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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ____________TO __________

COMMISSION FILE NUMBER 1-3187

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

TEXAS	74-0694415
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1111 LOUISIANA HOUSTON, TEXAS 77002	(713) 207-3000
(Address and zip code of principal executive offices)	(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, without par value, and associated rights to purchase preference stock	New York Stock Exchange Chicago Stock Exchange
7% Automatic Common Exchange Securities due July 1, 2000	New York Stock Exchange
HL&P Capital Trust I 8.125% Trust Preferred Securities, Series A	New York Stock Exchange
REI Trust I 7.20% Trust Originated Preferred Securities, Series C	New York Stock Exchange
2.0% Zero-Premium Exchangeable Subordinated Notes due 2027	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
Preferred Stock, cumulative, no par--$4 series

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 Number)
1111 LOUISIANA HOUSTON, TEXAS 77002	(713) 207-3000
(Address and zip code of principal executive offices)	(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
NorAm Financing I 6 1/4% Convertible Trust Originated Preferred Securities	New York Stock Exchange
6% Convertible Subordinated Debentures due 2012	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

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

Indicate by check mark whether each of the registrants: (1) has 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of Reliant Energy, Incorporated (Company) was $6,172,912,484 as of March 10, 2000, using the definition of beneficial ownership contained in Rule 13d-3 promulgated pursuant to the Securities Exchange Act of 1934 and excluding shares held by directors and executive officers. As of March 10, 2000, the Company had 293,355,835 shares of Common Stock outstanding, including 10,581,513 ESOP shares not deemed outstanding for financial statement purposes. Excluded from the number of shares of Common Stock outstanding are 4,808,418 shares held by the Company as treasury stock. As of March 10, 2000, all 1,000 outstanding shares of Reliant Energy Resources Corp.'s Common Stock were held by the Company.

Portions of the definitive proxy statement relating to the 2000 Annual Meeting of Shareholders of the Company, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 1999, are incorporated by reference in Item 10, Item 11, Item 12 and Item 13 of Part III of this Form 10-K.

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

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time, Reliant Energy, Incorporated (Reliant Energy) and Reliant Energy Resources Corp. (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 among the important factors that could cause actual results to differ materially from the forward-looking statements:

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

For a discussion of some additional factors that could cause actual results to differ materially from those expressed or implied in forward-looking statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company." Any forward-looking statements should be considered in light of these important factors and in conjunction with the other documents filed by Reliant Energy and Resources Corp. with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements may emerge from time to time. It is not possible for Reliant Energy or Resources Corp. to predict all of these factors, or the extent to which any factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which the statement is made and neither Reliant Energy nor Resources Corp. undertakes any obligation to update the information contained in the statement to reflect subsequent developments or information.

The following sections of this Form 10-K contain forward-looking statements which you can identify by the words "anticipate," "estimate," "expect," "forecast," "goal," "objective," "projection" or other similar words:

- Business--
  - Electric Operations--
    - Deregulation and Competition
    - Electric Operations Assets
    - Fuel
  - Wholesale Energy --
    - Power Generation
    - Wholesale Energy Trading, Marketing and Risk Management
  - Reliant Energy Europe --
    - UNA
    - European Energy Trading and Marketing
  - Environmental Matters
  - Legal Proceedings
  - Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company --
    - Results of Operation by Business Segment --
      - Wholesale Energy
      - Reliant Energy Europe
      - Reliant Energy Latin America
    - Certain Factors Affecting Future Earnings of the Company--
      - Competition and Restructuring of the Texas Electric Utility Industry
      - Competition - Reliant Energy Europe Operations
      - Competition - Other Operations
      - Impact of the Year 2000 Issue and Other System Implementation Issues
      - Entry into the European Market
      - Risk of Operations in Emerging Markets
      - Environmental Expenditures
    - Liquidity and Capital Resources--
      - Company Consolidated Capital Requirements
      - Future Sources and Uses of Cash Flows
    - New Accounting Issues
  - Quantitative and Qualitative Disclosures About Market Risk

PART I

ITEM 1. BUSINESS.

GENERAL

Reliant Energy, Incorporated (Reliant Energy) is a Texas corporation incorporated in 1906. Reliant Energy Resources Corp. (Resources Corp.) is a Delaware corporation incorporated in 1996. The term "Company" is used in this Form 10-K to refer collectively to Reliant Energy and its subsidiaries, including Resources Corp. The term "Resources" is used in this Form 10-K to refer collectively to Resources Corp. and its subsidiaries. The executive offices of Reliant Energy and Resources Corp. are located at 1111 Louisiana, Houston, TX 77002 (telephone number 713-207-3000). Prior to February 1999, Reliant Energy conducted business under the name "Houston Industries Incorporated" and Resources Corp. conducted business under the name "NorAm Energy Corp."

The Company is a diversified international energy services company that provides energy and energy services in North America, Western Europe and Latin America through the following business segments:

- Electric Operations
- Natural Gas Distribution
- Interstate Pipelines
- Wholesale Energy
- Reliant Energy Europe
- Reliant Energy Latin America, and
- Corporate

For information about the revenues, operating income, assets and other financial information relating to the Company's business segments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company--Results of Operations by Business Segment," Note 18 to the Company's Consolidated Financial Statements, "Management's Narrative Analysis of the Results of Operations of Reliant Energy Resources Corp. and its Consolidated Subsidiaries" and Note 9 to Resources Corp.'s Consolidated Financial Statements.

Resources is a domestic natural gas utility, an interstate natural gas pipeline company and a provider of energy marketing services. Resources' operations are described below in the consolidated description of the Company's business segments.

ELECTRIC OPERATIONS

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

SERVICE AREA

Houston's economy, although it has become increasingly diversified over the past ten years, is still focused on energy sector industries, such as oil companies, petrochemical and refining complexes, industrial and petrochemical construction firms and natural gas distribution and processing centers. During the year ended December 31, 1999, energy sector industries accounted for approximately 32% of Electric Operations' industrial electric base revenues and

7% of its total electric base revenues. Other important sectors of Houston's economy include the Port of Houston, the Johnson Space Center, the Texas Medical Center and a growing electronics and computer industry.

Reliant Energy is a member of the Electric Reliability Council of Texas, Inc. (ERCOT) and is interconnected to a transmission grid encompassing most of the State of Texas.

DEREGULATION AND COMPETITION

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 January 1, 2002. In preparation for competition, the Company expects to make significant changes in the electric utility operations it conducts through Reliant Energy HL&P. Under the Legislation:

- beginning on January 1, 2002, most retail customers of investor-owned electric utilities in Texas, including Reliant Energy HL&P, will be entitled to purchase their electricity from any of a number of "retail electric providers" which will have been certified by the Public Utility Commission of Texas (Texas Utility Commission)

- power generators will sell electric energy to wholesale purchasers, including retail electric providers, at unregulated rates beginning January 1, 2002

- by January 1, 2002, electric utilities in Texas, including Reliant Energy HL&P, will have restructured their businesses in order to separate power generation, transmission and distribution and retail electric provider activities into different units

As required by the Legislation, the Company submitted a plan in January 2000 to accomplish the separation of its regulated operations into separate units and is currently awaiting approval from the Texas Utility Commission. For further information regarding the Legislation and its application to Reliant Energy HL&P's operations and structure, 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 and Restructuring of the Texas Electric Utility Industry" and Note 3 to the Company's Consolidated Financial Statements, which Section and Note are incorporated herein by reference.

ELECTRIC OPERATIONS ASSETS

As of December 31, 1999, Reliant Energy HL&P owned and operated 12 electric generating stations (62 generating units), with a combined turbine nameplate rating of 13,554,608 kilowatts (KW), and 215 major substation sites (242 substations) having a total installed rated transformer capacity of 54,763 megavolt amperes (Mva). Reliant Energy HL&P owns a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), a nuclear generating plant with two 1,250 megawatt (MW) nuclear generating units.

The following table contains information regarding Electric Operations' system capability:

YEAR	INSTALLED NET CAPABILITY AT PEAK (MW)	FIRM PURCHASED POWER CONTRACTS (MW)	TOTAL NET CAPABILITY (MW)	MAXIMUM HOURLY FIRM DEMAND DATE	MAXIMUM HOURLY FIRM DEMAND MW(1)(2)	% CHANGE FROM PRIOR YEAR	CALCULATED RESERVE MARGIN (%)
1995...............	13,921	445	14,366	Jul. 27	11,452	2.9	25.4
1996...............	13,960	445	14,405	Jul. 23	11,694	2.1	23.2
1997...............	13,960	445	14,405	Aug. 21	12,246	4.7	17.6
1998...............	14,040	320	14,360	Aug. 3	13,006	6.2	10.4
1999...............	14,052	320	14,372	Aug. 20	13,215	1.6	8.8

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(1) Excludes loads on interruptible service tariffs, residential direct load control and commercial/industrial load cooperative capability. Including these loads, the maximum hourly demand served in 1999 was 14,642 MW compared to 14,272 MW in 1998 and 13,459 MW in 1997.

(2) Maximum hourly firm demand in 1999 and 1998 were influenced by warmer than normal weather at the time of the system peak.

Based on present trends, Reliant Energy estimates that the maximum hourly firm demand for electricity in Reliant Energy HL&P's service area will grow at a compound annual rate of approximately 1.5% over the next ten years. Assuming average weather conditions and including the net effects of demand-side management programs, Reliant Energy expects that Electric Operations' reserve margin in excess of maximum hourly firm demand load requirements will be 15% in 2000 and 2001. The reduced reserve margins for 1999 and 1998 reflect the extremely hot weather conditions in Electric Operations' service area during those summers, which increased system peak loads by approximately 500 MW and 400 MW, respectively.

Electric Operations' sales of electricity during the summer months are generally higher, and can be significantly higher, than sales during other months of the year due to the reliance on air conditioning by customers in Reliant Energy HL&P's service territory.

CAPITAL EXPENDITURES

For information about Electric Operations' capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Liquidity and Capital Resources -- Company Consolidated Capital Requirements."

FUEL

Electric Operations relies primarily on natural gas, coal and lignite for the generation of electricity. Electric Operations' 1999 and 1998 historical energy mix is set forth below. These figures represent Reliant Energy HL&P generation and purchased power used to meet system load and for off-system sales.

	HISTORICAL ENERGY MIX (%) 1999	1998
Natural gas	35	33
Coal and lignite	39	38
Nuclear	8	8
Purchased power	18	21
Total	100	100

Reliant Energy HL&P's energy mix is not expected to vary materially during the years 2000 and 2001 based on current assumptions regarding the cost and availability of fuel, plant operation schedules, load growth, load management and the impact of environmental regulations. Reliant Energy HL&P's energy mix after the year 2001 could change materially as a result of the Legislation and the advent of retail electric competition in 2002.

Natural Gas Supply. In 1999, Electric Operations purchased approximately 50% of its natural gas requirements under long-term contracts which will expire in 2004. The largest supplier under such contracts is Midcon Texas Pipeline Corporation, a unit of KN Energy, Inc. (comprising 28% of its natural gas requirements). Electric Operations purchased the remaining 50% of its natural gas requirements on the spot market. Substantially all of Electric Operations' natural gas contracts contain pricing provisions based on fluctuating spot market prices. Based on current market conditions, Reliant Energy believes it will be able to replace the supplies of natural gas covered under expiring long-term contracts with gas purchased on the spot market or under long-term or short-term contracts. Electric Operations' 1999 natural gas consumption and cost information are as follows:

1999 average daily consumption	728 Bbtu
1999 peak daily consumption	1,656 Bbtu
Average cost of natural gas	$ 2.47 per MMBtu (1)

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(1) Compared to $2.18 per MMBtu in 1998 and $2.60 per MMBtu in 1997.

Although natural gas supplies have been sufficient in recent years, available supplies are subject to disruption due to weather conditions, transportation constraints and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time or prices may increase rapidly in response to temporary supply constraints or other factors.

Coal and Lignite Supply. Electric Operations purchases approximately 80% of the coal for its four coal-fired units under two long-term contracts from mines in Wyoming. The first of these contracts will expire in 2010, and the second will expire in 2011. Electric Operations obtains the remaining coal required to operate these units under short-term contracts. Burlington Northern Santa Fe Railroad transported the majority of Electric Operations' coal supply during 1999 under a rail transportation contract. A new long-term rail transportation contract with Burlington Northern Santa Fe Railroad went into effect in March 2000. Union Pacific Railroad Company also transported a portion of Electric Operations' coal supply during 1999.

Electric Operations obtains the lignite used to fuel the two units of its Limestone Electric Generating Station (Limestone) from a surface mine adjacent to the plant. Reliant Energy owns the mining equipment, facilities and a portion of the lignite reserves located at this mine. Reliant Energy believes the lignite reserves the Company currently owns under lease and contract will be sufficient to provide substantially all of the lignite requirements of Limestone through 2015.

Nuclear Fuel Supply. The South Texas Project satisfies its fuel supply requirements by:

- acquiring uranium concentrates
- converting uranium concentrates into uranium hexafluoride
- enriching uranium hexafluoride, and
- fabricating nuclear fuel assemblies

The South Texas Project has contracted for the raw materials and services necessary to operate the plant through the following years, respectively:

Raw material/services	Year
Uranium	2002 (1)
Conversion	2002 (2)
Enrichment	2004 (3)
Fabrication	2005

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(1) Contracts provide for over 50% of the uranium concentrates required through 2002. The South Texas Project expects to obtain the balance of uranium concentrates through spot market and medium-term contracts.

(2) Contracts provide for up to 80% of the conversion needs through 2002 and up to 40% of conversion needs through 2004. The South Texas Project expects to obtain the balance of the conversion needs through the spot market.

(3) Contracts provide for up to 100% of enrichment services through 2001, up to 75% of enrichment services through 2003 and up to 40% of enrichment services through 2004. The South Texas Project expects to obtain the balance of enrichment services through spot market and medium and long-term contracts.

Purchased Power Supply. Electric Operations purchases power from various qualifying facilities exercising their rights under the Public Utility Regulatory Policies Act of 1978. Such purchases are generally at the discretion of the qualifying facility and are made pursuant to a pricing methodology defined in Electric Operations' tariffs and approved by the Texas Utility Commission. From time to time when market conditions dictate it, Electric Operations also purchases power from various wholesale market participants including qualifying facilities, exempt wholesale generators, power marketers and other utilities.

OPERATING STATISTICS OF ELECTRIC OPERATIONS

	YEAR ENDED DECEMBER 31, 1999	1998	1997
Electric Energy Generated and Purchased (Megawatt-Hours (MWH)):			
Generated-- Net Station Output	60,496,310	59,974,160	56,066,845
Purchased	14,788,411	16,041,143	14,008,452
Net Interchange	1,131	(677)	841
Total	75,285,852	76,014,626	70,076,138
Company Use, Lost and Unaccounted for Energy	(3,167,192)	(3,281,851)	(2,998,375)
Total Energy Sold	72,118,660	72,732,775	67,077,763
Electric Sales (MWH):			
Residential	21,109,374	21,090,164	19,365,892
Commercial	16,671,917	16,329,354	15,474,761
Small Industrial(1)	11,757,318	11,801,292	11,439,753
Large Industrial(1)	14,427,128	14,805,199	14,380,499
Street Lighting-- Government and Municipal	138,311	133,644	127,761
Total Firm Retail Sales	64,104,048	64,159,653	60,788,666
Other Electric Utilities	224,849	203,542	190,878
Total Firm Sales	64,328,897	64,363,195	60,979,544
Interruptible	5,309,656	5,028,990	4,278,458
Off-System and Ancillary	2,519,260	3,137,870	1,742,993
Unbilled	(39,153)	202,720	76,768
Total	72,118,660	72,732,775	67,077,763
Number of Customers (End of Period):			
Residential	1,463,210	1,417,206	1,378,658
Commercial	203,322	196,941	190,437
Small Industrial(1)	1,642	1,600	1,526
Large Industrial (Including Interruptible)(1)	146	137	132
Street Lighting-- Government and Municipal	89	87	86
Other Electric Utilities (Including Off-System)	23	29	20
Total	1,668,432	1,616,000	1,570,859
Operating Revenue (Thousands of Dollars):			
Residential	$ 1,773,925	$ 1,786,662	$ 1,662,177
Commercial	1,146,185	1,108,328	1,065,917
Small Industrial(1)	642,857	637,124	616,419
Large Industrial(1)	528,197	534,814	529,718
Street Lighting-- Government and Municipal	27,261	25,964	24,868
Total Electric Revenue-- Firm Retail Sales	4,118,425	4,092,892	3,899,099
Other Electric Utilities	11,383	12,609	11,330
Total Electric Revenue-- Firm Sales	4,129,808	4,105,501	3,910,429
Interruptible	128,844	114,574	108,053
Off-System/Ancillary	72,608	87,510	39,724
Total Electric Revenue	4,331,260	4,307,585	4,058,206
Miscellaneous Electric Revenues (including Unbilled Revenues)	151,866	42,690	193,037
Total	$ 4,483,126	$ 4,350,275	$ 4,251,243
Installed Net Generating Capability (KW) (End of Period)	14,217,370	14,092,370	14,040,370
Cost of Fuel (Cents per MMBtu):			
Gas	246.7	218.4	259.9
Coal	176.1	177.8	201.8
Lignite	142.3	119.1	108.4
Nuclear	43.5	48.0	54.2
Average	186.9	169.9	186.8

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(1) For reporting purposes, customers of Electric Operations with an electric demand in excess of 600 kilovolt-amperes are classified as industrial. Small industrial customers typically are retail stores, office buildings, universities and other customers not associated with large industrial plants.

NATURAL GAS DISTRIBUTION

Natural Gas Distribution conducts operations through three divisions of Resources Corp., Reliant Energy Arkla (Arkla), Reliant Energy Entex (Entex) and Reliant Energy Minnegasco (Minnegasco). Natural Gas Distribution's operations consist of intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. The operations of Natural Gas Distribution are regulated as gas utility operations in the jurisdictions served by these divisions.

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

Arkla. Arkla provides natural gas distribution services in Arkansas, Louisiana, Oklahoma and Texas. The largest metropolitan areas served by Arkla are Little Rock, Arkansas and Shreveport, Louisiana. In 1999, approximately 67% of Arkla's total throughput was attributable to retail sales of gas and approximately 33% was attributable to transportation services. Sales to residential and commercial customers in 1999 accounted for approximately 92% of Arkla's total gas revenues and 60% of natural gas volumes sold or transported by Arkla.

Entex. Entex provides natural gas distribution services in 502 communities in Louisiana, Mississippi and Texas. The largest metropolitan area served by Entex is Houston, Texas. In 1999, approximately 97% of Entex's total throughput was attributable to retail sales of gas and approximately 3% was attributable to transportation services. Sales to residential and commercial customers in 1999 accounted for approximately 85% of Entex's total gas revenues and 79% of natural gas volumes sold or transported by Entex.

Minnegasco. Minnegasco provides natural gas distribution services in 243 communities in Minnesota. The largest metropolitan area served by Minnegasco is Minneapolis, Minnesota. In 1999, approximately 97% of Minnegasco's total throughput was attributable to retail sales of gas and approximately 3% was attributable to transportation services. Sales to residential and commercial customers in 1999 accounted for approximately 93% of Minnegasco's total gas revenues and 84% of natural gas volumes sold or transported by Minnegasco.

The demand for natural gas distribution services is seasonal. In 1999, approximately 67% of Natural Gas Distribution's revenues were reported in the first and fourth quarters. These patterns reflect the higher demand for natural gas for heating purposes during those periods.

SUPPLY AND TRANSPORTATION

Arkla. In 1999, Arkla purchased approximately 40% of its natural gas supply from Reliant Energy Services, Inc. (Reliant Energy Services), a subsidiary of Resources Corp., 32% pursuant to third party contracts, with terms varying from three months to one year, and 28% on the spot market. Arkla's major third party natural gas suppliers in 1999 included Seagull Marketing Services, Inc., Marathon Oil Company, Cinergy Marketing and Trading, LLC, Aquila Energy Marketing Corporation, PG&E Energy Trading - Gas Corporation and Oneok Gas Marketing Company. Arkla transports substantially all of its natural gas supplies under contracts with the Company's interstate pipeline subsidiaries. These contracts will expire in March 2002.

Entex. In 1999, Entex purchased approximately 99% of its natural gas supply pursuant to term contracts, with terms varying from one to five years, and 1% on the spot market. Entex's major third party natural gas suppliers in 1999 were Gulf Energy Marketing, Koch Energy Trading, Midcon Texas Pipeline Corporation, a unit of KN Energy, Inc., and Enron North America Company. Entex transports its natural gas supplies on both interstate and intrastate pipelines under long-term contracts with terms varying from one to five years.

Minnegasco. In 1999, Minnegasco purchased approximately 70% of its natural gas supply pursuant to term contracts, with terms varying from one to ten years, with more than 30 different suppliers. Minnegasco purchased the remaining 30% on the spot market. Most of the natural gas volumes under long-term contracts are committed under terms providing for delivery during the winter heating season, November through March. Minnegasco purchased approximately 58% of its natural gas requirements from the following four suppliers in 1999: Pan-Alberta Gas Ltd., TransCanada Gas Services Inc., Duke Energy Trading and Marketing, LLC and Reliant Energy Services. Minnegasco transports its natural gas supplies on various interstate pipelines under long-term contracts with terms varying from five to ten years.

Arkla and Minnegasco use various leased or owned natural gas storage facilities to meet peak-day requirements and to manage the daily changes in demand due to changes in weather. Minnegasco also supplements contracted supplies and storage from time to time with stored liquefied natural gas and propane-air plant production.

Although natural gas supplies have been sufficient in recent years, available supplies are subject to disruption due to weather conditions, transportation constraints and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time or prices may increase rapidly in response to temporary supply constraints or other factors.

INTERSTATE PIPELINES

Interstate Pipelines provides interstate gas transportation and related services through two wholly owned subsidiaries of Resources Corp.: (i) Reliant Energy Gas Transmission Company (REGT) and (ii) Mississippi River Transmission Corporation (MRT).

Interstate Pipelines owns and operates approximately 8,200 miles of transmission lines and six natural gas storage facilities located across the south-central United States. Interstate Pipelines stores, transports and delivers natural gas on behalf of various shippers primarily to utilities, industrial customers and third party pipeline interconnectors. Interstate Pipelines also provides pipeline project management and facility operation services to affiliates and third parties.

The Company has retained a financial adviser to assist it in evaluating strategic alternatives for REGT and MRT, including divestiture.

In 1999, approximately 40% of Interstate Pipelines' total operating revenue was attributable to services provided by REGT to Arkla and approximately 16% of its operating revenues was attributable to services provided by MRT to Laclede Gas Company (Laclede), an unaffiliated distribution company that provides natural gas utility service to the greater St. Louis metropolitan area in Illinois and Missouri. An additional 15% of Interstate Pipelines' operating revenues was attributable to the transportation of gas marketed by Reliant Energy Services. Interstate Pipelines provides service to Arkla and Laclede under several long-term firm storage and transportation agreements. The expiration dates for the service agreements with Laclede range from October 2000 through May 2001. Interstate Pipelines and Laclede are currently negotiating the terms and conditions of a proposed renewal of these agreements. The service agreement with Arkla is scheduled to expire in March 2002.

The business and operations of Interstate Pipelines may be affected by seasonal changes in the demand for natural gas, the relative price of natural gas in the Mid-Continent and Gulf Coast natural gas supply regions and, to a lesser extent, general economic conditions.

WHOLESALE ENERGY

Wholesale Energy conducts its operations through: (i) Reliant Energy Power Generation, Inc. (collectively with its subsidiaries, Power Generation), a subsidiary of Reliant Energy, (ii) Reliant Energy Services and (iii) Reliant Energy Field Services, Inc. (Reliant Energy Field Services), a wholly owned subsidiary of Resources Corp.

Wholesale Energy's operations include:

- the acquisition, development and operation of domestic unregulated power generation facilities

- sales of capacity, energy and ancillary services from domestic unregulated power generation facilities

- wholesale energy trading, marketing and risk management services in North America, and

- domestic natural gas gathering activities

POWER GENERATION

Power Generation participates in independent power markets through the acquisition of existing power plants and the development of new power plants (greenfield projects). Power Generation's business strategy is to develop a commercial generation portfolio in key regions to support the Company's electric and natural gas trading and marketing operations. Reliant Energy Services, Wholesale Energy's trading and marketing unit, supplies fuel to these generating plants and sells electricity produced by the plants. In 1999, Power Generation generated and Reliant Energy Services sold, approximately 6.1 million MWHs of electricity. Substantially all of these sales were in the California marketplace.

Power Generation Projects. Power Generation owns fifteen electric generating units at five sites (3,800 MW in the aggregate) located in southern California. Reliant Energy Services serves as the plants' exclusive power marketer and supplier of natural gas. Power Generation was required under the agreements for the acquisition of these plants to enter into contracts with Southern California Edison Company, the former owner, to operate and maintain the plants through April and July 2000. These contracts have been renegotiated and renewed through March 2003. Power Generation does, however, exercise management authority over the plants' operations. For information on regulation of these units, see "Regulation - Federal Energy Regulatory Commission (FERC)" below.

On October 6, 1999, Power Generation purchased the Indian River power plant located near Titusville, Florida from the Orlando Utilities Commission (OUC) for approximately $205 million. The Indian River power plant consists of three conventional steam generation units fueled by both oil and natural gas. The 619-megawatt generation station will continue to provide power to OUC under a four-year power purchase agreement. Excess power generated by the plant will be sold to the wholesale market, other utilities and rural electric cooperatives within the area.

In December 1999, Power Generation's Sabine Cogeneration Project commenced commercial operations. The Sabine Cogeneration Project is located in Orange, Texas and consists of a 100 MW gas-fired cogeneration plant. Power Generation has a 50% ownership interest in the project.

Power Generation has the following projects under construction or in startup and testing phases:

PROJECT	LOCATION	INTEREST	PROJECTED COMPLETION DATE
El Dorado (490 MW gas-fired merchant plant)	Boulder City, Nevada	50%	Second Quarter of 2000
Desert Basin (560 MW gas-fired merchant plant)	Casa Grande, Arizona	100%	Third Quarter of 2001
Channelview Texas Project (780 MW gas-fired cogeneration plant)	Channelview, Texas	100%	Third Quarter of 2002

In 1998 and 1999, Power Generation announced plans for the development of several power projects which are not yet under construction. These projects have a combined capacity of 1,800 MW and are located in Illinois, Rhode Island and Florida. Negotiation of development contracts regarding these projects is underway and each of these projects has obtained various construction permits and zoning approvals and are expected to be under construction during the second and third quarters of 2000.

In February 2000, Power Generation signed a definitive agreement to purchase from Sithe Energies, Inc. non-rate regulated power generating assets and sites located in Pennsylvania, New Jersey and Maryland, having a net generating capacity of more than 4,200 MW for an aggregate purchase price of $2.1 billion, subject to certain adjustments. The acquisition is expected to close in the second quarter of 2000 subject to obtaining certain regulatory approvals and satisfying other closing conditions. The acquisition will be accounted for as a purchase.

Reliant Energy expects Power Generation will continue to acquire and develop non-rate regulated power projects. The amount of expenditures associated with these activities is dependent upon the nature and extent of future project opportunities and commitments; however, some of these expenditures could be substantial. Power Generation could finance a portion of its non-rate regulated power projects through the proceeds from project financings, lease agreements, borrowings by subsidiaries or equity investments and loans from Reliant Energy and financing subsidiaries of Reliant Energy.

The successful completion of other non-rate regulated power projects is dependent upon a number of factors, which include:

- risks associated with siting, financing, construction and permitting

- the degree of success in obtaining governmental approvals

- the development of power markets

- the risk of termination of power sales contracts, if any, as a result of a failure to meet certain construction milestones, and

- the uncertainties arising from the changing regulatory systems affecting Power Generation's markets

Many of the facilities being acquired or developed by Power Generation are "merchant plants," that is, plants lacking dedicated offtake customers, making such facilities sensitive to market and regulatory factors and other considerations.

