneficial owner, (c) a list of the names and addresses of other beneficial owners of shares of the capital stock of the Company, if any, with whom such shareholder is acting in concert, and the number of shares of each class of capital stock of the Company beneficially owned by each such beneficial owner and (d) an opinion of counsel, which counsel and the form and substance of which opinion shall be reasonably satisfactory to the Board of Directors of the Company, to the effect that the Bylaws (if any) resulting from the adoption of such proposal would not be in conflict with the Articles of Incorporation of the Company or the laws of the State of Texas. To be timely in connection with an annual meeting of shareholders, a shareholder's notice and other aforesaid items shall be delivered to or mailed and received at the principal executive offices of the Company not less than ninety nor more than 180 days prior to the date on which the immediately preceding year's annual meeting of shareholders was held. In no event shall the public disclosure of an adjournment of an annual meeting of shareholders commence a new time period for the giving of a shareholder's notice as described above.

Within thirty days after such shareholder shall have submitted the aforesaid items, the Secretary or the Board of Directors of the Company shall determine whether the items to be ruled upon by them are reasonably satisfactory and shall notify such shareholder in writing of its determination. If such shareholder fails to submit a required item in the form or within the time indicated, or if the Secretary or the Board of Directors of the Company determines that the items to be ruled upon by them are not reasonably satisfactory, then such proposal by such shareholder may not be voted upon by the shareholders of the Company at such annual meeting of shareholders. The Chairman of the Meeting shall, if the facts warrant, determine and declare to the meeting that a proposal by a shareholder of the Company made pursuant to Section 1 of this Article VII was not made in accordance with the procedures prescribed by these Bylaws, and if he should so determine, he shall so declare to the meeting and the defective proposal shall be disregarded. Beneficial ownership shall be determined in accordance with Rule 13d-3 under the Exchange Act.

Nothing in this Section 2 shall be interpreted or construed to require the inclusion of information about any such proposal in any proxy statement distributed by, at the direction of, or on behalf of the Board of Directors or the Company.

No proposal by a shareholder made pursuant to Section 1 of this Article VII shall be voted upon at a special meeting of shareholders unless such proposal has been stated in the notice of such special meeting or shall otherwise have been properly brought before the meeting by or at the direction of the Chairman of the Meeting or the Board of Directors (or any duly authorized committee thereof).

EXHIBIT 4

AMENDMENT NO. 1 TO RIGHTS AGREEMENT

This AMENDMENT NO. 1 TO RIGHTS AGREEMENT, dated as of May 8, 2000 (this "Amendment"), between Reliant Energy, Incorporated (formerly Houston Industries Incorporated), a Texas corporation (the "Company"), and Chase Bank of Texas, National Association (formerly Texas Commerce Bank National Association) (the "Rights Agent"),

W I T N E S S E T H:

WHEREAS, on May 7, 1999, the Company changed its name from Houston Industries Incorporated to Reliant Energy, Incorporated;

WHEREAS, in January 1998, the Rights Agent changed its name from Texas Commerce Bank National Association to Chase Bank of Texas, National Association;

WHEREAS, the Company and the Rights Agent are parties to a Rights Agreement, as amended and restated as of August 6, 1997 (the "Rights Agreement");

WHEREAS, pursuant to Section 27 of the Rights Agreement, the Company may, and the Rights Agent shall, if the Company so directs, amend the Rights Agreement; and

WHEREAS, the Company desires to amend the Rights Agreement as set forth below;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein set forth, the parties hereby agree as follows:

Section 1. Definition of Final Expiration Date. The definition of "Final Expiration Date" in Section 1 of the Rights Agreement is amended to read in its entirety as follows:

> "Final Expiration Date" shall mean the close of business on July 11, 2010.

Section 2. Severability. If any term, provision, covenant or restriction of this Amendment is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Amendment shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 3. Governing Law. This Amendment shall be deemed to be a contract made under the laws of the State of Texas and for all purposes shall be governed by and construed in accordance with the laws of such State applicable to contracts made and to be performed entirely within such State.

Section 4. Counterparts. This Amendment may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.

Section 5. Descriptive Headings. Descriptive headings of the several Sections of this Amendment are inserted for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

Section 6. Confirmation of Rights Agreement. Except to the extent specifically amended hereby, the provisions of the Rights Agreement shall remain unmodified, and the Rights Agreement as amended hereby is confirmed as being in full force and effect.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed all as of the day and year first above written.

RELIANT ENERGY, INCORPORATED

By: /s/ Hugh Rice Kelly

Name: Hugh Rice Kelly
Title: Executive Vice President, General Counsel and Corporate Secretary

CHASE BANK OF TEXAS, NATIONAL ASSOCIATION, as Rights Agent

By: /s/ Dierdre T. Green

Name: Dierdre T. Green
Title: Trust Officer

EXHIBIT 12

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

(THOUSANDS OF DOLLARS)

	THREE MONTHS ENDED MARCH 31, 2000	TWELVE MONTHS ENDED MARCH 31, 2000
Income from continuing operations	$ 133,153	$ 2,008,576
Income taxes for continuing operations	55,936	1,011,596
Capitalized interest	(8,035)	(25,267)
	181,054	2,994,905
Fixed charges, as defined:		
Interest	162,985	548,196
Capitalized interest	8,035	25,267
Distribution on trust preferred securities	13,892	55,321
Interest component of rentals charged to operating expense	3,123	13,472
Total fixed charges	188,035	642,256
Earnings, as defined	$ 369,089	$ 3,637,161
Ratio of earnings to fixed charges	1.96	5.66

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

0000048732
RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

3-MOS
DEC-31-2000
MAR-31-2000
PER-BOOK
9,201,354
5,253,399
7,769,218
5,836,598
0
28,060,569
2,901,235
0
2,439,369
5,340,604
705,373
9,740
5,502,253
1,798,351
0
1,611,252
5,787,588
0
12,495
640
7,292,273
28,060,569
4,234,103
55,936
3,888,008
3,888,008
346,095
5,979
352,074
162,985
133,153
97
133,056
105,479
138,796
449,952
0.47
0.47

Total annual interest charges on all bonds is as of year-to-date 03/31/00.

EXHIBIT 99(a)

RELIANT ENERGY INCORPORATED
Items Incorporated by Reference

ITEMS INCORPORATED BY REFERENCE FROM THE RELIANT ENERGY FORM 10-K:

o ITEM 3. LEGAL PROCEEDINGS

(a) Reliant Energy.

For a description of certain legal and regulatory proceedings affecting the Company, see Notes 3, 4, 14(h) and 14(i) to the Company's Consolidated Financial Statements, which notes are incorporated herein by reference.

o ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY -- CERTAIN FACTORS AFFECTING FUTURE EARNINGS OF THE COMPANY

Earnings for the past three years are not necessarily indicative of future earnings and results. The level of future earnings depends on numerous factors including (i) state and federal legislative or regulatory developments, (ii) national or regional economic conditions, (iii) industrial, commercial and residential growth in service territories of the Company, (iv) the timing and extent of changes in commodity prices and interest rates, (v) weather variations and other natural phenomena, (vi) growth in opportunities for the Company's diversified operations, (vii) the results of financing efforts, (viii) the ability to consummate and timing of consummation of pending acquisitions and dispositions, (ix) the speed, degree and effect of continued electric industry restructuring in North America and Western Europe, and (x) risks incidental to the Company's overseas operations, including the effects of fluctuations in foreign currency exchange rates.

In order to adapt to the increasingly competitive environment, the Company continues to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, internal restructuring, reorganizations or dispositions of currently owned businesses and new products, services and customer strategies.

COMPETITION AND RESTRUCTURING OF THE TEXAS ELECTRIC UTILITY INDUSTRY

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

Texas Electric Choice Plan. In June 1999, the Texas legislature adopted legislation that substantially amends the regulatory structure governing electric utilities in Texas in order to allow retail competition beginning with respect to pilot projects for up to 5% of each utility's load in all customer classes in June 2001 and for all other customers on January 1, 2002. In preparation for that competition, the Company expects to make significant changes in the electric utility operations it conducts through Reliant Energy HL&P. Under the Legislation, on January 1, 2002, most retail customers of investor-owned electric utilities in Texas will be entitled to purchase their electricity from any of a number of "retail electric providers" which will have been certified by the Texas Utility Commission. Power generators will sell electric energy to wholesale purchasers, including retail electric providers, at unregulated rates beginning January 1, 2002. For further information regarding the Legislation, see Note 3 to the Company's Consolidated Financial Statements.

Stranded Costs. Pursuant to the Legislation, Reliant Energy HL&P will be entitled to recover its stranded costs (i.e., the excess of net book value of generation assets, as defined by the Legislation, over the market value of those assets) and its regulatory assets related to generation. The Legislation prescribes specific methods for determining the amount of stranded costs and the details for their recovery. However, during the base rate freeze period from 1999 through 2001, earnings above the utility's authorized return formula will be applied in a manner to accelerate depreciation of generation related plant assets for regulatory purposes. In addition, depreciation expense for transmission and distribution related assets may be redirected to generation assets for regulatory purposes during that period. The Legislation also provides for Reliant Energy HL&P, or a special purpose entity, to issue securitization bonds for the recovery of generation related regulatory assets and stranded costs. Any stranded costs not recovered through the securitization bonds will be recovered through a non-bypassable charge to transmission and distribution customers.

Accounting. At June 30, 1999, the Company performed an impairment test of its previously regulated electric generation assets pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", on a plant specific basis. The Company determined that $797 million of electric generation assets were impaired as of June 30, 1999. Of such amounts, $745 million relate to the South Texas Project and $52 million relate to two gas-fired generation plants. The Legislation provides recovery of this impairment through regulated cash flows during the transition period and through non-bypassable charges to transmission and distribution customers. As such, a regulatory asset has been recorded for an amount equal to the impairment loss and is included on the Company's Consolidated Balance Sheets as a regulatory asset.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, Reliant Energy HL&P must finalize and reconcile stranded costs (as defined by the Legislation) in a filing with the Texas Utility Commission. Any difference between the fair market value and the regulatory net book value of the generation assets (as defined by the Legislation) will either be refunded or collected through future transmission and distribution rates. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges. Because generally accepted accounting principles require the Company to estimate fair market values on a plant-by-plant basis in advance of the final reconciliation, the financial impacts of the Legislation with respect to stranded costs are subject to material changes. Factors affecting such change may include estimation risk, uncertainty of future energy prices and the economic lives of the plants. If events occur that make the recovery of all or a portion of the regulatory assets associated with the generation plant impairment loss and deferred debits created from discontinuance of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" pursuant to the Legislation no longer probable, the Company will write off the corresponding balance of such assets as a non-cash charge against earnings.

In the fourth quarter of 1999, Reliant Energy HL&P filed an application to securitize its generation related regulatory assets as defined by the Legislation. The Texas Utility Commission, Reliant Energy HL&P and other interested parties have been discussing proposed methodologies for calculating the amount of such assets to be securitized. The parties have reached an agreement in principle as to the amount to be securitized, which reflects the economic value of the nominal book amount which prior to the deregulation legislation would have been collected through rates over a much longer time period. The Company has determined that a pre-tax accounting loss of $282 million exists. Therefore, the Company recorded an after-tax extraordinary loss of $183 million for this accounting impairment of these regulatory assets in 1999.

Transmission System Open Access. In February 1996, the Texas Utility Commission adopted rules granting third-party users of transmission systems open access to such systems at rates, terms and conditions comparable to those available to utilities owning such transmission assets. Under the Texas Utility Commission order implementing the rule, Reliant Energy HL&P was required to separate, on an operational basis, its wholesale power marketing operations from the operations of the transmission grid and, for purposes of transmission pricing, to disclose each of its separate costs of generation, transmission and distribution. Within ERCOT, an independent system operator (ISO) manages the state's electric grid, ensuring system reliability and providing non-discriminatory transmission access to all power producers and traders.

Transition Plan. In June 1998, the Texas Utility Commission approved the Transition Plan filed by Reliant Energy HL&P in December 1997. Certain parties have appealed the order approving the Transition Plan. The provisions of the Transition Plan expired by their own terms as of December 31, 1999. For additional information, see Note 4 to the Company's Consolidated Financial Statements.

COMPETITION -- RELIANT ENERGY EUROPE OPERATIONS

The European energy market is highly competitive. In addition, over the next several years, an increasing consolidation of the participants in the Dutch generating market is expected to occur.

Reliant Energy Europe competes in the Netherlands primarily against the three other largest Dutch generating companies, various cogenerators of electric power, various alternate sources of power and non-Dutch generators of electric power, primarily from Germany. At present, the Dutch electricity system has three operational interconnection points with Germany and two interconnection points with Belgium. There are also a number of projects that are at various stages of development and that may increase the number of interconnections in the future including interconnections with Norway and the United Kingdom. The Belgian interconnections are used to import electricity from France but a larger portion of Dutch imports comes from Germany. In 1998, net power imports into the Netherlands were approximately 11.7 terawatt hours. Based on current information, it is estimated that net power imports into the Netherlands in 1999 increased significantly from 1998.

In 1999, UNA and the three other largest Dutch generators supplied approximately 60% of the electricity consumed in the Netherlands. Smaller Dutch producers supplied about 28% and the remainder was imported. The Dutch electricity market is expected to be gradually opened for wholesale competition including certain commercial and industrial customers beginning in 2001. Competition is expected to increase in subsequent years and it is anticipated that the market for small businesses and residential customers will become open to competition by 2007. The timing of the opening of these markets is subject, however, to change at the discretion of the Minister of Economic Affairs.

The trading and marketing operations of Reliant Energy Europe will also be subject to increasing levels of competition. As of March 1, 2000, there were approximately 25 trading and marketing companies registered with the Amsterdam Power Exchange. Competition for marketing customers is intense and is expected to increase with the deregulation of the market. The primary elements of competition in both the generation and trading and marketing side of Reliant Energy Europe's business operations are price, credit-support and supply and delivery reliability.

COMPETITION -- OTHER OPERATIONS

Wholesale Energy. By the third quarter of 2000, Reliant Energy expects that the Company will own and operate over 8,000 MW of non-rate regulated electric generation assets that serve the wholesale energy markets located in the states of California and Florida, and the Southwest, Midwest and Mid-Atlantic regions of the United States. Competitive factors affecting the results of operations of these generation assets include: new market entrants, construction by others of more efficient generation assets, the actions of regulatory authorities and weather.

Other competitors operate power generation projects in most of the regions where the Company has invested in non-rate regulated generation assets. Although local permitting and siting issues often reduce the risk of a rapid growth in supply of generation capacity in any particular region, over time, projects are likely to be built which will increase competition and lower the value of some of the Company's non-rate regulated electric generation assets.

The regulatory environment of the wholesale energy markets in which the Company invests may adversely affect the competitive conditions of those markets. In several regions, notably California and in the PJM Power Pool Region (in the Mid-Atlantic region of the United States), the independent system operators have chosen to rely on price caps and market redesigns as a way of minimizing market volatility.

The results of operations of the Company's non-rate regulated generation assets are also affected by the weather conditions in the relevant wholesale energy markets. Extreme seasonal weather conditions typically increase the demand for wholesale energy. Conversely, mild weather conditions typically have the opposite effect. In some regions, especially California, weather conditions associated with hydroelectric generation resources such as rainfall and snowpack can significantly influence market prices for electric power by increasing or decreasing the availability and timing of hydro-based generation which is imported into the California market.

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

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

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

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

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

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

INDEXED DEBT SECURITIES (ACES AND ZENS) AND TIME WARNER INVESTMENT

For information on Reliant Energy's indexed debt securities and its investment in TW Common, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Report and Note 8 to the Company's Consolidated Financial Statements.

IMPACT OF THE YEAR 2000 ISSUE AND OTHER SYSTEM IMPLEMENTATION ISSUES

In 1997, the Company initiated a corporate-wide Year 2000 project to address mainframe application systems, information technology (IT) related equipment, system software, client-developed applications, building controls and non-IT embedded systems such as process controls for energy production and delivery. The evaluation of Year 2000 issues included those related to significant customers, key vendors, service suppliers and other parties material to the Company's operations.

Remediation and testing of all systems and equipment were completed during 1999. The Company did not experience any Year 2000 problems that significantly affected the operations of the Company. The Company will continue to monitor and assess potential future problems. Total direct costs of resolving the Year 2000 issue with respect to the Company were $29 million.

The Company is in the process of implementing SAP America, Inc.'s (SAP) proprietary R/3 enterprise software. Although the implementation of the SAP system had the incidental effect of negating the need to modify many of the Company's computer systems to accommodate the Year 2000 problem, the Company does not deem the costs of the SAP system as directly related to its Year 2000 compliance program. Portions of the SAP system were implemented in December 1998, March 1999 and September 1999, and it is expected that the final portion of the SAP system will be fully implemented by the fourth quarter of 2002. The cost of implementing the SAP system is currently estimated to be approximately $237 million, inclusive of internal costs. As of December 31, 1999, $192 million has been spent on the implementation.

ENTRY INTO THE EUROPEAN MARKET

Reliant Energy Europe owns, operates and sells power from generation facilities in the Netherlands and plans to participate in the emerging wholesale energy trading and marketing industry in the Netherlands and other countries in Europe. Reliant Energy expects that the Dutch electric industry will undergo change in response to market deregulation in 2001. These expected changes include the anticipated expiration of certain transition agreements which have governed the basic tariff rates that UNA and other generators have charged their customers. Based on current forecasts and other assumptions, the revenues of UNA could decline significantly from 1999 revenues after 2000.

One of the factors that could have a significant impact on the Dutch energy industry, including the operations of UNA, is the ultimate resolution of stranded cost issues in the Netherlands. The Dutch government is currently seeking to establish a transitional regime in order to solve the problem of stranded costs, which relate primarily to investments and contracts entered into by SEP and certain licensed generators prior to the liberalization of the market. SEP is owned in equal shares by each of the four large Dutch generating companies, including UNA.

In connection with the acquisition of UNA, the selling shareholders of UNA agreed to indemnify UNA for certain stranded costs in an amount not to exceed NLG 1.4 billion (approximately $639 million based on an exchange rate of 2.19 NLG per U.S. dollar as of December 31, 1999), which may be increased in certain circumstances at the option of the Company up to NLG 1.9 billion (approximately $868 million). Of the total consideration paid by the Company for the shares of UNA, NLG 900 million (approximately $411 million) has been placed by the selling shareholders in an escrow account to secure the indemnity obligations. Although Reliant Energy believes that the indemnity provision will be sufficient to cover UNA's ultimate share of any stranded cost obligation, this belief is based on numerous assumptions regarding the ultimate outcome and timing of the resolution of the stranded cost issue, the existing shareholders timely performance of their obligations under the indemnity arrangement, and the amount of stranded costs which at present is not determinable.

The Dutch government is expected to propose a legislative initiative regarding stranded costs to the Dutch cabinet in March 2000. The proposed legislation will be sent to the Dutch council of state for review. It is not anticipated that the legislation will be reviewed by parliament until late in the summer of 2000.

For information about the Company's exposure through its investment in Reliant Energy Europe to losses resulting from fluctuations in currency rates, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

RISK OF OPERATIONS IN EMERGING MARKETS

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

Impact of Currency Fluctuations on Company Earnings. The Company owns 11.78% of the stock of Light Servicos de Eletricidade S.A. (Light) and, through its investment in Light, a 9.2% interest in the stock of Metropolitana Electricidade de Sao Paulo S.A. (Metropolitana). As of December 31, 1999 and 1998, Light and Metropolitana had total borrowings of $2.9 billion and $3.2 billion, respectively, denominated in non-local currencies. During the first quarter of 1999, the Brazilian real was devalued and allowed to float against other major currencies. The effects of devaluation on the non-local currency denominated borrowings caused the Company to record an after-tax charge for the year ended December 31, 1999 of $102 million as a result of foreign currency transaction losses recorded by both Light and Metropolitana in such periods. For additional information regarding the effect of the devaluation of the Brazilian real, see Note 7(a) in the Company's Consolidated Financial Statements.

Light's and Metropolitana's tariff adjustment mechanisms are not directly indexed to the U.S. dollar or other non-local currencies. To partially offset the devaluation of the Brazilian real, and the resulting increased operating costs and inflation, Light and Metropolitana received tariff rate increases of 16% and 21%, respectively, which were phased in during June and July 1999. Light also received its annual rate adjustment in November 1999 resulting in a tariff rate increase of 11%. The Company is pursuing additional tariff increases to mitigate the impact of the devaluation; however, there can be no assurance that such adjustments will be timely or that they will permit substantial recovery of the impact of the devaluation.

Certain of Reliant Energy Latin America's other foreign electric distribution companies have incurred U.S. dollar and other non-local currency indebtedness (approximately $600 million at December 31, 1999). For further analysis of foreign currency fluctuations in the Company's earnings and cash flows, see "Quantitative and Qualitative Disclosures About Market Risk -- Foreign Currency Exchange Rate Risk" in Item 7A of this Form 10-K.

Impact of Foreign Currency Devaluation on Projected Capital Resources. The ability of Light and Metropolitana to repay or refinance their debt obligations at maturity is dependent on many factors, including local and international economic conditions prevailing at the time such debt matures. If economic conditions in the international markets continue to be unsettled or deteriorate, it is possible that Light, Metropolitana and the other foreign electric distribution companies in which the Company holds investments might encounter difficulties in refinancing their debt (both local currency and non-local currency borrowings) on terms and conditions that are commercially acceptable to them and their shareholders. In such circumstances, in lieu of declaring a default or extending the maturity, it is possible that lenders might seek to require, among other things, higher borrowing rates, and additional equity contributions and/or increased levels of credit support from the shareholders of such entities. For a discussion of the Company's anticipated capital contributions in 2000, see "-- Liquidity and Capital Resources -- Future Sources and Uses of Cash Flows -- Reliant Energy Latin America Capital Contributions and Advances." In 2000, $1.6 billion of debt obligations of Light and Metropolitana will mature. The availability or terms of refinancing such debt cannot be assured. Currency fluctuation and instability affecting Latin America may also adversely affect the Company's ability to refinance its equity investments with debt.

ENVIRONMENTAL EXPENDITURES

The Company is subject to numerous environmental laws and regulations, which require it to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment.

Clean Air Act Expenditures. The Company expects the majority of capital expenditures associated with environmental matters to be incurred by Electric Operations in connection with new emission limitations under the Federal Clean Air Act (Clean Air Act) for oxides of nitrogen (NOx). NOx reduction costs incurred by Electric Operations generating units in the Houston, Texas area totaled approximately $7 million in 1999 and $7 million in 1998. The Texas Natural Resources Conservation Commission (TNRCC) is currently considering additional NOx reduction requirements for electric generating units and other industrial sources located in the Houston metropolitan area and the eastern half of Texas as a means to attain the Clean Air Act standard for ozone. Although the magnitude and timing of these requirements will not be established by the TNRCC until November, 2000, NOx reductions approaching 90% of the emissions level are anticipated. Expenditures for NOx controls on Electric Operations' generating units have been estimated at $500 million to $600 million during the period 2000 through 2003, with an estimated $80 million to be incurred during 2000. In addition, the Legislation created a program mandating air emissions reductions for certain generating facilities of Electric Operations. The Legislation provides for stranded cost recovery for costs associated with this obligation incurred before May 1, 2003. For further information regarding the Legislation, see Note 3 to the Company's Consolidated Financial Statements.

Site Remediation Expenditures. From time to time the Company has received notices from regulatory authorities or others regarding its status as a potentially responsible party in connection with sites found to require remediation due to the presence of environmental contaminants. Based on currently available information, Reliant Energy believes that remediation costs will not materially affect its financial position, results of operations or cash flows. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to Reliant Energy's estimates. For information about specific sites that are the subject of remediation claims, see Note 14(h) to the Company's Consolidated Financial Statements and Note 8(d) to Resources' Consolidated Financial Statements.

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

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

OTHER CONTINGENCIES

For a description of certain other legal and regulatory proceedings affecting the Company, see Notes 3, 4 and 14 to the Company's Consolidated Financial Statements and Note 8 to Resources' Consolidated Financial Statements.

o Item 7.A QUANTATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

INTEREST RATE RISK

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

At December 31, 1999, the Company had issued fixed-rate debt (excluding indexed debt securities) and Trust Preferred Securities aggregating $5.8 billion in principal amount and having a fair value of $5.6 billion. These instruments are fixed-rate and, therefore, do not expose the Company to the risk of loss in earnings due to changes in market interest rates (see Notes 10 and 11 to the Company's Consolidated Financial Statements). However, the fair value of these instruments would increase by approximately $305 million if interest rates were to decline by 10% from their levels at December 31, 1999. In general, such an increase in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company's floating-rate obligations aggregated $3.1 billion at December 31, 1999 (see Note 10 to the Company's Consolidated Financial Statements), inclusive of (i) amounts borrowed under short-term and long-term credit facilities of the Company (including the issuance of commercial paper supported by such facilities), (ii) borrowings underlying a receivables facility and (iii) amounts subject to a master leasing agreement under which lease payments vary depending on short-term interest rates. These floating-rate obligations expose the Company to the risk of increased interest and lease expense in the event of increases in short-term interest rates. If the floating rates were to increase by 10% from December 31, 1999 levels, the Company's consolidated interest expense and expense under operating leases would increase by a total of approximately $1.6 million each month in which such increase continued.

As discussed in Notes 1(l) and 6(c) to the Company's Consolidated Financial Statements, the Company contributes $14.8 million per year to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project. The securities held by the trust for decommissioning costs had an estimated fair value of $145 million as of December 31, 1999, of which approximately 40% were fixed-rate debt securities that subject the Company to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 1999, the decrease in fair value of the fixed-rate debt securities would not be material to the Company. In addition, the risk of an economic loss is mitigated. Any unrealized gains or losses are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability because the Company believes that its future contributions which are currently recovered through the rate-making process will be adjusted for these gains and losses. For further discussion regarding the recovery of decommissioning costs pursuant to the Legislation, see Note 3 to the Consolidated Financial Statements.

As discussed in Note 1(l) to the Company's Consolidated Financial Statements, UNA holds fixed-rate debt securities, which had an estimated fair value of $133 million as of December 31, 1999, that subject the Company to risk of loss of fair value and earnings with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 1999, the decrease in fair value and loss in earnings from this investment would not be material to the Company.

The Company has entered into interest rate swaps for the purpose of decreasing the amount of debt subject to interest rate fluctuations. At December 31, 1999, these interest rate swaps had an aggregate notional amount of $64 million and the cost to terminate would not result in a material loss in earnings and cash flows to the Company (see Note 5 to the Company's Consolidated Financial Statements). An increase of 10% in the December 31, 1999 level of interest rates would not increase the cost of termination of the swaps by a material amount to the Company. Swap termination costs would impact the Company's earnings and cash flows only if all or a portion of the swap instruments were terminated prior to their expiration.

As discussed in Note 10(b) to the Company's Consolidated Financial Statements, in November 1998, Resources sold $500 million aggregate principal amount of its 6 3/8% TERM Notes which included an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate in 2003 is below 5.66%. At December 31, 1999, the Company could terminate the option at a cost of $11 million. A decrease of 10% in the December 31, 1999 level of interest rates would increase the cost of termination of the option by approximately $5 million.

EQUITY MARKET RISK

As discussed in Note 8 to the Company's Consolidated Financial Statements, the Company owns approximately 55 million shares of TW Common, of which approximately 38 million and 17 million shares are held by the Company to facilitate its ability to meet its obligations under the ACES and ZENS, respectively. Unrealized gains and losses resulting from changes in the market value of the Company's TW Common are recorded in the Consolidated Statement of Operations. IncreaseS in the market value of TW Common result in an increase in the liability for the ZENS and ACES and are recorded as a non-cash expense. Such non-cash expense will be offset by an unrealized gain on the Company's TW Common investment. However, if the market value of TW Common declines below $58.25, the ZENS payment obligation will not decline below its original principal amount. As of December 31, 1999, the market value of TW Common was $72.31 per share. A decrease of 10% from the December 31, 1999 market value of TW Common would not result in a loss. As of March 1, 2000, the market value of TW Common was $84.38 per share. In addition, the Company has a $14 million investment in Cisco Systems, Inc. as of December 31, 1999, which is classified as trading under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). In January 2000, the Company entered into financial instruments (a put option and a call option) to manage price risks related to the Company's investment in Cisco Systems, Inc. A decline in the market value of this investment would not materially impact the Company's earnings and cash flows. The Company also has a $9 million investment in Itron, Inc. (Itron) which is classified as "available for sale" under SFAS No. 115. The Itron investment exposes the Company to losses in the fair value of Itron common stock. A 10% decline in the market value per share of Itron common stock from the December 31, 1999 levels would not result in a material loss in fair value to the Company.

As discussed above under "-- Interest Rate Risk," the Company contributes to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project which held debt and equity securities as of December 31, 1999. The equity securities expose the Company to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at December 31, 1999, the resulting loss in fair value of these securities would, not be material to the Company. Currently, the risk of an economic loss is mitigated as discussed above under "--Interest Rate Risk."

FOREIGN CURRENCY EXCHANGE RATE RISK

As further described in "Certain Factors Affecting Future Earnings of the Company -- Risks of Operations in Emerging Markets" in Item 7 of this Form 10-K, the Company has investments in electric generation and distribution facilities in Latin America with a substantial portion accounted for under the equity method. In addition, as further discussed in Note 2 of the Company's Consolidated Financial Statements, during the fourth quarter of 1999, the Company completed the first and second phases of the acquisition of 52% of the shares UNA, a Dutch power generation company and completed the final phase of the acquisition on March 1, 2000. These foreign operations expose the Company to risk of loss in earnings and cash flows due to the fluctuation in foreign currencies relative to the Company's consolidated reporting currency, the U.S. dollar. The Company accounts for adjustments resulting from translation of its investments with functional currencies other than the U.S. dollar as a charge or credit directly to a separate component of stockholders' equity. The Company has entered into foreign currency swaps and has issued Euro denominated debt to hedge its net investment in UNA. Changes in the value of the swap and debt are recorded as foreign currency translation adjustments as a component of stockholders' equity. For further discussion of the accounting for foreign currency adjustments, see Note 1(m) in the Company's Consolidated Financial Statements. The cumulative translation loss of $77 million, recorded as of December 31, 1999, will be realized as a loss in earnings and cash flows only upon the disposition of the related investments. The cumulative translation loss was $34 million as of

December 31, 1998. The increase in cumulative translation loss from December 31, 1998 to December 31, 1999, was primarily due to the impact of devaluation of the Brazilian real on the Company's investments in Light and Metropolitana.

In addition, certain of Reliant Energy Latin America's foreign operations have entered into obligations in currencies other than their own functional currencies which expose the Company to a loss in earnings. In such cases, as the respective investment's functional currency devalues relative to the non-local currencies, the Company will record its proportionate share of its investments' foreign currency transaction losses related to the non-local currency denominated debt. At December 31, 1999, Light and Metropolitana of which the Company owns 11.78% and 9.2%, respectively, had total borrowings of approximately $2.9 billion denominated in non-local currencies. As described in Note 7 to the Company's Consolidated Financial Statements, in 1999 the Company reported a $102 million (after-tax) charge to net income and a $43 million charge to other comprehensive income, due to the devaluation of the Brazilian real. The charge to net income reflects increases in the liabilities at Light and Metropolitana for their non-local currency denominated borrowings using the exchange rate in effect at December 31, 1999 and a monthly weighted average exchange rate for the year then ended. The charge to other comprehensive income reflects the translation effect on the local currency denominated net assets underlying the Company's investment in Light. As of December 31, 1999, the Brazilian real exchange rate was 1.79 per U.S. dollar. An increase of 10% from the December 31, 1999 exchange rate would result in the Company recording an additional charge of $20 million and $23 million to net income and other comprehensive income, respectively. As of March 1, 2000, the Brazilian real exchange rate was 1.77 per U.S. dollar.

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

ENERGY COMMODITY PRICE RISK

As further described in Note 5 to the Company's Consolidated Financial Statements, the Company utilizes a variety of derivative financial instruments (Derivatives), including swaps, over-the-counter options and exchange-traded futures and options, as part of the Company's overall hedging strategies and for trading purposes. To reduce the risk from the adverse effect of market fluctuations in the price of electric power, natural gas, crude oil and refined Products and related transportation and transmission, the Company enters into futures transactions, forward contracts, swaps and options (Energy Derivatives) in order to hedge certain commodities in storage, as well as certain expected purchases, sales, transportation and transmission of energy commodities (a portion of which are firm commitments at the inception of the hedge). The Company's policies prohibit the use of leveraged financial instruments. In addition, Reliant Energy Services maintains a portfolio of Energy Derivatives to provide price risk management services and for trading purposes (Trading Derivatives).

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

With respect to the Energy Derivatives (other than Trading Derivatives) held by the Company as of December 31, 1999, an increase of 10% in the market prices of natural gas and electric power from year-end levels would have decreased the fair value of these instruments by approximately $12 million. As of December 31, 1998, a decrease of 10% in the market prices of natural gas and electric power from year-end levels would have decreased the fair value of these instruments by approximately $3 million.

The above analysis of the Energy Derivatives utilized for hedging purposes does not include the favorable impact that the same hypothetical price movement would have on the Company's physical purchases and sales of natural gas and electric power to which the hedges relate. Furthermore, the Energy Derivative portfolio is managed to complement the physical transaction portfolio, reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Energy Derivatives held for hedging purposes associated with the hypothetical changes in commodity prices referenced above would be offset by a favorable impact on the underlying hedged physical transactions, assuming (i) the Energy Derivatives are not closed out in advance of their expected term, (ii) the Energy Derivatives continue to function effectively as hedges of the underlying risk and (iii) as applicable, anticipated transactions occur as expected.

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

With respect to the Trading Derivatives held by Reliant Energy Services, consisting of natural gas, electric power, crude oil and refined products, weather derivatives, physical forwards, swaps, options and exchange-traded futures and options, the Company is exposed to losses in fair value due to changes in the price and volatility of the underlying derivatives. During the years ended December 31, 1999 and 1998, the highest, lowest and average monthly value-at-risk in the Trading Derivative portfolio was less than $10 million at a 95% confidence level and for a holding period of one business day. The Company uses the variance/covariance method for calculating the value-at-risk and includes delta approximation for option positions.

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

ITEMS INCORPORATED BY REFERENCE FROM THE RELIANT ENERGY 10-K NOTES:

o (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(d) Regulatory Assets.