For a description of the competitive conditions affecting Wholesale Energy, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Future Earnings of the Company - Competition - Other Operations," which section is incorporated herein by reference.

WHOLESALE ENERGY TRADING, MARKETING AND RISK MANAGEMENT

Reliant Energy Services buys, sells and trades natural gas, electric power, crude oil and refined products, certain air emissions regulatory credits, coal and weather derivatives. In addition, it offers physical and financial wholesale energy marketing and price risk management products and services to a variety of customers. These customers include natural gas distribution companies, electric utilities, municipalities, cooperatives, power generators, marketers, aggregators and large volume industrial customers.

Natural Gas. Reliant Energy Services purchases natural gas from a variety of suppliers under daily, monthly, variable load, base load and term contracts that include either market sensitive or fixed pricing provisions. It sells natural gas under sales agreements that have varying terms and conditions, most of which are intended to match seasonal and other changes in demand. Reliant Energy Services sold 5.0 billion cubic feet (BCF) per day and 3.2 BCF per day of natural gas in 1999 and 1998, respectively, most of which was sold to non-affiliates.

Reliant Energy Services' natural gas marketing activities include contracting to buy natural gas from suppliers at various points of receipt, aggregating natural gas supplies and arranging for their transportation, negotiating the sale of natural gas, and matching natural gas receipts and deliveries based on volumes required by customers.

Additionally, Reliant Energy Services, from time to time, arranges for the transportation of the natural gas it markets. Transportation arrangements are made with affiliated and non-affiliated interstate and intrastate pipelines through a variety of means, including short-term and long-term firm and interruptible agreements.

Reliant Energy Services also enters into various short-term and long-term firm and interruptible agreements for natural gas storage in order to offer peak delivery services to satisfy winter heating and summer electric generating demands. Such services are also intended to provide an additional level of performance security and backup services to its customers.

Electric Power. Reliant Energy Services sells electric power primarily to electric utilities, municipalities and cooperatives and other marketing companies. Reliant Energy Services sold over 112 million MWHs and 65 million MWHs of electric power in 1999 and 1998, respectively. Reliant Energy Services plans to continue to supply natural gas to, and purchase electricity for resale from, non-rate regulated power plants in deregulated markets, including generating plants currently owned or to be developed, acquired or operated by Power Generation.

Crude Oil. Reliant Energy Services buys and sells crude oil and other hydrocarbon products. Reliant Energy Services sold 8.6 million barrels of these products primarily to end-use customers and other marketing companies in 1999.

Other Commodities and Weather Derivatives. Reliant Energy Services trades and markets certain air emissions regulatory credits, coal and weather derivatives.

Reliant Energy Services uses derivative financial instruments to:

- manage and hedge its fixed-price purchase and sale commitments

- provide fixed-price or floating-price commitments as a service to its customers and suppliers

- reduce its exposure relative to the volatility of the cash market prices, and

- protect its investment in storage inventories

In 1999, Reliant Energy Services financially settled on average over 25 trillion British thermal units equivalents (Tbtue) per day of energy derivative financial instruments in its trading and price risk management activities, compared to an average of over 11 Tbtue per day in 1998. Reliant Energy Services is exposed in such transactions to the risk that fluctuating market prices may adversely affect the Company's financial position or results of operations. For additional information with respect to the Company's financial exposure to derivative financial instruments, see Item 7A of this Form 10-K, Note 5 to the Company's Consolidated Financial Statements and Note 2 to Resources Corp.'s Consolidated Financial Statements.

In addition to the risk associated with price movements, credit risk is also inherent in Reliant Energy Services' trading, marketing and risk management activities. Credit risk relates to the risk of loss resulting from the nonperformance of contractual obligations by a counterparty. The Company maintains credit policies intended to minimize overall credit risk with regard to its counterparties. For additional information on the Company's credit risk management, see Note 5 to the Company's Consolidated Financial Statements and Note 2 to Resources Corp.'s Consolidated Financial Statements.

Reliant Energy has established a Risk Oversight Committee, comprised of corporate and business segment officers, that oversees all commodity price and credit risks activities, including trading, marketing and risk management activities of Wholesale Energy and Reliant Energy Europe. For additional information regarding risk management accounting policies, see Note 5 to the Company's Consolidated Financial Statements and Note 2 to Resources Corp.'s Consolidated Financial Statements.

NATURAL GAS GATHERING

Reliant Energy Field Services provides natural gas gathering services, including related liquids extraction and marketing activities. Reliant Energy Field Services operates approximately 4,000 miles of gathering pipelines which collect natural gas from more than 200 separate systems located in major producing fields in Arkansas, Louisiana, Oklahoma and Texas.

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

RELIANT ENERGY EUROPE

The Company established its Reliant Energy Europe business segment in the fourth quarter of 1999. Reliant Energy Europe owns, operates and sells electric 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.

UNA

During 1999, the Company completed the first two phases of its acquisition of N.V. UNA (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. On March 1, 2000, the Company purchased the remaining 48% of the shares of UNA. The total purchase price of the acquisition is approximately $2.4 billion (based on an exchange rate of 2.0565 Dutch guilders (NLG) per U.S. dollar as of October 7, 1999), which includes a $426 million promissory note to UNA. For additional information about this acquisition, including the Company's accounting treatment of the acquisition, see Note 2 to the Company's Consolidated Financial Statements.

UNA is one of the Netherlands' four largest generating companies and is the first Dutch generating company whose stock was sold to private investors under a privatization program established under the Dutch Electricity Act. In 1999, UNA generated more than 20% of the country's electricity production, excluding electricity generated by cogeneration or other industrial processes. UNA serves the provinces of North-Holland and Utrecht, as well as the municipalities of Amsterdam and Utrecht, providing electricity for approximately two million people and more than 12,000 commercial users. As of December 31, 1999, UNA owned and operated 14 generating stations with 3,472 MW of capacity spread across five sites. UNA's generating stations also supply several large municipalities with hot water for district heating purposes. In 1999, approximately 47% of UNA's generation output was natural gas fired, 19% was blast furnace fired and 34% was coal fired.

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% of such consumed electricity 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 markets and regulatory scheme in which UNA operates and the pending changes therein are described in "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company --Results of Operations by Business Segment -- Reliant Energy Europe," "-- Certain Factors Affecting Future Earnings of the Company -- Competition -- Reliant Energy Europe Operations" and "-- Entry into the European Market," which descriptions are incorporated herein by reference.

EUROPEAN ENERGY TRADING AND MARKETING

In October 1999, Reliant Energy formed Reliant Energy Trading & Marketing B.V., a Dutch corporation (Reliant Energy Marketing Europe), in order to participate in the emerging European energy trading and marketing businesses. Reliant Energy Marketing Europe initially will focus on trading opportunities in the Netherlands and expand into other European markets. Reliant Energy Europe intends to trade in derivative products, including forwards, swaps, options and futures. Reliant Energy Marketing Europe will initially concentrate on marketing power to large industrial and commercial customers as well as distribution companies in the Netherlands and Germany. At March 1, 2000, Reliant Energy Marketing Europe had approximately 40 employees. Reliant Energy Marketing Europe is expected to become the main marketer of UNA's electric generation output beginning in 2001.

RELIANT ENERGY LATIN AMERICA

Reliant Energy Latin America conducts its operations through Reliant Energy International, Inc. (Reliant Energy International), a wholly owned subsidiary of Reliant Energy, and the international operations of Resources (Resources International). 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 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.

For a discussion of risks associated with Reliant Energy Latin America's operations, including the impact of currency fluctuations in countries such as Brazil, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company -- Risk of Operations in Emerging Markets," "Quantitative and Qualitative Disclosures About Market Risk -- Foreign Currency Exchange Rate Risk" in Item 7A of this Form 10-K and Note 7 to the Company's Consolidated Financial Statements.

MAJOR LATIN AMERICAN INVESTMENTS

Argentina. As of December 31, 1999, approximately 11% of Reliant Energy Latin America's investments were located in Argentina. The Company currently owns a 100% interest in a corporation formed to develop, own and operate a 160 MW cogeneration project (Argener) located at a steel plant near San Nicolas, Argentina and a 90% interest in a utility in north-central Argentina (EDESE).

Brazil. As of December 31, 1999, approximately 26% of Reliant Energy Latin America's investments were located in Brazil. The Company indirectly owns 11.78% of the common stock of Light Servicos de Eletricidade S.A. (Light), a publicly held Brazilian corporation, which is the operator of an integrated electric power and distribution system that serves a portion of the state of Rio de Janeiro, Brazil, including the city of Rio de Janeiro. The Company and the other winning bidders in the government sponsored auction for Light formed a consortium whose aggregate ownership interest of 51.35% represents a controlling interest in Light. Light owns 77.81% of the common stock of Metropolitana Electricidade de Sao Paulo S.A. (Metropolitana), an electric distribution company that serves the metropolitan area of Sao Paulo, Brazil.

Colombia. As of December 31, 1999, approximately 46% of Reliant Energy Latin America's investments were located in Colombia. The Company and Corporacion EDC S.A.C.A. (CEDC), jointly own, through subsidiaries, 65% of the stock of two Colombian electric distribution companies, Electricaribe and Electrocosta. These companies serve approximately 1.2 million customers in the Atlantic coastal region of Colombia, including the cities of Santa Marta, Barranquilla and Cartagena.

Additionally, the Company and CEDC jointly hold a 56.7% indirect controlling ownership interest in Empresa de Energia del Pacifico S.A.E.S.P. (EPSA), an electric utility system serving the Valle del Cauca province of Colombia, including the area surrounding the city of Cali. In addition to its distribution facilities, EPSA owns 850 MW of electric generation capacity. EPSA also owns an 86.4% interest in Compania de Electricidad de Tulua (CET). CET, the electric utility in Tulua, in the center of the Valle Del Cauca province, serves 37,000 customers and has three hydro-generating units.

Resources International owns interests in four natural gas distribution concessions under construction in Colombia. As of December 31, 1999, aggregate expenditures incurred with respect to these concessions were approximately $7 million.

El Salvador. As of December 31, 1999, approximately 15% of Reliant Energy Latin America's investments were located in El Salvador. Reliant Energy Latin America holds interests in three electric systems in El Salvador (ranging from approximately 37% to 45%).

Other. The Company, together with various other investors, developed a coke calcining and power generation facility in India. The Company's total investment in this project is approximately $13 million. Resources International and a local investor sold their interest in a natural gas distribution system in northeastern Mexico in November 1999 for $8.4 million.

CORPORATE

The Company's Corporate business segment includes:

- the operations of Reliant Energy Retail which conducts retail gas marketing services
- the operations of Reliant Energy Communications, Inc. (Reliant Energy Communications) which offers enhanced data, voice and Internet services to customers in Texas
- the operations of Reliant Energy Solutions, Inc. (Reliant Energy Solutions) which provides a range of design-build and operational energy services, including energy system and central plant retrofits
- the operations of Reliant Energy Thermal Systems, Inc. (Reliant Energy Thermal Systems) which provides energy management and thermal systems for site-specific projects, such as buildings, universities, hospitals and district cooling systems for cities and large metropolitan areas
- various office buildings and other real estate used in the Company's business operations
- unallocated corporate costs, and
- inter-segment eliminations

Reliant Energy Retail, a wholly owned subsidiary of Resources Corp., markets natural gas and related energy services to commercial and industrial customers who are served by large local gas distribution companies or are connected to interstate and intrastate pipelines offering unbundled transportation services. Included in Reliant Energy Retail's retail marketing operations are subsidiaries of Resources Corp. that market and deliver natural gas to large volume customers at market-based rates. Reliant Energy Retail also sells natural gas in the deregulated Georgia market to residential and commercial customers.

In September 1999, Reliant Energy Communications received its Special Provider Certificate of Operating Authority from the Texas Utility Commission, which allows it to offer telecommunications products and services throughout the state of Texas. Reliant Energy Communications is a facilities-based carrier, offering enhanced data, voice and Internet services to customers in Texas, with an initial focus on the business market in Houston. Initial data services include private line, Internet access, frame relay, ATM, ISDN and DSL. Switched voice products include a full range of local dialtone, long-distance and wireless services. In October 1999, Reliant Energy Communications became the first carrier to file the newly approved Texas 271 Agreement (T2A) with the Texas Utility Commission. The T2A is a standardized interconnection agreement, which has been developed as part of the Federal Telecommunications Act 271 implementation process by representatives of industry, the Texas Utility Commission staff and Southwestern Bell in an effort to ensure that competitive local exchange carriers (CLECs) receive comparable terms and conditions from Southwestern Bell.

REGULATION

The Company is subject to regulation by various federal, state, local and foreign governmental agencies, including the regulations described below.

PUBLIC UTILITY HOLDING COMPANY ACT

Holding Company Status. Reliant Energy is both a holding company and an electric utility as defined in the Public Utility Holding Company Act of 1935 (the 1935 Act); however, it is exempt from regulation as a holding company under Section 3(a)(2) of the 1935 Act. Although Resources Corp. is a natural gas utility company as defined under the 1935 Act, it is not a holding company within the meaning of the 1935 Act. Reliant Energy and Resources Corp. remain subject to regulation under the 1935 Act with respect to the acquisition of certain voting securities of other domestic public utility companies and utility holding companies.

Section 33(a)(1) of the 1935 Act exempts foreign utility company affiliates of Reliant Energy and Resources Corp. from regulation as "public utility companies," thereby permitting Reliant Energy and Resources Corp. to invest in foreign utility companies without registration under the 1935 Act as a holding company or approval by the SEC thereunder. The exemption, however, is subject to the SEC having received certification from each state commission having jurisdiction over the retail rates of any electric or gas utility company affiliated with Reliant Energy or Resources Corp. that such commission has the authority and resources to protect ratepayers subject to its jurisdiction and that it intends to exercise its authority. The Texas Utility Commission and the state regulatory commissions exercising jurisdiction over Resources Corp. (Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas) have provided such a certification to the SEC subject, however, to the right of such commissions to revise or withdraw their certifications as to any future acquisition of a foreign utility company. The Texas Utility Commission and the state regulatory commissions of Arkansas and Minnesota have imposed limitations on the amount of investments by utility companies (including Reliant Energy and Resources Corp.) in foreign utility companies and, in certain cases, foreign electric wholesale generating companies. These limitations are based upon the Company's consolidated net worth, retained earnings, and debt and stockholders' equity, respectively.

Subject to certain limited exceptions, Section 33(f)(1) of the 1935 Act also prohibits any public utility from issuing any security for the purpose of financing the acquisition, ownership or operation of a foreign utility company, or assuming any obligation or liability in respect of any security of a foreign utility company.

Proposals to Repeal the 1935 Act. In recent years, several bills have been introduced in Congress that would repeal the 1935 Act. Repeal or significant modification to the 1935 Act could have a significant impact on the Company and the electric utility industry. At this time, however, the Company is not able to predict the outcome of any bills to repeal the 1935 Act or the outlook for additional legislation in 2000.

FEDERAL ENERGY REGULATORY COMMISSION (FERC)

The transportation and sale for resale of natural gas in interstate commerce is subject to regulation by the FERC under the Natural Gas Act (NGA) and, to a lesser extent, the Natural Gas Policy Act of 1978, as amended. The FERC has jurisdiction over, among other things, the construction of pipeline and related facilities used in the transportation and storage of natural gas in interstate commerce, including the extension, expansion or abandonment of such facilities. The rates charged by interstate pipelines for interstate transportation and storage services are also regulated by the FERC.

REGT and MRT periodically file applications with the FERC for changes in their rates and charges designed to allow them to recover their costs of providing service to customers (to the extent allowed by prevailing market conditions), including a reasonable rate of return. These rates are normally allowed to become effective after a suspension period, and in certain cases are subject to refund under applicable law, until such time as the FERC issues an order on the allowable level of rates. REGT is currently operating under rates approved by the FERC which took effect in February 1995, and MRT is currently providing services pursuant to a negotiated rate settlement approved by the FERC in October 1997.

The FERC has recently adopted several changes to its regulation of interstate pipeline construction projects and transportation rates and services. In September 1999, the FERC issued a policy statement providing that, in most instances, customers receiving service through new pipeline facilities will be required to bear the cost of the facilities. In addition, companies seeking to construct new pipeline facilities must demonstrate that the benefits of the proposed facilities will outweigh any adverse effects on affected landowners, the environment, the pipeline's customers, or existing pipelines and their customers. On February 9, 2000, the FERC issued Order No. 637, which introduces several measures to increase competition for interstate pipeline transportation services. Order No. 637 authorizes interstate pipelines to propose term-differentiated and peak/off-peak rates, and requires pipelines, including MRT and REGT, to make tariff filings by May 1, 2000 to expand pipeline service options for customers.

The California plants owned by the Company are subject to FERC jurisdiction and regulation. The FERC permits the California plants to make sales at negotiated market-based rates and has waived most of the regulatory requirements otherwise applicable to regulated public utilities under the Federal Power Act. Prior to January 1, 2000, special rules applied to the two California plants which had been designated as "reliability must-run" facilities by the California Independent System Operator Corporation. Units at these plants were required to provide electric service to the system operator for reliability purposes at rates and under terms and conditions regulated by the FERC. These plants have not been designated as "reliability must-run" for the calendar year 2000 and therefore may sell electricity at market-based rates at all times.

Reliant Energy Services is also subject to FERC jurisdiction under both the NGA and the Federal Power Act. As a gas marketer, Reliant Energy Services makes sales of natural gas in interstate commerce at wholesale pursuant to a blanket certificate issued by the FERC, but the FERC does not otherwise regulate the rates, terms or conditions of these gas sales. Reliant Energy Services is a "public utility" under the Federal Power Act, and its wholesale sales of electricity in interstate commerce are subject to a FERC-filed rate schedule that authorizes Reliant Energy Services to make sales at negotiated, market-based rates. Reliant Energy Services' market-based rate tariffs are filed with the FERC. The FERC also imposes certain restrictions on Reliant Energy Services' transactions with Electric Operations and with REGT and MRT, including a prohibition on the receipt of goods or services on a preferential basis. Similar restrictions apply to transactions between Reliant Energy Services and Electric Operations under the Public Utility Regulatory Act of 1995 (now the Texas Utilities Code).

STATE AND LOCAL UTILITY REGULATIONS

Electric Operations. Currently, Reliant Energy HL&P conducts its electric utility operations under a certificate of convenience and necessity granted by the Texas Utility Commission. The certificate of convenience and necessity covers the present service area and facilities of Electric Operations. In addition, Reliant Energy HL&P holds non-exclusive franchises to provide electric service within the incorporated municipalities in the service territory of Electric Operations. None of these franchises expire before 2007.

Reliant Energy HL&P's electric utility operations are currently subject to traditional cost-of-service regulation at rates regulated by the Texas Utility Commission. In June 1999, Texas passed the Legislation, which will significantly change the regulation of electric utility operators in the State of Texas. For additional information, including information about the Legislation's effect on competition in the retail electric and electric generation markets in Texas, see "--Electric Operations-- Deregulation and Competition," "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company--Certain Factors Affecting Future Earnings of the Company--Competition and Restructuring of the Texas Electric Utility Industry" and Note 3 to the Company's Consolidated Financial Statements, which Sections and Note are incorporated herein by reference. This competition is scheduled to commence January 1, 2002.

Natural Gas Distribution Operations. In almost all communities in which Natural Gas Distribution provides service, Resources operates under franchises, certificates or licenses obtained from state and local authorities. The terms of the franchises, with various expiration dates, typically range from ten to thirty years. None of Natural Gas Distribution's material franchises expire before 2005. In most cases, franchises to provide natural gas utility services are not exclusive.

Substantially all of Natural Gas Distribution's retail sales are subject to traditional cost-of-service regulation at rates regulated by the relevant state public service commissions and, in Texas, by municipalities served by Natural Gas Distribution. None of Natural Gas Distribution's local distribution companies are currently a party to any material pending rate proceeding.

NUCLEAR REGULATORY COMMISSION

Under the 1954 Atomic Energy Act and the 1974 Energy Reorganization Act, operation of nuclear plants is extensively regulated by the United States Nuclear Regulatory Commission (NRC), which has broad power to impose licensing and safety requirements. In the event of non-compliance, the NRC has the authority to impose fines or shut down nuclear plants, or both, depending upon its assessment of the severity of the situation, until compliance is achieved.

The 1980 Federal Low-Level Radioactive Waste Policy Act directed states to assume responsibility for the disposal of low-level nuclear waste generated within their borders. Under this Act, states may combine with other states and seek consent from the U.S. Congress for regional compacts to construct and operate low-level nuclear waste sites. Only two sites (the Envirocare facility in Utah and the Barnwell facility in South Carolina) are currently licensed and available to the South Texas Project for low-level waste disposal. The South Texas Project had a contract with the operator of the Barnwell facility to dispose of all of the South Texas Project's low-level nuclear waste through June 1999 at the facility. Currently, the South Texas Project continues to dispose of its low-level nuclear waste under a short-term agreement at the Barnwell facility.

An interstate compact among Texas, Maine and Vermont has sole access to a Texas waste disposal facility. The Texas Natural Resource Conservation Commission denied the application of the Texas Low-Level Radioactive Waste Disposal Authority (Waste Disposal Authority) to build and operate a low-level waste disposal facility in Hudspeth County, Texas. In the event the Barnwell facility stops accepting waste before a Texas site is opened, the South Texas Project would store its waste in an interim storage facility located at the nuclear plant. The plant currently has storage capacity for at least five years of low-level nuclear waste generated by the project.

The Waste Disposal Authority is currently authorized to assess a planning and implementation fee upon waste generators to fund development of the proposed Texas disposal facility. However, the Texas legislature is considering several measures that could change Reliant Energy HL&P's share of this assessment from prior years.

For information regarding the NRC's regulation of nuclear decommissioning trust funds, see Note 6 to the Company's Consolidated Financial Statements.

FOREIGN REGULATION

For a description of the contractual agreements and protocol under which UNA will operate during the transition to a deregulated market, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Results of Operations by Business Segment -- Reliant Energy Europe," which section is incorporated herein by reference.

ENVIRONMENTAL MATTERS

The Company is subject to a number of federal, state and local environmental requirements that govern the discharge of emissions into the air and water and regulate the handling of solid and hazardous waste. In general, Federal statutes develop requirements which then are implemented by state and local entities through enabling ordinances or legislation specific to the area. As part of the Federal Clean Air Act Amendments of 1990, requirements and schedules for attainment of health based air standards were developed. In Texas, these requirements are being determined by the Texas Natural Resources Conservation Commission (TNRCC) for areas that do not attain the federally prescribed standards. The Houston area has been designated a non-attainment area for ozone, and preliminary work done by the TNRCC indicates substantial (as much as 90%) reductions in oxides of nitrogen (NOx), a product of the combustion process associated with the generation of electric energy and a contributor to ozone formation, may be necessary. While regulations have not been finalized for the Houston area, the Company estimates that reductions of the magnitude contemplated by the TNRCC will require substantial expenditures in the years 2000 through 2003 and will require modifications to reduce emissions from most of the Company's generating assets in Texas. See "--Clean Air Act Expenditures" below.

The Clean Air Act also required a study to determine if additional regulations are needed to improve visibility in the southwestern United States. Reliant Energy does not expect that this study will require the installation of additional pollution controls on the Company's generating units, including the generating units acquired by, or expected to be completed by, the Company.

The EPA was directed by the Clean Air Act to perform a study of the risk to public health from emissions of toxic air pollutants from power plants, and to regulate such emissions as necessary. The EPA issued a report to Congress in February 1998. The report makes no determination as to the need to issue regulations applicable to the utility industry, and such a determination is not expected until the National Academy of Sciences completes a review of studies in mid-2000. It is, therefore, not possible to make any determination as to the potential need for additional controls on emissions from the Company's facilities.

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 emission limitations for NOx under the Clean Air Act. 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 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 the 90% level of emissions are anticipated. Expenditures for NOx controls on Electric Operations generating units have been estimated at $500 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.

The Company's expenditures associated with respect to permits, registrations and authorizations for operation of facilities under the statutes regulating the discharge of pollutants into surface water, and for the handling and disposal of solid wastes have not been, and are not expected to be, material.

For a discussion of specific environmental contingencies for the Company and Resources, projected expenditures in connection with environmental matters, and a quantification of costs associated with these matters, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company -- Environmental Expenditures," Note 14(h) to the Company's Consolidated Financial Statements and Note 8(d) to Resources Corp.'s Consolidated Financial Statements. Compliance with federal, state and local laws governing the discharge of materials into the environment, or otherwise intended to protect the environment, is not expected to have a material adverse impact on the consolidated results of operations or financial position of the Company.

EMPLOYEES

As of December 31, 1999, the Company had 14,256 full-time employees. The following table sets forth the number of the Company's employees by business segment as of December 31, 1999:

SEGMENT	NUMBER
Electric Operations	6,739
Natural Gas Distribution	4,879
Interstate Pipelines	570
Wholesale Energy	477
Reliant Energy Europe	933
Reliant Energy Latin America ...	84
Corporate	574
Total	14,256

The number of employees of Reliant Energy and its subsidiaries who are represented by unions or other collective bargaining groups include (i) Electric Operations, 2,789; (ii) Natural Gas Distribution, 1,557; (iii) Wholesale Energy, 5 and (iv) Reliant Energy Europe, 650.

EXECUTIVE OFFICERS OF RELIANT ENERGY
(AS OF MARCH 10, 2000)

NAME	AGE (1)	OFFICER SINCE	PRESENT POSITION
R. STEVE LETBETTER	51	1978	Chairman, President, Chief Executive Officer and Director
ROBERT W. HARVEY	44	1999	Vice Chairman
LEE W. HOGAN	55	1990	Vice Chairman and Director
STEPHEN W. NAEVE	52	1988	Vice Chairman and Chief Financial Officer
HUGH RICE KELLY	57	1984	Executive Vice President, General Counsel and Corporate Secretary
MARY P. RICCIARDELLO	44	1993	Senior Vice President and Comptroller
DAVID M. MCCLANAHAN	50	1986	President and Chief Operating Officer, Reliant Energy Delivery Group
JOE BOB PERKINS	39	1996	President and Chief Operating Officer, Reliant Energy Wholesale Group

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(1) As of December 31, 1999

Mr. Letbetter has served as Chairman of Reliant Energy since January 2000 and as President and Chief Executive Officer of Reliant Energy since June 1999. He has been a director of Reliant Energy since 1995. He has served in various executive officer capacities with the Company since 1978.

Mr. Harvey has served as Vice Chairman of Reliant Energy since June 1999. Prior to joining the Company, he served as a director in the Houston office of McKinsey & Company, Inc.

Mr. Hogan has served as Vice Chairman of Reliant Energy since June 1999. He has been a director of Reliant Energy since 1995. He has served in various executive officer capacities with the Company since 1990, including President and Chief Operating Officer of Reliant Energy International between 1993 and 1997.

Mr. Naeve has served as Vice Chairman of Reliant Energy since June 1999 and as Chief Financial Officer of Reliant Energy since 1997. Between 1997 and 1999, he served as Executive Vice President and Chief Financial Officer of Reliant Energy. He has served in various executive officer capacities with the Company since 1988, including Vice President - Strategic Planning and Administration between 1993 and 1996.

Mr. Kelly has served as Executive Vice President, General Counsel and Corporate Secretary of Reliant Energy since 1997. Between 1984 and 1997, he served as Senior Vice President, General Counsel and Corporate Secretary of Reliant Energy.

Ms. Ricciardello has served as Senior Vice President and Comptroller of Reliant Energy since June 1999 and as Vice President and Comptroller of Reliant Energy since 1996. She has served in various executive officer capacities with the Company since 1993.

Mr. McClanahan has served as President and Chief Operating Officer of the Reliant Energy Delivery Group since 1999. Previously, he served as President and Chief Operating Officer of the Reliant Energy HL&P division from 1997 to 1999. He has served in various executive officer capacities with the Company since 1986, including Group Vice President - Finance and Regulatory Relations of Reliant Energy HL&P from 1993 to 1996.

Mr. Perkins has served as President and Chief Operating Officer, Reliant Energy Wholesale Group and as President and Chief Operating Officer, Reliant Energy Power Generation, Inc. since 1998. In 1998, Mr. Perkins served as President and Chief Operating Officer of Reliant Energy Power Generation Group. Between 1996 and 1998, Mr. Perkins served as Vice President - Corporate Planning and Development. Prior to joining the Company, he served as Vice President of Business Development and Corporate Secretary of Coral Energy Resources, L.P. and Vice President and General Manager of Coral Power, L.L.C. Between 1994 and 1995, he was Director of Business Development for Tejas Gas Corporation.

ITEM 2. PROPERTIES.

CHARACTER OF OWNERSHIP

The Company and Resources own their principal properties in fee, except that most electric lines and gas mains are located, pursuant to easements and other rights, on public roads or on land owned by others.

Substantially all of the real estate, electric distribution system properties, buildings and franchises owned directly by Reliant Energy (excluding real estate and other properties of subsidiaries of Reliant Energy) are subject to a lien created under a Mortgage and Deed of Trust dated as of November 1, 1944 (as supplemented, Mortgage) between Reliant Energy and South Texas Commercial National Bank of Houston (Chase Bank of Texas, National Association, as Successor Trustee). The lien of the Mortgage excludes cash, stock in subsidiaries and certain other assets. Additionally, substantially all properties of the subsidiaries of Reliant Energy Latin America and Wholesale Energy that own interests in operating plants are subject to liens of creditors of the respective subsidiaries.

ELECTRIC OPERATIONS

All of the electric generating stations and other operating properties of Electric Operations are located in the state of Texas.

Electric Generating Stations. As of December 31, 1999, Reliant Energy HL&P owned 12 electric generating stations (62 generating units) with a combined turbine nameplate rating of 13,554,608 KW, including the Company's interest in the South Texas Project.

South Texas Project. The Company is one of four owners of the South Texas Project, a nuclear generating plant consisting of two 1,250 MW generating units, with a combined turbine nameplate rating of 2,623,676 KW, in which the Company has a 30.8% ownership interest.

Substations. As of December 31, 1999, the Company owned 215 major substation sites (242 substations) having a total installed rated transformer capacity of 54,763 Mva, including a 30.8% interest in one major substation with an installed rated transformer capacity of 3,080 Mva.

Electric Lines -- Overhead. As of December 31, 1999, the Company owned 25,535 pole miles of overhead distribution lines and 3,646 circuit miles of overhead transmission lines, including 502 circuit miles operated at 69,000 volts, 2,062 circuit miles operated at 138,000 volts and 1,082 circuit miles operated at 345,000 volts.

Electric Lines -- Underground. As of December 31, 1999, the Company owned 12,348 circuit miles of underground distribution lines and 14.9 circuit miles of underground transmission lines, including 6.8 circuit miles operated at 69,000 volts and 8.1 circuit miles operated at 138,000 volts.

NATURAL GAS DISTRIBUTION

Resources' approximately 55,000 linear miles of gas distribution mains vary in size from one-half inch to 24 inches in diameter. Generally, in each of the cities, towns and rural areas served by Natural Gas Distribution, Resources owns the underground gas mains and service lines, metering and regulating equipment located on customers' premises and the district regulating equipment necessary for pressure maintenance. With a few exceptions, the measuring stations at which Resources receives gas from its suppliers are owned, operated and maintained by others, and the distribution facilities of Resources begin at the outlet of the measuring equipment. These facilities, including odorizing equipment, are usually located on the land owned by suppliers.

INTERSTATE PIPELINES

Resources owns and operates approximately 8,200 miles of gas transmission lines and provides transportation service to various shippers across eight states in the south-central and midwestern United States. Resources also owns and operates six storage fields with a combined daily deliverability of approximately 1.2 BCF per day and a combined working gas capacity of approximately 51.8 BCF. Most of Interstate Pipelines' storage operations are in north Louisiana and Oklahoma.

WHOLESALE ENERGY

As of December 31, 1999, Wholesale Energy owned and operated six electric generating stations (18 generating units) with a combined nameplate rating of 4,515 MW. For additional information regarding the properties of Power Generation, see "Business -- Wholesale Energy" in Item 1 of this Form 10-K, which information is incorporated herein by reference. Resources owns and operates gathering pipelines which collect gas from more than 200 separate systems located in major producing fields in Arkansas, Louisiana, Oklahoma and Texas.

RELIANT ENERGY EUROPE

For information regarding the investments of Reliant Energy Europe, see "Business -- Reliant Energy Europe" in Item 1 of this Form 10-K, which information is incorporated herein by reference.

RELIANT ENERGY LATIN AMERICA

For information regarding the investments of Reliant Energy Latin America, see "Business -- Reliant Energy Latin America" in Item 1 of this Form 10-K, which information is incorporated herein by reference.

CORPORATE

For information regarding the properties of Corporate, see "Business -- Corporate" in Item 1 of this Form 10-K.

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.

(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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of Reliant Energy's security holders during the fourth quarter of the fiscal year ended December 31, 1999.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

As of March 10, 2000, Reliant Energy's common stock was held of record by approximately 80,930 shareholders. Reliant Energy's common stock is listed on the New York and Chicago Stock Exchanges and is traded under the symbol "REI." All of Resources Corp.'s common stock is held by Reliant Energy.

The following table sets forth the high and low sales prices of Reliant Energy's common stock on the composite tape during the periods indicated, as reported by Bloomberg, and the dividends declared for such periods. Dividend payout was $1.50 per share in both 1999 and 1998. The dividend declared during the fourth quarter of 1999 is payable in March 2000.

	MARKET PRICE		DIVIDEND DECLARED
	HIGH	LOW	PER SHARE
1999			
First Quarter..............................			$ 0.375
January 6................................	$ 32 1/4		
March 31.................................		$ 26 1/16	
Second Quarter.............................			$ 0.375
April 14.................................		$ 25 1/2	
May 25...................................	$ 31 11/16		
Third Quarter..............................			$ 0.375
September 3..............................	$ 28 5/8		
September 28.............................		$ 26 5/16	
Fourth Quarter.............................			$ 0.375
October 4................................	$ 28 7/16		
December 31..............................		$ 22 7/8	
1998			
First Quarter..............................			$ 0.375
January 16...............................		$ 25	
March 31.................................	$ 28 15/16		
Second Quarter.............................			$ 0.375
May 20...................................		$ 27 5/16	
June 24..................................	$ 32		
Third Quarter..............................			$ 0.375
August 7.................................		$ 26 5/8	
September 30.............................	$ 32		
Fourth Quarter.............................			$ 0.375
October 12...............................		$ 29 7/16	
November 16..............................	$ 33 3/8		

The closing market price of Reliant Energy's common stock on December 31, 1999 was $22 7/8 per share.

Future dividends will be subject to determination based upon the results of operations and financial condition of the Company, the Company's future business prospects, any applicable contractual restrictions and such other factors as the Company's Board of Directors considers relevant.

ITEM 6. SELECTED FINANCIAL DATA OF THE COMPANY.

The following table sets forth selected financial data with respect to the Company's consolidated financial condition and results of consolidated operations and should be read in conjunction with the Company's Consolidated Financial Statements and the related notes in Item 8 of this Form 10-K. In July 1995, the Company sold its former cable television subsidiary, the operations of which were accounted for as discontinued operations. The selected financial data includes the financial statement effect of UNA and Resources since the October 1999 acquisition and August 1997 acquisition, respectively. Both acquisitions were accounted for under the purchase method. See Note 2 to the Company's Consolidated Financial Statements for additional information regarding these acquisitions.

	YEAR ENDED DECEMBER 31,				
	1999	1998	1997	1996	1995
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)				
Revenues	$ 15,302,810	$ 11,488,464	$ 6,878,225	$ 4,095,277	$ 3,729,271
Income (loss) from continuing operations before extraordinary item and preferred dividends (1)(2)(3)	$ 1,665,731	$ (141,092)	$ 421,110	$ 404,944	$ 397,400
Gain on sale of cable television subsidiary					708,124
Extraordinary item, net of tax (4)	183,261				
Preferred dividends	389	390	162		
Net income (loss) attributable to common stockholders (1)(2)(3)	$ 1,482,081	$ (141,482)	$ 420,948	$ 404,944	$ 1,105,524
Basic earnings (loss) per common share:					
Continuing operations before extraordinary item (1)(2)(3)	$ 5.84	$ (.50)	$ 1.66	$ 1.66	$ 1.60
Gain on sale of cable television subsidiary					2.86
Extraordinary item, net of tax (4)	(.64)				
Basic earnings (loss) per common share (1)(2)(3)	$ 5.20	$ (.50)	$ 1.66	$ 1.66	$ 4.46
Diluted earnings (loss) per common share:					
Continuing operations before extraordinary item (1)(2)(3)	$ 5.82	$ (.50)	$ 1.66	$ 1.66	$ 1.60
Gain on sale of cable television subsidiary					2.86
Extraordinary item, net of tax (4)	(.64)				
Diluted earnings (loss) per common share(1)(2)(3)	$ 5.18	$ (.50)	$ 1.66	$ 1.66	$ 4.46
Cash dividends declared per common share	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50
Dividend payout ratio from continuing operations (1)(2)(3)	26%		96%	89%	94%
Return on average common equity (1)(2)(3)(4)	30.8%	(3.1%)	9.7%	10.2%	29.5%
Ratio of earnings from continuing operations to fixed charges (1)(2)(3)(5)	5.28		2.40	2.75	2.70
At year-end:					
Book value per common share	$ 18.70	$ 15.16	$ 17.28	$ 16.41	$ 16.61
Market price per common share	$ 22.88	$ 32.06	$ 26.75	$ 22.63	$ 24.25
Market price as a percent of book value	122%	211%	155%	138%	146%
Total assets	$ 26,220,936	$ 19,138,522	$ 18,445,606	$ 12,287,857	$ 11,819,606
Long-term debt obligations, including current maturities	$ 9,343,446	$ 7,198,202	$ 5,469,184	$ 3,254,413	$ 3,692,173
Trust preferred securities	$ 705,272	$ 342,232	$ 362,172		
Cumulative preferred stock	$ 9,740	$ 9,740	$ 9,740	$ 135,179	$ 402,400
Capitalization:					
Common stock equity	34%	36%	46%	53%	50%
Cumulative preferred stock				2%	5%
Trust preferred securities	5%	3%	3%		
Long-term debt (including current maturities)	61%	61%	51%	45%	45%
Cash consideration for purchase of UNA, net	$ 832,742				
Purchase of Resources, net of cash acquired			$ 1,422,672		
Other business acquisitions	$ 38,426				
Non-rate regulated electric power plants	$ 188,832	$ 292,398			
Investments and advances to unconsolidated subsidiaries	$ 116,076	$ 445,042	$ 234,852	$ 495,379	$ 49,835
Capital expenditures	$ 1,179,466	$ 743,455	$ 328,724	$ 324,075	$ 397,796

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(1) Includes a non-cash, unrealized accounting loss of $409 million, $764 million and $79 million (after-tax), or $1.44, $2.69 and $0.31 earnings per share, on indexed debt securities in 1999, 1998 and 1997, respectively. For additional information on the indexed debt securities, see Note 8 to the Company's Consolidated Financial Statements.

(2) Includes a non-cash, unrealized accounting gain on the Company's investment in Time Warner common stock of $1.575 billion (after-tax), or $5.53 basic earnings per share, in 1999. For additional information on the investment in Time Warner common stock, see Note 8 to the Company's Consolidated Financial Statements.

(3) Includes a $102 (after-tax) million loss due to the devaluation of the Brazilian real in 1999, or $0.36 per share. For additional information on the effect of the devaluation of the Brazilian real on the Company, see Note 7 to the Company's Consolidated Financial Statements.

(4) The extraordinary item is a loss related to an accounting impairment of certain generation related regulatory assets of Electric Operations. For additional information, see Note 3 to the Company's Consolidated Financial Statements.

(5) Fixed charges exceed earnings by $185 million in 1998.

ITEM 7. 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 consolidated financial statements and notes of Reliant Energy, Incorporated (Reliant Energy) and its subsidiaries (collectively, the Company) contained in Item 8 of this Form 10-K.

RELIANT ENERGY, INCORPORATED

The Company is a diversified international energy services company that provides energy and energy services in North America, Western Europe and Latin America. It operates one of the nation's largest electric utilities in terms of kilowatt-hour (KWH) sales, and its three natural gas distribution divisions together form the nation's third largest natural gas distribution operation in terms of customers served. The Company invests in international and domestic electric utility privatizations, gas distribution projects 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, and 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 Notes 1(a) and 18 to the Company's Consolidated Financial Statements. For a description of the segments, see Note 1(a) to the Company's Consolidated Financial Statements and "Business" in Item 1 of this Form 10-K.

During 1999, the Company completed the first two phases of its acquisition of N.V. UNA (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. On March 1, 2000, the Company purchased the remaining 48% of the shares of UNA. The total purchase price of the acquisition was approximately $2.4 billion (based on an exchange rate of 2.0565 NLG per U.S. dollar as of October 7, 1999), which includes a $426 million promissory note to UNA. The acquisition was accounted for as a purchase. Effective October 1, 1999, the Company recorded 100% of the operating results of UNA. For additional information about this acquisition, including the Company's accounting treatment of the acquisition, see Note 2 to the Company's Consolidated Financial Statements.

In August 1997, the Company acquired Reliant Energy Resources Corp. (Resources Corp.) and its subsidiaries (collectively, Resources), a natural gas gathering, transmission, marketing and distribution company that conducted business under the name "NorAm Energy Corp." prior to February 1999. The acquisition was accounted for as a purchase; accordingly, the Company's results of operations include the results of operations of Resources only for the period after the acquisition date.

To enhance comparability between reporting periods, certain information in this Form 10-K is presented on a pro forma basis and reflects the acquisition of Resources as if it had occurred at the beginning of 1997 and the acquisition of UNA as if it had occurred at the beginning of 1999 and 1998. Pro forma purchase-related adjustments for these acquisitions include amortization of goodwill and the allocation of the fair value of certain assets and liabilities. In addition, pro forma adjustments have been made to reflect UNA's operating results in accordance with U.S. generally accepted accounting principles. The pro forma results of operations are not necessarily indicative of the combined results of operations that would have occurred had the acquisitions occurred on such dates.

All dollar amounts in the tables that follow are in millions, except for per share data.

CONSOLIDATED RESULTS OF OPERATIONS

	ACTUAL		
	TWELVE MONTHS ENDED DECEMBER 31,		
	1999	1998	1997
Revenues	$ 15,303	$ 11,488	$ 6,878
Operating Expenses	(14,062)	(10,022)	(5,823)
Operating Income	1,241	1,466	1,055
Dividend Income	26	41	41
Interest Expense and Other Charges	(563)	(539)	(424)
Unrealized Gain on Time Warner Investment	2,452		
Unrealized Loss on Indexed Debt Securities	(630)	(1,176)	(121)
Income Tax (Expense) Benefit	(899)	30	(206)
Extraordinary Item, Net of Tax	(183)		
Other Income - Net	38	37	76
Net Income (Loss) Attributable to Common Stockholders	$ 1,482	$ (141)	$ 421
Basic Earnings (Loss) Per Share	$ 5.20	$ (0.50)	$ 1.66
Diluted Earnings (Loss) Per Share	$ 5.18	$ (0.50)	$ 1.66

	PRO FORMA		
	TWELVE MONTHS ENDED DECEMBER 31,		
	1999	1998	1997
Revenues	$ 15,784	$ 12,320	$ 10,191
Operating Expenses	(14,436)	(10,681)	(8,985)
Operating Income	1,348	1,639	1,206
Dividend Income	26	41	41
Interest Expense and Other Charges	(640)	(647)	(533)
Unrealized Gain on Time Warner Investment	2,452		
Unrealized Loss on Indexed Debt Securities	(630)	(1,176)	(121)
Income Tax (Expense) Benefit	(904)	24	(232)
Extraordinary Item, Net of Tax	(183)		
Other Income - Net	56	58	76
Net Income (Loss) Attributable to Common Stockholders	$ 1,525	$ (61)	$ 437
Basic Earnings (Loss) Per Share	$ 5.35	$ (0.21)	$ 1.55
Diluted Earnings (Loss) Per Share	$ 5.33	$ (0.21)	$ 1.55

1999 (Actual) Compared to 1998 (Actual). The Company reported consolidated earnings in 1999 of $1.482 billion ($5.20 per basic share) compared to a consolidated net loss of $141 million ($0.50 per share) for 1998. The amount for 1999 reflects a $1.575 billion (after-tax) non-cash, unrealized accounting gain on the Company's investment in Time Warner (TW) common stock (TW Common); a $409 million (after-tax) non-cash, unrealized accounting loss on indexed debt securities; a $102 million (after-tax) loss resulting from the effect of the devaluation of the Brazilian real on equity earnings of the Company's Brazilian investments; and a $183 million (after-tax) extraordinary loss relating to an accounting impairment of certain generation related regulatory assets of Electric Operations. The reported loss for 1998 includes a $764 million (after-tax) non-cash, unrealized accounting loss on indexed debt securities. For information regarding the Company's investment in TW Common and Reliant Energy's indexed debt securities, see Note 8 to the Company's Consolidated Financial Statements. For information regarding the $183 million extraordinary loss, see "-- Certain Factors Affecting Future Earnings of the Company -- Competition and Restructuring of the Texas Electric Utility Industry" and Note 3 to the Company's Consolidated Financial Statements.

After adjusting for unusual and other charges (as described above) in both years, net income for 1999 would have been $601 million ($2.11 per share) compared to $623 million ($2.19 per share) for 1998. The $22 million decrease was primarily due to an $80 million, or $0.28 per share, gain on the sale of an Argentine electric distribution system in 1998 and lower earnings in 1999 for the Natural Gas Distribution, Interstate Pipelines and Wholesale Energy segments. These decreases were partially offset by higher earnings in the Reliant Energy Latin America segment (after adjusting for the loss due to the devaluation of the Brazilian real) and earnings of Reliant Energy Europe which acquired UNA in the fourth quarter of 1999 (see Note 2 to the Company's Consolidated Financial Statements).

1999 (Pro Forma) Compared to 1998 (Pro Forma). Consolidated pro forma earnings in 1999 were $1.525 billion ($5.35 per basic share) compared to a consolidated pro forma net loss of $61 million ($0.21 per share) for 1998. After adjusting for unusual and other charges (as described above) in both years, pro forma net income for 1999 would have been $644 million ($2.26 per share) compared to $703 million ($2.48 per share) for 1998. The decrease in the 1999 period can be attributed to the same factors discussed above and a decline in pro forma operating income of Reliant Energy Europe.

1998 (Actual) Compared to 1997 (Actual). The Company reported a consolidated net loss for 1998 of $141 million ($0.50 per share) compared to consolidated net income of $421 million ($1.66 per share) in 1997. The 1998 consolidated net loss resulted from the accounting treatment of Reliant Energy's indexed debt securities, one series of which was issued in July 1997. The Company recorded a non-cash, unrealized accounting loss (after-tax) of $764 million on such series of indexed debt securities in 1998. In 1997, the Company recorded a non-cash, unrealized accounting loss (after-tax) of $79 million on such series of indexed debt securities, which was partially offset by $37 million of non-recurring interest income related to a refund of federal income taxes in 1997. For a discussion of Reliant Energy's indexed debt securities, see Note 8 to the Company's Consolidated Financial Statements.

After adjusting for unusual and other charges (as described above) in both years, net income for 1998 would have been $623 million ($2.19 per share) compared to $463 million ($1.83 per share) in 1997. The $160 million increase in adjusted net income for 1998 compared to 1997 was due to improved results from Interstate Pipelines, Wholesale Energy and Reliant Energy Latin America segments. Net income for 1998 included an $80 million, or $0.28 per share, gain on the sale of an investment in an electric distribution system in Argentina. Also contributing to the increase were earnings from the businesses acquired in the acquisition of Resources. These effects were partially offset by additional depreciation of regulated power generation assets in compliance with Reliant Energy HL&P's rate of return cap, as described below, and increased interest expense primarily related to the acquisition of Resources.

1998 (Pro Forma) Compared to 1997 (Pro Forma). The consolidated pro forma net loss for 1998 was $61 million ($0.21 per share) compared to consolidated pro forma net income of $437 million ($1.55 per share) in 1997. After adjusting for unusual and other charges (as described above) in both years, pro forma net income for 1998 would have been $703 million ($2.48 per share) compared to $479 million ($1.70 per share) in 1997. This increase in adjusted pro forma net income for 1998 compared to 1997 was primarily due to the same factors discussed above and $80 million of pro forma net income of UNA in 1998.

Interest Expense and Other Charges. In 1999, 1998 and 1997, interest expense and other charges were $563 million, $539 million and $424 million, respectively. Increased interest expense and other charges in 1999 compared to 1998 was primarily due to higher levels of short-term borrowings, long-term debt and trust preferred securities. These increases were associated in part with the acquisition of shares of UNA in the fourth quarter of 1999, the Company's additional investment in TW Common in 1999, other acquisitions of businesses and capital expenditures. The increase in 1999 was partially offset by a decrease in the average interest rate for long-term debt. The increase in 1998 from 1997 was primarily attributable to the acquisition of Resources in August 1997 and the acquisitions of non-rate regulated electric power plants and equity investments in Latin America in 1998.

Income Tax Expense. The effective tax rate for 1999, 1998, and 1997 was 35.1%, 17.7%, and 32.8% respectively. After adjusting for the following unusual and other charges: unrealized accounting gain on the investment in TW Common, unrealized accounting loss on indexed debt securities, loss due to the devaluation of the Brazilian real, and non-recurring interest income related to a refund of federal income taxes in 1997, the adjusted effective tax rate for 1999, 1998, and 1997 was 33.0%, 37.9% and 33.1%, respectively. The decrease in effective tax rate in 1999 compared to 1998 was primarily due to the discontinuance of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), for the generation operations of Electric Operations. For information regarding the discontinuance of SFAS No. 71 to the generation operations of Electric Operations, see Note 3 to the Company's Consolidated Financial Statements. The increase in effective tax rate in 1998 from 1997 was primarily due to non-deductible goodwill resulting from the acquisition of Resources in August 1997.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

All business segment data (other than data relating to Electric Operations) is presented on a pro forma basis and reflects the acquisition of Resources as if it had occurred at the beginning of 1997 and the acquisition of UNA as if it had occurred at the beginning of 1999 and 1998.

The following table presents operating income on an actual basis and a pro forma basis for the years ended December 31, 1999, 1998 and 1997 (in millions). Certain amounts from the previous years have been reclassified to conform to the 1999 presentation of the financial statements. Such reclassifications do not affect consolidated earnings.

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT

	ACTUAL			PRO FORMA		
	YEAR ENDED DECEMBER 31,			YEAR ENDED DECEMBER 31,		
	1999	1998	1997	1999	1998	1997
Electric Operations	$ 981	$ 1,002	$ 985	$ 981	$ 1,002	$ 985
Natural Gas Distribution	125	145	57	125	145	156
Interstate Pipelines	113	128	32	113	128	99
Wholesale Energy	45	59	1	45	59	(15)
Reliant Energy Europe	32			139	173	
Reliant Energy Latin America	(23)	182	20	(23)	182	17
Corporate	(32)	(50)	(40)	(32)	(50)	(36)
Total Consolidated	$ 1,241	$ 1,466	$ 1,055	$ 1,348	$ 1,639	$ 1,206

ELECTRIC OPERATIONS

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

In June 1999, the Texas legislature adopted the Texas Electric Choice Plan (Legislation) that substantially amends the regulatory structure governing electric utilities in Texas in order to allow retail competition beginning on January 1, 2002. Prior to 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 to competition plan (Transition Plan) approved by the Public Utility Commission of Texas (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. The Transition Plan also approved the implementation of base rate credits to residential customers of 4% in 1998 and an additional 2% in 1999. Commercial customers whose monthly billing is 1000 kva or less received base rate credits of 2% in 1998 and 1999. For more information regarding the Transition Plan, see Notes 1(g) and 4 to the Company's Consolidated Financial Statements. For more information regarding the Legislation, see Note 3 to the Company's Consolidated Financial Statements.

The following table provides summary data regarding the actual results of operations of Electric Operations for 1999, 1998 and 1997 (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Operating Revenues:			
Base Revenues(1)	$ 2,968	$ 2,969	$ 2,839
Reconcilable Fuel Revenues(2)	1,515	1,381	1,413
Total Operating Revenues	4,483	4,350	4,252
Operating Expenses:			
Fuel and Purchased Power	1,569	1,455	1,477
Operation and Maintenance	916	890	885
Depreciation and Amortization Expense	667	663	582
Other Operating Expenses	350	340	323
Total Operating Expenses	3,502	3,348	3,267
Operating Income	$ 981	$ 1,002	$ 985

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(1) Includes miscellaneous revenues, certain non-reconcilable fuel revenues and certain purchased power-related revenues.

(2) Includes revenues collected through a fixed fuel factor and surcharges net of adjustments for over/under recovery of fuel. See "--Operating Revenues--Electric Operations."

OPERATING INCOME - ELECTRIC OPERATIONS

1999 Compared to 1998. Electric Operations' operating income for the year ended December 31, 1999 was $981 million compared to $1,002 million for the same period in 1998. The $21 million decrease was primarily due to the effects of milder weather and additional base rate credits provided under the Transition Plan partially offset by continued strong customer growth.

1998 Compared to 1997. Electric Operations' 1998 operating income was $1,002 million compared to $985 million the previous year. The increase of $17 million in operating income was due to higher revenues from the unusually hot weather in 1998 and customer growth partially offset by base rate credits provided under the Transition Plan.

OPERATING REVENUES - ELECTRIC OPERATIONS

1999 Compared to 1998. Electric Operations' base revenues were $2,968 million for 1999, a decrease of $1 million from 1998. The effects of milder weather in 1999 as compared to 1998 and additional base rate credits in 1999 were offset by continued strong customer growth and increased usage per customer. Total KWH sales were consistent between the two periods.

Electric Operations' 10% increase in reconcilable fuel revenue in 1999 resulted primarily from increased natural gas prices. The Texas Utility Commission provides for recovery of certain fuel and purchased power costs through a fixed fuel factor included in electric rates. Revenues collected through such factor are adjusted monthly to equal expenses; therefore, such revenues and expenses have no effect on earnings unless fuel costs are determined not to be recoverable. The adjusted over/under recovery of fuel costs is recorded on the Company's Consolidated Balance Sheets as deferred credits or regulatory assets, respectively. Electric Operations filed a fuel reconciliation proceeding with the Texas Utility Commission on January 30, 1998 covering $3.5 billion of fuel costs for the three year period ending July 31, 1997. In December 1998, the Texas Utility Commission issued a final order that allowed Electric Operations to recover eligible fuel costs for the three-year period ending July

31, 1997, with some exceptions including a disallowance of $12 million in fuel expense relating to the three-year period ending July 31, 1997.

1998 Compared to 1997. Electric Operations' $130 million increase in 1998 base revenues over 1997 was primarily the result of unusually hot weather and the impact of customer growth, net of base rate credits implemented under the Transition Plan. In 1998, Electric Operations implemented a base rate credit which reduced revenues by $74 million. Growth in usage and number of customers contributed an additional $48 million in base revenues in 1998.

Electric Operations' 2% decrease in reconcilable fuel revenue in 1998 resulted primarily from decreased natural gas prices. The decrease in natural gas prices, however, was largely offset by increased KWH sales resulting from hotter weather in 1998.