The Company applies the accounting policies established in SFAS No. 71 to the accounts of transmission and distribution operations of Reliant Energy HL&P and Natural Gas Distribution and to certain of the accounts of Interstate Pipelines. For information regarding Reliant Energy HL&P's electric generation operations' discontinuance of the application of SFAS No. 71 and the effect on its regulatory assets, see Note 3.

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheet as of December 31, 1999, detailed by Electric Operations and other segments.

	ELECTRIC OPERATIONS	OTHER	TOTAL COMPANY
		(MILLIONS OF DOLLARS)	
Recoverable impaired plant costs -- net	$ 587	$	$ 587
Recoverable electric generation related regulatory assets -- net	952		952
Regulatory tax liability -- net	(45)		(45)
Unamortized loss on reacquired debt	69		69
Other deferred debits/credits	(18)	4	(14)
Total	$ 1,545	$ 4	$ 1,549

Included in the above table is $191 million of regulatory liabilities recorded as other deferred credits in the Company's Consolidated Balance Sheet as of December 31, 1999, which primarily relates to the over recovery of Electric Operations' fuel costs, gains on nuclear decommissioning trust funds, regulatory tax liabilities and excess deferred income taxes.

Under a "deferred accounting" plan authorized by the Public Utility Commission of Texas (Texas Utility Commission), Electric Operations was permitted for regulatory purposes to accrue carrying costs in the form of allowance for funds used during construction (AFUDC) on its investment in the South Texas Project Electric Generating Station (South Texas Project) and to defer and capitalize depreciation and other operating costs on its investment after commercial operation until such costs were reflected in rates. In addition, the Texas Utility Commission authorized Electric Operations under a "qualified phase-in plan" to capitalize allowable costs (including return) deferred for future recovery as deferred charges. These costs are included in recoverable electric generation related regulatory assets.

In 1991, Electric Operations ceased all cost deferrals related to the South Texas Project and began amortizing such amounts on a straight-line basis. Prior to January 1, 1999, the accumulated deferrals for "deferred accounting" were being amortized over the estimated depreciable life of the South Texas Project. Starting in 1991, the accumulated deferrals for the "qualified phase-in plan" were amortized over a ten-year phase-in period. The amortization of all deferred plant costs (which totaled $26 million for each of the years 1998 and 1997) is included on the Company's Statements of Consolidated Income as depreciation and amortization expense. Pursuant to the Legislation (see Note 3), the Company discontinued amortizing deferred plant costs effective January 1, 1999.

In 1999, 1998 and 1997, the Company, as permitted by the 1995 rate case settlement (Rate Case Settlement), also amortized $22 million, $4 million and $66 million (pre-tax), respectively, of its investment in certain lignite reserves associated with a canceled generating station. The remaining investment in these reserves of $14 million is included in the above table as a component of recoverable electric generation related regulatory assets and will be amortized fully by December 31, 2001.

For additional information regarding recoverable impaired plant costs and recoverable electric generation related assets, see Note 3.

If, as a result of changes in regulation or competition, the Company's ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, "Regulated Enterprises Accounting for the Discontinuation of Application of SFAS No. 71" (SFAS No. 101) and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" (SFAS No. 121), the Company would be required to write off or write down such regulatory assets and liabilities, unless some form of transition costs recovery continues through rates established and collected for their remaining regulated operations. In addition, the Company would be required to determine any impairment to the carrying costs of plant and inventory assets.

(m) Foreign Currency Adjustments.

Foreign subsidiaries' assets and liabilities where the local currency is the functional currency have been translated into U.S. dollars using the exchange rate at the balance sheet date. Revenues, expenses, gains and losses have been translated using the weighted average exchange rate for each month prevailing during the periods reported. Cumulative adjustments resulting from translation have been recorded in stockholders' equity in other comprehensive income. However, fluctuations in foreign currency exchange rates relative to the U.S. dollar can have an impact on the reported equity earnings of the Company's foreign investments. For additional information about the Company's investments in Brazil and the devaluation of the Brazilian real in 1999, see Note 7.

When the U.S. dollar is the functional currency, the financial statements of such foreign subsidiaries are remeasured in U.S. dollars using historical exchange rates for non-monetary accounts and the current rate at the respective balance sheet date and the weighted average exchange rate for all other balance sheet and income statement accounts, respectively. All exchange gains and losses from remeasurement and foreign currency transactions are included in consolidated net income.

(2) BUSINESS ACQUISITIONS

During 1999, the Company completed the first two phases of the acquisition of UNA, a Dutch power generation company. The Company acquired 40% and 12% of UNA's capital stock on October 7, 1999 and December 1, 1999, respectively. The aggregate purchase price paid by the Company in connection with the first two phases consisted of a total of $833 million in cash and $426 million in a five-year promissory note to UNA. Under the terms of the acquisition agreement, the Company purchased the remaining shares of UNA on March 1, 2000 for approximately $975 million. The commitment for this purchase was recorded as a business purchase obligation in the Consolidated Balance Sheet as of December 31, 1999 based on an exchange rate of 2.19 Dutch guilders (NLG) per U.S. dollar (the exchange rate on December 31, 1999). A portion ($596 million) of the business purchase obligation was recorded as a non-current liability as this portion of the obligation was financed with a three-year term loan facility (see Note 19). Effective October 1, 1999, the Company has recorded 100% of the operating results of UNA. The total purchase price, payable in NLG, of approximately $2.4 billion includes the $426 million promissory note to UNA and assumes an exchange rate of 2.0565 NLG per U.S. dollar (the exchange rate on October 7, 1999). The Company recorded the acquisition under the purchase method of accounting with assets and liabilities of UNA reflected at their estimated fair values. The excess of the purchase price over the fair value of net assets acquired of approximately $840 million was recorded as goodwill and is being amortized over 35 years. On a preliminary basis, the Company's fair value adjustments included increases in property, plant and equipment, long-term debt, and related deferred taxes. The Company expects to finalize these fair value adjustments during 2000; however, it is not anticipated that any additional adjustments will be material.

In August 1997 , the former parent corporation (Former Parent) of the Company, merged with and into Reliant Energy, and NorAm Energy Corp., a natural gas gathering, transmission, marketing and distribution company (Former NorAm), merged with and into Resources Corp. Effective upon the mergers (collectively, the Merger), each outstanding share of common stock of Former Parent was converted into one share of common stock (including associated preference stock purchase rights) of the Company, and each outstanding share of common stock of Former NorAm was converted into the right to receive $16.3051 cash or 0.74963 shares of common stock of the Company. The aggregate consideration paid to Former NorAm stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of the Company's common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion for Former NorAm's common stock and common stock equivalents and $1.6 billion of Former NorAm debt. The Company recorded the acquisition under the purchase method of accounting with assets and liabilities of Former NorAm reflected at their estimated fair values. The Company recorded the excess of the acquisition cost over the fair value of the net assets acquired of $2.1 billion as goodwill and is amortizing this amount over 40 years. The Company's fair value adjustments included increases in property, plant and equipment, long-term debt, unrecognized pension and postretirement benefits liabilities and related deferred taxes.

The Company's results of operations incorporate UNA's and Resources' results of operations only for the period beginning with the effective date of their respective acquisition. The following tables present certain actual financial information for the years ended December 31, 1999, 1998 and 1997; unaudited pro forma information for the years ended December 31, 1999 and 1998, as if the acquisition of UNA had occurred on January 1, 1999 and 1998; and unaudited pro forma information for the year ended December 31, 1997, as if the Merger with Resources had occurred on January 1, 1997.

ACTUAL AND PRO FORMA COMBINED RESULTS OF OPERATIONS
(IN MILLIONS, EXCEPT PER SHARE DATA)

	YEAR ENDED DECEMBER 31,					
	1999		1998		1997	
	ACTUAL	PRO FORMA	ACTUAL	PRO FORMA	ACTUAL	PRO FORMA

		(UNAUDITED)		(UNAUDITED)		(UNAUDITED)
Revenues	$ 15,303	$15,784	$ 11,488	$ 12,320	$ 6,878	$ 10,191
Net income (loss) attributable to common stockholders	1,482	1,525	(141)	(61)	421	437
Basic earnings per share	5.20	5.35	(.50)	(.21)	1.66	1.55
Diluted earnings per share	5.18	5.33	(.50)	(.21)	1.66	1.55

These pro forma results are based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the combined results that would have resulted if the acquisition of UNA had occurred on January 1, 1999 and 1998 and the Merger with Resources had occurred on January 1, 1997. Purchase related adjustments to results of operations include amortization of goodwill and the effects on depreciation, amortization, interest expense and deferred income taxes of the assessed fair value of certain UNA and Resources assets and liabilities.

(3) TEXAS ELECTRIC CHOICE PLAN AND DISCONTINUANCE OF SFAS NO. 71 FOR ELECTRIC GENERATION OPERATIONS

In June 1999, the Texas legislature adopted the Texas Electric Choice Plan (Legislation). The Legislation substantially amends the regulatory structure governing electric utilities in Texas in order to allow retail competition beginning with respect to pilot projects for up to 5% of each utility's load in all customer classes in June 2001 and for all other customers on January 1, 2002. In preparation for that competition, the Company expects to make significant changes in the electric utility operations it conducts through Reliant Energy HL&P. In addition, the Legislation requires the Texas Utility Commission to issue a number of new rules and determinations in implementing the Legislation.

The Legislation defines the process for competition and creates a transition period during which most utility rates are frozen at rates not in excess of their present levels. The Legislation provides for utilities to recover their generation related stranded costs and regulatory assets (as defined in the Legislation).

Retail Choice. Under the Legislation, on January 1, 2002, most retail customers of investor-owned electric utilities in Texas will be entitled to purchase their electricity from any of a number of "retail electric providers" which will have been certified by the Texas Utility Commission. Retail electric providers will not own or operate generation assets and their sales rates will not be subject to traditional cost-of-service rate regulation. Retail electric providers which are affiliates of electric utilities may compete substantially statewide for these sales, but rates they charge within the affiliated electric utility's traditional service territory are subject to certain limitations at the outset of retail choice, as described below. The Texas Utility Commission will prescribe regulations governing quality, reliability and other aspects of service from retail electric providers. Transmission between the regulated utility and its current and future competitive affiliates is subject to regulatory scrutiny and must comply with a code of conduct established by the Texas Utility Commission. The code of conduct governs interactions between employees of regulated and current and future unregulated affiliates as well as the exchange of information between such affiliates.

Unbundling. By January 1, 2002, electric utilities in Texas such as Reliant Energy HL&P will restructure their businesses in order to separate power generation, transmission and distribution, and retail activities into different units. Pursuant to the Legislation, the Company submitted a plan in January 2000 to accomplish the required separation of its regulated operations into separate units and is awaiting approval from the Texas Utility Commission. The transmission and distribution business will continue to be subject to cost-of-service rate regulation and will be responsible for the delivery of electricity to retail consumers.

Generation. Power generators will sell electric energy to wholesale purchasers, including retail electric providers, at unregulated rates beginning January 1, 2002. To facilitate a competitive market, Reliant Energy HL&P and most other electric utilities will be required to sell at auction entitlements to 15% of their installed generating capacity no later than 60 days before January 1, 2002. That obligation to auction entitlements continues until the earlier of January 1, 2007 or the date the Texas Utility Commission determines that at least 40% of the residential and small commercial load served in the electric utility's service area is being served by non-affiliated retail electric providers. In addition, a power generator that owns and controls more than 20% of the power generation in, or capable of delivering power to, a power region after the reductions from the capacity auction (calculated as prescribed in the Legislation) must submit a mitigation plan to reduce generation that it owns and controls to no more than 20% in the power region. The Legislation also creates a program mandating air emissions reductions for non-permitted generating facilities. The Company anticipates that any stranded costs associated with this obligation incurred before May 1, 2003 will be recoverable through the stranded cost recovery mechanisms contained in the Legislation.

Rates. Base rates charged by Reliant Energy HL&P on September 1, 1999 will be frozen until January 1, 2002. Effective January 1, 2002, retail rates charged to residential and small commercial customers by the utility's affiliated retail electric provider will be reduced by 6% from the average rates (on a bundled basis) in effect on January 1, 1999. That reduced rate will be known as the "price to beat" and will be charged by the affiliated retail electric provider to residential and small commercial customers in Reliant Energy HL&P's service area who have not elected service from another retail electric provider. The affiliated retail electric provider may not offer different rates to residential or small commercial customer classes in the utility's service area until the earlier of the date the Texas Utility Commission determines that 40% of power consumed by that class is being served by non-affiliated retail electric providers or January 1, 2005. In addition, the affiliated retail electric provider must make the price to beat available to eligible consumers until January 1, 2007.

Stranded Costs. Reliant Energy HL&P will be entitled to recover its stranded costs (i.e., the excess of net book value of generation assets (as defined by the Legislation) over the market value of those assets) and its regulatory assets related to generation. The Legislation prescribes specific methods for determining the amount of stranded costs and the details for their recovery. However, during the base rate freeze period from 1999 through 2001, earnings above the utility's authorized return formula will be applied in a manner to accelerate depreciation of generation related plant assets for regulatory purposes. In addition, depreciation expense for transmission and distribution related assets may be redirected to generation assets for regulatory purposes during that period.

The Legislation provides for Reliant Energy HL&P, or a special purpose entity, to issue securitization bonds for the recovery of generation related regulatory assets and stranded costs. These bonds will be sold to third parties and will be amortized through non-bypassable charges to transmission and distribution customers. Any stranded costs not recovered through the securitization bonds will be recovered through a non-bypassable charge to transmission and distribution customers. Costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a non-bypassable charge to transmission and distribution customers.

In November 1999, Reliant Energy HL&P filed an application with the Texas Utility Commission requesting a financing order authorizing the issuance by a special purpose entity organized by the Company, pursuant to the Legislation, of transition bonds related to Reliant Energy HL&P's generation-related regulatory assets. The Company believes the Texas Utility Commission will authorize the issuance of approximately $750 million of transition bonds. Payments on the transition bonds will be made out of funds derived from non-bypassable transition charges to Reliant Energy HL&P's transmission and distribution customers. The offering and sale of the transition bonds will be registered under the Securities Act of 1933 and, absent any appeals, are expected to be consummated in the second or third quarter of 2000.

Accounting. Historically, Reliant Energy HL&P has applied the accounting policies established in SFAS No. 71. In general, SFAS No. 71 permits a company with cost-based rates to defer certain costs that would otherwise be expensed to the extent that it meets the following requirements: (1) its rates are regulated by a third party; (2) its rates are cost-based; and (3) there exists a reasonable assumption that all costs will be recoverable from customers through rates. When a company determines that it no longer meets the requirements of SFAS No. 71, pursuant to SFAS No. 101 and SFAS No. 121, it is required to write off regulatory assets and liabilities unless some form of recovery continues through rates established and collected from remaining regulated operations. In addition, such company is required to determine any impairment to the carrying costs of deregulated plant and inventory assets in accordance with SFAS No. 121.

In July 1997, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board reached a consensus on Issue No. 97-4, "Deregulation of the Pricing of Electricity - Issues Related to the Application of FASB Statements No. 71, Accounting for the Effects of Certain Types of Regulation, and No. 101, Regulated Enterprises Accounting for the Discontinuation of Application of FASB Statement No. 71" (EITF No. 97-4). EITF No. 97-4 concluded that a company should stop applying SFAS No. 71 to a segment which is subject to a deregulation plan at the time the deregulation legislation or enabling rate order contains sufficient detail for the utility to reasonably determine how the plan will affect the segment to be deregulated. In addition, EITF No. 97-4 requires that regulatory assets and liabilities be allocated to the applicable portion of the electric utility from which the source of the regulated cash flows will be derived.

The Company believes that the Legislation provides sufficient detail regarding the deregulation of the Company's electric generation operations to require it to discontinue the use of SFAS No. 71 for those operations. Effective June 30, 1999, the Company applied SFAS No. 101 to its electric generation operations. Reliant Energy HL&P's transmission and distribution operations continue to meet the criteria of SFAS No. 71.

In 1999, the Company evaluated the recovery of its generation related regulatory assets and liabilities. The Company determined that a pre-tax accounting loss of $282 million exists because it believes only the economic value of its generation related regulatory assets (as defined by the Legislation) will be recovered. Therefore, the Company recorded a $183 million after-tax extraordinary loss in the fourth quarter of 1999. If events were to occur that made the recovery of certain of the remaining generation related regulatory assets no longer probable, the Company would write off the remaining balance of such assets as a non-cash charge against earnings. Pursuant to EITF No. 97-4, the remaining recoverable regulatory assets will not be written off and will become associated with the transmission and distribution portion of the Company's electric utility business. For details regarding the Reliant Energy HL&P's regulatory assets, see Note 1 (d).