FUEL AND PURCHASED POWER EXPENSE -- ELECTRIC OPERATIONS

Fuel costs constitute the single largest expense for Electric Operations. The mix of fuel sources for generation of electricity is determined primarily by system load and the unit cost of fuel consumed. The average cost of fuel used by Electric Operations in 1999 was $1.87 per million British Thermal Units (MMBtu) ($2.47 for natural gas, $1.76 for coal, $1.42 for lignite, and $0.44 for nuclear). The average cost of fuel used by Electric Operations in 1998 was $1.70 per MMBtu ($2.18 for natural gas, $1.78 for coal, $1.19 for lignite, and $0.48 for nuclear). The average cost of fuel used by Electric Operations in 1997 was $1.87 per MMBtu ($2.60 for natural gas, $2.02 for coal, $1.08 for lignite and $0.54 for nuclear).

1999 Compared to 1998. Fuel and purchased power expenses in 1999 increased by $114 million or 8% over 1998 expenses. The increase is a result of higher costs for natural gas and higher reconcilable cost per unit of lignite. The increase resulting from higher unit cost of fuel was partially offset by a $12 million charge to non-reconcilable fuel in 1998 as discussed above.

1998 Compared to 1997. Fuel and purchased power expenses in 1998 decreased by $22 million or 1% below 1997 expenses. The decrease was driven by a decrease in the average unit cost of natural gas.

OPERATION AND MAINTENANCE EXPENSES, DEPRECIATION, AMORTIZATION AND OTHER - ELECTRIC OPERATIONS

1999 Compared to 1998. Operation, maintenance and other operating expenses increased $36 million in 1999, including $38 million due to transmission tariffs within ERCOT. A portion of these transmission expenses were offset by an increase of $28 million in transmission tariff revenue. State franchise taxes increased $13 million in 1999 compared to 1998.

1998 Compared to 1997. Operation, maintenance and other operating expenses increased $22 million in 1998 compared to 1997, including $9 million due to transmission tariffs within ERCOT. These transmission expenses were largely offset by an increase of $7 million in transmission tariff revenue. Franchise fees paid to cities increased $11 million due to increased sales in 1998.

In 1998, the Company recorded additional depreciation expense for Electric Operations of $194 million, which is $144 million more than recorded during 1997, as provided by the Transition Plan. The comparative increase was mitigated because amortization of the investment in lignite reserves associated with a canceled generation project was $62 million lower in 1998 than in 1997. For information regarding the depreciation and amortization expense of Electric Operations recorded in 1999 and 1998 pursuant to the Legislation and Transition Plan, see Notes 1(d), 1(g), 3 and 4 to the Company's Consolidated 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 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.

The following table provides summary data regarding the actual results of operations of Natural Gas Distribution for 1999 and 1998 and unaudited pro forma results of operations for 1997 (in millions):

	ACTUAL		PRO FORMA
	YEAR ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,
	1999	1998	1997
Operating Revenues:			
Base Revenues	$ 802	$ 845	$ 874
Recovered Gas Revenues	1,095	1,034	1,388
Total Operating Revenues	1,897	1,879	2,262
Operating Expenses:			
Natural Gas	1,102	1,085	1,440
Operation and Maintenance	453	426	439
Depreciation and Amortization	132	131	125
Other Operating Expenses	85	92	102
Total Operating Expenses	1,772	1,734	2,106
Operating Income	$ 125	$ 145	$ 156
Throughput Data (in billion cubic feet (BCF)):			
Residential and Commercial Sales	287	286	326
Industrial Sales	56	56	59
Transportation	46	44	42
Total Throughput	389	386	427

1999 (Actual) Compared to 1998 (Actual). Natural Gas Distribution's operating income was $125 million in 1999 compared to $145 million in 1998. The $20 million decrease was primarily attributable to an increase in operating expenses, in particular employee benefits, and costs associated with the implementation of an enterprise wide information system.

The $18 million or 1% increase in 1999 operating revenues compared to 1998 is primarily due to an increase in the price of purchased gas. Mild weather in 1999 continued to negatively impact the demand for natural gas heating.

1998 (Actual) Compared to 1997 (Pro Forma). Operating income was $145 million in 1998 compared to pro forma operating income of $156 million in 1997. The $11 million decrease reflects the lower demand for natural gas heating that resulted from milder weather in 1998. The negative impact of weather was partially offset by (i) the favorable impact of purchased gas adjustments during this period on Reliant Energy Arkla's operating income, (ii) lower operating expenses and (iii) increased revenue resulting from Reliant Energy Minnegasco's performance based rate plan.

The $383 million decrease in 1998 actual operating revenues compared to 1997 pro forma operating revenues is primarily attributable to a decrease in the price of purchased gas and decreased sales volume primarily due to milder weather in 1998.

INTERSTATE PIPELINES

Interstate Pipelines provides interstate gas transportation and related services through two wholly owned subsidiaries of Resources Corp., Reliant Energy Gas Transmission Company (REGT) and Mississippi River Transmission Corporation (MRT).

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

The following table provides summary data regarding the actual results of operations of Interstate Pipelines for 1999 and 1998 and unaudited pro forma results of operations for 1997 (in millions):

	ACTUAL		PRO FORMA
	YEAR ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,
	1999	1998	1997
Operating Revenues	$ 275	$ 282	$ 295
Operating Expenses:			
Natural Gas	27	32	51
Operation and Maintenance	71	64	82
Depreciation and Amortization	49	44	48
Other Operating Expenses	15	14	15
Total Operating Expenses	162	154	196
Operating Income	$ 113	$ 128	$ 99
Throughput Data (in BCF):			
Natural Gas Sales	15	16	18
Transportation	836	825	911
Elimination(1)	(14)	(15)	(17)
Total Throughput	837	826	912

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(1) Elimination of volumes both transported and sold.

1999 (Actual) Compared to 1998 (Actual). Interstate Pipelines' operating income for 1999 was $113 million compared to $128 million for 1998. The $15 million decrease was due primarily to the settlement of a dispute related to certain gas purchase contracts that resulted in the recognition of $6 million of revenues in 1998, a reduction in depreciation and amortization in 1998 of $5 million related to a rate case settlement and an increase in operating expenses in 1999, primarily employee benefit expenses.

Operating revenue for Interstate Pipelines decreased by $7 million in 1999 compared to 1998. The decrease was primarily attributable to the settlement of outstanding gas purchase contract litigation in 1998 as discussed above. Natural gas expense decreased $5 million in 1999 compared to 1998 primarily due to expiration of gas supply contracts. Operation and maintenance expense increased $7 million in 1999 as compared to 1998 primarily due to increases in employee benefit expenses. Depreciation and amortization expense increased $5 million in 1999 due to a rate settlement recorded in 1998 as discussed above. The rate settlement, effective January 1998, provided for a $5 million reduction in MRT's depreciation rates retroactive to July 1996.

1998 (Actual) Compared to 1997 (Pro Forma). Interstate Pipelines' operating income for 1998 was $128 million compared to $99 million for 1997 on a pro forma basis. The $29 million increase in operating income for 1998 is primarily due to $11 million of pre-tax, non-recurring items recorded in 1998 for favorable litigation and rate case settlements as discussed above. The increase in operating income also reflects improved operating margins and reductions in operating expenses. The increase in operating income for 1998 was partially offset by $7 million of non-recurring transportation revenues recorded in the first quarter of 1997, as discussed below.

Operating revenues for Interstate Pipelines decreased by $13 million in 1998 compared to pro forma 1997 revenues. The decrease in revenues is due in part to $7 million of non-recurring transportation revenues recognized in the first quarter of 1997. These revenues were recognized following a settlement with Reliant Energy Arkla related to transportation service. The settlement with Reliant Energy Arkla resulted in reduced transportation rates which also reduced revenues for 1998. Lower spot prices in 1998 and reduced sales volumes also contributed to the reduction in operating revenues. These decreases were partially offset by the settlement of outstanding gas purchase contract litigation, which resulted in the recognition of approximately $6 million of revenues in 1998 as discussed above. The 9% decline in total throughput reflected the impact of unseasonably warm winter weather.

Interstate Pipelines' 1998 operating expenses declined $42 million in comparison to 1997 pro forma operating expenses. Contributing to the decrease were the MRT rate settlement in 1998, the impact of cost control initiatives and reduced pension and benefit expenses.

Natural gas expense decreased $19 million in 1998 compared to pro forma natural gas expense in 1997 primarily due to lower gas sales volumes and lower prices for purchased gas. Operation and maintenance expense decreased $18 million in 1998 in comparison to pro forma operation and maintenance expense for 1997. The decrease was primarily due to the impact of cost control initiatives, reduced pension and benefit expenses and decreased maintenance due to milder weather in the first quarter of 1998. Depreciation expense decreased $4 million in 1998 compared to pro forma depreciation expense in 1997 primarily due to a rate settlement recorded in 1998.

During 1999 and 1998, Interstate Pipelines' largest unaffiliated customer was a natural gas utility that serves the greater St. Louis metropolitan area in Illinois and Missouri. Revenues from this customer are generated pursuant to several long-term firm storage and transportation agreements that currently are scheduled to expire at various dates between October 2000 and May 2001. Interstate Pipelines is currently negotiating with the natural gas utility to renew these agreements. If such contracts are not renewed, the results of operations of Interstate Pipelines could be adversely affected.

WHOLESALE ENERGY

Wholesale Energy conducts its operations through (i) Reliant Energy Power Generation, Inc. (collectively with its subsidiaries, Power Generation), (ii) Reliant Energy Services, Inc. (Reliant Energy Services) and (iii) 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.

Wholesale Energy includes the acquisition, development and operation of, 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. Power Generation acquires and develops non-rate regulated power generation facilities. From March 1997 through December 31, 1999, the Company invested approximately $611 million in the acquisition and development of domestic non-rate regulated power generation projects. As of December 31, 1999, Power Generation had entered into commitments associated with various domestic generation projects amounting to $324 million along with commitments to acquire various generating equipment totaling $318 million for delivery from 2000 to 2001 that are to be used in future development projects. In February 2000, Power Generation signed a definitive agreement to purchase from Sithe Energies, Inc. its non-rate regulated power generating assets and sites located in Pennsylvania, New Jersey and Maryland having a net generating capacity of more than 4,200 megawatts for an aggregate purchase price of $2.1 billion, subject to certain adjustments. The acquisition is expected to close in the second quarter of 2000 and is subject to obtaining certain regulatory approvals and satisfying other closing conditions. The Company expects that Power Generation will actively pursue the acquisition of additional generation assets and the development of additional new non-rate regulated generation projects. Depending on the timing and success of Power Generation's future efforts, the Company believes that resulting expenditures could be substantial.

To minimize the Company's risks associated with fluctuations in the price of natural gas and transportation, the Company, primarily through Reliant Energy Services, enters into futures transactions, swaps and options in order to hedge against market price changes affecting (i) certain commitments to buy, sell and move electric power, natural gas, crude oil and refined products, (ii) existing natural gas storage and heating oil inventory, (iii) future power sales and natural gas purchases by generation facilities, (iv) crude oil and refined products and (v) certain anticipated transactions, some of which carry off-balance sheet risk. Reliant Energy Services also enters into commodity and weather derivatives in its trading and price risk management activities. For a discussion of the Company's accounting treatment of derivative instruments, see Note 5 to the Company's Consolidated Financial Statements and "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

The Company believes that energy trading, marketing and risk management activities complement its strategy of developing and/or acquiring non-rate regulated generation assets in key markets. Reliant Energy Services purchases fuel to supply Power Generation's existing generation assets and sells 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.

The following table provides summary data regarding the actual results of operations of Wholesale Energy for 1999 and 1998 and unaudited pro forma results of operations for 1997 (in millions):

	ACTUAL		PRO FORMA
	YEAR ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,
	1999	1998	1997
Operating Revenues	$ 7,949	$ 4,456	$ 3,042
Operating Expenses:			
Natural Gas	3,959	2,413	2,645
Purchased Power	3,729	1,829	313
Operation and Maintenance	184	132	90
Depreciation and Amortization	26	18	7
Other Operating Expenses	6	5	2
Total Operating Expenses	7,904	4,397	3,057
Operating Income	$ 45	$ 59	$ (15)
Operations Data:			
Natural Gas (in BCF):			
Sales	1,820	1,164	958
Gathering	270	237	242
Total	2,090	1,401	1,200
Electricity (in MMWH):			
Wholesale Power Sales	112.1	65.2	25.0

1999 (Actual) Compared to 1998 (Actual). Wholesale Energy reported operating income of $45 million compared to $59 million for 1998. The $14 million decrease was due primarily to a decline in market prices for electricity in the California market caused by milder than normal weather and increased hydroelectric generation sold into the California market by competitors. This decline more than offset significant increases in operating income in the trading and marketing operation of Wholesale Energy.

Operating revenues for Wholesale Energy were $7.9 billion in 1999, a 78% increase from 1998. The increase in revenues was primarily due to increased trading volumes for power, gas and oil, as well as higher sales prices for these same commodities.

Natural gas and purchased power expense increased $3.4 billion in 1999, an 81% increase from 1998. The increase was primarily due to the corresponding increase in trading sales volumes. Trading and marketing margin percentages remained consistent between the two periods. Operation and maintenance expenses in 1999 increased $52 million from 1998. The increase was primarily due to increased operating expenses for the California plants which were acquired in May 1998, increased development costs, and higher levels of trading and marketing staffing to support the higher sales and expanded marketing efforts. Depreciation and amortization in 1999 increased $8 million from 1998 due primarily to a full year of depreciation for the California plants as well as additional assets placed into operation during 1999.

1998 (Actual) Compared to 1997 (Pro Forma). Wholesale Energy reported operating income of $59 million in 1998 compared to a pro forma loss of $15 million in 1997. This $74 million increase was due to improved operating results of both non-rate regulated generating assets and trading and marketing activities. Capitalization of previously expensed development costs related to successful project starts in Nevada, California and Texas also contributed to the increase. These improved results were partially offset by increased operating expenses in the trading and marketing operations, as discussed below. In 1997, operating income was negatively affected by hedging losses associated with sales under peaking contracts and losses from the sale of unhedged natural gas held in storage in the first quarter of 1997 totaling $17 million.

Operating revenues in 1998 increased $1.4 billion, a 46% increase from pro forma 1997 operating revenues, due almost entirely to an increase in wholesale power sales.

Operating expense in 1998 increased $1.3 billion, or 44% compared to pro forma operating expense for 1997 primarily due to $1.5 billion in increased power costs related to energy trading and marketing activities. Natural gas expenses in 1998 decreased $232 million, or 9%, compared to pro forma 1997 due to the reduction in the price of natural gas in 1998. Operation and maintenance expense increased $42 million, or 47%, in 1998 as compared to 1997 primarily due to power plant acquisitions in California and costs associated with staffing increases in the trading and marketing operation to support increased sales and marketing efforts. Also contributing to the increase was an increase in a credit reserve due to increased counterparty credit and performance risk associated with higher prices and higher volatility in the electric power market recorded in the second quarter of 1998.

RELIANT ENERGY EUROPE

The Company established its Reliant Energy Europe business segment in the fourth quarter of 1999. 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.

During 1999, the Company completed the first two phases of its 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. On March 1, 2000, the Company purchased the remaining 48% of the shares of UNA. The total purchase price of the acquisition was approximately $2.4 billion (based on an exchange rate of 2.0565 NLG per U.S. dollar as of October 7, 1999), which includes a $426 million promissory note to UNA. The Reliant Energy Europe segment includes the operations of UNA and its subsidiaries and the operations of Reliant Energy Trading & Marketing B.V. (Reliant Energy Marketing Europe), which operations commenced in the fourth quarter of 1999. For additional information about this acquisition, including the Company's accounting treatment of the acquisition, see Note 2 to the Company's Consolidated Financial Statements.

The following table provides summary data for the unaudited pro forma results of operations of Reliant Energy Europe for 1999 and 1998 (in millions):

	PRO FORMA YEAR ENDED DECEMBER 31, 1999	1998
Operating Revenues	$ 634	$ 832
Operating Expenses:		
Fuel and Purchased Power	284	435
Operation and Maintenance	126	136
Depreciation and Amortization ...	85	88
Total Operating Expenses	495	659
Operating Income	$ 139	$ 173

1999 (Pro Forma) to 1998 (Pro Forma). For the year ended December 31, 1999, pro forma operating income was $139 million compared to pro forma operating income of $173 million in 1998. The $34 million decrease in operating income between periods was primarily due to reduced revenues resulting from lower regulated returns and recovery of costs. Operating expenses in 1999 associated with the start-up costs of the European trading and marketing operations also contributed to the decline.

Pro forma revenues declined in 1999 from 1998 due to lower regulated returns and recovery of costs and due to the effects of milder weather and competition from cogeneration and increased import power from other countries, which reduced the generation of electricity from UNA's plants. Pro forma fuel expenses declined in 1999 from 1998 primarily due to reduced production of electricity, as discussed above. Operation and maintenance expenses decreased due to cost control initiatives and lower ongoing maintenance expenses.

UNA, the other large Dutch generating companies and the Dutch distribution companies are currently operating 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 agreed to sell their generating output to a national production pool (SEP) and, in return, receive a standardized remuneration. The remuneration includes fuel cost, capital cost and the cost of operations and maintenance expenses. UNA operates under the protocol (Protocol) which is an agreement under which the generators agreed 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 will expire substantially 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 expire substantially by the beginning of 2001.

Beginning 2001, UNA will begin operating in a deregulated market. Based on current estimates, Reliant Energy anticipates that UNA will undergo a significant decline in revenues in 2001 attributable to the deregulation of the market. Another factor that will affect the operating results of Reliant Energy Europe is the imposition in 2002 of standard Dutch corporate tax rates of 35% on UNA. In 1999 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 "-- Certain Factors Affecting Future Earnings of the Company -- Competition -- Reliant Energy Europe Operations."

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 (Resources International). 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 in line with its strategies for the U.S. and Western Europe.

For information regarding foreign currency matters, including the impact of the devaluation of the Brazilian real in 1999, see Note 7 to the Company's Consolidated Financial Statements, "-- Certain Factors Affecting Future Earnings of the Company -- Risks of Operations in Emerging Markets" and "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of this Form 10-K. For additional information about the accounting treatment of certain of International's foreign investments, see Note 7 to the Company's Consolidated Financial Statements.

The following table provides summary data regarding the actual results of operations of Reliant Energy Latin America for 1999 and 1998 and pro forma results of operations for 1997 (in millions):

	ACTUAL YEAR ENDED DECEMBER 31,		PRO FORMA YEAR ENDED DECEMBER 31,
	1999	1998	1997
Operating Revenues	$ 80	$ 259	$ 92
Operating Expenses:			
Fuel	49	25	21
Operation and Maintenance	49	48	50
Depreciation and amortization	5	4	4
Total Operating Expenses	103	77	75
Operating Income (Loss)	$ (23)	$ 182	$ 17

1999 (Actual) Compared to 1998 (Actual). In 1999, Reliant Energy Latin America had an operating loss of $23 million compared to operating income of $182 million in 1998. The operating loss for 1999 includes a $102 million (after-tax) loss resulting from the effect of the devaluation of the Brazilian real on equity earnings of the Company's Brazilian investments. In addition, the decrease was due to a $138 million pre-tax gain on the sale of a 63% interest in an Argentine electric distribution company in 1998 partially offset by increased contributions from Argener and EDESE, a cogeneration project and a utility in Argentina, and increased equity earnings in 1999.

1998 (Actual) Compared to 1997 (Pro Forma). Reliant Energy Latin America had operating income of $182 million in 1998 compared to pro forma operating income of $17 million in 1997. The increase in operating income is primarily due to a $138 million pre-tax gain on the sale discussed above. Equity earnings from investments in utility systems in El Salvador and Colombia acquired in 1998 also contributed to the increase in operating income.

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.

Corporate had an operating loss of $32 million for 1999 compared to a $50 million operating loss for 1998. The decreased loss was primarily due to decreased state franchise taxes partially offset by increased general insurance liability and information system expenses.

Corporate incurred an operating loss of $50 million for 1998 compared to a pro forma operating loss of $36 million for 1997. The increased loss was primarily due to development costs, increased expenses associated with information system costs and increased liabilities associated with certain compensation plans.

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.

LIQUIDITY AND CAPITAL RESOURCES

COMPANY CONSOLIDATED CAPITAL REQUIREMENTS

The liquidity and capital requirements of the Company are affected primarily by capital programs and debt service requirements. Expenditures in the table reflect only expenditures made or to be made under existing contractual commitments as of December 31, 1999. The Company expects to continue to participate as a bidder in future acquisitions of independent power projects and privatizations of generation facilities. Such capital requirements are expected to be met with excess cash flows from operations, the proceeds of project financings and the proceeds of Company borrowings. Additional capital expenditures are dependent upon the nature and extent of future project commitments (some of which may be substantial). The capital requirements for 1999 were, and as estimated for 2000 through 2004 are, as follows (in millions):

	1999	2000 (1)	2001	2002	2003	2004
Electric Operations (with nuclear fuel) (2)	$ 573	$ 722	$ 885	$ 520	$ 524	$ 528
Natural Gas Distribution	206	197	161	162	162	165
Interstate Pipelines	30	20	17	17	17	17
Wholesale Energy (2)(3)	530	720	225	265	192	126
Reliant Energy Europe	834	980	5	5	5	5
Reliant Energy Latin America	93					
Corporate	90	86	87	84	86	104
Payments of long-term debt, sinking fund requirements and minimum capital lease (1)	936	409	773	670	741	58
Total	$ 3,292	$ 3,134	$ 2,153	$ 1,723	$ 1,727	$ 1,003

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(1) Excludes the ACES (see Note 8 to the Company's Consolidated Financial Statements) as the ACES may be settled with the Company's investment in TW Common.

(2) Beginning in 2002, capital requirements for current generation operations of Reliant Energy HL&P are included in Wholesale Energy rather than in Electric Operations.

(3) Amounts do not reflect capital requirements related to the $2.1 billion cost of the pending Sithe power generating assets acquisition described in Note 19 to the Company's Consolidated Financial Statements.

The net cash provided by/used in operating, investing and financing activities for the years ended December 31, 1999, 1998 and 1997 is as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Cash provided by (used in):			
Operating activities	$ 1,162	$ 1,425	$ 1,111
Investing activities	(2,897)	(1,230)	(1,981)
Financing activities	1,794	(218)	914

Net cash provided by operations in 1999 decreased $263 million compared to 1998 reflecting a $142 million federal tax refund received in 1998 and other changes in working capital. Net cash provided by operations in 1998 increased $314 million over 1997 primarily due to incremental cash flow provided by the business segments purchased in the Resources acquisition, increased sales at Electric Operations due to unusually hot weather during the second and third quarters of 1998, and the receipt of a federal tax refund in 1998.

Net cash used in investing activities increased $1.7 billion in 1999 compared to 1998 primarily due to the cash portion of the purchase price for 52% of UNA totaling $833 million, the purchase of 9.2 million shares of TW Common for $537 million, increased capital expenditures and the sale of an investment in an Argentine electric distribution company in 1998 partially offset by equity investments made in 1998 by Reliant Energy Latin America. Net cash used in investing activities decreased $751 million in 1998 compared to 1997 due primarily to the Resources acquisition in 1997.

Cash flows provided by financing activities increased approximately $2.0 billion in 1999 primarily due to cash received from short-term borrowings, the net issuance of long-term debt and the issuance of trust preferred securities aggregating $2.3 billion (see Notes 10 and 11 to the Company's Consolidated Financial Statements), partially offset by $91 million of purchases of Reliant Energy's common stock. The net borrowings incurred during 1999 were utilized to purchase TW Common, to complete the first and second phases of the acquisition of UNA, to support increased capital expenditures, and to fund the working capital requirements of the Company. Cash flows provided by financing activities decreased approximately $1.1 billion in 1998 compared to 1997 primarily due to a decline in short-term borrowings of $1.1 billion. The net borrowings incurred during 1997 were utilized primarily to finance a portion of the cost of the Resources acquisition.

FUTURE SOURCES AND USES OF CASH FLOWS

Credit Facilities. As of December 31, 1999, the Company had credit facilities, including facilities of various financing subsidiaries, Resources and UNA, which provide for an aggregate of $3.7 billion in committed credit. As of December 31, 1999, $2.7 billion was outstanding under these facilities, including commercial paper of $1.8 billion. Unused credit facilities totaled $1.0 billion as of December 31, 1999. For further discussion, see Note 10(a) to the Company's Consolidated Financial Statements. In February 2000, a financing subsidiary of the Company borrowed $500 million under a $650 million revolving credit facility that was established in February 2000 and will terminate on April 30, 2000. Proceeds were used by the financing subsidiary to purchase Series G Preference Stock of Reliant Energy. The Company 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 revolving credit facility that was established in February 2000 and will terminate on May 31, 2000. The Company used the proceeds from the borrowing for general corporate purposes, including the repayment of indebtedness.

Shelf Registrations. At December 31, 1999, 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 (see Note 11 to the Company's consolidated financial statements). In addition, the Company has a shelf registration for 15 million shares of common stock which would have been worth approximately $343 million as of December 31, 1999 based on the closing price of the common stock as of such date.

Money Fund. Reliant Energy has a "money fund" through which it and certain of its subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and borrowing or investing is based on the net cash position. The money fund's net funding requirements are generally met with commercial paper.

Securitization. Reliant Energy HL&P has 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 relating to Reliant Energy HL&P's generation related regulatory assets. The Company estimates that approximately $750 million of transition bonds will be authorized by the Texas Utility Commission. Payments on the transition bonds will be made out of funds derived from non-bypassable transition charges assessed to Reliant Energy HL&P's transmission and distribution customers. The offering 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. The transition bonds will only be offered and sold by means of a prospectus. This report does not constitute an offer to sell or the solicitation of an offer to buy nor will there by any sale of the transition bonds in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

Acquisition of UNA. The Company completed the first and second phases of the acquisition of 52% of UNA in the fourth quarter of 1999 which consisted of total consideration of $833 million in cash and $426 million in a five-year promissory note to UNA. The promissory note must be prepaid in certain circumstances. On March 1, 2000, the remaining 48% of the UNA shares were purchased for approximately $975 million in cash. 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). Funds for the March 1, 2000 obligation were obtained, in part, from a Euro 600 million (approximately $596 million) three-year term loan facility established in February 2000.

Acquisition of Sithe Assets. In February 2000, Power Generation signed a definitive agreement to purchase from Sithe Energies, Inc. non-rate regulated power generating assets and sites located in Pennsylvania, New Jersey and Maryland having a net generating capacity of more than 4,200 MW for an aggregate purchase price of approximately $2.1 billion, subject to certain adjustments. The acquisition is expected to close in the second quarter of 2000 subject to obtaining certain regulatory approvals and satisfying other closing conditions. The acquisition will be accounted for as a purchase. The Company has executed bank commitment letters and expects to enter into a bridge loan prior to obtaining permanent financing. The permanent financing is likely to include an operating lease covering a portion of the generating assets.

Treasury Stock Purchases. As of December 31, 1999, the Company was authorized under its common stock repurchase program to purchase an additional $298 million of its common stock. The Company's purchases under its repurchase program depend on market conditions, might not be announced in advance and may be made in open market or privately negotiated transactions. For information on the Company's purchases since December 31, 1999, see Note 19 to the Company's Consolidated Financial Statements.

Reliant Energy Latin America Capital Contributions and Advances. Reliant Energy Latin America expects to make capital contributions or advances in 2000 totaling approximately $108 million as a result of debt service payments at certain of its holding companies. It is expected 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.

Channelview Project. The Company's 780 MW gas-fired cogeneration plant located in Channelview, Texas, which is currently under construction, is expected to cost $463 million, $71 million of which had been incurred as of December 31, 1999. The project has been financed through obtaining commitments for an equity bridge loan of $92 million and a non-recourse loan of $369 million.

Other Sources/Uses of Cash. The Company participates from time to time in competitive bids and the development of new projects for generating and distribution assets. 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 Statement of Financial Accounting Standards No. 133, "Accounting For Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), which establishes accounting and reporting standards for derivative instruments, including certain 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 the adoption of SFAS No. 133 on its consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF THE COMPANY.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
REVENUES	$ 15,302,810	$ 11,488,464	$ 6,878,225
EXPENSES:			
Fuel and cost of gas sold	6,748,325	4,840,505	2,865,701
Purchased power	4,137,414	2,215,049	698,823
Operation and maintenance	1,821,471	1,625,343	1,218,579
Taxes other than income taxes	443,964	471,656	374,702
Depreciation and amortization	911,122	870,093	665,374
Total	14,062,296	10,022,646	5,823,179
OPERATING INCOME	1,240,514	1,465,818	1,055,046
OTHER INCOME (EXPENSE):			
Unrealized gain in Time Warner investment	2,452,406		
Unrealized loss on indexed debt securities	(629,523)	(1,176,211)	(121,402)
Time Warner dividend income	25,770	41,250	41,340
Interest income - IRS refund			56,269
Other, net	38,375	36,421	19,801
Total	1,887,028	(1,098,540)	(3,992)
INTEREST AND OTHER CHARGES:			
Interest	511,474	509,601	395,085
Distribution on trust preferred securities	51,220	29,201	26,230
Preferred dividends of subsidiary			2,255
Total	562,694	538,802	423,570
INCOME (LOSS) BEFORE INCOME TAXES, EXTRAORDINARY ITEM AND PREFERRED DIVIDENDS	2,564,848	(171,524)	627,484
Income Tax Expense (Benefit)	899,117	(30,432)	206,374
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM AND PREFERRED DIVIDENDS	1,665,731	(141,092)	421,110
Extraordinary Item, net of income tax of $98,679	183,261		
INCOME (LOSS) BEFORE PREFERRED DIVIDENDS	1,482,470	(141,092)	421,110
Preferred Dividends	389	390	162
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 1,482,081	$ (141,482)	$ 420,948
BASIC EARNINGS (LOSS) PER SHARE:			
Income (Loss) Before Extraordinary Item	$ 5.84	$ (.50)	$ 1.66
Extraordinary Item	$ (.64)	$	$
Net Income (Loss) Attributable to Common Stockholders	$ 5.20	$ (.50)	$ 1.66
DILUTED EARNINGS (LOSS) PER SHARE:			
Income (Loss) Before Extraordinary Item	$ 5.82	$ (.50)	$ 1.66
Extraordinary Item	$ (.64)	$	$
Net Income (Loss) Attributable to Common Stockholders	$ 5.18	$ (.50)	$ 1.66

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
Net income (loss) attributable to common stockholders	$ 1,482,081	$ (141,482)	$ 420,948
Foreign currency translation adjustments (net of tax of $23,143, $17,656 and $247)	(42,979)	(32,790)	(458)
Unrealized loss on available for sale securities (net of tax of $373, $5,877 and $1,181)	(1,224)	(10,370)	(1,897)
COMPREHENSIVE INCOME (LOSS)	$ 1,437,878	$ (184,642)	$ 418,593

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

	DECEMBER 31, 1999	DECEMBER 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 89,078	$ 29,673
Investment in Time Warner common stock	3,979,461	
Accounts receivable - net	1,104,640	726,377
Accrued unbilled revenues	172,629	175,515
Fuel stock and petroleum products	152,292	211,750
Materials and supplies, at average cost	188,167	171,998
Price risk management assets	435,336	265,203
Prepayments and other current assets	131,666	88,655
Total current assets	6,253,269	1,669,171
PROPERTY, PLANT AND EQUIPMENT - NET	13,267,395	11,503,114
OTHER ASSETS:		
Goodwill and other intangibles - net	3,034,361	2,098,890
Equity investments and advances to unconsolidated subsidiaries	1,022,210	1,051,600
Investment in Time Warner preferred stock		990,000
Regulatory assets	1,739,507	1,313,362
Price risk management assets	148,722	21,414
Deferred debits	755,472	490,971
Total other assets	6,700,272	5,966,237
Total Assets	$ 26,220,936	$ 19,138,522
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ 2,879,211	$ 1,812,739
Current portion of long-term debt	4,382,136	397,454
Accounts payable	1,036,839	807,977
Taxes accrued	227,058	252,581
Interest accrued	116,274	115,201
Dividends declared	110,811	111,058
Price risk management liabilities	424,324	227,652
Accumulated deferred income taxes	415,591	
Business purchase obligation	431,570	
Other	360,109	346,280
Total current liabilities	10,383,923	4,070,942
DEFERRED CREDITS:		
Accumulated deferred income taxes	2,451,619	2,364,036
Unamortized investment tax credit	270,243	328,949
Price risk management liabilities	117,437	40,532
Benefit obligations	400,849	378,747
Business purchase obligation	596,303	
Other	1,027,648	490,468
Total deferred credits	4,864,099	3,602,732
LONG-TERM DEBT	4,961,310	6,800,748
COMMITMENTS AND CONTINGENCIES (NOTE 14)		
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	705,272	342,232
STOCKHOLDERS' EQUITY	5,306,332	4,321,868
Total Liabilities and Stockholders' Equity	$ 26,220,936	$ 19,138,522

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) attributable to common stockholders	$ 1,482,081	$ (141,482)	$ 420,948
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	911,122	870,093	665,374
Deferred income taxes	601,627	(423,904)	35,523
Investment tax credit	(58,706)	(20,123)	(19,777)
Unrealized gain on Time Warner investment	(2,452,406)		
Unrealized loss on indexed debt securities	629,523	1,176,211	121,402
Extraordinary item	183,261		
Undistributed earnings of unconsolidated subsidiaries	28,308	(27,350)	(3,142)
Changes in other assets and liabilities:			
Accounts receivable - net	(333,195)	266,938	(436,580)
Inventories	51,576	(121,793)	55,111
Accounts payable	185,710	(92,652)	191,840
Other - net	(67,236)	(60,579)	80,060
Net cash provided by operating activities	1,161,665	1,425,359	1,110,759
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(1,179,466)	(743,455)	(328,724)
Investment in Time Warner securities	(537,055)		
Business acquisitions, net of cash acquired	(871,168)		(1,422,672)
Acquisition of non-rate regulated electric power plants	(188,832)	(292,398)	
Investments and advances to unconsolidated subsidiaries	(116,076)	(445,042)	(234,852)
Sale of equity investments in foreign electric system projects		242,744	
Other - net	(4,288)	8,375	4,795
Net cash used in investing activities	(2,896,885)	(1,229,776)	(1,981,453)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt - net	2,032,386	1,267,107	1,136,516
Payments of long-term debt	(935,908)	(733,114)	(780,186)
Proceeds from sale of trust preferred securities - net	362,994		340,785
Increase (decrease) in short-term borrowings - net	822,868	(312,217)	787,084
Redemption of preferred stock			(153,628)
Payment of common stock dividends	(427,255)	(426,265)	(405,288)
Purchase of treasury stock	(90,708)		
Other - net	30,248	(13,133)	(10,878)
Net cash provided by (used in) financing activities	1,794,625	(217,622)	914,405
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	59,405	(22,039)	43,711
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29,673	51,712	8,001
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 89,078	$ 29,673	$ 51,712
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Payments:			
Interest (net of amounts capitalized)	$ 517,897	$ 502,889	$ 414,467
Income taxes	401,703	484,376	171,539

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY
(THOUSANDS OF DOLLARS AND SHARES)

	1999		1998		1997	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT
PREFERENCE STOCK, NONE OUTSTANDING ...						
CUMULATIVE PREFERRED STOCK						
Balance, beginning of year	97	$ 9,740	97	$ 9,740	1,347	$ 135,179
Redemption of preferred stock					(1,250)	(125,439)
Balance, end of year	97	9,740	97	9,740	97	9,740
COMMON STOCK, NO PAR; AUTHORIZED 700,000,000 SHARES						
Balance, beginning of year	296,271	3,136,826	295,357	3,112,098	262,748	2,447,117
Issuances related to benefit and investment plans	1,341	46,062	914	24,734	811	16,737
Issuances of common stock in business acquisition					47,840	1,011,924
Treasury shares retired					(16,042)	(361,196)
Other		(137)		(6)		(2,484)
Balance, end of year	297,612	3,182,751	296,271	3,136,826	295,357	3,112,098
TREASURY STOCK						
Balance, beginning of year	(103)	(2,384)	(93)	(2,066)	(16,042)	(361,196)
Shares acquired	(3,524)	(90,708)				
Treasury stock retired					16,042	361,196
Other	2	(204)	(10)	(318)	(93)	(2,066)
Balance, end of year	(3,625)	(93,296)	(103)	(2,384)	(93)	(2,066)
UNEARNED ESOP STOCK						
Balance, beginning of year	(11,674)	(217,780)	(12,389)	(229,827)	(13,371)	(251,350)
Issuances related to benefit plans	995	18,554	715	12,047	982	21,523
Balance, end of year	(10,679)	(199,226)	(11,674)	(217,780)	(12,389)	(229,827)
RETAINED EARNINGS						
Balance, beginning of year.........		1,445,081		2,013,055		1,997,490
Net income.........................		1,482,081		(141,482)		420,948
Common stock dividends - $1.50 per share...........................		(426,981)		(426,492)		(405,383)
Balance, end of year..............		2,500,181		1,445,081		2,013,055
ACCUMULATED OTHER COMPREHENSIVE LOSS						
Balance, beginning of year.........		(49,615)		(6,455)		(4,100)
Foreign currency translation adjustments......................		(42,979)		(32,790)		(458)
Unrealized loss on available for sale securities..................		(1,224)		(10,370)		(1,897)
Balance, end of year..............		(93,818)		(49,615)		(6,455)
Total Stockholders' Equity.........		$ 5,306,332		$ 4,321,868		$ 4,896,545

See Notes to the Consolidated Financial Statements.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED DECEMBER 31, 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations.

Reliant Energy, Incorporated (Reliant Energy), formerly Houston Industries Incorporated, together with its subsidiaries (collectively, the Company), is a diversified international energy services company. Reliant Energy is both an electric utility company and a utility holding company.

The Company's financial reporting segments include the following: Electric Operations, Natural Gas Distribution, Interstate Pipelines, Wholesale Energy, Reliant Energy Europe, Reliant Energy Latin America and Corporate. Electric Operations includes the operations of Reliant Energy HL&P, an electric utility. Natural Gas Distribution consists of natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers. Interstate Pipelines includes the interstate natural gas pipeline operations. Wholesale Energy is engaged in the acquisition, development and operation of non-rate regulated power generation facilities as well as the wholesale energy trading, marketing and risk management services, and the natural gas gathering business in North America. Reliant Energy Europe, which was formed in 1999, is engaged in the operation of power generation facilities in the Netherlands and plans to participate in wholesale energy trading and marketing in Europe. Reliant Energy Latin America primarily participates in the privatization of foreign generation and distribution facilities and independent power projects in Latin America. Corporate includes the Company's unregulated retail electric and gas services businesses, a communications business, certain real estate holdings and corporate costs.

In February 1999, the Company began doing business as Reliant Energy, Incorporated. On May 5, 1999, the Company's shareholders approved an amendment to its Restated Articles of Incorporation to change its name to "Reliant Energy, Incorporated."

(b) Business Acquisitions.

For information regarding the Company's accounting for the acquisition of capital stock of N.V. UNA (UNA) in 1999 and the acquisition of Reliant Energy Resources Corp. (Resources Corp.) and its subsidiaries (collectively, Resources), formerly NorAm Energy Corp., by the Company in 1997, see Note 2.

(c) Texas Electric Choice Plan and Discontinuance of SFAS No. 71 for Electric Generation Operations.

For information regarding the Texas Electric Choice Plan (Legislation) and discontinuance of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), for Reliant Energy HL&P's electric generation operations, see Note 3.

(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 cost 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.

(e) Principles of Consolidation.

The consolidated financial statements include the accounts of Reliant Energy and its wholly owned and majority owned subsidiaries including, effective as of their acquisition dates, the accounts of UNA and Resources. All significant intercompany transactions and balances are eliminated in consolidation.

Investments in entities in which the Company has an ownership interest between 20% and 50% or is able to exercise significant influence are accounted for using the equity method. For additional information regarding investments recorded using the equity method of accounting, see Note 7.

(f) Property, Plant and Equipment and Goodwill.

Property, plant and equipment includes the following:

	DECEMBER 31, 1999	DECEMBER 31, 1998
	(THOUSANDS OF DOLLARS)	
PROPERTY, PLANT AND EQUIPMENT:		
Electric	$ 16,725,004	$ 13,941,275
Natural gas	1,941,668	1,686,159
Interstate pipelines	1,330,969	1,302,829
Other property	136,079	72,299
Total	20,133,720	17,002,562
Less accumulated depreciation and amortization	6,866,325	5,499,448
Property, plant and equipment - net	$ 13,267,395	$ 11,503,114

Property, plant and equipment are stated at original cost. See Note 3 for discussion of the impairment of previously regulated electric generation plant and equipment. Repair and maintenance costs are expensed. The cost of utility plant and equipment retirements is charged to accumulated depreciation.

Goodwill is being amortized on a straight-line basis over 15 to 40 years. The Company had $139 million and $77 million accumulated goodwill and other intangibles amortization at December 31, 1999 and 1998, respectively. The Company will periodically compare the carrying value of its goodwill to the anticipated undiscounted future net cash flows from the businesses whose acquisition gave rise to the goodwill and as of yet no impairment is indicated.

(g) Depreciation and Amortization Expense.

Depreciation is computed using the straight-line method based on economic lives or a regulatory mandated method. The range of plant and equipment depreciable lives for electric, natural gas, interstate pipelines and other property are 2 to 58 years, 5 to 50 years, 5 to 75 years and 3 to 40 years, respectively. Depreciation expense for 1999 was $552 million compared to $561 million for 1998 and $488 million for 1997. Goodwill amortization relating to acquisitions including UNA and Resources was $62 million, $55 million and $22 million in 1999, 1998 and 1997, respectively. For additional information regarding goodwill in connection with the respective acquisitions of UNA and Resources, see Note 2. Other amortization expense, including amortization of regulatory assets, was $297 million, $254 million and $155 million in 1999, 1998 and 1997, respectively. For information regarding amortization of deferred plant costs and investments in certain lignite reserves included in regulatory assets in the Consolidated Balance Sheets, see Note 1(d). For information regarding the amortization of recoverable impaired plant costs included in regulatory assets in the Consolidated Balance Sheets, see Note 3.

In June 1998, the Texas Utility Commission issued an order approving a transition to competition plan (Transition Plan) filed by Electric Operations in December 1997. In order to reduce Electric Operations' exposure to potentially stranded costs related to generation assets, the Transition Plan permitted the redirection to generation assets of depreciation expense that Electric Operations otherwise would apply to transmission, distribution and general plant assets. In addition, the Transition Plan provides that all earnings above a stated overall annual rate of return on invested capital be used to recover Electric Operations' investment in generation assets. Electric Operations implemented the Transition Plan effective January 1, 1998 and pursuant to its terms, recorded an aggregate of $104 million in additional depreciation and $99 million in redirected depreciation for the first six months in 1999 and $194 million in additional depreciation and $195 million in redirected depreciation in 1998 pursuant to the Transition Plan. Due to the discontinuance of SFAS No. 71 to Electric Operations' generation operations, the provisions for additional and redirected depreciation of the Transition Plan are no longer applied. For additional information regarding this legislation, see Note 3.

Pursuant to the Legislation, the Company is allowed to recover the generation related regulatory assets reported in the Company's Form 10-K as of December 31, 1998. Therefore, the Company discontinued amortizing certain generation related regulatory assets effective as of January 1, 1999.

The Company's depreciation expense included $50 million of additional depreciation relating to the South Texas Project in 1997. The depreciation expense recorded for the South Texas Project was made pursuant to the terms of the Company's 1995 Rate Case Settlement.

(h) Fuel Stock and Petroleum Products.

Gas inventory (primarily using the average cost method) was $93 million and $96 million at December 31, 1999 and 1998, respectively. Coal and lignite inventory balances (using last-in, first-out) were $46 million and $31 million at December 31, 1999 and 1998, respectively. Oil inventory balances, principally heating oil, were $13 million and $85 million at December 31, 1999 and 1998, respectively. Heating oil that is used in trading operations is marked-to-market in connection with the price risk management activities as discussed in Note 5.

(i) Revenues.

The Company records electricity and natural gas sales under the accrual method, whereby unbilled electricity and natural gas sales are estimated and recorded each month. Reliant Energy Latin America revenues include electricity sales of majority owned foreign electric utilities, which are also recorded under the accrual method, and equity income (net of foreign taxes) in equity investments. In 1998, Reliant Energy Latin America's revenues included the gain on the sale of an Argentine distribution system. In 1998, the Company adopted mark-to-market accounting for its energy price risk management and trading activities. (See Notes 1(o) and 5).

(j) Statements of Consolidated Cash Flows.

For purposes of reporting cash flows, cash equivalents are considered to be short-term, highly liquid investments readily convertible to cash.

(k) Income Taxes.

The Company files a consolidated federal income tax return. The Company follows a policy of comprehensive interperiod income tax allocation. The Company uses the liability method of accounting for deferred income taxes and measures deferred income taxes for all significant income tax temporary differences. Investment tax credits were deferred and are being amortized over the estimated lives of the related property. For additional information regarding income taxes, see Note 13.

(l) Investment in Other Debt and Equity Securities.

The debt and equity securities held in the Company's nuclear decommissioning trust are classified as "available-for-sale" and, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), are reported at estimated fair value of $145 million as of December 31, 1999 and $119 million as of December 31, 1998 in the Company's Consolidated Balance Sheets in deferred debits. The liability for nuclear decommissioning is reported in the Company's Consolidated Balance Sheets in other deferred credits. Any unrealized losses or gains are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability.

The Company also holds certain other marketable equity securities classified as "available-for-sale" and reports such investments at estimated fair value in the Company's Consolidated Balance Sheets as deferred debits and any unrealized gain or loss, net of tax, as a separate component of stockholders' equity and other comprehensive income. At December 31, 1999 and 1998, the accumulated unrealized loss, net of tax, relating to these equity securities was $17 million and $16 million, respectively.

UNA holds $133 million of debt securities which are classified as "trading" in accordance with SFAS No. 115. As of December 31, 1999, this investment is recorded in deferred debits in the Company's Consolidated Balance Sheet. For information regarding the Company's investment in Time Warner common stock which is classified as "trading" under SFAS No. 115, see Note 8.

(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.

(n) Reclassifications and Use of Estimates.

Certain amounts from the previous years have been reclassified to conform to the 1999 presentation of financial statements. Such reclassifications do not affect earnings.

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, 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.

(o) Change in Accounting Principle.

For discussion of discontinuance of SFAS No. 71 to the Reliant Energy HL&P's electric generation operations, see Note 3.

In the fourth quarter of 1998, the Company adopted mark-to-market accounting for all of its energy price risk management and trading activities. Under mark-to-market accounting, the Company records the fair value of energy related derivative financial instruments, including physical forward contracts, swaps, options and exchange-traded futures and option contracts at each balance sheet date. Such amounts are recorded as price risk management assets and liabilities in the Company's Consolidated Balance Sheets. The realized and unrealized gains and losses are recorded as a component of revenues. The Company applied mark-to-market accounting retroactively to January 1, 1998. There was no material cumulative effect resulting from this accounting change.

The Company adopted Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 98-10) in 1999. The adoption of EITF 98-10 had no material impact on the consolidated financial statements.

(p) New Accounting Pronouncement.

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), which establishes accounting and reporting standards for derivative instruments, including certain hedging instruments embedded in other contracts and for hedging activities. The Company is in the process of determining the effect of adopting SFAS No. 133 on its consolidated financial statements.

(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.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 (UNAUDITED)	ACTUAL	PRO FORMA (UNAUDITED)	ACTUAL	PRO FORMA (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 related 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.

In order to reduce potential exposure to stranded costs related to generation assets, Reliant Energy HL&P redirected $99 million and $195 million of depreciation in the six months ended June 30, 1999, and the year ended December 31, 1998, respectively, from transmission and distribution related plant assets to generation assets for regulatory and financial reporting purposes. Such redirection was in accordance with the Company's Transition

Plan. See Note 4 for additional information regarding the Transition Plan. The Legislation provides that depreciation expense for transmission and distribution related assets may be redirected to generation assets during the base rate freeze period from 1999 through 2001. For regulatory purposes, the Company has continued to redirect transmission and distribution depreciation to generation assets. Beginning June 30, 1999, redirected depreciation expense cannot be recorded by the electric generation operations portion of Reliant Energy HL&P for financial reporting purposes as this portion of electric operations is no longer accounted for under SFAS No. 71. During the third and fourth quarters of 1999, $99 million in depreciation expense has been redirected from transmission and distribution for regulatory purposes and has been established as an embedded regulatory asset included in transmission and distribution related plant and equipment balances. As of December 31, 1999 and 1998, the cumulative amount of redirected depreciation for regulatory purposes is $393 million and $195 million, respectively.

The Company reviewed its long-term purchase power contracts and fuel contracts for potential loss in accordance with SFAS No. 5, "Accounting for Contingencies" and Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing." Based on projections of future market prices for wholesale electricity, the analysis indicated no loss recognition is appropriate at this time.

Other Accounting Policy Changes. As a result of discontinuing SFAS No. 71, the accounting policies discussed below related to Electric Operations' generation operations have been changed effective July 1, 1999. Allowance for funds used during construction will no longer be accrued on generation related construction projects. Instead, interest will be capitalized on these projects in accordance with SFAS No. 34, "Capitalization of Interest Cost."

Previously, in accordance with SFAS No. 71, Reliant Energy HL&P deferred the premiums and expenses that arose when long term debt was redeemed and amortized these costs over the life of the new debt. If no new debt was issued, these costs were amortized over the remaining original life of the retired debt. Effective July 1, 1999, costs resulting from the retirement of debt attributable to the generation operations of Reliant Energy HL&P will be recorded in accordance with SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," unless 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.

(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.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(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)	
	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, 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

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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, 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.

(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.

(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.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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 Eletricidade 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. (Metropolitana) which transmits and distributes electricity in Sao Paulo, Brazil; three Colombian 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 Colombia and a power generation plant in India.

As of December 31, 1999 and 1998, Light and Metropolitana had total borrowings of $2.9 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.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(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	$ 1,841,857
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

(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 pre-tax 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.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(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.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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

(9) PREFERRED STOCK AND PREFERENCE STOCK

(a) Preferred Stock.

At December 31, 1999 and 1998, the Company had 10,000,000 authorized shares of cumulative preferred stock, of which 97,397 shares were outstanding. As of such dates, the Company's only outstanding series of preferred stock was its $4.00 Preferred Stock. The $4.00 Preferred Stock pays an annual dividend of $4.00 per share, is redeemable at $105 per share and has a liquidation price of $100 per share.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(b) Preference Stock.

At December 31, 1999 and 1998, Reliant Energy had 10,000,000 authorized shares of preference stock which were designated and outstanding, as shown below.

		DECEMBER 31, 1999		DECEMBER 31, 1998	
	LIQUIDATION VALUE PER SHARE	SHARES DESIGNATED	SHARES OUTSTANDING	SHARES DESIGNATED	SHARES OUTSTANDING
Series A	$ 1,000	700,000		700,000	
Series B	$ 100,000	27,000	17,000	27,000	17,000
Series C	$ 100,000	1,575		1,575	1,575
Series D	Euro 100,000(1)	5,880	5,880		
Series E	$ 100,000	3,160	3,160		
Series F	$ 100,000	2,400	2,400		

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(1) As of December 31, 1999, one U.S. dollar could be exchanged for 1.0062 Euros.

The Series A Preference Stock is issuable in accordance with the Company's Shareholder Rights Agreement upon the occurrence of certain events. Each share of common stock of the Company includes one associated preference stock purchase right (Company Right). Under certain circumstances, each Company Right entitles the registered holder to purchase from the Company a unit consisting of one-thousandth of a share (Fractional Share) of Series A Preference Stock, without par value, at a purchase price of $42.50 per Fractional Share, subject to adjustments.

The Series C Preference Stock was redeemed in March 1999. The Series B, D, E and F Preference Stock are not deemed outstanding for financial reporting purposes because the sole holders of each series are wholly owned financing subsidiaries of the Company.

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

	DECEMBER 31, 1999		DECEMBER 31, 1998	
	LONG-TERM	CURRENT (1)	LONG-TERM	CURRENT (1)
	(THOUSANDS OF DOLLARS)			
Short-term borrowings:				
Commercial paper		$ 1,793,268		$ 1,360,239
Lines of credit (2)		563,472		150,000
Receivables facilities		350,000		300,000
Other (3)		172,471		2,500
Total short-term borrowings		2,879,211		1,812,739
Long-term debt:				
Reliant Energy				
ACES (4)		2,738,104	$ 2,349,997	
ZENS (4)		1,241,416		
Debentures	$ 350,000		350,000	
7.88% to 9.38% due 2001 to 2002 as of December 31, 1999 and 1998				
First mortgage bonds	1,261,217	150,000	1,875,732	170,500
4.90% to 9.15% due 2002 to 2027 as of December 31, 1999				
4.90% to 9.15% due 2000 to 2027 as of December 31, 1998				
Pollution control bonds	1,045,900		581,385	
4.70% to 5.95% due 2011 to 2030 as of December 31, 1999				
4.90% to 5.25% due 2015 to 2029 as of December 31, 1998				
Notes payable	529	31	561	31
12.50% due 2017 as of December 31, 1999 and 1998				
Capitalized lease obligations	12,502	1,229	13,742	1,140
Financing Subsidiaries (directly or indirectly held by Reliant Energy)				
Notes payable	525,000			
7.12% to 7.40% due 2001 to 2002 as of December 31, 1999				
Reliant Energy International, Inc.				
Notes payable, 9.00% due 2003 as of December 31, 1999 and 1998	92,667	27,905	126,522	22,345
Reliant Energy Power Generation, Inc.				
Notes payable	70,247			
Various market rates due 2002 as of December 31, 1999				
N.V. UNA (3)(5)				
Debentures	390,626			
3.50% to 9.13% due 2000 to 2010 as of December 31, 1999				
Resources Corp. (5)				
Convertible debentures	92,727		104,617	
6.0% due 2012				
Debentures	961,545		1,010,919	
6.38% to 8.90% due 2003 to 2008 as of December 31, 1999				
6.38% to 10.00% due 2003 to 2019 as of December 31, 1998				
Medium-term notes	150,275		177,591	
8.77% to 9.23% maturing 2001 as of December 31, 1999				
8.77% to 9.39% maturing 2000 to 2001 as of December 31, 1998				
Notes payable		223,451	203,116	203,438
7.50% to 9.39% due 2000 as of December 31, 1999				
7.50% to 8.88% due 1999 to 2000 as of December 31, 1998				
Unamortized discount and premium	8,075		6,566	
Total long-term borrowings	4,961,310	4,382,136	6,800,748	397,454
Total borrowings	$ 4,961,310	$ 7,261,347	$ 6,800,748	$ 2,210,193

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

(2) Includes borrowings which are denominated in Euros as of December 31, 1999. The assumed exchange rate is 1.0062 Euros per U.S. dollar (exchange rate on December 31, 1999).

(3) Borrowings are primarily denominated in Dutch guilders. The assumed exchange rate is 2.19 NLG per U.S. dollar (exchange rate on December 31, 1999).

(4) For additional information regarding ACES and ZENS, see Note 8. As ZENS are exchangeable at any time at the option of the holders, these notes are classified as a current portion of long-term debt.

(5) At the respective acquisition dates of UNA and Resources, the debt was adjusted to fair market value as of that date. Included in unamortized premium and discount is unamortized premium related to fair value adjustments

of long-term debt of approximately $48 million and $33 million at December 31, 1999 and 1998, respectively, and is being amortized over the respective remaining term of the related long-term debt.

(a) Short-term Borrowings.