At June 30, 1999, the Company performed an impairment test of its previously regulated electric generation assets pursuant to SFAS No. 121 on a plant specific basis. Under SFAS No. 121, an asset is considered impaired, and should be written down to fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. For assets that are impaired pursuant to SFAS No. 121, the Company determined the fair value for each generating plant by estimating the net present value of future cash inflows and outflows over the estimated life of each plant. The difference between fair value and net book value was recorded as a reduction in the current book value. The Company determined that $797 million of electric generation assets were impaired as of June 30, 1999. Of such amounts, $745 million relates to the South Texas Project and $52 million relates to two gas-fired generation plants. The Legislation provides recovery of this impairment through regulated cash flows during the transition period and through non-bypassable charges to transmission and distribution customers. As such, a regulatory asset has been recorded for an amount equal to the impairment loss and is included on the Company's Consolidated Balance Sheets as a regulatory asset. In addition, the Company recorded an additional $12 million of recoverable impaired plant costs in the third quarter of 1999 related to previously incurred costs that are now estimated to be recoverable pursuant to the Legislation. During the third and fourth quarter of 1999, the Company recorded amortization expense relate to the recoverable impaired plant costs and other deferred debits created from discontinuing SFAS No. 71 of $221 million. The Company will continue to amortize this regulatory asset as it is recovered from regulated cash flows.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, Reliant Energy HL&P must finalize and reconcile stranded costs (as defined by the Legislation) in a filing with the Texas Utility Commission. Any difference between the fair market value and the regulatory net book value of the generation assets (as defined by the Legislation) will either be refunded or collected through future non-bypassable charges. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges. Because generally accepted accounting principles require the Company to estimate fair market values on a plant-by-plant basis in advance of the final reconciliation, the financial impacts of the Legislation with respect to stranded costs are subject to material changes. Factors affecting such change may include estimation risk, uncertainty of future energy prices and the economic lives of the plants. If events occur that make the recovery of all or a portion of the regulatory assets associated with the generation plant impairment loss and deferred debits created from discontinuance of SFAS No. 71 pursuant to the Legislation no longer probable, the Company will write off the corresponding balance of such assets as a non-cash charge against earnings. One of the results of discontinuing the application of SFAS No. 71 for the generation operations is the elimination of the regulatory accounting effects of excess deferred income taxes and investment tax credits related to such operations. The Company believes it is probable that some parties will seek to return such amounts to ratepayers and accordingly, the Company has recorded an offsetting liability.

Following are the classes of electric property, plant and equipment at cost, with associated accumulated depreciation at December 31, 1999 (including the impairment loss discussed above) and December 31, 1998.

	Generation	Transmission and Distribution	General and Intangible	Consolidated Electric Plant in Service
	(Millions of Dollars)			
December 31, 1999:				
Original cost	$ 11,202	$ 4,531	$ 992	$ 16,725
Accumulated depreciation	4,767	1,263	251	6,281
Property, plant and equipment - net(1)	$ 6,435	$ 3,268	741	10,444
December 31, 1998:				
Original cost	$ 8,843	$ 4,196	$ 902	$ 13,941
Accumulated depreciation	3,822	1,276	207	5,305
Property, plant and equipment - net(1)	$ 5,021	$ 2,920	$ 695	$ 8,636

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(1) Includes non-rate regulated domestic and international generation facilities of $696 million and $338 million at December 31, 1999 and 1998, respectively, and international distribution facilities of $32 million and $19 million at December 31, 1999 and 1998, respectively. Also, includes property, plant and equipment of UNA of $1.8 billion at December 31, 1999.

arose when long term debt was [ILLEGIBLE] issued, these costs were amortized over the remaining original life of the retired debt. Effective July 1, 1999, costs resulting from the retirement of debt attributable to the [ILLEGIBLE] HL&P will be recorded in accordance with SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," unless such costs will be recovered through regulated cash flows. In that case, these costs will be deferred and recorded as a regulatory asset by the entity through which the source of the regulated cash flows will be derived. During the third and fourth quarters of 1999, the generation portion of Reliant Energy HL&P incurred $11 million of losses from extinguishment of debt which Reliant Energy HL&P's transmission and distribution operations have recorded as a regulatory asset. This regulatory asset will be amortized along with recoverable impaired plant costs as the assets are recovered pursuant to the Legislation.

o (4) TRANSITION PLAN

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

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

o (5) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Price Risk Management and Trading Activities.

The Company offers energy price risk management services primarily related to natural gas, electricity, crude oil and refined products, weather, coal and certain air emissions regulatory credits. The Company provides these services by utilizing a variety of derivative financial instruments, including fixed and variable-priced physical forward contracts, fixed and variable-priced swap agreements and options traded in the over-the-counter financial markets and exchange-traded energy futures and option contracts (Trading Derivatives). Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between industry pricing publications or exchange quotations.

Prior to 1998, the Company applied hedge accounting to certain physical commodity activities that qualified for hedge accounting. In 1998, the Company adopted mark-to-market accounting for all of its price risk management and trading activities. Accordingly, since 1998, such Trading Derivatives are recorded at fair value with realized and unrealized gains (losses) recorded as a component of revenues. The recognized, unrealized balance is included in price risk management assets/liabilities (See Note 1(o)).

The notional quantities, maximum terms and the estimated fair value of Trading Derivatives at December 31, 1999 and 1998 are presented below (volumes in billions of British thermal units equivalent (Bbtue) and dollars in millions):

	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
1999			
Natural gas	936,716	939,416	9
Electricity	251,592	248,176	10
Crude oil and refined products	143,857	144,554	3
1998			
Natural gas	937,264	977,293	9
Electricity	122,950	124,878	3
Crude oil and refined products	205,499	204,223	3

	FAIR VALUE		AVERAGE FAIR VALUE(A)	
	ASSET	LIABILITIES	ASSETS	LIABILITIES
1999				
Natural gas	$ 319	$ 299	$ 302	$ 283
Electricity	131	98	103	80
Crude oil and refined products	134	145	127	132
	$ 584	$ 542	$ 532	$ 495
1998				
Natural gas	$ 224	$ 212	$ 124	$ 108
Electricity	34	33	186	186
Crude oil and refined products	29	23	21	17
	$ 287	$ 268	$ 331	$ 311

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

In addition to the fixed-price notional volumes above, the Company also has variable-priced agreements, as discussed above, totaling 3,797,824 and 1,702,977 Bbtue as of December 31, 1999 and 1998, respectively. Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure the Company's exposure to market or credit risks.

All of the fair values shown in the tables above at December 31, 1999 and 1998 have been recognized in income. The fair value as of December 31, 1999 and 1998 was estimated using quoted prices where available and considering the liquidity of the market for the Trading Derivatives. The prices and fair values are subject to significant changes based on changing market conditions.

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

In addition to the risk associated with price movements, credit risk is also inherent in the Company's risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The following table shows the composition of the total price risk management assets of the Company as of December 31, 1999 and 1998.

	December 31, 1999		December 31, 1998	
	Investment Grade (1)	Total	Investment Grade (1)	Total
	(Millions of Dollars)			
Energy marketers	$ 172	183	$ 103	$ 124
Financial institutions	119	119	62	62
Gas and electric utilities	184	186	47	48
Oil and gas producers	6	30	7	8
Industrials	4	5	2	3
Independent power producers	4	6	1	1
Others	64	67	45	47
Total	$ 553	$ 596	$ 267	$ 293
Credit and other reserves		(12)		(6)
Energy price risk management assets (2)		$ 584		$ 287

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

(2) As of December 31, 1999, the Company had no credit risk exposure to any single counterparty that represents greater than 5% of price risk management assets.

(b) Non-Trading Activities.

To reduce the risk from market fluctuations in the revenues derived from electric power, natural gas and related transportation, the Company enters into futures transactions, swaps and options (Energy Derivatives) in order to hedge certain natural gas in storage, as well as certain expected purchases, sales and transportation of natural gas and electric power (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements and to protect natural gas distribution earnings against unseasonably warm weather during peak gas heating months, although usage to date for this purpose has not been material. The Company applies hedge accounting with respect to its derivative financial instruments utilized in non-trading activities.

The Company utilizes interest-rate derivatives (principally interest-rate swaps) in order to adjust the portion of its overall borrowings which are subject to interest rate risk and also utilizes such derivatives to effectively fix the interest rate on debt expected to be issued for refunding purposes. In addition, in 1999, the Company entered into foreign currency swaps to hedge a portion of its investment in UNA.

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

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

In the case of the foreign currency swaps which hedge a portion of the Company's investment in UNA, income or loss associated with the foreign currency derivative transactions is recorded as foreign currency translation adjustments as a component of stockholders' equity. Such amounts generally offset amounts recorded in stockholders' equity as adjustments resulting from translation of the hedged investment into U.S. dollars.

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

At December 31, 1999, the Company was fixed-price payors and fixed-price receivers in Energy Derivatives covering 33,108 billion British thermal units (Bbtu) and 5,481 Bbtu of natural gas, respectively. At December 31, 1998, the Company was fixed-price payors and fixed-price receivers in Energy Derivatives covering 42,498 Bbtu and 3,930 Bbtu of natural gas, respectively. Also, at December 31, 1999 and 1998, the Company was a party to variable-priced Energy Derivatives totaling 44,958 Bbtu and 21,437 Bbtu of natural gas, respectively. The weighted average maturity of these instruments is less than one year.

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

The average maturity discussed above and the fair value discussed in Note 15 are not necessarily indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

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

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

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

The Company has established a Risk Oversight Committee, comprised of corporate and business segment officers that oversees all commodity price and credit risk activities, including the Company's trading, marketing and risk management activities. The committee's duties are to establish the Company's commodity risk policies, allocate risk capital within limits established by the Company's board of directors, approve trading of new products and commodities, monitor risk positions and ensure compliance with the Company's risk management policies and procedures and trading limits established by the Company's board of directors.

o (6) JOINTLY OWNED ELECTRIC UTILITY PLANT

(a) Investment in South Texas Project.

The Company has a 30.8% interest in the South Texas Project, which consists of two 1,250 megawatt (MW) nuclear generating units and bears a corresponding 30.8% share of capital and operating costs associated with the project. As of December 31, 1999, the Company's investment in the South Texas Project was $382 million (net of $2.1 billion accumulated depreciation which includes an impairment loss recorded in 1999 of $745 million). For additional information regarding the impairment loss, see Note 3. The Company's investment in nuclear fuel was $44 million (net of $251 million amortization) as of such date.

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

(b) Nuclear Insurance.

The Company and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses. This coverage consists of $500 million in primary property damage insurance and excess property insurance in the amount of $2.25 billion. With respect to excess property insurance, the Company and the other owners of the South Texas Project are subject to assessments, the maximum aggregate assessment under current policies being $17 million during any one policy year. The application of the proceeds of such property insurance is subject to the priorities established by the Nuclear Regulatory Commission (NRC) regulations relating to the safety of licensed reactors and decontamination operations.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $8.9 billion as of December 31, 1999. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations by maintaining the maximum amount of financial protection available from private sources and by maintaining secondary financial protection through an industry retrospective rating plan. The assessment of deferred premiums provided by the plan for each nuclear incident is up to $84 million per reactor, subject to indexing for inflation, a possible 5% surcharge (but no more than $10 million per reactor per incident in any one year) and a 3% state premium tax. The Company and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

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

(c) Nuclear Decommissioning.

The Company contributes $14.8 million per year to a trust established to fund its share of the decommissioning costs for the South Texas Project. For a discussion of the accounting treatment for the securities held in the Company's nuclear decommissioning trust, see Note 1(l). In July 1999, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $363 million. The consultant's calculation of decommissioning costs for financial planning purposes used the DECON methodology (prompt removal/dismantling), one of the three alternatives acceptable to the NRC and assumed deactivation of Units Nos. 1 and 2 upon the expiration of their 40-year operating licenses. While the current and projected funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Legislation, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a non-bypassable charge to transmission and distribution customers.

o (7) EQUITY INVESTMENTS AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES

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

The Company's equity investments and advances in unconsolidated subsidiaries at December 31, 1999 and 1998 were $1 billion and $1.1 billion, respectively. The Company's equity loss from these investments, was $14 million in 1999. For 1998 and 1997, the Company's equity income from these investments was $71 million and $49 million, respectively. Dividends received from these investments amounted to $14 million, $44 million and $46 million in 1999, 1998, and 1997, respectively.

(a) Reliant Energy Latin America.

Reliant Energy is evaluating the sale of the Company's Latin American assets in order to pursue business opportunities that are in line with its strategies for the U.S. and Western Europe.

As of December 31, 1999, Reliant Energy Latin America indirectly holds interests in Light Servicos de Electricidade S.A. (Light) (11.78%) which transmits and distributes electricity in Rio De Janeiro, Brazil and holds 77.81% of the common stock of Metropolitana Electricidade de Sao Paulo S.A. (Metroplitana) which transmits and distributes electricity in Sao Paulo, Brazil; three Columbian electric systems, Empresa de Energia del Pacifico S.A.E.S.P (EPSA) (28.35%), Electricaribe (34.61%), and Electrocosta (35.17%); and three electric systems in El Salvador (ranging from approximately 37% to 45%). In addition, Reliant Energy Latin America indirectly holds interests in natural gas systems in Columbia and a power generation plant in India.

As of December 31, 1999 and 1998, Light and Metropolitana had total borrowings of $2.29 billion and $3.2 billion denominated in non-local currencies. During the first quarter of 1999, the Brazilian real was devalued and allowed to float against other major currencies. The effects of devaluation on the non-local currency denominated borrowings caused the Company to record, as a component of its equity earnings, an after-tax charge for the year ended December 31, 1999 of $102 million as a result of foreign currency transaction losses recorded by both Light and Metropolitana. At December 31, 1999 and 1998, one U.S. dollar could be exchanged for 1.79 Brazilian real and 1.21 Brazilian real, respectively. Because the Company uses the Brazilian real as the functional currency to report Light's equity earnings, any decrease in the value of the Brazilian real below its December 31, 1999 level will increase Light's liability represented by the non-local currency denominated borrowings. This amount will also be reflected in the Company's consolidated earnings, to the extent of the Company's ownership interest in Light. Similarly, any increase in the value of the Brazilian real above its December 31, 1999 level will decrease Light's liability represented by such borrowings.

In April 1998, Light purchased 74.88% of the common stock of Metropolitana. The purchase price for the shares was approximately $1.8 billion and was financed with proceeds from bank borrowings. In August 1998, Reliant Energy Latin America and another unrelated entity jointly acquired, through subsidiaries, 65% of the stock of two Colombian electric distribution companies, Electricaribe and Electrocosta, for approximately $522 million. The shares of these companies are indirectly held by an offshore holding company jointly owned by the Company and the other entity. In addition, in 1998, the Company acquired, for approximately $150 million, equity interests in three electric distribution systems located in El Salvador.

In June 1997, a consortium of investors which included Reliant Energy Latin America acquired for $496 million a 56.7% controlling ownership interest in EPSA. Reliant Energy Latin America contributed $152 million of the purchase price for a 28.35% ownership interest in EPSA.

In May 1997, Reliant Energy Latin America increased its indirect ownership interest in an Argentine electric utility from 48% to 63%. The purchase price of the additional interest was $28 million. On June 30, 1998, Reliant Energy Latin America sold its 63% ownership interest in this Argentine affiliate and certain related assets for approximately $243 million, Reliant Energy Latin America acquired its initial ownership interests in the electric utility in 1992. The Company recorded an $80 million after-tax gain from this sale in the second quarter of 1998.

(b) Wholesale Energy Domestic.

In April 1998, the Company formed a limited liability corporation to construct and operate a 490 MW electric generation plant in Boulder City, Nevada in which the Company retained a 50% interest. The plant is anticipated to be operational in the second quarter of 2000. In October 1998, the Company entered into a partnership to construct and operate a 100 MW cogeneration plant in Orange, Texas in which its ownership interest is 50%. The plant began commercial operation in December, 1999. As of December 31, 1999, the Company's net investment in these projects is $78 million and its total projected net investment is approximately $90 million.

(c) Combined Financial Statement Data of Equity Investees and Advances to Unconsolidated Subsidiaries.

The following tables set forth certain summarized financial information of the Company's unconsolidated affiliates as of December 31, 1999 and 1998 and for the years then ended or periods from the respective affiliates' acquisition date through December 31, 1999, 1998 and 1997, if shorter:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(THOUSANDS OF DOLLARS)		
Income Statement:			
Revenues	$ 4,421,942	$ 2,449,335	$ 2,011,927
Operating expenses	3,329,559	1,762,166	1,460,248
Net income	(310,667)	514,005	403,323

	DECEMBER 31,	
	1999	1998
	(THOUSANDS OF DOLLARS)	
Balance Sheet:		
Current assets	$ 1,553,166	$ 1,841,856
Noncurrent assets	10,379,306	13,643,747
Current liabilities	2,714,621	4,074,603
Noncurrent liabilities	4,440,985	6,284,821
Owners' equity	4,776,866	5,126,180

o (8) INDEXED DEBT SECURITIES (ACES AND ZENS) AND TIME WARNER SECURITIES

(a) Original investment in Time Warner Securities.

On July 6, 1999, the Company converted its 11 million shares of Time Warner Inc. (TW) convertible preferred stock (TW Preferred) into 45.8 million shares of Time Warner common stock (TW Common). Prior to the conversion, the Company's investment in the TW Preferred was accounted for under the cost method at a value of $990 million in the Company's Consolidated Balance Sheets. The TW Preferred was redeemable after July 6, 2000) had an aggregate liquidation preference of $100 per share (plus accrued and unpaid dividends), was entitled to annual dividends of $3.75 per share until July 6, 1999 and was convertible by the Company. The Company recorded pre-tax dividend income with respect to the TW Preferred of $20.6 million in 1999 prior to the conversion and $41.3 million in both 1998 and 1997. Due to the conversion, the Company will no longer receive the quarterly dividend of $10.3 million that was paid on the TW Preferred but will receive dividends, if declared and paid, on its investments in TW Common. Effective on the conversion date, the shares of TW Common were classified as trading securities under SFAS No. 115 and an unrealized gain was recorded in the amount of $2.4 billion ($1.5 billion after tax) to reflect the cumulative appreciation in the fair value of the Company's investment in Time Warner securities.

(b) ACES.

In July 1997, in order to monetize a portion of the cash value of its investment in TW Preferred, the Company issued 22.9 million of its unsecured 7% Automatic Common Exchange Securities (ACES) having an original principal amount of approximately $1.052 billion. The market value of ACES is indexed to the market value of TW Common. In July 2000, the ACES will be mandatorily exchangeable for, at the Company's option, either shares of TW Common at the exchange rate set forth below or cash with an equal value. The current exchange rate is as follows:

Market Price of TW Common	Exchange Rate
Below $22.96875	2.0 shares of TW Common
$22.96875 - $27.7922	Share equivalent of $45.9375
Above $27.7922	1.6528 shares of TW Common

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

By issuing the ACES, the Company effectively eliminated the economic exposure of its investment in TW securities to decreases in the price of TW Common below $22.96875. In addition, the Company retained 100% of any increase in TW Common price up to $27.7922 per share and 17% of any increase in market price above $27.7922.

Prior to the July 1999 conversion of the TW Preferred, any increase in the market value of TW Common above $27.7922 was treated for accounting purposes as an increase in the payment amount of the ACES equal to 83% of the increase in the market price per share and was recorded by the Company as a non-cash expense. As a result, the Company recorded in 1999 (prior to conversion), 1998 and 1997 a non-cash, unrealized accounting loss of $435 million, $1.2 billion and $121 million, respectively (which resulted in an after-tax earnings reduction of $283 million, or $0.99 per share, $764 million, or $2.69 per share, and $79 million, or $0.31 per share, respectively). Following the conversion of TW Preferred into TW Common, changes in the market value of the Company's TW Common and the related offsetting changes in the liability related to the Company's obligation under the ACES will be recorded in the Company's Statement of Consolidated Income.

(c) ZENS.

On September 21, 1999, the Company issued approximately 17.2 million of its 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of approximately $1.0 billion. At maturity the holders of the ZENS will receive in cash the higher of the original principal amount of the ZENS or an amount based on the then-current market value of TW Common, or other securities distributed with respect to TW Common (one share of TW Common and such other securities, if any, are referred to as reference shares). Each ZENS has an original principal amount of $58.25 (the closing market price of the TW Common on September 15, 1999) and is exchangeable at any time at the option of the holder for cash equal to 95% (100% in certain cases) of the market value of the reference shares attributable to one ZENS. The Company pays interest on each ZENS at an annual rate of 2% plus the amount of any quarterly cash dividends paid in respect of the quarterly interest period on the reference shares attributable to each ZENS. Subject to certain conditions, the Company has the right to defer interest payments from time to time on the ZENS for up to 20 consecutive quarterly periods. As of December 31, 1999, no interest Payments on the ZENS had been deferred.

Of the $980 million net proceeds from the Offering, the Company used $443 million for general corporate purposes, including repayment of Company indebtedness. The Company used $537 million of the net proceeds to purchase 9.2 million shares of TW Common, which are classified as trading securities under SFAS No. 115. Unrealized gains and losses resulting from changes in the market value of the TW Common are recorded in the Company's Statements of Consolidated Income.

An increase above $58.25 (subject to certain adjustments) in the market value per share of TW Common results in an increase in the Company's liability for the ZENS and is recorded by the Company as a non-cash expense. If the market value per share of TW Common declines below $58.25 (subject to certain adjustments), the liability for the ZENS would not decline below the original principal amount. However, the decline in market value of the Company's investment in the TW Common would be recorded as an unrealized loss as discussed above.

Prior to the purchase of additional shares of TW Common on September 21, 1999, the Company owned approximately 8 million shares of TW Common that were in excess of the 38 million shares needed to economically hedge its ACES obligation. For the period from July 6, 1999 to the ZENS issuance date, losses (due to the decline in the market value of the TW Common during such period) on these 8 million shares were $122 million ($79 million after tax). The 8 million shares of TW Common combined with the additional 9.2 million shares purchased are expected to be held to facilitate the Company's ability to meet its obligation under the ZENS.

The following table sets forth certain summarized financial information of the Company's investment in TW securities and the Company's ACES and ZENS obligations.

	TW Investment	ACES	ZENS
	(THOUSANDS OF DOLLARS)		
Balance at January 1, 1997	$ 990,000		
Issuance of indexed debt securities		$ 1,052,384	
Loss on indexed debt securities		121,402	
Balance at December 31, 1997	990,000	1,173,786	
Loss on indexed debt securities		1,176,211	
Balance at December 31, 1998	990,000	2,349,997	
Issuance of indexed debt securities			$ 1,000,000
Purchase of TW Common	537,055		
Loss on indexed debt securities		388,107	241,416
Gain on TW Common	2,452,406		
Balance at December 31, 1999	$ 3,979,461	$ 2,738,104	$ 1,241,416

o (14) COMMITMENTS AND CONTINGENCIES

(a) Commitments.

The Company has various commitments for capital expenditures, fuel, purchased power and operating leases. Commitments in connection with Electric Operations' capital program are generally revocable by the Company, subject to reimbursement to manufacturers for expenditures incurred or other cancellation penalties, Wholesale Energy has entered into commitments associated with various non-rate regulated generating projects aggregating S324 million along with various generating equipment purchases aggregating $318 million for delivery from 2000 to 2001 that are anticipated to be used for future development projects. The Company's other commitments have various quantity requirements and durations. However, if these requirements could not be met, various alternatives are available to mitigate the cost associated with the contracts' commitments.

(b) Fuel and Purchased Power.

Reliant Energy HL&P is a party to several long-term coal, lignite and natural gas contracts which have various quantity requirements and durations. Minimum payment obligations for coal and transportation agreements that extend through 2011 are approximately $187 million in 2000, $188 million in 2001 and $188 million in 2002. Purchase commitments related to lignite mining and lease agreements, natural gas purchases and storage contracts, and purchased power are not material to the operations of the Company,

Currently Reliant Energy HL&P is allowed recovery of these costs through base rates for electric service. As of December 31, 1999, certain of these contracts are above market. The Company anticipates that stranded cost associated with these obligations will be recoverable through the stranded cost recovery mechanisms contained in the Legislation. For information regarding the Legislation, see Note 3.

(c) Operations Agreement with City of San Antonio.

As part of the 1996 settlement of certain litigation claims asserted by the City of San Antonio with respect to the South Texas Project, the Company entered into a 10-year joint operations agreement under which the Company and the City of San Antonio, acting through the City Public Service Board of San Antonio (CPS), share savings resulting from the joint dispatching of their respective generating assets in order to take advantage of each system's lower cost resources. Under the terms of the joint operations agreement entered into between CPS and Electric Operations, the Company has guaranteed CPS minimum annual savings of $10 million and a minimum cumulative savings of $150 million over the 10-year term of the agreement. Based on current forecasts and other assumptions regarding the combined operation of the two generating systems, the Company anticipates that the savings resulting from joint operations will equal or exceed the minimum savings guaranteed under the joint operating agreement. In 1999, 1998 and 1997, savings generated for CPS' account were approximately $14 million, $14 million and S22 million, respectively. Through December 31, 1999, cumulative earnings generated for CPS' account were approximately $64 million.

(d) Transportation Agreement.

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

(e) Lease Commitments.

The following table sets forth certain information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 1999 which primarily relate to Resources principally consisting of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions):

2000	$ 16
2001	15
2002	10
2003	8
2004	7
2005 and beyond	25
Total	$ 81

(f) Letters of Credit.

At December 31, 1999, the Company had letters of credit totaling approximately $14 million under which it is obligated to reimburse drawings, if any.

(g) Cross Border Leases.

During the period from 1994 through 1997, under cross border lease transactions, UNA leased several of its power plants and related equipment and turbines to non-Netherlands based investors and concurrently leased the facilities back under sublease arrangements with remaining terms as of December 31, 1999 of two to 25 years. Such transactions involve the Company providing to a foreign investor an ownership right in (but not necessarily title to) an asset, with a leaseback of the asset. The net proceeds to UNA of the transactions are being amortized to income over the lease terms. At December 31, 1999, the deferred gain on these transactions totaled $87 million assuming an exchange rate of 2.19 NLG per U.S. dollar (the exchange rate on December 31, 1999). UNA utilized proceeds from the head lease transactions to prepay sublease obligations as well as provide a source for payment of end of term purchase options and other financial undertakings. The leased property remains on the financial statements of UNA and continues to be depreciated. In the case of early termination of the cross border leases, UNA would be contingently liable for certain payments to the sublessors, which at December 31, 1999 are estimated to be $254 million. Prior to March 1, 2000, UNA will be required by some of the lease agreements to obtain standby letters of credit in favor of the sublessors in the event of early termination in the amount of $205 million (assumes an exchange rate of 2.19 NLG per U.S. dollar, the exchange rate on December 31, 1999). Commitments for such letters of credit have been obtained as of December 31, 1999.

(h) Environmental Matters.

The Company is a defendant in litigation arising out of the environmental remediation of a site in Corpus Christi, Texas. The litigation was instituted in 1985 by adjacent landowners. The litigation is pending before the United States District Court for the Southern District of Texas, Corpus Christi Division. The site was operated by third parties as a metals reclaiming operation. Although the Company neither operated nor owned the site, certain transformers and other equipment originally sold by the Company may have been delivered to the site by third parties. The Company and others have remediated the site pursuant to a plan approved by appropriate state agencies and a federal court. To date, the Company has recovered or has commitments to recover from other responsible parties $2.2 million of the more than $3 million it has spent on remediation.

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

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

(i) Other.

The Company is involved in legal, tax and regulatory proceedings before various courts, regulatory commissions, and governmental agencies regarding matters arising in the ordinary course of business, some of which involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the effect on the Company's respective financial statements, if any, from the disposition of these matters will not be material.

In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy HL&P's service area, against the Company and Houston Industries Finance Inc. (formerly a wholly owned subsidiary of the Company) alleging underpayment of municipal franchise fees. Plaintiffs in essence claim that they are entitled to 4% of all receipts of any kind for business conducted within city limits or with use of city rights-of-way. Plaintiffs advance their claims notwithstanding their failure to assert such claims over the previous four decades. Because all of the franchise ordinances affecting Electric Operations expressly impose fees only on the Company's own receipts and only from sales of electricity for consumption within a city, the Company regards plaintiffs' allegations as spurious and is vigorously contesting the case. The plaintiffs' pleadings assert that their damages exceed $250 million. The 269th Judicial District Court for Harris County has granted a partial summary judgment in favor of the Company dismissing all claims for franchise fees based on sales tax collections. Other motions for partial summary judgment were denied. A jury trial of the remaining individual claims of the three named cities (but not the entire class) began on February 14, 2000 and is expected to conclude by the end of March 2000. The extent to which issues resolved in this trial may affect the claims of the other class member cities cannot be determined until final judgment is rendered. The Company believes that it is very unlikely that resolution of this case will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

EXHIBIT 99(b)

DESCRIPTION OF RELIANT ENERGY, INCORPORATED CAPITAL STOCK

COMMON STOCK

The authorized capital stock of Reliant Energy, Incorporated ("Reliant Energy") consists of (i) 700,000,000 shares of Common Stock, without par value, 10,000,000 shares of Preferred Stock, without par value, and 10,000,000 shares of Preference Stock, without par value.

VOTING RIGHTS. Holders of Common Stock are entitled to one vote for each share at all meetings of shareholders. Such holders do not have cumulative rights in the election of directors. No director of Reliant Energy may be removed from office by vote or other action of the shareholders or otherwise except (a) with cause, as defined in the Reliant Energy Bylaws, by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock of Reliant Energy entitled to vote in the election of directors, voting together as a single class, or (b) without cause by (i) the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Reliant Energy Board of Directors called for that purpose or (ii) the affirmative vote of the holders of at least 80% of the voting power of all outstanding shares of capital stock of Reliant Energy entitled to vote in the election of directors, voting together as a single class. The Reliant Energy Board of Directors shall have the power to alter, amend or repeal the Reliant Energy Bylaws or adopt new Bylaws by the affirmative vote of at least 80% of all directors then in office at any regular or special meeting of the Reliant Energy Board of Directors called for that purpose, subject to repeal or change by the affirmative vote of the holders of at least 80% of the voting power of all the shares of Reliant Energy entitled to vote in the election of directors, voting together as a single class. The Reliant Energy Articles of Incorporation provide that an amendment of the articles of incorporation of, certain mergers and consolidations involving, the sale of all or substantially all of the assets of or the dissolution of Reliant Energy requires the approval of the holders of a majority (rather than the two-thirds normally required by Texas law) of the outstanding shares entitled to vote on such matters.

DIVIDENDS. Dividends may be paid on Common Stock out of any assets of Reliant Energy available for such dividends after full cumulative dividends on all outstanding shares of capital stock of all series ranking senior to Common Stock in respect of dividends and liquidation rights have been paid, or declared and a sum sufficient for the payment thereof set apart, for all past quarterly dividend periods, and after or concurrently with making payment of or provision for dividends on the stock ranking senior to Common Stock for the then-current quarterly dividend period. The rights of holders of Common Stock to receive dividends are further subject to the prior rights of holders of any outstanding shares of capital stock of all series ranking senior to Common Stock to have contributions made to any sinking fund that may be established for any such series.

LIQUIDATION RIGHTS. In the event of any liquidation, dissolution or winding-up of Reliant Energy, or any reduction or decrease of its capital stock resulting in a distribution of assets to the holders of Common Stock, the holders of Common Stock shall be entitled to receive, pro rata, all of the remaining assets of Reliant Energy available for distribution to its shareholders but only after there shall have been paid to or set aside for the holders of the stock ranking senior to the Common Stock the full preferential amounts fixed for each series thereof plus any dividends accrued or in arrears thereon.

CLASSIFICATION OF BOARD OF DIRECTORS. The Reliant Energy Board of Directors is divided into three classes, Class I, Class II and Class III. Such classes shall be as nearly equal in number of directors as possible. At each annual meeting, the number of directors equal to the number constituting the class whose term expires at the time of such meeting shall be elected to hold office until the third succeeding annual meeting.

OTHER PROVISIONS. Subject to the provisions of the Reliant Energy Bylaws imposing certain supermajority voting provisions, the rights of the holders of shares of Common Stock may not be modified otherwise than by a vote of a majority of the shares outstanding, voting together as a single class.

PREFERRED STOCK

The authorized Preferred Stock is issuable in series having such designations, dividend rates, general voting rights, liquidation prices, redemption prices, sinking fund provisions and other terms as provided in the Reliant Energy Articles of Incorporation or as may be established from time to time by the Reliant Energy Board of Directors. The rights evidenced by, or amounts payable with respect to, the shares of Common Stock may be materially limited or qualified by the Preferred Stock.

VOTING RIGHTS. The holders of Preferred Stock have special voting rights with respect to certain matters affecting the powers, preferences and privileges of the Preferred Stock of each respective series. Holders of Preferred Stock generally have the right to elect one-third of the members of the Reliant Energy Board of Directors whenever dividends on any outstanding Preferred Stock are in arrears in an amount equal to the aggregate dividends required to be paid on such Preferred Stock in any 12-month period, until no dividends are in arrears. However, holders of Preferred Stock have the right to elect a majority of the members of the Reliant Energy Board of Directors whenever dividends on any outstanding Preferred Stock are in arrears in an amount equal to the aggregate dividends required to be paid on such Preferred Stock in any 24-month period, until no dividends are in arrears. Whenever holders of any outstanding shares of Preferred Stock are entitled to elect members of the Reliant Energy Board of Directors pursuant to the Reliant Energy Articles of Incorporation, a director elected by the holders of Preferred Stock as a class or of such other stock entitled to vote as a class (or a director elected to fill a vacancy) shall be subject to removal by the vote of the holders of a majority of the Preferred Stock as a class or of such other stock entitled to vote as a class for the election of directors, as the case may be.

Directors elected by the holders of Preferred Stock (or any directors elected by such directors to fill a vacancy) shall not be classified and shall serve for a term ending upon the election and qualification of their successors following the termination at any time of a right of the holders of Preferred Stock to elect members of the Reliant Energy Board of Directors.

DIVIDENDS. Holders of Preferred Stock are entitled to receive cumulative dividends at the rate fixed for each such series and to have contributions made to any sinking fund that may be established for any such series before any dividends shall be paid or set apart for any shares of Common Stock.

LIQUIDATION RIGHTS. In the event of any liquidation, dissolution or winding up of Reliant Energy, or any reduction or decrease of its capital stock resulting in a distribution of assets to the holders of Common Stock, payment to the holders of any outstanding Preferred Stock of the full preferential amounts fixed for each series thereof, plus an amount equal to any dividends accrued or in arrears thereon, shall be made prior to the pro rata distribution of the remaining assets of Reliant Energy to the holders of Common Stock.