As of December 31, 1999, the Company has credit facilities, which included facilities of various financing subsidiaries, UNA and Resources Corp., with financial institutions which provide for an aggregate of $3.7 billion in committed credit. The facilities expire as follows: $1.8 billion in 2000, $1.6 billion in 2002 and $0.3 billion in 2003. Interest rates on borrowings are based on the London interbank offered rate (LIBOR) plus a margin, Euro interbank deposits plus a margin, a base rate or at a rate determined through a bidding process. Credit facilities aggregating $1.2 billion are unsecured. These credit facilities contain covenants and requirements which must be met to borrow funds. Such covenants are not anticipated to materially restrict the Company from borrowing funds under such facilities. As of December 31, 1999, unused credit facilities totaled $1.0 billion. In addition, one of the credit facilities includes a $65 million sub-facility under which letters of credit may be obtained. Letters of credit under the sub-facility aggregated $9.3 million as of December 31, 1999.

The Company sells commercial paper to provide financing for general corporate purposes. As of December 31, 1999, $1.8 billion of commercial paper was outstanding. The commercial paper borrowings are supported by various credit facilities discussed above including a $1.6 billion revolving credit facility expiring in 2002, a $200 million revolving credit facility expiring in 2000 and a $350 million revolving credit facility expiring in 2003.

As of December 31, 1999, the Company, through UNA, has $170 million (assuming an exchange rate of 2.19 NLG per U.S. dollar, exchange rate as of December 31, 1999) of short-term borrowings arranged via brokers or directly from financial institutions. These borrowings are used by UNA to meet its short-term liquidity requirements.

The weighted average interest rate on short-term borrowings in 1999, 1998 and 1997 was 5.84%, 5.77% and 6.12%, respectively.

(b) Long-term Debt.

Maturities of long-term debt and sinking fund requirements for the Company are approximately $409 million in 2000, $773 million in 2001, $670 million in 2002, $741 million in 2003 and $58 million in 2004. Maturities in 2000 exclude indexed debt securities (see Note 8) which may be settled with the Company's investment in TW Common.

Substantially all physical assets used in the conduct of the business and operations of Electric Operations are subject to liens securing the First Mortgage Bonds. Sinking fund requirements on the First Mortgage Bonds may be satisfied by certification of property additions at 100% of the requirements as defined by the Mortgage and Deed of Trust. Sinking or improvement/replacement fund requirements for 1999 and prior years have been satisfied by certification of property additions. The replacement fund requirement to be satisfied in 2000 is approximately $327 million.

At December 31, 1999, Resources Corp. had issued and outstanding $92.7 million aggregate principal amount of its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and have the right at any time on or before the maturity date thereof to convert each Subordinated Debenture into 0.65 shares of Company common stock and $14.24 in cash. During 1999, Resources Corp. purchased $12.0 million aggregate principal amount of its Subordinated Debentures.

In November 1998, Resources Corp. issued $500 million aggregate principal amount of its 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes). Included within the TERM Notes is an embedded option sold to an investment bank which gives the investment bank the right to remarket the TERM Notes commencing in November 2003 if it chooses to exercise the option. The TERM Notes are unsecured obligations of Resources Corp.

which bear interest at an annual rate of 6 3/8% through November 1, 2003. On November 1, 2003, the holders of the TERM Notes are required to tender their notes at 100% of their principal amount. The portion of the proceeds attributable to the option premium will be amortized over the stated term of the securities. If the option is not exercised by the investment bank, Resources Corp. will repurchase the TERM Notes at 100% of their principal amount on November 1, 2003. If the option is exercised, the TERM Notes will be remarketed on a date, selected by Resources Corp., within the 52-week period beginning November 1, 2003. During such period and prior to remarketing, the TERM Notes will bear interest at rates, adjusted weekly, based on an index selected by Resources Corp. If the TERM Notes are remarketed, the final maturity date of the TERM Notes will be November 1, 2013, subject to adjustment, and the effective interest rate on the remarketed TERM Notes will be 5.66% plus Resources Corp.'s applicable credit spread at the time of such remarketing.

For the year ended December 31, 1999, 1998 and 1997, the Company capitalized interest of $19 million, $14 million and $11 million, respectively, including allowance for funds used during construction related to debt.

During the year ended December 31, 1999, 1998 and 1997, the Company recorded losses from the extinguishment of debt of $22 million, $20 million and $17 million, respectively. As these costs will be recovered through regulated cash flows, these costs have been deferred and a regulatory asset has been recorded. For further discussion regarding the accounting, see Note 3.

(11) TRUST PREFERRED SECURITIES

In February 1999, Reliant Energy and two newly created and wholly owned Delaware statutory business trusts (REI Trust I and REI Trust II), registered $500 million of trust preferred securities and related junior subordinated debt securities. In February 1999, REI Trust I issued $375 million aggregate amount of preferred securities to the public. The trust preferred securities accumulate distributions at a rate of 7.20% payable quarterly in arrears, have a stated liquidation amount of $25 per preferred security and must be redeemed by March 2048. REI Trust I used the proceeds to purchase $375 million aggregate principal amount of junior subordinated debentures from the Company having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the trust preferred securities. The Company used the proceeds from the sale of the debentures for general corporate purposes, including the repayment of short-term debt. Under the registration statement, $125 million of these securities remain available for issuance. The issuance of all securities registered by the Company is subject to market and other conditions.

In February 1997, two Delaware statutory business trusts established by the Company (HL&P Capital Trust I and HL&P Capital Trust II) issued (i) $250 million of trust preferred securities and (ii) $100 million of capital securities, respectively. The trust preferred securities have a distribution rate of 8.125% payable quarterly in arrears, a stated liquidation amount of $25 per trust preferred security and must be redeemed by March 2046. The capital securities have a distribution rate of 8.257% payable quarterly in arrears, a stated liquidation amount of $1,000 per capital security and must be redeemed by February 2037. HL&P Capital Trust I and II used the proceeds to purchase $350 million aggregate principal amount of subordinated debentures from the Company having interest rates and maturity dates that correspond to the distribution rate and the mandatory redemption dates of the trust preferred securities.

The Company accounts for HL&P Capital Trust I and II and REI Trust I as wholly owned consolidated subsidiaries. The subordinated debentures are the trusts' sole asset and their entire operations. The Company has fully and unconditionally guaranteed, on a subordinated basis, all of HL&P Capital Trust I and II and REI Trust I's obligations with respect to the preferred securities and capital securities. The preferred securities and capital securities are mandatorily redeemable upon the repayment of the subordinated debentures at their stated maturity or earlier redemption. Subject to certain limitations, the Company has the option of deferring payments of interest on the subordinated debentures. During any deferral or event of default, the Company may not pay dividends on its capital stock. As of December 31, 1999, no interest payments on the subordinated debentures had been deferred.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In June 1996, a Delaware statutory business trust established by Resources Corp. (Resources Trust) issued $172.5 million of convertible preferred securities to the public. The convertible preferred securities have a distribution rate of 6.25% payable quarterly in arrears, a stated liquidation amount of $50 per convertible preferred security and must be redeemed by 2026. The Resources Trust used the proceeds to purchase $172.5 million of 6.25% convertible junior subordinated debentures from Resources Corp. having an interest rate and a maturity date that correspond to the distribution rate and the mandatory redemption date of the convertible preferred securities. Resources Corp. accounts for Resources Trust as a wholly owned consolidated subsidiary. The convertible junior subordinated debentures represent Resources Trust's sole assets and its entire operations. Resources Corp. has fully and unconditionally guaranteed, on a subordinated basis, all of Resources Trust's obligations with respect to the convertible preferred securities. The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Each convertible preferred security is convertible at the option of the holder into $33.62 of cash and 1.55 shares of Reliant Energy common stock. During 1999 and 1998, convertible preferred securities aggregating $0.2 million and $15.5 million, respectively, were converted, leaving $0.7 million and $0.9 million liquidation amount of convertible preferred securities outstanding at December 31, 1999 and 1998, respectively. Subject to certain limitations, Resources Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, Resources Corp. may not pay dividends on its common stock to Reliant Energy. As of December 31, 1999, no interest payments on the debentures had been deferred.

(12) STOCK-BASED INCENTIVE COMPENSATION PLANS AND RETIREMENT PLANS

(a) Incentive Compensation Plans.

The Company has Long-Term Incentive Compensation Plans (LICP) and other incentive compensation plans that provide for the issuance of stock-based incentives (including performance-based stock compensation, restricted shares, stock options and stock appreciation rights) to key employees of the Company, including officers. As of December 31, 1999, 485 current and former employees participated in the plans. A maximum of approximately 24 million shares of common stock may be issued under these plans. Under the LICP, beginning one year after the grant date, the options become exercisable in one-third increments each year. As of December 31, 1999, the weighted-average remaining contractual life of outstanding options was 8.3 years. Performance-based stock compensation issued and restricted shares granted were 294,271 in 1999, 98,413 in 1998 and 704,865 in 1997.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Stock option activity for the years 1997 through 1999 is summarized below:

	NUMBER OF SHARES	WEIGHTED AVERAGE PRICE AT DATE OF GRANT OR EXERCISE
Outstanding at December 31, 1996	498,652	$21.7796
Options granted	382,954	$21.0673
Options converted at acquisition(1)	622,504	$12.9002
Options exercised(1)	(281,053)	$ 9.2063
Options withheld for taxes	(72)	
Options canceled	(148,418)	
Outstanding at December 31, 1997	1,074,567	$19.0728
Options granted	2,243,535	$26.3112
Options exercised(1)	(287,591)	$15.6576
Options withheld for taxes	(6,854)	
Options canceled	(78,003)	
Outstanding at December 31, 1998	2,945,654	$24.8668
Options granted	3,806,051	$26.7372
Options exercised(1)	(83,610)	$19.3819
Options canceled	(205,124)	
Outstanding at December 31, 1999	6,462,971	$25.9937

	NUMBER OF SHARES
December 31, 1999 Exercisable at:	
$7.00 - 19.84	147,953
$21.01 - 30.25	1,202,421
December 31, 1998 Exercisable at:	
$7.00 - 19.84	158,695
$20.01 - 35.18	373,160
December 31, 1997 Exercisable at:	
$7.00 - 17.75	302,256
$20.01 - 35.18	343,048

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(1) Effective upon the Merger with Resources Corp., each holder of an unexpired Resources Corp. stock option, whether or not then exercisable, was entitled to elect to either (i) have all or any portion of their Resources Corp. stock options canceled and "cashed out" or (ii) have all or any portion of their Resources Corp. stock options converted to Reliant Energy's stock options. There were 828,297 Resources Corp. stock options converted into 622,504 of Reliant Energy's stock options at the Merger date. Options exercised during 1999, 1998 and 1997 included approximately 26,000, 210,000 and 277,000 shares, respectively, related to Resources Corp. stock options which were converted at the Merger.

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company applies the rules contained in Accounting Principles Opinion No. 25, "Accounting for Stock Issued to Employees," and discloses the required pro forma effect on net income and earnings per share of the fair value based method of accounting for stock compensation as required by SFAS No. 123.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following pro forma summary of the Company's consolidated results of operations has been prepared as if the fair value based method of accounting for employee stock compensation had been applied:

	1999	1998	1997
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)		
Net income (loss) attributable to common stockholders as reported	$1,482,081	$ (141,482)	$ 420,948
SFAS No. 123 effect	(5,120)	(6,383)	(2,374)
Pro forma net income (loss) attributable to common stockholders	$1,476,961	$ (147,865)	$ 418,574
Pro forma basic earnings per share	$ 5.18	$ (.50)	$ 1.66
Pro forma diluted earnings per share	5.16	(.52)	1.65

The fair value of options granted during 1999, 1998 and 1997 was calculated using the Black-Scholes model. The significant assumptions incorporated in the Black-Scholes model in estimating the fair value of the options include (i) an interest rate of 5.10%, 5.65% and 6.58% for 1999, 1998 and 1997, respectively, that represents the interest rate on a U.S. Treasury security with a maturity date corresponding with the option term, (ii) an option term of ten years, (iii) volatility of 21.23%, 24.01% and 22.06% for 1999, 1998 and 1997, respectively, calculated using daily stock prices for the period prior to the grant date and (iv) expected common dividends of $1.50 per share representing annualized dividends at the date of grant.

(b) Pension.

The Company has a noncontributory retirement plan which covers the employees of the Company. Prior to 1999, Resources had two noncontributory retirement plans: (i) the plan which covered the employees of Resources other than Minnegasco employees and (ii) the plan which covered Minnegasco employees. The plans provided retirement benefits based on years of service and compensation. Effective January 1, 1999, the two Resources noncontributory retirement plans were merged into the Company's plan. The Company's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the plan consist principally of common stocks and high-quality, interest-bearing obligations. The net periodic pension costs, prepaid pension costs and benefit obligation have been determined separately for each plan prior to the plans being merged.

Net pension cost for the Company includes the following components:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(THOUSANDS OF DOLLARS)		
Service cost-- benefits earned during the period	$ 33,700	$ 33,436	$ 26,848
Interest cost on projected benefit obligation	88,393	85,132	67,641
Expected return on plan assets	(140,496)	(121,196)	(86,372)
Net amortization	(5,361)	6	6
Net pension cost	(23,764)	(2,622)	8,123
Transfer of obligation to STPNOC			(6,077)
SFAS No. 88-- curtailment expense			12,947
Total pension cost (benefit)	$ (23,764)	$ (2,622)	$ 14,993

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Following are reconciliations of the Company's beginning and ending balances of its retirement plan benefit obligation, plan assets and funded status for 1999 and 1998.

	YEAR ENDED DECEMBER 31,	
	1999	1998
	(THOUSANDS OF DOLLARS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of year	$ 1,389,444	$ 1,246,582
Service cost	33,700	33,436
Interest cost	88,393	85,132
Benefits paid	(97,946)	(69,182)
Plan amendments		(161,326)
Actuarial (gain) loss	(181,548)	254,802
Benefit obligation, end of year	$ 1,232,043	$ 1,389,444
CHANGE IN PLAN ASSETS		
Plan asset, beginning of year	$ 1,429,882	$ 1,304,023
Benefits paid	(97,946)	(69,182)
Employer contributions		47,406
Actual investment return	181,177	147,635
Plan assets, end of year	$ 1,513,113	$ 1,429,882
RECONCILIATION OF FUNDED STATUS		
Funded status	$ 281,070	$ 40,438
Unrecognized transition asset	(5,401)	(7,205)
Unrecognized prior service cost	(137,950)	(148,400)
Unrecognized actuarial loss	11,742	240,864
Net amount recognized	$ 149,461	$ 125,697
ACTUARIAL ASSUMPTIONS		
Discount rate	7.5%	6.5%
Rate of increase in compensation levels	3.5 - 5.5%	3.5 - 5.5%
Expected long-term rate of return on assets	10.0%	10.0%

The transitional asset at January 1, 1986, is being recognized over approximately 17 years, and the prior service cost is being recognized over approximately 15 years for the Company's plan. The unrecognized transitional asset, prior service cost and net (gain) or loss related to the Resources' plans were recognized at the Merger date.

In 1998, the Company's board of directors approved the amendment and restatement of the retirement plan, effective January 1, 1999, which converted the present value of the accrued benefits under the existing pension plans into a cash balance pension plan. Under the cash balance formula, each participant has an account, for recordkeeping purposes only, to which credits are allocated annually based on a percentage of the participant's pay. The applicable percentage for 1999 is 4%. The purpose of the plan change is to continue to provide uniform retirement income benefits across all employee groups, which are competitive both within the energy services industry as well as with other companies within the United States. The Company will continue to reflect the costs of the pension plan according to the provisions of SFAS No. 87, "Employers' Accounting for Pensions" as amended. As a result of the January 1, 1999 amendment and restatement, which is reflected in the December 31, 1998 disclosure, the Company's projected benefit obligation declined $161 million.

The actuarial gains and losses are due to changes in certain actuarial assumptions.

In addition to the noncontributory plans discussed above, the Company maintains a non-qualified plan which allows participants to retain the benefits to which they would have been entitled under the Company's noncontributory plan except for the federally mandated limits on such benefits or on the level of salary on which such benefits may be calculated. Prior to 1999, Resources maintained certain similar non-qualified plans. Effective January 1, 1999, Resources' non-qualified plans were merged into Reliant Energy's non-qualified plan. The related benefit obligation at December 31, 1999 and 1998, was $28 million and $26 million, respectively. Expense of approximately $5 million associated with these non-qualified plans was recorded each year during 1999, 1998 and 1997, respectively.

(c) Savings Plan.

Reliant Energy has an employee savings plan that qualifies as cash or deferred arrangements under Section 401(k) of the Internal Revenue Code of 1986, as amended (IRC). Under the plan, participating employees may contribute a portion of their compensation, pre-tax or after-tax, up to a maximum of 16% of compensation. In 1999, the savings plan was amended so that Reliant Energy now matches 75% to 125% of the first 6% of each employee's compensation contributed, subject to a vesting schedule, based on certain performance goals achieved by the Company. Through 1998, Reliant Energy matched 70% of the first 6% of each employee's compensation contributed, subject to a vesting schedule. Substantially all of Reliant Energy's match is invested in Reliant Energy common stock.

In October 1990, Reliant Energy amended its savings plan to add a leveraged Employee Stock Ownership Plan (ESOP) component. Reliant Energy may use ESOP shares to satisfy its obligation to make matching contributions under the savings plan. Debt service on the ESOP loan is paid using all dividends on shares in the ESOP, interest earnings on funds held in the ESOP and cash contributions by Reliant Energy. Shares of Reliant Energy common stock are released from the encumbrance of the ESOP loan based on the proportion of debt service paid during the period.

The Company recognizes benefit expense for the ESOP equal to the fair value of the ESOP shares committed to be released. The Company credits to unearned ESOP shares the original purchase price of ESOP shares committed to be released to plan participants with the difference between the fair value of the shares and the original purchase price recorded to common stock. Dividends on allocated ESOP shares are recorded as a reduction to retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt or accrued interest on the ESOP loan.

The ESOP shares were as follows:

	DECEMBER 31, 1999	DECEMBER 31, 1998
Allocated shares transferred/distributed from the savings plan	2,115,536	1,916,508
Allocated shares	5,967,159	5,171,613
Unearned shares	10,679,489	11,674,063
Total original ESOP shares	18,762,184	18,762,184
Fair value of unearned ESOP shares	$244,293,311	$374,270,460

Prior to April 1, 1999, Resources had an employee savings plan that covered substantially all Resources employees other than Reliant Energy Minnegasco employees. Under the terms of the Resources savings plan, employees could contribute up to 12% of total compensation in 1998 and 1997, which contributions up to 6% were matched by the Company. Beginning January 1, 1999, employees could contribute up to 16% of total compensation, which contribution up to 6% were matched by the Company. Prior to April 1, 1999, the Reliant Energy Minnegasco employees were covered by a savings plan, the terms of which were somewhat similar to the Resources savings plan. Effective April 1, 1999, the Resources and the Reliant Energy Minnegasco savings plans were merged into the Company's savings plan.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's savings plan benefit expense was $26 million, $25 million and $22 million in 1999, 1998, and 1997, respectively.

(d) Postretirement Benefits.

The Company records the liability for postretirement benefit plans other than pensions (primarily health care) under SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106). The Company is amortizing over a 22 year period approximately $213 million to cover the "transition cost" of adopting SFAS No. 106 (i.e., the Company's liability for postretirement benefits payable with respect to employee service years accrued prior to the adoption of SFAS No. 106). The unrecognized transitional asset and net (gain) loss related to the Resources plans were recognized at the Merger date.

As provided in the 1995 Rate Case Settlement, Reliant Energy HL&P is required to fund during each year in an irrevocable external trust approximately $22 million of postretirement benefit costs which are included in its rates. Reliant Energy Minnegasco is required to fund postretirement benefit costs for the amount included in its rates. The Company, excluding Reliant Energy HL&P and Reliant Energy Minnegasco, will continue funding its postretirement benefits on a pay-as-you-go basis.

Net postretirement benefit cost for the Company includes the following components:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(THOUSANDS OF DOLLARS)		
Service cost-- benefits earned during the period	$ 5,073	$ 8,060	$ 8,927
Interest cost on projected benefit obligation	26,259	17,270	14,176
Expected (return) loss on plan assets	(8,986)	(5,977)	(4,515)
Net amortization	14,629	3,298	4,011
Net postretirement benefit cost	36,975	22,651	22,599
Transfer of obligation to STPNOC			173
Total cost	$ 36,975	$ 22,651	$ 22,772

Following are reconciliations of the Company's beginning and ending balances of its postretirement benefit plans benefit obligation, plan assets and funded status for 1999 and 1998.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998
	(THOUSANDS OF DOLLARS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of year	$ 409,811	$ 269,531
Service cost	5,073	8,060
Interest cost	26,259	17,270
Benefits paid	(21,846)	(20,662)
Participant contributions	3,633	2,960
Acquisitions	12,414	
Plan amendments		98,918
Actuarial (gain) loss	(40,242)	33,734
Benefit obligation, end of year	$ 395,102	$ 409,811
CHANGE IN PLAN ASSETS		
Plan asset, beginning of year	$ 84,068	$ 56,340
Benefits paid	(21,846)	(20,662)
Employer contributions	32,559	32,889
Participant contributions	3,633	2,960
Actual investment return	6,414	12,541
Plan assets, end of year	$ 104,828	$ 84,068
RECONCILIATION OF FUNDED STATUS		
Funded status	$(290,274)	$(325,743)
Unrecognized transition (asset) or obligation	134,917	144,046
Unrecognized prior service cost	91,976	98,918
Unrecognized actuarial (gain) loss	(97,758)	(61,530)
Net amount recognized at end of year	$(161,139)	$(144,309)
ACTUARIAL ASSUMPTIONS		
Discount rate	7.5%	6.5%
Rate of increase in compensation levels	3.5 - 5.5%	3.5 - 5.5%
Expected long-term rate of return on assets	10.0%	10.0%
Health care cost trend rates - Under 65	5.8%	6.0%
Health care cost trend rates - 65 and over	6.2%	6.7%

The assumed health care rates gradually decline to 5.4% for both medical categories by 2001.

If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of December 31, 1999 would be increased by approximately 4.9%. The annual effect of the 1% increase on the total of the service and interest costs would be an increase of approximately 4.6%. If the healthcare cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 1999 would be decreased by approximately 4.8%. The annual effect of the 1% decrease on the total of the service and interest costs would be a decrease of 4.4%.

In 1998, the Company's board of directors approved an amendment, effective January 1, 1999, which created an account balance based on credited service at December 31, 1998. Under the new plan, each participant has an account, for recordkeeping purposes only, to which a $750 credit is allocated annually. This account balance vests after 5 years of service after age 50. At retirement the account balance can be used to purchase medical benefits. It may not be taken as cash. The Company will continue to reflect the costs of the retiree medical plan according to the provisions of SFAS No. 106 as amended. As a result of the January 1, 1999 amendment, which is reflected in the December 31, 1998 disclosure, the Company's benefit obligation increased $99 million. The plan amendment had no impact on 1998 expense.

The actuarial gains and losses are due to changes in certain actuarial assumptions.

(e) Postemployment Benefits.

The Company records postemployment benefits based on SFAS No. 112, "Employer's Accounting for Postemployment Benefits," which requires the recognition of a liability for benefits provided to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily health care and life insurance benefits for participants in the long-term disability plan). Net postemployment benefit costs were $11 million in 1999 and were not material in 1998 and 1997.

(13) INCOME TAXES

The Company's current and deferred components of income tax expense (benefit) are as follows:

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(THOUSANDS OF DOLLARS)		
Current	$ 297,490	$ 439,322	$ 199,011
Deferred	601,627	(469,754)	7,363
Income tax expense (benefit)	$ 899,117	$ (30,432)	$ 206,374

A reconciliation of the federal statutory income tax rate to the effective income tax rate is below.

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(THOUSANDS OF DOLLARS)		
Income (loss) before income taxes	$ 2,564,848	$ (171,524)	$ 627,484
Preferred dividends of subsidiary			2,255
Total	2,564,848	(171,524)	629,739
Federal statutory rate	35%	35%	35%
Income taxes at statutory rate	897,697	(60,033)	220,409
Net addition (reduction) in taxes resulting from:			
State income taxes, net of federal income tax benefit	24,764	16,853	(9)
Amortization of investment tax credit	(20,551)	(20,123)	(19,777)
Excess deferred taxes	(4,543)	(4,011)	(5,570)
Difference between book and tax depreciation for which deferred taxes have not been normalized		37,069	27,466
Equity dividend exclusion		(980)	(5,075)
Equity income - foreign affiliates	(789)	(23,241)	(17,011)
Goodwill	18,045	18,049	7,242
Other - net	(15,506)	5,985	(1,301)
Total	1,420	29,601	(14,035)
Income tax expense (benefit)	$ 899,117	$ (30,432)	$ 206,374
Effective rate	35.1%	17.7%	32.8%

UNA Tax Holiday. Under 1999 Dutch tax law relating to the Dutch electricity industry, UNA qualifies for a zero tax rate through December 31, 2001. The tax holiday applies only to the Dutch income earned by UNA. Beginning January 1, 2002, UNA will be subject to Dutch corporate income tax at standard statutory rates.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

Permanent Reinvestment. As of December 31, 1999 the Company had approximately $29 million of foreign income which is considered to be permanently reinvested in foreign operations. Of this amount, $3 million is related to the Company's operations in Argentina and $26 million is related to the Company's operations in the Netherlands.

Following are the Company's tax effects of temporary differences between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases:

	DECEMBER 31,	
	1999	1998
	(THOUSANDS OF DOLLARS)	
Deferred tax assets:		
Current:		
Unrealized loss on indexed debt securities	$ 674,497	
Non-current:		
Alternative minimum tax credit carryforwards	34,536	$ 38,659
Employee benefits	98,388	153,367
Disallowed plant cost - net	58,058	56,219
Unrealized loss on indexed debt securities		454,165
Operating loss carryforwards	38,954	23,178
Foreign income	49,850	32,685
Cumulative foreign currency translation adjustments	40,906	11,764
Contingent liabilities associated with discontinuance of SFAS No. 71	73,639	
Other	114,845	46,797
Valuation allowance	(19,139)	(8,591)
Total non-current deferred tax assets	490,037	808,243
Total deferred tax assets - net	$ 1,164,534	$ 808,243
Deferred tax liabilities:		
Current:		
Unrealized gain on Time Warner investment	$ 1,090,088	
Non-current:		
Depreciation	2,318,958	$ 2,090,014
Regulatory assets - net	379,814	609,694
Capitalized taxes, employee benefits and removal costs	47,907	60,099
Unrealized gain on Time Warner investment		222,942
Deferred state income taxes	68,952	70,000
Deferred gas costs	32,361	13,237
Other	93,664	106,293
Total non-current deferred tax liabilities	2,941,656	3,172,279
Total deferred tax liabilities	4,031,744	3,172,279
Accumulated deferred income taxes - net	$ 2,867,210	$ 2,364,036

Tax Attribute Carryforwards. At December 31, 1999, the Company had approximately $492 million of state net operating losses available to offset future state taxable income through the year 2019. In addition, the Company has approximately $28 million of federal alternative minimum tax credits which are available to reduce future federal income taxes payable over an indefinite period and approximately $1 million of state alternative minimum tax credits that are available to reduce future state income taxes payable through the year 2002. The valuation allowance reflects a net increase of $11 million in 1999. This net increase results from a reassessment of the Company's usage of state tax attributes, including the future ability to use state net operating loss and alternative minimum tax credit carryforwards offset by changes in valuation allowances provided for expiring state net operating loss carryforwards.

Tax Refund Case. In July 1990, the Company paid approximately $105 million to the Internal Revenue Service (IRS) following an IRS audit of 1983 and 1984 federal income tax returns. In November 1991, the Company filed a refund suit in the U.S. Court of Federal Claims seeking the return of $52 million of tax and $36 million of accrued interest, plus interest on both of those amounts accruing after July 1990. In September 1997, the United States Court of Appeals upheld a lower court ruling that the Company was due a refund of federal income taxes during 1983 and 1984 attributable to fuel cost overrecoveries that subsequently were refunded to Reliant Energy HL&P's customers. In February 1998, the Company received a refund of approximately $142 million in taxes and interest paid in July 1990, including interest accrued since 1990 in the amount of approximately $57 million. After giving effect to the Company's deferred recognition of the 1990 tax payment and payment of federal income taxes due on the accrued interest on the refund, the refund had the effect of increasing the Company's earnings in the fourth quarter of 1997 by $37 million (after-tax).

(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 $324 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 $22 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, 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.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

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 the 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.

(15) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

	DECEMBER 31,			
	1999		1998	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
Financial assets:				
Investment in Time Warner securities	$ 3,979,461	$ 3,979,461	$ 990,000	$ 2,843,585
Energy derivatives - non-trading		2,823		
Foreign currency swaps		6,011		
Financial liabilities:				
Long-term debt (excluding capital leases)	9,329,715	9,212,871	7,183,320	7,470,785
Trust securities	705,272	598,690	342,232	367,649
Interest rate swaps	38	92	109	3,160
Energy derivatives - non-trading		1,105		8,166

The fair values of cash and cash equivalents, investments in debt and equity security classified as "available-for-sale" and "trading" in accordance with SFAS No. 115 (except for Time Warner securities), and notes payable are estimated to be equivalent to carrying amounts and have been excluded from the above table. The remaining fair values have been determined using quoted market prices of the same or similar securities when available or other estimation techniques.

The fair value of financial instruments included in the trading operations are marked-to-market at December 31, 1999 and 1998 (see Note 5). Therefore, they are stated at fair value and are excluded from the table.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(16) EARNINGS PER SHARE

The following table reconciles numerators and denominators of the Company's basic and diluted earnings per share calculations:

	FOR THE YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Basic EPS calculation:			
Income (loss) before extraordinary item and preferred dividends	$ 1,665,731	$ (141,092)	$ 421,110
Less: Preferred dividends	389	390	162
Income (loss) attributable to common stockholders before extraordinary item	1,665,342	(141,482)	420,948
Extraordinary item	(183,261)		
Net income (loss)	$ 1,482,081	$ (141,482)	$ 420,948
Weighted average shares outstanding	285,040	284,095	253,599
Basic EPS:			
Income (loss) before extraordinary item	$ 5.84	$ (.50)	$ 1.66
Extraordinary item	$ (.64)	$	$
Net income (loss)	$ 5.20	$ (.50)	$ 1.66
Diluted EPS calculation:			
Net income (loss)	$ 1,482,081	$ (141,482)	$ 420,948
Plus: Income impact of assumed conversions			
Interest on 6 1/4% convertible trust preferred securities	30		668
Total Effect	$ 1,482,111	$ (141,482)	$ 421,616
Assuming dilution			
Weighted average shares outstanding	285,040	284,095	253,599
Plus: Incremental shares from assumed conversions (1)			
Stock options	400		89
Restricted stock	701		
6 1/4% convertible trust preferred securities	23		510
Weighted average shares assuming dilution	286,164	284,095	254,198
Diluted EPS:			
Income (loss) before extraordinary item	$ 5.82	$ (.50)	$ 1.66
Extraordinary item	$ (.64)	$	$
Net income (loss)	$ 5.18	$ (.50)	$ 1.66

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(1) No assumed conversions were included in the computation of diluted earnings per share for 1998 because additional shares outstanding would result in an anti-dilutive per share amount. The computation of diluted EPS for 1998 excludes 492,000 shares of restricted stock and purchase options for 434,000 shares of common stock which would be anti-dilutive if exercised.

For the year ended December 31, 1999, the computation of diluted EPS excludes purchase options for 433,915 shares of common stock that have exercise prices (ranging from $28.72 to $32.22 per share) greater than the $27.58 per share average market price for the period.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(17) UNAUDITED QUARTERLY INFORMATION

Summarized quarterly financial data is as follows:

	YEAR ENDED DECEMBER 31, 1999			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$ 2,642,904	$ 3,657,828	$ 4,947,192	$ 4,054,886
Operating income	187,665	291,122	494,288	267,439
Extraordinary item, net of tax				183,261
Net income (loss) attributable to common stockholders	(209,789)	74,664	1,689,990	(72,784)
Basic earnings (loss) per share (2)				
Extraordinary item, net of tax				(.64)
Net income (loss) attributable to common stockholders	(.74)	.26	5.92	(.26)
Diluted earnings (loss) per share (2)				
Extraordinary item, net of tax				(.64)
Net income (loss) attributable to common stockholders	(.74)	.26	5.90	(.26)

	YEAR ENDED DECEMBER 31, 1998			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)			
Revenues (1)	$ 2,631,322	$ 2,736,626	$ 3,465,487	$ 2,655,029
Operating income (1)	281,735	454,208	506,994	222,881
Net income (loss) attributable to common stockholders (1)	(30,115)	41,484	251,709	(404,560)
Basic and diluted earnings (loss) per share (2)	(.11)	.15	.89	(1.42)

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(1) Includes retroactive adjustment for change in accounting for energy price risk management and trading activities to mark-to-market accounting for the first, second and third quarters of 1998 (see Note 1(o)).

(2) Quarterly earnings per common share are based on the weighted average number of shares outstanding during the quarter, and the sum of the quarters may not equal annual earnings per common share.

(18) 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 Resources and UNA are included in the segment disclosures only for periods beginning on their respective acquisition dates. The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that certain executive benefit costs have not been allocated to segments. The Company evaluates performance based on operating income excluding certain corporate costs not allocated to the segments. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices.

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 description of the financial reporting segments, see Note 1(a). Financial data for business segments, products and services and geographic areas are as follows:

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	ELECTRIC OPERATIONS	NATURAL GAS DISTRIBUTION	INTERSTATE PIPELINES	WHOLESALE ENERGY	RELIANT ENERGY EUROPE
	(THOUSANDS OF DOLLARS)				
As of and for the year ended December 31, 1999:					
Revenues from external customers	$ 4,483,126	$ 1,895,358	$ 121,514	$ 7,688,960	$ 152,865
Intersegment revenues		1,202	153,580	260,317	
Depreciation and amortization	666,968	132,424	49,127	25,323	20,737
Operating income	981,006	124,863	113,018	45,308	32,049
Total assets	9,940,685	3,386,596	2,211,842	2,773,070	3,247,290
Equity investments in and advances to unconsolidated subsidiaries				78,041	
Expenditures for long-lived assets	572,625	205,545	30,131	529,805	834,300
As of and for the year ended December 31, 1998:					
Revenues from external customers	4,350,275	1,877,185	126,988	4,289,006	
Intersegment revenues		1,167	155,508	167,152	
Depreciation and amortization	663,740	130,658	44,025	18,204	
Operating income	1,002,409	144,447	128,328	59,170	
Total assets	10,404,447	3,141,762	2,050,636	1,535,007	
Equity investments in and advances to unconsolidated subsidiaries				42,252	
Expenditures for long-lived assets	433,474	161,735	59,358	363,174	
As of and for the year ended December 31, 1997:					
Revenues from external customers	4,251,243	920,125	49,655	1,288,357	
Intersegment revenues		505	58,678	76,301	
Depreciation and amortization	582,040	52,374	19,088	2,633	
Operating income	985,484	56,842	31,978	912	
Expenditures for long-lived assets	236,977	61,078	16,304	14,038	

	RELIANT ENERGY LATIN AMERICA	CORPORATE	RECONCILING ELIMINATIONS	CONSOLIDATED
	(THOUSANDS OF DOLLARS)			
As of and for the year ended December 31, 1999:				
Revenues from external customers	$ 79,717	$ 881,270		$15,302,810
Intersegment revenues		73,648	$ (488,747)	
Depreciation and amortization	5,817	10,726		911,122
Operating income	(23,021)	(32,709)		1,240,514
Total assets	1,155,500	4,645,403	(1,139,450)	26,220,936
Equity investments in and advances to unconsolidated subsidiaries	944,169			1,022,210
Expenditures for long-lived assets	93,296	89,840		2,355,542

As of and for the year ended

December 31, 1998:				
Revenues from external customers	258,945	586,065		11,488,464
Intersegment revenues		97,181	(421,008)	
Depreciation and amortization	3,820	9,646		870,093
Operating income	181,707	(50,243)		1,465,818
Total assets	1,242,689	1,679,876	(915,895)	19,138,522
Equity investments in and advances to unconsolidated subsidiaries	1,009,348			1,051,600
Expenditures for long-lived assets	435,077	28,077		1,480,895
As of and for the year ended December 31, 1997:				
Revenues from external customers	92,028	276,817		6,878,225
Intersegment revenues		34,853	(170,337)	
Depreciation and amortization	3,470	5,769		665,374
Operating income	19,510	(39,680)		1,055,046
Expenditures for long-lived assets	231,528	1,426,323		1,986,248

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	1999	1998	1997
	(THOUSANDS OF DOLLARS)		
RECONCILIATION OF OPERATING INCOME TO NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS:			
Operating income	$ 1,240,514	$ 1,465,818	$ 1,055,046
Interest income - IRS refund			56,269
Time Warner dividend income	25,770	41,250	41,340
Interest expense	(511,474)	(509,601)	(395,085)
Unrealized gain on Time Warner investment	2,452,406		
Unrealized loss on indexed debt securities	(629,523)	(1,176,211)	(121,402)
Distribution on trust securities	(51,220)	(29,201)	(26,230)
Income tax benefit (expense)	(899,117)	30,432	(206,374)
Other income (expense)	37,986	36,031	17,384
Extraordinary item, net of tax	(183,261)		
Net income (loss) attributable to common stockholders	$ 1,482,081	$ (141,482)	$ 420,948
REVENUES BY PRODUCTS AND SERVICES:			
Retail power sales	$ 4,483,126	$ 4,350,275	$ 4,251,243
Retail gas sales	2,669,393	2,372,086	1,156,618
Wholesale energy and energy related sales	7,808,401	4,248,181	1,271,400
Gas transport	157,530	167,812	66,265
Income from Latin America investments	79,717	258,945	92,028
Energy products and services	104,643	91,165	40,671
Total	$ 15,302,810	$ 11,488,464	$ 6,878,225
REVENUES AND LONG-LIVED ASSETS BY GEOGRAPHIC AREAS:			
REVENUES:			
US	$ 14,953,546	$ 11,229,519	$ 6,786,197
Latin America	79,717	258,945	92,028
Netherlands	152,865		
Other	116,682		
Total	$ 15,302,810	$ 11,488,464	$ 6,878,225
LONG-LIVED ASSETS:			
US	$ 15,664,491	$ 16,273,392	
Latin America	1,116,928	1,195,849	
Netherlands	3,186,146		
Other	102	110	
Total	$ 19,967,667	$ 17,469,351	

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(19) SUBSEQUENT EVENTS

(a) Acquisition of Remaining Shares of UNA.

On March 1, 2000, the Company purchased the remaining 48% of the shares of UNA for $975 million. Funds for the March 1, 2000 acquisition were obtained, in part, from a Euro 600 million (approximately $596 million) three-year term loan facility established in February 2000. See Note 2 for additional information regarding the acquisition of UNA.

(b) Sithe Power Generating Assets Acquisition.

In February 2000, the Company signed a definitive agreement to purchase from Sithe Energies, Inc. non-rate regulated power generating assets and sites located in Pennsylvania, New Jersey and Maryland having a net generating capacity of more than 4,200 megawatts for an aggregate purchase price of $2.1 billion, subject to certain adjustments. The acquisition is expected to close in the second quarter of 2000 and is subject to obtaining certain regulatory approvals and satisfying other closing conditions. The acquisition will be accounted for as a purchase.

(c) Other Financings.

In February 2000, a financing subsidiary of the Company borrowed $500 million under a $650 million revolving credit facility that was established in February 2000 and terminates on April 30, 2000. Proceeds were used by the financing subsidiary to purchase Series G Preference Stock of Reliant Energy. The Company 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 revolving credit facility that was established in February 2000 and terminates on May 31, 2000. The Company used the proceeds from the borrowing for general corporate purposes, including the repayment of indebtedness.

(d) Treasury Stock Purchases.

During the period from January 1, 2000 through March 1, 2000, the Company purchased 1,183,800 shares of its common stock for approximately $27 million at an average price of $23.07 per share.

(e) Natural Gas Distribution and Interstate Pipelines (Unaudited).

In March 2000, the Company announced that it had retained an investment banking firm to assist it in evaluating strategic alternatives, including divestiture, for (i) two of its natural gas distribution divisions, Reliant Energy Arkla and Reliant Energy Minnegasco, (ii) its Interstate Pipelines' operations and (iii) its natural gas gathering and pipeline services operations.

INDEPENDENT AUDITORS' REPORT

Reliant Energy, Incorporated:

We have audited the accompanying consolidated balance sheets of Reliant Energy, Incorporated and its subsidiaries (the "Company") as of December 31, 1999 and 1998, and the related statements of consolidated income, consolidated comprehensive income, consolidated cash flows and consolidated stockholders' equity for each of the three years in the period ended December 31, 1999. Our audits also included the Company's financial statement schedule listed in Item 14(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Reliant Energy, Incorporated and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Houston, Texas
March 1, 2000

ITEM 7. MANAGEMENT'S NARRATIVE ANALYSIS OF THE RESULTS OF OPERATIONS OF RELIANT ENERGY RESOURCES CORP. AND ITS CONSOLIDATED SUBSIDIARIES.

The following narrative and analysis should be read in combination with the consolidated financial statements and notes of Reliant Energy Resources Corp. (Resources Corp.) and its subsidiaries (collectively, Resources) contained in Item 8 of the Form 10-K of Resources Corp. Prior to February 1999, Resources Corp. conducted business under the name "NorAm Energy Corp."

RELIANT ENERGY RESOURCES CORP.

In August 1997, the former parent corporation (Former Parent) of Reliant Energy, Incorporated (Reliant Energy) merged with and into Reliant Energy, and NorAm Energy Corp. (Former Resources) 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 Reliant Energy, and each outstanding share of common stock of Former Resources was converted into the right to receive $16.3051 cash or 0.74963 shares of common stock of Reliant Energy. The aggregate consideration paid to Former Resources stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of Reliant Energy's common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion for Former Resources' common stock and common stock equivalents and $1.6 billion of Former Resources debt.

The Merger was recorded under the purchase method of accounting with assets and liabilities of Former Resources reflected at their estimated fair values, resulting in a "new basis" of accounting. In Resources' Consolidated Financial Statements, periods which reflect the new basis of accounting are labeled as "Current Resources" and periods which do not reflect the new basis of accounting are labeled as "Former Resources."

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. Reliant Energy has identified the following reportable segments: Electric Operations, Natural Gas Distribution, Interstate Pipelines, Wholesale Energy, Reliant Energy Europe, Reliant Energy Latin America and Corporate. Of these segments, the following operations are conducted by Resources:

- Natural Gas Distribution
- Interstate Pipelines
- Wholesale Energy (which includes wholesale energy trading, marketing and risk management services in North America and domestic natural gas gathering operations of the Wholesale Energy segment but excludes the operations of Reliant Energy Power Generation, Inc., a wholly owned subsidiary of Reliant Energy)
- Reliant Energy Europe (which includes the energy trading and marketing operations initiated in the fourth quarter of 1999 in the Netherlands and other countries in Europe but excludes N.V. UNA, a Dutch power company), and
- Certain Corporate operations

In March 2000, Reliant Energy announced that it had retained an investment banking firm to assist it in evaluating strategic alternatives, including divesture, for (i) two of its natural gas distribution divisions, Reliant Energy Arkla and Reliant Energy Minnegasco, (ii) its Interstate Pipelines operations and (iii) its natural gas gathering and pipeline services operations, including divestiture.

Resources Corp. meets the conditions specified in General Instruction I(1)(a) and (b) to Form 10-K and is thereby permitted to use the reduced disclosure format for wholly owned subsidiaries of reporting companies specified therein. Accordingly, Resources Corp. has omitted from this Combined Form 10-K the information called for by Item 4 (submission of matters to a vote of security holders), Item 10 (directors and executive officers), Item 11 (executive compensation), Item 12 (security ownership of certain beneficial owners and management) and Item 13 (certain relationships and related party transactions) of Form 10-K. In lieu of the information called for by Item 6 (selected financial data) and Item 7 (management's discussion and analysis of financial condition and results of operations) of Form 10-K, Resources Corp. has included the following Management's Narrative Analysis of the Results of Operations to explain material changes in the amount of revenue and expense items of Resources between 1999, 1998 and 1997. Reference is hereby made to Item 1 (business), Item 2 (properties), Item 3 (legal proceedings), Item 5 (market for common equity and related stockholder matters), Item 7A (quantitative and qualitative disclosures about market risk) and Item 9 (changes in and disagreements with accountants on accounting and financial disclosure) of this Combined Form 10-K for additional information regarding Resources required by the reduced disclosure format of General Instruction I to Form 10-K.

CONSOLIDATED RESULTS OF OPERATIONS

Seasonality and Other Factors. Resources' results of operations are affected by seasonal fluctuations in the demand for and, to a lesser extent, the price of natural gas. Resources' results of operations are also affected by, among other things, the actions of various federal and state governmental authorities having jurisdiction over rates charged by Resources, competition in Resources' various business operations, debt service costs and income tax expense. For a discussion of certain other factors that may affect Resources' future earnings see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company -- Competition -- Other Operations" and "-- Environmental Expenditures -- Mercury Contamination" in Item 7 of Reliant Energy's 1999 Form 10-K.

Accounting Impact of the Merger. The Merger created a new basis of accounting for Resources, resulting in new carrying values for certain of Resources' assets, liabilities and equity commencing upon the acquisition date. Resources' financial statements for periods subsequent to the acquisition date are not comparable to prior periods because of the following purchase accounting adjustments:

- The impact of the amortization of newly-recognized goodwill
- The amortization of the revaluation of long-term debt
- The removal of the amortization previously associated with the pension and postretirement obligations, and
- The deferred income tax expense associated with these adjustments

The total effect of these purchase accounting adjustments for the twelve months ended December 31, 1999 and 1998 and the five months ended December 31, 1997, was a decrease to net income of $34 million, $26 million and $9 million, respectively. Interest expense and related debt incurred by Reliant Energy to fund the cash portion of the purchase consideration has not been "pushed down" to Resources.

Because results of operations and other financial information for periods before and after the acquisition date are not comparable, Resources is presenting certain financial data on: (i) an actual basis for Resources for 1999, 1998 and 1997 and (ii) an unaudited pro forma basis for 1997 as if the Merger had taken place at the beginning of 1997. These results do not necessarily reflect the results which would have been obtained if the Merger had actually occurred on January 1, 1997 or the results that may be expected in the future.

The following table sets forth selected financial and operating data on an actual and unaudited pro forma basis for the years ended December 31, 1999, 1998 and 1997, followed by a discussion of significant variances in period-to-period results:

SELECTED FINANCIAL RESULTS

	ACTUAL				PRO FORMA (1)
	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997	YEAR ENDED DECEMBER 31, 1997
			(THOUSANDS OF DOLLARS)		
Operating Revenues	$ 10,543,545	$ 6,758,412	$ 2,526,182	$ 3,313,591	$ 5,839,773
Operating Expenses	10,245,862	6,448,107	2,434,282	3,141,295	5,597,716
Operating Income Before Merger Transaction Costs	297,683	310,305	91,900	172,296	242,057
Merger Transaction Costs (2) ...			1,144	17,256	
Operating Income	297,683	310,305	90,756	155,040	242,057
Interest Expense, net	119,492	111,337	47,490	78,660	112,996
Distributions on Trust Preferred Securities	357	632	279	6,317	1,479
Other (Income), net	(11,138)	(7,318)	(2,243)	(7,210)	(9,453)
Income Tax Expense	88,771	111,830	24,383	31,398	71,093
Extraordinary (Gain)	--	--	--	(237)	
Net Income	$ 100,201	$ 93,824	$ 20,847	$ 46,112	$ 65,942

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(1) Unaudited pro forma results reflect purchase adjustments as if the Merger had occurred on January 1, 1997.

(2) For expenses associated with the completion of the Merger, see Note 1(l) to Resources' Consolidated Financial Statements.

1999 (Actual) Compared to 1998 (Actual). Resources' net income for 1999 was $100 million compared to net income of $94 million in 1998. The $6 million increase was primarily due to a significant increase in operating income of Wholesale Energy's trading and marketing operations and a decrease in the effective tax rate, partially offset by decreased earnings in the Natural Gas Distribution and Interstate Pipelines segments and increased general insurance liability expense. Although results of Wholesale Energy's trading and marketing operations significantly improved, it continues to incur higher operating expenses relating to staffing and personnel to support its increased sales and marketing efforts.

Operating income decreased in 1999 by $13 million, or 4%, from 1998. The decline was primarily due to increased operating expenses, in particular employee benefit expenses, at the Natural Gas Distribution and Interstate Pipelines segments and increased general liability insurance expense. The decline was partially offset by increased operating income of Wholesale Energy's trading and marketing operations.

Resources' operating revenues for 1999 were $10.5 billion compared to $6.8 billion for 1998. The $3.8 billion increase, or 56%, was primarily due to increased wholesale trading and marketing revenues from increased trading volumes for power, natural gas and oil, as well as higher sale prices for these commodities.

Resources' operating expenses for 1999 were $10.2 billion compared to $6.4 billion in 1998. The $3.8 billion, or 59%, increase was primarily attributable to an increase in volumes and cost of purchased power, natural gas and oil, as discussed above. In addition, operating expenses also increased due to increased employee benefit expenses for the Natural Gas Distribution and Interstate Pipelines segments, increased operating expenses to support increased sales and marketing of the Wholesale Energy trading and marketing operations (as discussed above) and increased general insurance liability expense.

Resources' effective tax rate in 1999 was 47% compared to 54% in 1998. This decrease was primarily due to a decrease in state income taxes resulting from lower state taxable income in 1999 as compared to 1998.

1998 (Actual) Compared to 1997 (Actual). Resources' consolidated net income for 1998 was $94 million compared to consolidated net income of $67 million in 1997. The $27 million, or 40%, increase in net income for 1998 as compared to 1997 was due to increased operating income from several business segments as discussed below, partially offset by a decrease in operating income from the Natural Gas Distribution segment due to the effects of warm weather. Also contributing to the increase in net income was a reduction in interest expense due to the refinancing of debt and reduced interest expense due to debt fair value revaluation at the time of the Merger.

Operating income increased in 1998 by $65 million, or 26%, over 1997 due to improved operating results at Interstate Pipelines, Corporate retail operations and Wholesale Energy, partially offset by the unfavorable effects of warm weather on the operations of Natural Gas Distribution. Operating income for 1997 included approximately $18 million of merger-related costs that did not recur in 1998. Improved results at Interstate Pipelines were due to continued cost control initiatives and reduced benefits expenses, as well as the effects of a rate case settlement and a dispute settlement which contributed to the increase in operating income. In addition, margins at Wholesale Energy improved over margins in 1997; however, this effect was partially offset by increased staffing expenses to support increased sales and marketing efforts and an increase in credit reserves. Improved results at Wholesale Energy were also due to the fact that operating income in 1997 for Wholesale Energy was negatively impacted by hedging losses associated with sales under peaking contracts and losses from the sale of natural gas held in storage and unhedged in the first quarter of 1997 totaling $17 million.

Resources' operating revenues for 1998 were $6.8 billion as compared to $5.8 billion in 1997. The $918 million, or 16%, increase was primarily attributable to a $1.4 billion increase in wholesale trading revenue. Wholesale trading revenue increased due to increased power and natural gas trading volumes. The increase in trading revenues was offset by reduced revenues at Resources' Natural Gas Distribution unit of $383 million, principally due to warmer weather.

Resources' operating expenses for 1998 were $6.4 billion compared to $5.6 billion in 1997. The $854 million increase, or 15%, was primarily due to increased natural gas and purchased power expenses associated with increased wholesale trading activities. The increase in operating expenses was offset by decreased natural gas purchases at the Natural Gas Distribution segment because of lower volumes resulting from the warmer weather.

Resources' effective tax rate was 54% in 1998 compared to 46% in 1997. This increase is primarily due to increased state income taxes and non-deductible goodwill amortization. State income taxes increased as a result of higher combined state taxable income in 1998 as compared to 1997.

1998 (Actual) Compared to 1997 (Pro Forma). Resources' consolidated net income for 1998 was $94 million compared to pro forma net income of $66 million in 1997. The $28 million increase, or 42%, in earnings for 1998 as compared to pro forma 1997 earnings was due to increased operating income from several business segments, as discussed below, partially offset by a decrease in operating income from the Natural Gas Distribution segment due to the effects of warmer weather.

Operating income increased in 1998 by $68 million, or 28%, over pro forma 1997 due to improved operating results at Interstate Pipelines, Corporate retail operations and Wholesale Energy, partially offset by the unfavorable effects of warm weather on the operations of Natural Gas Distribution. Improved results at Interstate Pipelines were due to continued cost control initiatives and reduced benefits expenses, as well as the effects of a rate case settlement and a dispute settlement which contributed to the increase in operating income. In addition, margins at Wholesale Energy improved over margins in 1997; however, this effect was partially offset by increased staffing expenses to support increased sales and marketing efforts and an increase in credit reserves at Wholesale Energy. Operating income in 1997 for Wholesale Energy was negatively impacted by hedging losses associated with sales under peaking contracts and losses from the sale of natural gas held in storage and unhedged in the first quarter of 1997 totaling $17 million.

Resources operating revenues for 1998 were $6.8 billion compared to pro forma operating revenues of $5.8 billion in 1997. Resources operating expenses for 1998 were $6.4 billion compared to pro forma operating expense of $5.6 billion in 1997. These increases are due to the same factors discussed above in the comparison of 1998 and 1997 actual results.

IMPACT OF YEAR 2000 ISSUES

Resources' total direct cost of resolving the Year 2000 issues was approximately $6 million. For additional information regarding Year 2000 issues, see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company -- Impact of the Year 2000 Issue and Other System Implementation Issues" in Item 7 of Reliant Energy's 1999 Form 10-K.

NEW ACCOUNTING ISSUES

Reference is made to "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- New Accounting Issues" in Item 7 of Reliant Energy's 1999 Form 10-K, for discussion of certain new accounting issues that affect Resources.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

For information regarding Resources' exposure to interest rate, equity market, foreign currency and commodity price risk, see "Quantitative and Qualitative Disclosures About Market Risk--Interest Rate Risk," "--Equity Market Risk," "--Foreign Currency Exchange Rate Risk," and "--Energy Commodity Price Risk" in Item 7A of Reliant Energy's Report on Form 10-K, which information, to the extent it relates to Resources, is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF RESOURCES.