PREFERENCE STOCK

The Reliant Energy Board of Directors, without further action by the Reliant Energy shareholders, is authorized to issue the Preference Stock in one or more series and to fix and determine as to any series all the relative rights and preferences of shares of such series so established, including, without limitation, preferences, limitations or relative rights with respect to redemption rights, conversion rights, if any, voting rights, if any, dividend rights and any preferences on liquidation; provided, however, that the relative rights of priority of Preference Stock must rank junior to the relative rights of priority of Preferred Stock. One series of Preference Stock, the Series A Preference Stock, will be purchasable upon the exercise of a Right (as hereinafter defined). See "--Rights Plan."

CERTAIN PROVISIONS OF THE RELIANT ENERGY ARTICLES OF INCORPORATION AND BYLAWS

Neither the Reliant Energy Articles of Incorporation nor the Reliant Energy Bylaws contain any provision that would have an effect of delaying, deferring or preventing a change in control of Reliant Energy and that would operate only with respect to an extraordinary corporate transaction including Reliant Energy or any of its subsidiaries. However, the Reliant Energy Articles of Incorporation and the Reliant Energy Bylaws do contain certain provisions that may have the effect of rendering more difficult certain possible takeover proposals to acquire control of Reliant Energy and of making removal of management of Reliant Energy more difficult. The Reliant Energy Articles of Incorporation provide that the Reliant Energy Board of Directors is divided into three classes serving staggered three-year terms such that approximately one-third of the Reliant Energy Board of Directors is elected each year. The Reliant Energy Bylaws provide that no director may be removed except (a) with cause, as defined in the Bylaws, by a majority vote of the shareholders, or (b) without cause by the affirmative vote of 80% of the directors or 80% of the shareholders. The Reliant Energy Bylaws further provide that no person shall be eligible for election or reelection or to continue to serve as a member of the Reliant Energy Board of Directors if such person is an officer, director, agent, representative, partner, employee, nominee or affiliate of another public utility company other than Reliant Energy or any of Reliant Energy's subsidiaries that is a public utility company. The Reliant Energy Bylaws also provide that they may be amended or repealed, or new Reliant Energy Bylaws may be adopted, only upon the affirmative vote of 80% of the directors or 80% of the shareholders. The Reliant Energy Bylaws also impose certain procedural requirements on shareholders who wish (i) to make nominations in the election of directors, (ii) to propose that a director be removed and (iii) to propose any repeal or change in the Reliant Energy Bylaws. The requirements include, among other things, the timely delivery to Reliant Energy's Corporate Secretary of notice of the nomination or proposal and evidence of (a) the shareholder's status as such, (b) the number of shares he beneficially owns, (c) a list of the persons with whom the shareholder is acting in concert and (d) the number of shares such persons beneficially own. The Reliant Energy Bylaws further provide that when nominating directors, the shareholder must also submit such information with respect to the nominee as would be required by a proxy statement and certain other information. The Reliant Energy Bylaws provide that failure to follow the required procedures renders the nominee or proposal ineligible to be voted upon by the shareholders.

RIGHTS PLAN

On July 11, 1990, the Board of Directors of Houston Industries Incorporated (a predecessor of Reliant Energy) declared a dividend of one right to purchase preference stock for each outstanding share of its common stock to shareholders of record at the close of business on August 16, 1990 ("HII Rights"). Each share of Common Stock includes one right, which will entitle the registered holder of Common Stock to purchase from Reliant Energy a unit consisting of one-thousandth of a share (a "Fractional Share") of Series A Preference Stock, without par value (the "Series A Preference Stock"), at a purchase price of $42.50 per Fractional Share, subject to adjustment ("Rights"). The description and terms of the HII Rights and the Rights are set forth in the Rights Agreement dated as of July 11, 1990 between Reliant Energy (formerly Houston Industries Incorporated) and Chase Bank of Texas, National Association (formerly Texas Commerce Bank National Association), as Rights Agent (the "Rights Agent"), as amended and restated as of August 6, 1997, and as further amended by Amendment No. 1 to Rights Agreement, dated as of May 8, 2000 (the "Rights Agreement").

DETACHMENT OF RIGHTS; EXERCISABILITY. The Rights are attached to all Common Stock certificates, and no separate Rights Certificates (as defined in the Rights Agreement) will be distributed initially. The Rights will separate from the Common Stock and a "Distribution Date" will occur, with certain exceptions, upon the earlier of (i) ten days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired, or obtained the right to acquire, beneficial ownership of 20% or more of the outstanding shares of Common Stock (the date of the announcement being the "Stock Acquisition Date"), or (ii) ten business days following the commencement of a tender offer or exchange offer that would result in a person's becoming an Acquiring Person. In certain circumstances, the Distribution Date may be deferred by the Reliant Energy Board of Directors. Certain inadvertent acquisitions will not result in a person's becoming an Acquiring Person if the person promptly divests itself of sufficient Common Stock. Until the Distribution Date (or earlier redemption or expiration of the Rights), (a) the Rights will be evidenced by the Common Stock certificates and will be transferred with and only with such Common Stock certificates, (b) new Common Stock certificates will contain a notation incorporating the Rights Agreement by reference and (c) the surrender for transfer of any certificate representing outstanding shares of Common Stock will also constitute the transfer of the Rights associated with the Common Stock represented by such certificate.

The Rights are not exercisable until the Distribution Date and will expire at the close of business on July 11, 2010 unless earlier redeemed or exchanged by Reliant Energy as described below.

As soon as practicable after the Distribution Date, Rights Certificates will be mailed to holders of record of Common Stock as of the close of business on the Distribution Date and, from and after the Distribution Date, the separate Rights Certificates alone will represent the Rights. All shares of Common Stock issued prior to the Distribution Date will be issued with Rights. Shares of Common Stock issued after the Distribution Date in connection with certain employee benefit plans or upon conversion of certain securities will be issued with Rights. Except as otherwise determined by the Reliant Energy Board of Directors, no other shares of Common Stock issued after the Distribution Date will be issued with Rights.

FLIP-IN. In the event (a "Flip-In Event") that a person becomes an Acquiring Person, except pursuant to a tender or exchange offer for all outstanding shares of Common Stock at a price and on terms that a majority of the independent directors of Reliant Energy determines to be fair to and otherwise in the best interests of Reliant Energy and its shareholders (a "Permitted Offer"), each holder of a Right will thereafter have the right to receive, upon exercise of such Right, a number of shares of Common Stock (or, in certain circumstances, cash, property or other securities of Reliant Energy) having a Current Market Price (as defined in the Rights Agreement) equal to two times the exercise price of the Right. Notwithstanding the foregoing, following the occurrence of any Triggering Event, all Rights that are, or (under certain circumstances specified in the Rights Agreement) were, beneficially owned by or transferred to an Acquiring Person (or by certain related parties) will be null and void in the circumstances set forth in the Rights Agreement.

FLIP-OVER. In the event (a "Flip-Over Event") that, at any time from and after the time an Acquiring Person becomes such, (i) Reliant Energy is acquired in a merger or other business combination transaction (other than certain mergers that follow a Permitted Offer), or (ii) 50% or more of Reliant Energy's assets or earning power is sold or transferred, each holder of a Right (except Rights that are voided as set forth above) shall thereafter have the right to receive, upon exercise, a number of shares of common stock of the acquiring company having a Current Market Price equal to two times the exercise price of the Right. Flip-In Events and Flip-Over Events are collectively referred to as "Triggering Events."

SERIES A PREFERENCE STOCK. After the Distribution Date, each Right will entitle the holder to purchase a Fractional Share of Series A Preference Stock, which will be essentially the economic equivalent of one share of Common Stock.

ANTIDILUTION. The number of outstanding Rights associated with a share of Common Stock, or the number of Fractional Shares of Series A Preference Stock issuable upon exercise of Right and the exercise price, are subject to adjustment in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Common Stock occurring prior to the Distribution Date. The exercise price payable, and the number of Fractional Shares of Series A Preference Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution in the event of certain transactions affecting the Series A Preference Stock.

With certain exceptions, no adjustment in the exercise price will be required until cumulative adjustments amount to at least 1% of the exercise price. No fractional shares of Series A Preference Stock that are not integral multiples of a Fractional Share are required to be issued and, in lieu thereof, an adjustment in cash may be made based on the market price of the Series A Preference Stock on the last trading date prior to the date of exercise. Pursuant to the Rights Agreement, Reliant Energy reserves the right to require prior to the occurrence of a Triggering Event that, upon any exercise of Rights, a number of Rights be exercised so that only whole shares of Series A Preference Stock will be issued.

REDEMPTION OF RIGHTS. At any time until the time a person becomes an Acquiring Person, Reliant Energy may redeem the Rights in whole, but not in part, at a price of $.005 per Right, payable, at the option of Reliant Energy, in cash, shares of Common Stock or such other consideration as the Reliant Energy Board of Directors may determine. Immediately upon the effectiveness of the action of the Reliant Energy Board of Directors ordering redemption of the Rights, the Rights will terminate and the only right of the holders of Rights will be to receive the $.005 redemption price.

EXCHANGE OF RIGHTS. At any time after the occurrence of a Flip-In Event and prior to a person's becoming the beneficial owner of 50% or more of the shares of Common Stock then outstanding or the occurrence of a Flip-Over Event, Reliant Energy may exchange the Rights (other than Rights owned by an Acquiring Person or an affiliate or an associate of an Acquiring Person, which will have become void), in whole or in part, at an exchange ratio of one share of Common Stock, and/or other equity securities deemed to have the same value as one share of Common Stock, per Right, subject to adjustment.

SUBSTITUTION. If Reliant Energy has an insufficient number of authorized but unissued shares of Common Stock available to permit an exercise or exchange of Rights upon the occurrence of a Flip-In Event, it may substitute certain other types of property for the Common Stock so long as the total value received by the holder of the Rights is equivalent to the value of the Common Stock that would otherwise have been received. Reliant Energy may substitute cash, property, equity securities or debt of Reliant Energy, effect a reduction in the exercise price of the Rights or use any combination of the foregoing.

NO RIGHTS AS A SHAREHOLDER; TAXES. Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of Reliant Energy, including, without limitation, the right to vote or to receive dividends. Shareholders may, depending upon the circumstances, recognize taxable income in the event that the Rights become exercisable for Common Stock (or other consideration) or for the common stock of the acquiring company or are exchanged as set forth above.

AMENDMENT OF TERMS OF RIGHTS. Other than certain provisions relating to the principal economic terms of the Rights, any of the provisions of the Rights Agreement may be amended by the Reliant Energy Board of Directors prior to the time a person becomes an Acquiring Person. Thereafter, the provisions of the Rights Agreement may be amended by the Board of Directors in order to cure any ambiguity, defect or inconsistency or to make changes that do not materially and adversely affect the interests of holders of Rights (excluding the interests of any Acquiring Person).

RIGHTS AGENT. Chase Bank of Texas, National Association (formerly Texas Commerce Bank National Association) serves as Rights Agent with regard to the Rights. Because Reliant Energy serves as the transfer agent and registrar for the Common Stock, Reliant Energy, at the request of the Rights Agent, may agree to perform certain ministerial functions relating to the Rights on behalf of the Rights Agent.

CERTAIN ANTI-TAKEOVER EFFECTS. The Rights have certain anti-takeover effects. The Rights will cause substantial dilution to any person or group that attempts to acquire Reliant Energy without the approval of the Reliant Energy Board of Directors. As a result, the overall effect of the

Rights may be to render more difficult or discourage any attempt to acquire Reliant Energy even if such acquisition may be favorable to the interests of Reliant Energy's shareholders. Because the Reliant Energy Board of Directors can redeem the Rights or approve a Permitted Offer, the Rights should not interfere with a merger or other business combination approved by the Reliant Energy Board of Directors.

RIGHTS AGREEMENT; SUMMARY. A copy of the Rights Agreement is available to shareholders free of charge from Reliant Energy. This summary description of the Rights does not purport to be complete and is qualified by reference to the Rights Agreement, which is incorporated herein by reference.

EXHIBIT 12

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

(THOUSANDS OF DOLLARS)

	THREE MONTHS ENDED MARCH 31, 2000	TWELVE MONTHS ENDED MARCH 31, 2000
Income from continuing operations	$ 55,136	$ 84,364
Income taxes for continuing operations	46,786	83,083
	101,922	167,447
Fixed charges, as defined:		
Interest expense	31,687	121,517
Distribution on trust preferred securities	95	353
Interest component of rentals charged to operating expense	2,445	11,278
Total fixed charges	34,227	133,148
Earnings, as defined	$136,149	$300,595
Ratio of earnings to fixed charges	3.98	2.26

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

0001042773
RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES

3-MOS
DEC-31-2000
MAR-31-2000
PER-BOOK
1,458,419
1,525,214
1,775,415
2,603,975
0
7,363,023
1
2,463,831
267,853
2,731,685
957
0
1,193,111
350,000
0
18,200
248,416
0
0
0
2,820,654
7,363,023
3,099,337
46,786
2,948,528
2,948,528
150,809
(17,200)
133,609
31,687
55,136
0
55,136
0
23,711
313,221
0.00
0.00

Total annual interest charges on all bonds is as of year-to-date 3/31/00.

EXHIBIT 99

RELIANT ENERGY RESOURCES CORP.
Items Incorporated by Reference

ITEMS INCORPORATED BY REFERENCE FROM THE RELIANT ENERGY AND RESOURCES FORM 10-K:

o Item 3. LEGAL PROCEEDINGS

(b) Resources Corp.

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

o Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF THE COMPANY -- CERTAIN FACTORS AFFECTING FUTURE EARNINGS OF THE COMPANY

Earnings for the past three years are not necessarily indicative of future earnings and results. The level of future earnings depends on numerous factors including (i) state and federal legislative or regulatory developments, (ii) national or regional economic conditions, (iii) industrial, commercial and residential growth in service territories of the Company, (iv) the timing and extent of changes in commodity prices and interest rates, (v) weather variations and other natural phenomena, (vi) growth in opportunities for the Company's diversified operations, (vii) the results of financing efforts, (viii) the ability to consummate and timing of consummation of pending acquisitions and dispositions, (ix) the speed, degree and effect of continued electric industry restructuring in North America and Western Europe, and (x) risks incidental to the Company's overseas operations, including the effects of fluctuations in foreign currency exchange rates.

In order to adapt to the increasingly competitive environment, the Company continues to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, internal restructuring, reorganizations or dispositions of currently owned businesses and new products, services and customer strategies.

COMPETITION AND RESTRUCTURING OF THE TEXAS ELECTRIC UTILITY INDUSTRY

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

Texas Electric Choice Plan. In June 1999, the Texas legislature adopted legislation that substantially amends the regulatory structure governing electric utilities in Texas in order to allow retail competition beginning with respect to pilot projects for up to 5% of each utility's load in all customer classes in June 2001 and for all other customers on January 1,2002. In preparation for that competition, the Company expects to make significant changes in the electric utility operations it conducts through Reliant Energy HL&P. Under the Legislation, on January 1, 2002, most retail customers of investor-owned electric utilities in Texas will be entitled to purchase their electricity from any of a number of "retail electric providers" which will have been certified by the Texas Utility Commission. Power generators will sell electric energy to wholesale purchasers, including retail electric providers, at unregulated rates beginning January 1, 2002. For further information regarding the Legislation, see Note 3 to the Company's Consolidated Financial Statements.

Stranded Costs. Pursuant to the Legislation, Reliant Energy HL&P will be entitled to recover its stranded costs (i.e., the excess of net book value of generation assets, as defined by the Legislation, over the market value of those assets) and its regulatory assets related to generation. The Legislation prescribes specific methods for determining the amount of stranded costs and the details for their recovery. However, during the base rate freeze period from 1999 through 2001, earnings above the utility's authorized return formula will be applied in a manner to accelerate depreciation of generation related plant assets for regulatory purposes. In addition, depreciation expense for transmission and distribution related assets may be redirected to generation assets for regulatory purposes during that period. The Legislation also provides for Reliant Energy HL&P, or a special purpose entity, to issue securitization bonds for the recovery of generation related regulatory assets and stranded costs. Any stranded costs not recovered through the securitization bonds will be recovered through a non-bypassable charge to transmission and distribution customers.

Accounting. At June 30, 1999, the Company performed an impairment test of its previously regulated electric generation assets pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", on a plant specific basis. The Company determined that $797 million of electric generation assets were impaired as of June 30, 1999. Of such amounts, $745 million relate to the South Texas Project and $52 million relate to two gas-fired generation plants. The Legislation provides recovery of this impairment through regulated cash flows during the transition period and through non-bypassable charges to transmission and distribution customers. As such, a regulatory asset has been recorded for an amount equal to the impairment loss and is included on the Company's Consolidated Balance Sheets as a regulatory asset.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10,2004, Reliant Energy HL&P must finalize and reconcile stranded costs (as defined by the Legislation) in a filing with the Texas Utility Commission. Any difference between the fair market value and the regulatory net book value of the generation assets (as defined by the Legislation) will either be refunded or collected through future transmission and distribution rates. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges. Because generally accepted accounting principles require the Company to estimate fair market values on a plant-by-plant basis in advance of the final reconciliation, the financial impacts of the Legislation with respect to stranded costs are subject to material changes. Factors affecting such change may include estimation risk, uncertainty of future energy prices and the economic lives of the plants. If events occur that make the recovery of all or a portion of the regulatory assets associated with the generation plant impairment loss and deferred debits created from discontinuance of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" pursuant to the Legislation no longer probable, the Company will write off the corresponding balance of such assets as a non-cash charge against earnings.

In the fourth quarter of 1999, Reliant Energy HL&P filed an application to securitize its generation related regulatory assets as defined by the Legislation. The Texas Utility Commission, Reliant Energy HL&P and other interested parties have been discussing proposed methodologies for calculating the amount of such assets to be securitized. The parties have reached an agreement in principle as to the amount to be securitized, which reflects the economic value of the nominal book amount which prior to the deregulation legislation would have been collected through rates over a much longer time period. The Company has determined that a pre-tax accounting loss of $282 million exists. Therefore, the Company recorded an after-tax extraordinary loss of $183 million for this accounting impairment of these regulatory assets in 1999.

Transmission System Open Access. In February 1996, the Texas Utility Commission adopted rules granting third-party users of transmission systems open access to such systems at rates, terms and conditions comparable to those available to utilities owning such transmission assets. Under the Texas Utility Commission order implementing the rule, Reliant Energy HL&P was required to separate, on an operational basis, its wholesale power marketing operations from the operations of the transmission grid and, for purposes of transmission pricing, to disclose each of its separate costs of generation, transmission and distribution. Within ERCOT, an independent system operator (ISO) manages the state's electric grid, ensuring system reliability and providing non-discriminatory transmission access to all power producers and traders.

Transition Plan. In June 1998, the Texas Utility Commission approved the Transition Plan filed by Reliant Energy HL&P in December 1997. Certain parties have appealed the order approving the Transition Plan. The provisions of the Transition Plan expired by their own terms as of December 31, 1999. For additional information, see Note 4 to the Company's Consolidated Financial Statements.

COMPETITION -- RELIANT ENERGY EUROPE OPERATIONS

The European energy market is highly competitive. In addition, over the next several years, an increasing consolidation of the participants in the Dutch generating market is expected to occur.

Reliant Energy Europe competes in the Netherlands primarily against the three other largest Dutch generating companies, various cogenerators of electric power, various alternate sources of power and non-Dutch generators of electric power, primarily from Germany. At present, the Dutch electricity system has three operational interconnection points with Germany and two interconnection points with Belgium. There are also a number of projects that are at various stages of development and that may increase the number of interconnections in the future including interconnections with Norway and the United Kingdom. The Belgian interconnections are used to import electricity from France but a larger portion of Dutch imports comes from Germany. In 1998, net power imports into the Netherlands were approximately 11.7 terawatt hours. Based on current information, it is estimated that net power imports into the Netherlands in 1999 increased significantly from 1998.

In 1999, UNA and the three other largest Dutch generators supplied approximately 60% of the electricity consumed in the Netherlands. Smaller Dutch producers supplied about 28% and the remainder was imported. The Dutch electricity market is expected to be gradually opened for wholesale competition including certain commercial and industrial customers beginning in 2001. Competition is expected to increase in subsequent years and it is anticipated that the market for small businesses and residential customers will become open to competition by 2007. The timing of the opening of these markets is subject, however, to change at the discretion of the Minister of Economic Affairs.

The trading and marketing operations of Reliant Energy Europe will also be subject to increasing levels of competition. As of March 1,2000, there were approximately 25 trading and marketing companies registered with the Amsterdam Power Exchange. Competition for marketing customers is intense and is expected to increase with the deregulation of the market. The primary elements of competition in both the generation and trading and marketing side of Reliant Energy Europe's business operations are price, credit-support and supply and delivery reliability.

COMPETITION -- OTHER OPERATIONS

Wholesale Energy By the third quarter of 2000, Reliant Energy expects that the Company will own and operate over 8,000 MW of non-rate regulated electric generation assets that serve the wholesale energy markets located in the states of California and Florida, and the Southwest, Midwest and Mid-Atlantic regions of the United States. Competitive factors affecting the results of operations of these generation assets include: new market entrants, construction by others of more efficient generation assets, the actions of regulatory authorities and weather.

Other competitors operate power generation projects in most of the regions where the Company has invested in non-rate regulated generation assets. Although local permitting and siting issues often reduce the risk of a rapid growth in supply of generation capacity in any particular region, over time, projects are likely to be built which will increase competition and lower the value of some of the Company's non-rate regulated electric generation assets.

The regulatory environment of the wholesale energy markets in which the Company invests may adversely affect the competitive conditions of those markets. In several regions, notably California and in the PJM Power Pool Region (in the Mid-Atlantic region of the United States), the independent system operators have chosen to rely on price caps and market redesigns as a way of minimizing market volatility.

The results of operations of the Company's non-rate regulated generation assets are also affected by the weather conditions in the relevant wholesale energy markets. Extreme seasonal weather conditions typically increase the demand for wholesale energy. Conversely, mild weather conditions typically have the opposite effect. In some regions, especially California, weather conditions associated with hydroelectric generation resources such as rainfall and snowpack can significantly influence market prices for electric power by increasing or decreasing the availability and timing of hydro-based generation which is imported into the California market.

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

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

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

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

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

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

INDEXED DEBT SECURITIES (ACES AND ZENS) AND TIME WARNER INVESTMENT

For information on Reliant Energy's indexed debt securities and its investment in TW Common, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Report and Note 8 to the Company's Consolidated Financial Statements.

IMPACT OF THE YEAR 2000 ISSUE AND OTHER SYSTEM IMPLEMENTATION ISSUES

In 1997, the Company initiated a corporate wide Year 2000 project to address mainframe application systems, information technology (IT) related equipment, system software, client-developed applications, building controls and non-IT embedded systems such as process controls for energy production and delivery. The evaluation of Year 2000 issues included those related to significant customers, key vendors, service suppliers and other parties material to the Company's operations.

Remediation and testing of all systems and equipment were completed during 1999. The Company did not experience any Year 2000 problems that significantly affected the operations of the Company. The Company will continue to monitor and assess potential future problems. Total direct costs of resolving the Year 2000 issue with respect to the Company were $29 million.

The Company is in the process of implementing SAP America, Inc.'s (SAP) proprietary R/3 enterprise software. Although the implementation of the SAP system had the incidental effect of negating the need to modify many of the Company's computer systems to accommodate the Year 2000 problem, the Company does not deem the costs of the SAP system as directly related to its Year 2000 compliance program. Portions of the SAP system were implemented in December 1998, March 1999 and September 1999, and it is expected that the final portion of the SAP system will be fully implemented by the fourth quarter of 2002. The cost of implementing the SAP system is currently estimated to be approximately $237 million, inclusive of internal costs. As of December 31, 1999, $192 million has been spent on the implementation.

ENTRY INTO THE EUROPEAN MARKET

Reliant Energy Europe owns, operates and sells power from generation facilities in the Netherlands and plans to participate in the emerging wholesale energy trading and marketing industry in the Netherlands and other countries in Europe. Reliant Energy expects that the Dutch electric industry will undergo change in response to market deregulation in 2001. These expected changes include the anticipated expiration of certain transition agreements which have governed the basic tariff rates that UNA and other generators have charged their customers. Based on current forecasts and other assumptions, the revenues of UNA could decline significantly from 1999 revenues after 2000.

One of the factors that could have a significant impact on the Dutch energy industry, including the operations of UNA, is the ultimate resolution of stranded cost issues in the Netherlands. The Dutch government is currently seeking to establish a transitional regime in order to solve the problem of stranded costs, which relate primarily to investments and contracts entered into by SEP and certain licensed generators prior to the liberalization of the market. SEP is owned in equal shares by each of the four large Dutch generating companies, including UNA.

In connection with the acquisition of UNA, the selling shareholders of UNA agreed to indemnify UNA for certain stranded costs in an amount not to exceed NLG 1.4 billion (approximately $639 million based on an exchange rate of 2.19 NLG per U.S. dollar as of December 31, 1999), which may be increased in certain circumstances at the option of the Company up to NLG 1.9 billion (approximately $868 million). Of the total consideration paid by the Company for the shares of UNA, NLG 900 million (approximately $411 million) has been placed by the selling shareholders in an escrow account to secure the indemnity obligations. Although Reliant Energy believes that the indemnity provision will be sufficient to cover UNA's ultimate share of any stranded cost obligation, this belief is based on numerous assumptions regarding the ultimate outcome and timing of the resolution of the stranded cost issue, the existing shareholders timely performance of their obligations under the indemnity arrangement, and the amount of stranded costs which at present is not determinable.

The Dutch government is expected to propose a legislative initiative regarding stranded costs to the Dutch cabinet in March 2000. The proposed legislation will be sent to the Dutch council of state for review. It is not anticipated that the legislation will be reviewed by parliament until late in the summer of 2000.

For information about the Company's exposure through its investment in Reliant Energy Europe to losses resulting from fluctuations in currency rates, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

RISK OF OPERATIONS IN EMERGING MARKETS

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

Impact of Currency Fluctuations on Company Earnings. The Company owns 11.78% of the stock of Light Servicos de Eletricidade S.A. (Light) and, through its investment in Light, a 9.2% interest in the stock of Metropolitana Electricidade de Sao Paulo S.A. (Metropolitana). As of December 31, 1999 and 1998, Light and Metropolitana had total borrowings of $2.9 billion and $3.2 billion, respectively, denominated in non-local currencies. During the first quarter of 1999, the Brazilian real was devalued and allowed to float against other major currencies. The effects of devaluation on the non-local currency denominated borrowings caused the Company to record an after-tax charge for the year ended December 31, 1999 of $102 million as a result of foreign currency transaction losses recorded by both Light and Metropolitana in such periods. For additional information regarding the effect of the devaluation of the Brazilian real, see Note 7(a) in the Company's Consolidated Financial Statements.

Light's and Metropolitana's tariff adjustment mechanisms are not directly indexed to the U.S. dollar or other non-local currencies. To partially offset the devaluation of the Brazilian real, and the resulting increased operating costs and inflation, Light and Metropolitana received tariff rate increases of 16% and 21%, respectively, which were phased in during June and July 1999. Light also received its annual rate adjustment in November 1999 resulting in a tariff rate increase of 11%. The Company is pursuing additional tariff increases to mitigate the impact of the devaluation; however, there can be no assurance that such adjustments will be timely or that they will permit substantial recovery of the impact of the devaluation.

Certain of Reliant Energy Latin America's other foreign electric distribution companies have incurred U.S. dollar and other non-local currency indebtedness (approximately $600 million at December 31, 1999). For further analysis of foreign currency fluctuations in the Company's earnings and cash flows, see "Quantitative and Qualitative Disclosures About Market Risk -- Foreign Currency Exchange Rate Risk" in Item 7A of this Form 10-K.

Impact of Foreign Currency Devaluation on Projected Capital Resources. The ability of Light and Metropolitana to repay or refinance their debt obligations at maturity is dependent on many factors, including local and international economic conditions prevailing at the time such debt matures. If economic conditions in the international markets continue to be unsettled or deteriorate, it is possible that Light, Metropolitana and the other foreign electric distribution companies in which the Company holds investments might encounter difficulties in refinancing their debt (both local currency and non-local currency borrowings) on terms and conditions that are commercially acceptable to them and their shareholders. In such circumstances, in lieu of declaring a default or extending the maturity, it is possible that lenders might seek to require, among other things, higher borrowing rates, and additional equity contributions and/or increased levels of credit support from the shareholders of such entities. For a discussion of the Company's anticipated capital contributions in 2000, see "-- Liquidity and Capital Resources -- Future Sources and Uses of Cash Flows -- Reliant Energy Latin America Capital Contributions and Advances." In 2000, $1.6 billion of debt obligations of Light and Metropolitana will mature. The availability or terms of refinancing such debt cannot be assured. Currency fluctuation and instability affecting Latin America may also adversely affect the Company's ability to refinance its equity investments with debt.

ENVIRONMENTAL EXPENDITURES

The Company is subject to numerous environmental laws and regulations, which require it to incur substantial costs to operate existing facilities, construct and operate new facilities, and mitigate or remove the effect of past operations on the environment.

Clean Air Act Expenditures. The Company expects the majority of capital expenditures associated with environmental matters to be incurred by Electric Operations in connection with new emission limitations under the Federal Clean Air Act (Clean Air Act) for oxides of nitrogen (NOx). NOx reduction costs incurred by Electric Operations generating units in the Houston, Texas area totaled approximately $7 million in 1999 and $7 million in 1998. The Texas Natural Resources Conservation Commission (TNRCC) is currently considering additional NOx reduction requirements for electric generating units and other industrial sources located in the Houston metropolitan area and the eastern half of Texas as a means to attain the Clean Air Act standard for ozone. Although the magnitude and timing of these requirements will not be established by the TNRCC until November, 2000, NOx reductions approaching 90% of the emissions level are anticipated. Expenditures for NOx controls on Electric Operations' generating units have been estimated at $500 million to $600 million during the period 2000 through 2003, with an estimated $80 million to be incurred during 2000. In addition, the Legislation created a program mandating air emissions reductions for certain generating facilities of Electric Operations. The Legislation provides for stranded cost recovery for costs associated with this obligation incurred before May 1, 2003. For further information regarding the Legislation, see Note 3 to the Company's Consolidated Financial Statements.

Site Remediation Expenditures. From time to time the Company has received notices from regulatory authorities or others regarding its status as a potentially responsible party in connection with sites found to require remediation due to the presence of environmental contaminants. Based on currently available information, Reliant Energy believes that remediation costs will not materially affect its financial position, results of operations or cash flows. There can be no assurance, however, that future developments, including additional information about existing sites or the identification of new sites, will not require material revisions to Reliant Energy's estimates. For information about specific sites that are the subject of remediation claims, see Note 14(h) to the Company's Consolidated Financial Statements and Note 8(d) to Resources' Consolidated Financial Statements.

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

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

OTHER CONTINGENCIES

For a description of certain other legal and regulatory proceedings affecting the Company, see Notes 3, 4 and 14 to the Company's Consolidated Financial Statements and Note 8 to Resources' Consolidated Financial Statements.

o ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

INTEREST RATE RISK

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

At December 31, 1999, the Company had issued fixed-rate debt (excluding indexed debt securities) and Trust Preferred Securities aggregating $5.8 billion in principal amount and having a fair value of $5.6 billion. These instruments are fixed-rate and, therefore, do not expose the Company to the risk of loss in earnings due to changes in market interest rates (see Notes 10 and 11 to the Company's Consolidated Financial Statements). However, the fair value of these instruments would increase by approximately $305 million if interest rates were to decline by 10% from their levels at December 31, 1999. In general, such an increase in fair value would impact earnings and cash flows only if the Company were to reacquire all or a portion of these instruments in the open market prior to their maturity.

The Company's floating-rate obligations aggregated $3.1 billion at December 31, 1999 (see Note 10 to the Company's Consolidated Financial Statements), inclusive of (i) amounts borrowed under short-term and long-term credit facilities of the Company (including the issuance of commercial paper supported by such facilities), (ii) borrowings underlying a receivables facility and (iii) amounts subject to a master leasing agreement under which lease payments vary depending on short-term interest rates. These floating-rate obligations expose the Company to the risk of increased interest and lease expense in the event of increases in short-term interest rates. If the floating rates were to increase by 10% from December 31, 1999 levels, the Company's consolidated interest expense and expense under operating leases would increase by a total of approximately $1.6 million each month in which such increase continued.

As discussed in Notes 1(l) and 6(c) to the Company's Consolidated Financial Statements, the Company contributes $14.8 million per year to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project. The securities held by the trust for decommissioning costs had an estimated fair value of $145 million as of December 31, 1999, of which approximately 40% were fixed-rate debt securities that subject the Company to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 1999, the decrease in fair value of the fixed-rate debt securities would not be material to the Company. In addition, the risk of an economic loss is mitigated. Any unrealized gains or losses are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability because the Company believes that its future contributions which are currently recovered through the rate-making process will be adjusted for these gains and losses. For further discussion regarding the recovery of decommissioning costs pursuant to the Legislation, see Note 3 to the Consolidated Financial Statements.

As discussed in Note 1(l) to the Company's Consolidated Financial Statements, UNA holds fixed-rate debt securities, which had an estimated fair value of $133 million as of December 31, 1999, that subject the Company to risk of loss of fair value and earnings with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 1999, the decrease in fair value and loss in earnings from this investment would not be material to the Company.

The Company has entered into interest rate swaps for the purpose of decreasing the amount of debt subject to interest rate fluctuations. At December 31, 1999, these interest rate swaps had an aggregate notional amount of $64 million and the cost to terminate would not result in a material loss in earnings and cash flows to the Company (see Note 5 to the Company's Consolidated Financial Statements). An increase of 10% in the December 31, 1999 level of interest rates would not increase the cost of termination of the swaps by a material amount to the Company. Swap termination costs would impact the Company's earnings and cash flows only if all or a portion of the swap instruments were terminated prior to their expiration.

As discussed in Note 10(b) to the Company's Consolidated Financial Statements, in November 1998, Resources sold $500 million aggregate principal amount of its 6 3/8% TERM Notes which included an embedded option to remarket the securities. The option is expected to be exercised in the event that the ten-year Treasury rate in 2003 is below 5.66%. At December 31, 1999, the Company could terminate the option at a cost of $11 million. A decrease of 10% in the December 31, 1999 level of interest rates would increase the cost of termination of the option by approximately $5 million.

EQUITY MARKET RISK

As discussed in Note 8 to the Company's Consolidated Financial Statements, the Company owns approximately 55 million shares of TW Common, of which approximately 38 million and 17 million shares are held by the Company to facilitate its ability to meet its obligations under the ACES and ZENS, respectively. Unrealized gains and losses resulting from changes in the market value of the Company's TW Common are recorded in the Consolidated Statement of Operations. Increases in the market value of TW Common result in an increase in the liability for the ZENS and ACES and are recorded as a non-cash expense. Such non-cash expense will be offset by an unrealized gain on the Company's TW Common investment. However, if the market value of TW Common declines below $58.25, the ZENS payment obligation will not decline below its original principal amount. As of December 31, 1999, the market value of TW Common was $72.31 per share. A decrease of 10% from the December 31, 1999 market value of TW Common would not result in a loss. As of March 1, 2000, the market value of TW Common was $84.38 per share. In addition, the Company has a $14 million investment in Cisco Systems, Inc. as of December 31, 1999, which is classified as trading under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115). In January 2000, the Company entered into financial instruments (a put option and a call option) to manage price risks related to the Company's investment in Cisco Systems, Inc. A decline in the market value of this investment would not materially impact the Company's earnings and cash flows. The Company also has a $9 million investment in Itron, Inc. (Itron) which is classified as "available for sale" under SFAS No. 115. The Itron investment exposes the Company to losses in the fair value of Itron common stock. A 10% decline in the market value per share of Itron common stock from the December 31, 1999 levels would not result in a material loss in fair value to the Company.

As discussed above under "-- Interest Rate Risk," the Company contributes to a trust established to fund the Company's share of the decommissioning costs for the South Texas Project which held debt and equity securities as of December 31, 1999. The equity securities expose the Company to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at December 31, 1999, the resulting loss in fair value of these securities would not be material to the Company. Currently, the risk of an economic loss is mitigated as discussed above under "--Interest Rate Risk."

FOREIGN CURRENCY EXCHANGE RATE RISK

As further described in "Certain Factors Affecting Future Earnings of the Company -- Risks of Operations in Emerging Markets" in Item 7 of this Form 10-K, the Company has investments in electric generation and distribution facilities in Latin America with a substantial portion accounted for under the equity method. In addition, as further discussed in Note 2 of the Company's Consolidated Financial Statements, during the fourth quarter of 1999, the Company completed the first and second phases of the acquisition of 52% of the shares UNA, a Dutch power generation company and completed the final phase of the acquisition on March 1, 2000. These foreign operations expose the Company to risk of loss in earnings and cash flows due to the fluctuation in foreign currencies relative to the Company's consolidated reporting currency, the U.S. dollar. The Company accounts for adjustments resulting from translation of its investments with functional currencies other than the U.S. dollar as a charge or credit directly to a separate component of stockholders' equity. The Company has entered into foreign currency swaps and has issued Euro denominated debt to hedge its net investment in UNA. Changes in the value of the swap and debt are recorded as foreign currency translation adjustments as a component of stockholders' equity. For further discussion of the accounting for foreign currency adjustments, see Note 1(m) in the Company's Consolidated Financial Statements. The cumulative translation loss of $77 million, recorded as of December 31, 1999, will be realized as a loss in earnings and cash flows only upon the disposition of the related investments. The cumulative translation loss was $34 million as of

December 31, 1998. The increase in cumulative translation loss from December 31, 1998 to December 31, 1999, was primarily due to the impact of devaluation of the Brazilian real on the Company's investments in Light and Metropolitana.

In addition, certain of Reliant Energy Latin America's foreign

operations have entered into obligations in currencies other than their own functional currencies which expose the Company to a loss in earnings. In such cases, as the respective investment's functional currency devalues relative to the non-local currencies, the Company will record its proportionate share of its investments' foreign currency transaction losses related to the non-local currency denominated debt. At December 31, 1999, Light and Metropolitana of which the Company owns 11.78% and 9.2%, respectively, had total borrowings of approximately $2.9 billion denominated in non-local currencies. As described in Note 7 to the Company's Consolidated Financial Statements, in 1999 the Company reported a $102 million (after-tax) charge to net income and a $43 million charge to other comprehensive income, due to the devaluation of the Brazilian real. The charge to net income reflects increases in the liabilities at Light and Metropolitana for their non-local currency denominated borrowings using the exchange rate in effect at December 31, 1999 and a monthly weighted average exchange rate for the year then ended. The charge to other comprehensive income reflects the translation effect on the local currency denominated net assets underlying the Company's investment in Light. As of December 31, 1999, the Brazilian real exchange rate was 1.79 per U.S. dollar. An increase of 10% from the December 31, 1999 exchange rate would result in the Company recording an additional charge of $20 million and $23 million to net income and other comprehensive income, respectively. As of March 1, 2000, the Brazilian real exchange rate was 1.77 per U.S. dollar.

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

ENERGY COMMODITY PRICE RISK

As further described in Note 5 to the Company's Consolidated Financial Statements, the Company utilizes a variety of derivative financial instruments (Derivatives), including swaps, over-the-counter options and exchange-traded futures and options, as part of the Company's overall hedging strategies and for trading purposes. To reduce the risk from the adverse effect of market fluctuations in the price of electric power, natural gas, crude oil and refined products and related transportation and transmission, the Company enters into futures transactions, forward contracts, swaps and options (Energy Derivatives) in order to hedge certain commodities in storage, as well as certain expected purchases, sales, transportation and transmission of energy commodities (a portion of which are firm commitments at the inception of the hedge). The Company's policies prohibit the use of leveraged financial instruments. In addition, Reliant Energy Services maintains a portfolio of Energy Derivatives to provide price risk management services and for trading purposes (Trading Derivatives).

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

With respect to the Energy Derivatives (other than Trading Derivatives) held by the Company as of December 31, 1999, an increase of 10% in the market prices of natural gas and electric power from year-end levels would have decreased the fair value of these instruments by approximately $12 million. As of December 31, 1998, a decrease of 10% in the market prices of natural gas and electric power from year-end levels would have decreased the fair value of these instruments by approximately $3 million.

The above analysis of the Energy Derivatives utilized for hedging purposes does not include the favorable impact that the same hypothetical price movement would have on the Company's physical purchases and sales of natural gas and electric power to which the hedges relate. Furthermore, the Energy Derivative portfolio is managed to complement the physical transaction portfolio, reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Energy Derivatives held for hedging purposes associated with the hypothetical changes in commodity prices referenced above would be offset by a favorable impact on the underlying hedged physical transactions, assuming (i) the Energy Derivatives are not closed out in advance of their expected term, (ii) the Energy Derivatives continue to function effectively as hedges of the underlying risk and (iii) as applicable, anticipated transactions occur as expected.

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

With respect to the Trading Derivatives held by Reliant Energy Services, consisting of natural gas, electric power, crude oil and refined products, weather derivatives, physical forwards, swaps, options and exchange-traded futures and options, the Company is exposed to losses in fair value due to changes in the price and volatility of the underlying derivatives. During the years ended December 31, 1999 and 1998, the highest, lowest and average monthly value-at-risk in the Trading Derivative portfolio was less than $10 million at a 95% confidence level and for a holding period of one business day. The Company uses the variance/covariance method for calculating the value-at-risk and includes delta approximation for option positions.

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

ITEMS INCORPORATED BY REFERENCE FROM THE RESOURCES 10-K NOTES:

o (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(c) Regulatory Assets and Regulation.

Resources applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) to the accounts of its Natural Gas Distribution operations and to MRT. Resources' Natural Gas Distribution operations are subject to regulation at the state or municipal level and the Interstate Pipelines operations of MRT are subject to regulation by the Federal Energy Regulatory Commission. As of December 31, 1999 and 1998, Resources had recorded as deferred debits and other deferred credits approximately $4 million and $12 million, respectively, of net regulatory assets.

If, as a result of changes in regulation or competition, Resources' ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, "Regulated Enterprises Accounting for the Discontinuation of Application of SFAS No. 71" and SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," Resources would be required to write off or write down such regulatory assets and liabilities.

o (2) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Price Risk Management and Trading Activities.

Resources offers energy price risk management services primarily related to natural gas, electricity, crude oil and refined products, weather, coal and certain air emissions regulatory credits. Resources provides these services by utilizing a variety of derivative financial instruments, including fixed and variable-priced physical forward contracts, fixed and variable-priced swap agreements and options traded in the over-the-counter financial markets and exchange-traded energy futures and option contracts (Trading Derivatives). Fixed-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between a fixed and variable price for the commodity. Variable-price swap agreements require payments to, or receipts of payments from, counterparties based on the differential between industry pricing publications or exchange quotations.

Prior to 1998, Resources applied hedge accounting to certain physical commodity activities that qualified for hedge accounting. In 1998, Resources adopted mark-to-market accounting for all of its price risk management and trading activities. Accordingly, since 1998, such Trading Derivatives are recorded at fair value with realized and unrealized gains (losses) recorded as a component of revenues. The recognized, unrealized balance is included in price risk management assets/liabilities (See Note 1(q)).

The notional quantities, maximum terms and the estimated fair value of Trading Derivatives at December 31, 1999 and 1998 are presented below (volumes in billions of British thermal units equivalent (Bbtue) and dollars in millions):

	VOLUME-FIXED PRICE PAYOR	VOLUME-FIXED PRICE RECEIVER	MAXIMUM TERM (YEARS)
1999			
Natural gas	936,716	939,416	9
Electricity	251,592	248,176	10
Crude oil and refined products	143,857	144,554	3
1998			
Natural gas	937,264	977,293	9
Electricity	122,950	124,878	3
Crude oil and refined products	205,499	204,223	3

	FAIR VALUE		AVERAGE FAIR VALUE(a)	
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
1999				
Natural gas	$ 319	$ 299	$ 302	$ 283
Electricity	131	98	103	80
Crude oil and refined products	134	145	127	132
	$ 584	$ 542	$ 532	$ 495
1998				
Natural gas	$ 224	$ 212	$ 124	$ 108
Electricity	34	33	186	186
Crude oil and refined products	29	23	21	17
	$ 287	$ 268	$ 331	$ 311

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

In addition to the fixed-price notional volumes above, Resources also has variable-priced agreements, as discussed above, totaling 3,797,824 and 1,702,977 Bbtue as of December 31, 1999 and 1998, respectively. Notional amounts reflect the volume of transactions but do not represent the amounts exchanged by the parties to the financial instruments. Accordingly, notional amounts do not accurately measure Resources' exposure to market or credit risks.

All of the fair values shown in the tables above at December 31, 1999 and December 31, 1998 have been recognized in income. The fair value as of December 31, 1999 and 1998 was estimated using quoted prices where available and considering the liquidity of the market for the Trading Derivatives. The prices and fair values are subject to significant changes based on changing market conditions.

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

In addition to the risk associated with price movements, credit risk is also inherent in Resources' risk management activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The following table shows the composition of the total price risk management assets of Resources as of December 31, 1999 and 1998.

	DECEMBER 31, 1999		DECEMBER 31, 1998	
	INVESTMENT GRADE(1)	TOTAL	INVESTMENT GRADE(1)	TOTAL
	(MILLIONS OF DOLLARS)			
Energy marketers	$ 172	$ 183	$ 103	$ 124
Financial institutions	119	119	62	62
Gas and electric utilities	184	186	47	48
Oil and gas producers	6	30	7	8
Industrials	4	5	2	3
Independent power producers	4	6	1	1
Others	64	67	45	47
Total	$ 553	596	$ 267	293
Credit and other reserves		12		(6)
Energy price risk management assets(2)		$ 584		$ 287

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

(2) As of December 31, 1999, Resources had no credit risk exposure to any single counterparty that represents greater than 5% of price risk management assets.

(b) Non-Trading Activities.

To reduce the risk from market fluctuations in the revenues derived from electric power, natural gas and related transportation, Resources enters into futures transactions, swaps and options (Energy Derivatives) in order to hedge certain natural gas in storage, as well as certain expected purchases, sales and transportation of natural gas and electric power (a portion of which are firm commitments at the inception of the hedge). Energy Derivatives are also utilized to fix the price of compressor fuel or other future operational gas requirements and to protect natural gas distribution earnings against unseasonably warm weather during peak gas heating months, although usage to date for this purpose has not been material. Resources applies hedge accounting with respect to its derivative financial instruments utilized in non-trading activities.

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

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

At December 31, 1999, Resources was fixed-price payors and fixed-price receivers in Energy Derivatives covering 33,108 billion British thermal units (Bbtu) and 5,481 Bbtu of natural gas, respectively. At December 31, 1998, Resources was fixed-price payors and fixed-price receivers in Energy Derivatives covering 42,498 Bbtu and 3,930 Bbtu of natural gas, respectively. Also, at December 31, 1999 and 1998, Resources was a party to variable-priced Energy Derivatives totaling 44,958 Bbtu and 21,437 Bbtu of natural gas, respectively. The weighted average maturity of these instruments is less than one year.

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

The average maturity discussed above and the fair value discussed in Note 10 are not necessarily indicative of likely future cash flows as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and Resources' risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

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

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

Reliant Energy's policies prohibit the use of leveraged financial instruments.

Reliant Energy has established a Risk Oversight Committee, comprised of corporate and business segment officers that oversees all commodity price and credit risk activities, including Resources' trading, marketing and risk management activities. The Committee's duties are to establish Reliant Energy's and Resources' commodity risk policies, allocate risk capital within limits established by Reliant Energy's board of directors, approve trading of new products and commodities, monitor risk positions and ensure compliance with Reliant Energy's risk management policies and procedures and trading limits established by Reliant Energy's board of directors.

o (8) COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments.

The following table sets forth certain information concerning Resources' obligations under non-cancelable long-term operating leases principally consisting of rental agreements for building space and data processing equipment and vehicles, including major work equipment (in millions):

2000	$ 15
2001	14
2002	9
2003	8
2004	6
2005 and beyond	18
Total	$ 70

Resources has a master leasing agreement which provides for the lease of vehicles, construction equipment, office furniture, data processing equipment and other property. For accounting purposes, the lease is treated as an operating lease. At December 31, 1999, the unamortized value of equipment covered by the master leasing agreement was $17 million. Resources does not expect to lease additional property under this lease agreement.

Total rental expense for all was $33 million, $25 million and $24 million in 1999, 1998 and 1997, respectively.

(b) Indemnity Provisions.

At December 31, 1999 and 1998, Resources had a $0.5 million and $5.8 million, accounting reserve on its Consolidated Balance Sheets in other deferred credits for possible indemnity claims asserted in connection with its disposition of Resources' former subsidiaries or divisions, including the sale of (i) Louisiana Intrastate Gas Corporation, a former Resources subsidiary engaged in the intrastate pipeline and liquids extraction business; (ii) Arkla Exploration Company, a former Resources subsidiary engaged in oil and gas exploration and production activities; and (iii) Dyco Petroleum Company, a former Resources subsidiary engaged in oil and gas exploration and production.

(c) Transportation Agreement.

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

(d) Environmental Matters.

To the extent that potential environmental remediation costs are quantified within a range, Resources establishes reserves equal to the most likely level of costs within the range and adjusts such accruals as better information becomes available. In determining the amount of the liability, future costs are not discounted to their present value and the liability is not offset by expected insurance recoveries. If justified by circumstances within Resources' business subject to SFAS No. 71, corresponding regulatory assets are recorded in anticipation of recovery through the rate making process.

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

At December 31, 1999 and 1998, Resources had accrued $18.8 million and $15.2 million, respectively, for remediation of the Minnesota sites. At December 31, 1999, the estimated range of possible remediation costs was $10 million to $49 million. The low end of the range was determined based on only those sites presently, owned or known to have been operated by Resources, assuming use of Resources proposed remediation methods. The upper end of the range was determined based on the sites once owned by Resources, whether or not operated by

Resources. The cost estimate of the FMGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

Other Minnesota Matters. At December 31, 1999 and 1998, Resources had recorded accruals of $1.2 million and $5.4 million, respectively (with a maximum estimated exposure of approximately $13 million and $8 million at December 31, 1999 and 1998, respectively), for other environmental matters for which remediation may be required.

In its 1995 rate case, Reliant Energy Minnegasco was allowed to recover approximately $7 million annually for remediation costs. In 1998, Reliant Energy Minnegasco received approval to reduce its annual recovery rate to zero. Remediation costs are subject to a true-up mechanism whereby any over or under recovered amounts, net of certain insurance recoveries, plus carrying charges, are deferred for recovery or refund in the next rate case. At December 31, 1999 and 1998, Reliant Energy Minnegasco had over recovered $13 million, including insurance recoveries. At December 31, 1999 and 1998, Reliant Energy Minnegasco had recorded a liability of $20.0 million and $20.6 million, respectively, to cover the cost of future remediation. Reliant Energy Minnegasco expects that approximately 40% of its accrual as of December 31, 1999 will be expended within the next five years. The remainder will be expended on an ongoing basis for an estimated 40 years. In accordance with the provisions of SFAS No. 71, a regulatory asset has been recorded equal to the liability accrued. Resources believes the difference between any cash expenditures for these costs and the amount recovered in rates during any year will not be material to Resources' financial position, results of operations or cash flows.

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

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

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

Resources is a party to litigation (other than that specifically noted) which arises in the normal course of business. Management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. Management believes that the effect on Resources' Consolidated Financial Statements, if any, from the disposition of these matters will not be material.