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

STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS)

	CURRENT RESOURCES			FORMER RESOURCES
	TWELVE MONTHS ENDED DECEMBER 31, 1999	TWELVE MONTHS ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997
REVENUES	$ 10,543,545	$ 6,758,412	$ 2,526,182	$ 3,313,591
EXPENSES:				
Natural gas and purchased power	9,307,445	5,603,973	2,063,986	2,623,670
Operation and maintenance	636,549	539,985	241,823	359,582
Depreciation and amortization	198,676	191,891	78,087	84,901
Taxes other than income taxes	103,192	112,258	50,386	73,142
Merger transaction costs			1,144	17,256
	10,245,862	6,448,107	2,435,426	3,158,551
OPERATING INCOME	297,683	310,305	90,756	155,040
OTHER INCOME (EXPENSE):				
Interest expense, net	(119,492)	(111,337)	(47,490)	(78,660)
Distribution on trust preferred securities	(357)	(632)	(279)	(6,317)
Other, net	11,138	7,318	2,243	7,210
	(108,711)	(104,651)	(45,526)	(77,767)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	188,972	205,654	45,230	77,273
Income Tax Expense	88,771	111,830	24,383	31,398
INCOME BEFORE EXTRAORDINARY ITEM	100,201	93,824	20,847	45,875
Extraordinary Gain on Early Retirement of Debt, net of income taxes of $128				237
NET INCOME	$ 100,201	$ 93,824	$ 20,847	$ 46,112

See Notes to Resources' Consolidated Financial Statements

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

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

	COMMON STOCK (1) SHARES	COMMON STOCK (1) AMOUNT	PAID IN CAPITAL	RETAINED EARNINGS (DEFICIT)
FORMER RESOURCES:				
Stockholders' Equity at December 31, 1996 ...	137,908,173	$ 86,193	$ 1,001,053	$ (286,703)
Net Income				46,112
Cash Dividends:				
Common stock - $0.14 per share				(19,281)
Change in Market Value of Marketable Equity Securities, net tax of ($3,329)				
Conversion of Trust Preferred Securities	11,428,262	7,143	131,425	
Other Issuances	347,527	216	5,796	
Comprehensive Income				
Balance at July 31, 1997	149,683,962	93,552	1,138,274	(259,872)
CURRENT RESOURCES (POST MERGER):				
Adjustments due to Merger:				
Eliminate Former Resources Balances	(149,683,962)	(93,552)	(1,138,274)	259,872
Capital Contribution from Parent	1,000	1	2,463,831	
Net Income				20,847
Change in Market Value of Marketable Equity Securities, net of tax of $3,193 ...				
Comprehensive Income				
Balance at December 31, 1997	1,000	1	2,463,831	20,847
Net Income				93,824
Change in Market Value of Marketable Equity Securities, net of tax of $5,877 ...				
Comprehensive Income				
Balance at December 31, 1998	1,000	1	2,463,831	114,671
Net Income				100,201
Foreign currency translation adjustments, net of tax of ($16)				
Change in Market Value of Marketable Equity Securities, net of tax of $373				
Comprehensive Income				
Balance at December 31, 1999	1,000	$ 1	$ 2,463,831	$ 214,872

	ACCUMULATED OTHER COMPRE-HENSIVE INCOME	TOTAL STOCK-HOLDER'S EQUITY	TOTAL COMPRE-HENSIVE INCOME
FORMER RESOURCES:			
Stockholders' Equity at December 31, 1996 ...	$ 5	$ 800,548	
Net Income		46,112	$ 46,112
Cash Dividends:			
Common stock - $0.14 per share		(19,281)	
Change in Market Value of Marketable Equity Securities, net tax of ($3,329)	5,874	5,874	5,874
Conversion of Trust Preferred Securities		138,568	
Other Issuances		6,012	
Comprehensive Income			51,986
Balance at July 31, 1997	5,879	977,833	
CURRENT RESOURCES (POST MERGER):			
Adjustments due to Merger:			
Eliminate Former Resources Balances	(5,879)	(977,833)	
Capital Contribution from Parent		2,463,832	
Net Income		20,847	20,847
Change in Market Value of Marketable Equity Securities, net of tax of $3,193 ...	(5,634)	(5,634)	(5,634)
Comprehensive Income			15,213
Balance at December 31, 1997	(5,634)	2,479,045	
Net Income		93,824	93,824
Change in Market Value of Marketable Equity Securities, net of tax of $5,877 ...	(10,370)	(10,370)	(10,370)
Comprehensive Income			83,454
Balance at December 31, 1998	(16,004)	2,562,499	

Net Income		100,201	100,201
Foreign currency translation adjustments, net of tax of ($16)	30	30	30
Change in Market Value of Marketable Equity Securities, net of tax of $373	(1,224)	(1,224)	(1,224)
Comprehensive Income			$ 99,007
Balance at December 31, 1999	$ (17,198)	$ 2,661,506	

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(1) $0.625 par, authorized 250,000,000 shares. On the acquisition date, Resources' pre-merger common stock was canceled and replaced with 1,000 shares of common stock (all of which are owned by Reliant Energy); see Note 1(b).

See Notes to Resources' Consolidated Financial Statements

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

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

	DECEMBER 31, 1999	DECEMBER 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 81,347	$ 26,576
Accounts and notes receivable, principally customer	980,560	682,552
Unbilled revenue	150,961	145,131
Accounts and notes receivable - affiliated companies, net		145,191
Materials and supplies, at average cost	35,121	33,947
Fuel, gas and petroleum products	80,135	161,085
Price risk management assets	435,336	265,203
Prepayments and other current assets	46,666	39,234
Total current assets	1,810,126	1,498,919
PROPERTY, PLANT AND EQUIPMENT - NET	2,973,882	2,815,028
OTHER ASSETS:		
Goodwill, net	1,983,004	2,050,386
Prepaid pension asset	110,626	102,034
Price risk management assets	148,722	21,414
Deferred debits	186,437	119,754
Total other assets	2,428,789	2,293,588
TOTAL ASSETS	$7,212,797	$6,607,535
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 223,451	$ 203,438
Short-term borrowings	534,584	300,000
Accounts payable, principally trade	776,546	574,276
Accounts and notes payable - affiliated companies, net	95,601	
Taxes accrued	48,266	55,415
Interest accrued	27,965	36,197
Customer deposits	33,255	36,985
Price risk management liabilities	424,324	227,652
Other	119,111	172,616
Total current liabilities	2,283,103	1,606,579
DEFERRED CREDITS:		
Accumulated deferred income taxes	532,725	497,762
Price risk management liabilities	117,437	40,532
Payable under capacity lease agreement	41,000	41,000
Benefit obligations	161,144	158,762
Other	194,284	185,955
Total deferred credits	1,046,590	924,011
LONG-TERM DEBT	1,220,631	1,513,289
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
RESOURCES OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF RESOURCES	967	1,157
STOCKHOLDER'S EQUITY	2,661,506	2,562,499
Total Liabilities and Stockholder's Equity	$7,212,797	$6,607,535

See Notes to Resources' Consolidated Financial Statements

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

STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)

	CURRENT RESOURCES			FORMER RESOURCES
	TWELVE MONTHS ENDED DECEMBER 31, 1999	TWELVE MONTHS ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	$ 100,201	$ 93,824	$ 20,847	$ 46,112
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	198,676	191,891	78,087	84,901
Deferred income taxes	58,055	31,810	36,770	14,589
Extraordinary gain				(237)
Changes in other assets and liabilities:				
Accounts and notes receivable-net	(303,838)	141,565	(351,179)	313,586
Accounts receivable/payable, affiliates	(1,343)	45,670	(10,106)	
Inventories	79,776	(102,125)	(2,250)	9,980
Other current assets	(16,020)	9,422	7,357	(8,843)
Accounts payable	202,270	(115,010)	125,971	(224,590)
Interest and taxes accrued	(9,206)	13,454	(13,402)	(19,996)
Other current liabilities	(41,463)	(12,531)	42,284	(22,633)
Net price risk management assets	(23,864)	(18,433)		
Restricted deposits	(55,667)	42,630	(11,096)	3,396
Other-net	(52,512)	(36,208)	24,373	3,007
Net cash provided by (used in) operating activities	135,065	285,959	(52,344)	199,272
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchase of Former Resources, net of cash acquired			(1,422,672)	
Capital expenditures	(288,760)	(253,972)	(93,414)	(88,638)
Other, net	(12,770)	8,068	(1,079)	(6,424)
Net cash used in investing activities	(301,530)	(245,904)	(1,517,165)	(95,062)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Cash portion of capital contribution from Reliant Energy			1,426,067	
Payments of long-term debt	(255,293)	(249,253)	(175,312)	(230,667)
Proceeds from long-term debt		812,849		150,000
Increase (decrease) in short-term borrowings - net	234,584	(390,000)	341,500	(1,500)
Increase (decrease) in notes with affiliates - net	242,135	(202,800)	22,100	
Common and preferred stock dividends				(19,281)
Other, net	(190)	(19,957)	(9,164)	(27,348)
Net cash provided by (used in) financing activities	221,236	(49,161)	1,605,191	(128,796)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	54,771	(9,106)	35,682	(24,586)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	26,576	35,682		27,981
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 81,347	$ 26,576	$ 35,682	$ 3,395
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash Payments:				
Interest (net of amounts capitalized)	$ 142,399	$ 111,217	$ 55,672	$ 67,100
Income taxes	45,540	46,522	714	20,900

See Notes to Resources' Consolidated Financial Statements

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE YEARS ENDED DECEMBER 31, 1999

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations.

Reliant Energy Resources Corp. (Resources Corp.), formerly NorAm Energy Corp., together with its subsidiaries (collectively, Resources) distributes natural gas, transports natural gas through its interstate pipelines and provides energy services including gathering, storage and wholesale energy marketing, trading and risk management services. Resources Corp. is a Delaware corporation and a wholly owned subsidiary of Reliant Energy, Incorporated (Reliant Energy).

Resources' natural gas distribution operations (Natural Gas Distribution) are conducted by three unincorporated divisions: Reliant Energy Entex, Reliant Energy Minnegasco and Reliant Energy Arkla. Resources' interstate pipeline operations (Interstate Pipelines) are conducted by two wholly owned subsidiaries, Reliant Energy Gas Transmission Company (REGT) and Mississippi River Transmission Corporation (MRT). Resources' wholesale energy marketing, trading and risk management activities in North America are conducted primarily by Reliant Energy Services, Inc. (Reliant Energy Services) and gas gathering activities are conducted by Reliant Energy Field Services, Inc. (Reliant Energy Field Services). Resources' European energy trading and marketing activities are conducted by Reliant Energy Trading & Marketing B.V., a wholly owned subsidiary. Resources' retail marketing activities are conducted by Reliant Energy Retail, Inc. (Reliant Energy Retail). Resources' principal operations are located in Arkansas, Louisiana, Minnesota, Mississippi, Missouri, Oklahoma and Texas.

(b) Merger with Reliant Energy, Incorporated.

In August 1997, the former parent corporation (Former Parent) of Reliant Energy, merged with and into Reliant Energy, and NorAm Energy Corp. (Former Resources) 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 Reliant Energy, and each outstanding share of common stock of Former Resources was converted into the right to receive $16.3051 cash or 0.74963 shares of common stock of Reliant Energy. The aggregate consideration paid to Former Resources stockholders in connection with the Merger consisted of $1.4 billion in cash and 47.8 million shares of Reliant Energy's common stock valued at approximately $1.0 billion. The overall transaction was valued at $4.0 billion consisting of $2.4 billion for Former Resources' common stock and common stock equivalents and $1.6 billion of Former Resources debt.

The Merger was recorded under the purchase method of accounting with assets and liabilities of Former Resources reflected at their estimated fair values, resulting in a "new basis" of accounting. The periods which reflect the new basis of accounting are labeled as "Current Resources" and periods which do not reflect the new basis of accounting are labeled "Former Resources." Former Resources' Statement of Consolidated Income for the seven months ended July 31, 1997 included certain adjustments from August 1, 1997 to the acquisition date for pre-merger transactions.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Resources' Statements of Consolidated Income for periods after the acquisition date are principally affected by (i) the amortization (over 40 years) of the newly-recognized goodwill, partially offset by the elimination of the amortization of Resources' historical goodwill, (ii) the amortization (to interest expense) of the revaluation of long-term debt, (iii) the removal of the amortization (to operating expense) previously associated with the pension and postretirement obligations as described above and (iv) the deferred income tax expense associated with these adjustments. Interest expense on Reliant Energy's debt which was used to fund the cash portion of the acquisition has not been allocated or "pushed down" to Resources and is not reflected on Resources' Consolidated Financial Statements. For these reasons, among others, certain financial information for periods before and after the acquisition date is not comparable.

If the Merger had occurred on January 1, 1997, Resources' unaudited pro forma net income for 1997 would have been $66 million. Pro forma results, which are based on assumptions deemed appropriate by Resources' management, have been prepared for informational purposes only and are not necessarily indicative of the results which would have resulted had the Merger actually taken place on January 1, 1997.

(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.

(d) Principles of Consolidation.

Resources' Consolidated Financial Statements include the accounts of Resources Corp. and its wholly owned subsidiaries. All significant intercompany transactions and balances are eliminated in consolidation.

(e) Property, Plant and Equipment and Goodwill .

Property, plant and equipment includes the following:

	DECEMBER 31, 1999	DECEMBER 31, 1998
	(THOUSANDS OF DOLLARS)	
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas	$ 1,941,668	$ 1,686,159
Interstate pipelines	1,330,969	1,302,829
Other	25,841	13,976
Total	3,298,478	3,002,964
Less accumulated depreciation	324,596	187,936
Property, plant and equipment - net	$ 2,973,882	$ 2,815,028

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Property, plant and equipment have been revalued to estimated fair market value as of the Merger date in accordance with the purchase method of accounting, and depreciated or amortized on a straight-line basis over their estimated useful lives. Repair and maintenance costs are expensed. The cost of utility plant and equipment retirements is charged to accumulated depreciation.

Goodwill is being amortized on a straight-line basis over 40 years. Resources had $128 million and $75 million accumulated goodwill amortization at December 31, 1999 and 1998, respectively. Resources will periodically compare the carrying value of its goodwill to the anticipated undiscounted future net cash flows from the businesses whose acquisition gave rise to the goodwill and as of yet no impairment is indicated or expected.

(f) Depreciation and Amortization Expense.

Depreciation is computed using the straight-line method based on economic lives or a regulatory mandated method. The range of plant and equipment depreciable lives for natural gas, interstate pipelines and other property is 5 to 50 years, 5 to 75 years and 3 to 20 years, respectively. Depreciation expense for 1999 was $143 million compared to $137 million for 1998 and $132 million for 1997 of which $56 million relates to the five months ended December 31, 1997. Approximately $53 million and $54 million of goodwill was amortized during 1999 and 1998, respectively. Approximately $30 million of goodwill was amortized during 1997 of which $22 million represents amortization related to the Merger and was incurred during the period from the acquisition date through December 31, 1997. Other amortization expense was $3 million, $1 million and $1 million in 1999, 1998 and 1997, respectively.

(g) Fuel, Gas and Petroleum Products.

Gas inventory (primarily using the average cost method) was $78.5 million and $79.9 million at December 31, 1999 and 1998, respectively, and is valued at the lower of cost or market. Fuel stock and petroleum products, principally heating oil, were $1.6 million and $81.2 million at December 31, 1999 and 1998, respectively, and are used in the trading operations and are marked-to-market in connection with the price risk management activities as discussed in Note 2.

(h) Revenues.

Resources records natural gas sales under the accrual method, whereby unbilled natural gas sales are estimated and recorded each month. Interstate Pipelines records revenues as transportation services are provided. In 1998, Resources adopted mark-to-market accounting for its energy price risk management and trading activities (see Notes 1(q) and 2).

(i) Statements of Consolidated Cash Flows.

For purposes of reporting cash flows, cash equivalents are considered to be short-term, highly liquid investments readily convertible to cash.

(j) Income Taxes.

Reliant Energy files a consolidated federal income tax return in which Resources is included as of the acquisition date. The Company follows a policy of comprehensive interperiod income tax allocation. The Company uses the liability method of accounting for deferred income taxes and measures deferred income taxes for all significant income tax temporary differences. For additional information regarding income taxes, see Note 7.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(k) Investments in Marketable Equity Securities.

The Company holds certain equity securities classified as "available-for-sale" and, in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," reports such investments at estimated fair value on Resources' Consolidated Balance Sheets as deferred debits and any unrealized gain or loss, net of tax, as a separate component of stockholder's equity and other comprehensive income. At December 31, 1999 and 1998, the accumulated unrealized loss, net of tax, relating to these equity securities was approximately $17.2 million and $16.0 million, respectively.

(l) Merger Transaction Costs.

"Merger transaction costs" include expenses associated with completion of the Merger, principally consisting of investment banking and legal fees.

(m) Allowance for Doubtful Accounts.

Accounts and notes receivable, principally customer, as presented on Resources' Consolidated Balance Sheets are net of an allowance for doubtful accounts of $21.3 million and $17.6 million at December 31, 1999 and 1998, respectively.

(n) Related Party Transactions.

Reliant Energy has established a "money fund" through which Resources can borrow or invest on a short-term basis. Net investments of Resources, included in accounts and notes receivable-affiliated companies, totaled $181 million at December 31, 1998. Interest income on such investments was $6.1 million and $5.1 million for the year ended December 31, 1999 and 1998, respectively. Net borrowings of Resources, included in accounts and notes payables-affiliated companies, totaled $62 million at December 31, 1999. Interest expense on such borrowings was $0.1 million and $0.2 million for the years ended December 31, 1999 and 1998, respectively. Interest income and expense on such investments and borrowing for 1997 were not material.

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, acquired or operated by Reliant Energy Power Generation, Inc., a wholly owned subsidiary of Reliant Energy, or its subsidiaries. During 1999 and 1998, the sales and services to Reliant Energy and its affiliates totaled $197 million and $96 million, respectively. Purchases of electricity from Reliant Energy and its affiliates were $116 million and $29 million in 1999 and 1998, respectively. Sales and purchases to/from Reliant Energy and its affiliates were not material in 1997.

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. During 1999, 1998 and 1997, the allocated and direct billed corporate services totaled $34 million, $29 million and $19 million, respectively.

As of December 31, 1999 and 1998, net accounts payable to Reliant Energy and its subsidiaries, which are not owned by Resources, was $34 million and $36 million, respectively.

Certain subsidiaries of Resources Corp. have entered into office rental agreements with Reliant Energy. In 1999 and 1998, Resources paid $1.7 million and $0.9 million of rent expense to Reliant Energy for each respective year.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(o) Foreign Currency Adjustments.

Assets and liabilities of Resources Corp.'s foreign subsidiaries 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 stockholder's equity and other comprehensive income.

(p) Reclassifications and Use of Estimates.

Certain amounts from the previous years have been reclassified to conform to the 1999 presentation of financial statements. Such reclassifications do not affect earnings.

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, 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.

(q) Change in Accounting Principle.

In the fourth quarter of 1998, Resources adopted mark-to-market accounting for all of its energy price risk management and trading activities. Under mark-to-market accounting, Resources records the fair value of energy related derivative financial instruments, including physical forward contracts, swaps, options and exchange-traded futures and options contracts, at each balance sheet date. Such amounts are recorded as price risk management assets and liabilities. The realized and unrealized gains and losses are recorded as a component of operating revenues. Resources has applied mark-to-market accounting retroactively to January 1, 1998. There was no material cumulative effect resulting from this accounting change.

Resources adopted Emerging Issues Task Force Issue 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 98-10) in 1999. The adoption of EITF Issue 98-10 had no material impact on the consolidated financial statements.

(r) New Accounting Pronouncement.

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

(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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

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.

(3) CAPITAL STOCK

Resources' Direct Stock Purchase Plan and Dividend Reinvestment Plan were suspended and canceled in connection with the Merger.

(4) LONG-TERM AND SHORT-TERM BORROWINGS

	DECEMBER 31, 1999		DECEMBER 31, 1998	
	LONG-TERM	CURRENT (1)	LONG-TERM	CURRENT (1)
	(THOUSANDS OF DOLLARS)			
Short-term borrowings:				
Receivables facilities		$ 350,000		$ 300,000
Commercial paper		184,584		
Total short-term borrowings		534,584		300,000
Long-term debt: (2)				
Convertible debentures 6.0% due 2012	$ 92,727		$ 104,617	
Debentures 6.38% to 8.90% due 2003 to 2008 as of December 31, 1999 6.38% to 10.00% due 2003 to 2019 as of December 31, 1998	961,545		1,010,919	
Medium-term notes 8.77% to 9.23% maturing 2001 as of December 31, 1999 8.77% to 9.39% maturing 2000 to 2001 as of December 31, 1998	150,275		177,591	
Notes payable 7.50% to 9.39% due 2000 as of December 31, 1999 7.50% to 8.88% due 1999 to 2000 as of December 31, 1998		223,451	203,116	203,438
Unamortized discount and premium	16,084		17,046	
Total long-term borrowings	1,220,631	223,451	1,513,289	203,438
Total borrowings	$ 1,220,631	$ 758,035	$ 1,513,289	$ 503,438

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

(2) At the date of the Merger, the debt was adjusted to fair market value. Included in unamortized discount and premium is unamortized premium related to fair value adjustments of long-term debt of approximately $17.8 million and $33.2 million at December 31, 1999 and 1998, respectively, and is being amortized over the respective remaining term of the related long-term debt.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(a) Short-term Borrowings.

In 1999, Resources met its short-term financing needs primarily through a receivables facility and the issuance of commercial paper. Resources has a $350 million revolving credit facility (Resources Credit Facility) that expires in 2003. Borrowings under the Resources Credit Facility are unsecured and bear interest at a rate based upon either the London interbank offered rate (LIBOR) plus a margin, a base rate or a rate determined through a bidding process. The Resources Credit Facility is used to support Resources' issuance of up to $350 million of commercial paper and includes a $65 million sub-facility under which letters of credit may be obtained. As of December 31, 1999, Resources had $185 million of commercial paper outstanding having an average interest rate of 7.24%. There was no commercial paper and no loans outstanding under the Resources Credit Facility at December 31, 1998. Letters of credit under the sub-facility aggregated $9.3 million as of December 31, 1999.

Under a trade receivables facility (Receivables Facility) which expires in August 2000, Resources sells, with limited recourse, an undivided interest (limited to a maximum of $350 million as of December 31, 1999 and $300 million as of December 31, 1998) in a designated pool of accounts receivable. The amount of receivables sold and uncollected was $350 million and $300 million at December 31, 1999 and December 31, 1998, respectively. The weighted average interest rate was approximately 6.10% and 5.30% at December 31, 1999 and December 31, 1998, respectively. Certain of Resources' remaining receivables serve as collateral for receivables sold and represent the maximum exposure to Resources should all receivables sold prove ultimately uncollectible.

(b) Long-term Debt.

Consolidated maturities of long-term debt and sinking fund requirements for Resources are approximately $230 million in 2000, $157 million in 2001, $7 million in 2002, $507 million in 2003 and $7 million in 2004.

At December 31, 1999, Resources Corp. had issued and outstanding $92.7 million aggregate principal amount of its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and have the right at any time on or before the maturity date thereof to convert each Subordinated Debenture into 0.65 shares of Reliant Energy common stock and $14.24 in cash. During 1999, Resources purchased $12.0 million aggregate principal amount of its Subordinated Debentures. Resources is required to make annual sinking fund payments of $6.5 million on the Subordinated Debentures which began on March 15, 1997 and will continue on each succeeding March 15 up to and including March 15, 2011. Resources (i) may credit against the sinking fund requirements any Subordinated Debentures redeemed by Resources and Subordinated Debentures which have been converted at the option of the holder and (ii) may deliver purchased Subordinated Debentures in satisfaction of the sinking fund requirements. Resources satisfied its 1999 and 1998 sinking fund requirements by delivering Subordinated Debentures previously purchased.

In November 1998, Resources Corp. issued $500 million aggregate principal amount of its 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes). Included within the TERM Notes is an embedded option sold to an investment bank which gives the investment bank the right to remarket the TERM Notes commencing in November 2003 if it chooses to exercise the option. The TERM Notes are unsecured obligations of Resources Corp. which bear interest at an annual rate of 6 3/8% through November 1, 2003. On November 1, 2003, the holders of the TERM Notes are required to tender their notes at 100% of their principal amount. The portion of the proceeds attributable to the option premium will be amortized over the stated term of the securities. If the option is not exercised by the investment bank, Resources will repurchase the TERM Notes at 100% of their principal amount on November 1, 2003. If the option is exercised, the TERM Notes will be remarketed on a date, selected by Resources Corp., within the 52-week period beginning November 1, 2003. During such period and prior to remarketing, the TERM Notes will bear interest at rates, adjusted weekly, based on an index selected by Resources Corp. If the TERM Notes are remarketed, the final maturity date of the TERM Notes will be November 1, 2013, subject to

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

adjustment, and the effective interest rate on the remarketed TERM Notes will be 5.66% plus Resources' applicable credit spread at the time of such remarketing.

For the year ended December 31, 1999, and 1998, Resources capitalized interest of $1.9 million and $1.6 million, respectively. There was no capitalized interest in 1997.

During the year ended December 31, 1997, Resources recorded an after-tax extraordinary gain of $237 thousand from the extinguishment of debt.

(c) Restrictions on Debt.

The Resources Credit Facility contains covenants and requirements which must be met to borrow funds. Such covenants are not anticipated to materially restrict Resources from borrowing funds under such facilities.

(5) TRUST PREFERRED SECURITIES

In June 1996, a Delaware statutory business trust established by Resources Corp. (Resources Trust) issued $172.5 million of convertible preferred securities to the public. The convertible preferred securities have a distribution rate of 6.25% payable quarterly in arrears, a stated liquidation amount of $50 per convertible preferred security and must be redeemed by 2026. The Resources Trust used the proceeds to purchase $172.5 million of 6.25% convertible junior subordinated debentures from Resources Corp. having an interest rate and a maturity date that correspond to the distribution rate and the mandatory redemption date of the convertible preferred securities. Resources Corp. accounts for Resources Trust as a wholly owned consolidated subsidiary. The convertible junior subordinated debentures represent Resources Trust's sole assets and its entire operations. Resources Corp. has fully and unconditionally guaranteed, on a subordinated basis, all of Resources Trust's obligations with respect to the convertible preferred securities. The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Each convertible preferred security is convertible at the option of the holder into $33.62 of cash and 1.55 shares of Reliant Energy common stock. During 1999 and 1998, convertible preferred securities aggregating $0.2 million and $15.5 million, respectively, were converted, leaving $0.7 million and $0.9 million liquidation amount of convertible preferred securities outstanding at December 31, 1999 and 1998, respectively. Subject to certain limitations, Resources Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, Resource Corp. may not pay dividends to Reliant Energy. As of December 31, 1999, no interest payments on the debentures had been deferred.

(6) STOCK-BASED INCENTIVE COMPENSATION PLANS AND EMPLOYEE BENEFIT PLANS

(a) Incentive Compensation Plans.

Prior to the Merger, Resources had several incentive compensation plans which provided for the issuance of stock-based incentives (including restricted shares, stock options and stock appreciation rights) to directors and key employees of Resources, including officers. The charge to earnings in 1997 related to these incentive compensation plans was $1.4 million. All stock options granted under such plans were either converted into similar Reliant Energy options or "cashed out" prior to the Merger. All restricted stock and substantially all stock appreciation rights were "cashed out" with the Merger. As of the acquisition date, less than 1,000 stock appreciation rights were outstanding. The following is certain information relating to options issued pursuant to Resources' incentive compensation plans.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	NUMBER OF SHARES	WEIGHTED-AVERAGE EXERCISE PRICE PER SHARE
Outstanding at December 31, 1996	1,507,928	$ 8.65
Options Exercised	(147,092)	$ 6.47
Options Forfeited/Expired	(10,682)	$ 12.42
Options Cashed Out Upon Merger	(521,857)	
Options Converted at Acquisition (1)	(828,297)	
Outstanding at December 31, 1997	--	

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(1) Effective upon the Merger, each holder of an unexpired Resources stock option, whether or not then exercisable, was entitled to elect to either (i) have all or any portion of their Resources stock options canceled and "cashed out" or (ii) have all or any portion of their Resources stock options converted to Reliant Energy stock options. There were 828,297 Resources stock options converted into 622,504 Reliant Energy stock options at the acquisition date.

Resources applies the rules contained in Accounting Principles Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation cost been determined in accordance with the provisions of SFAS No. 123 "Accounting for Stock-Based Compensation," based on the "fair value methodology," the impact on Resources' earnings for 1997 would have been immaterial.

(b) Pension.

Prior to 1999, Resources had two noncontributory retirement plans which covered substantially all employees: (1) the plan which covers Resources' employees other than Reliant Energy Minnegasco employees and (2) the plan which covers Reliant Energy Minnegasco employees. These plans provided retirement benefits based on years of service and compensation. Effective January 1, 1999, the two noncontributory retirement plans were merged into Reliant Energy's noncontributory retirement plan. Resources' and Reliant Energy's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the plan consist principally of common stocks and high-quality, interest-bearing obligations. The net periodic pension costs (benefits) and prepaid pension costs and benefit obligation have been determined separately for each plan prior to the plans being merged. Subsequent to the plans being merged into Reliant Energy's plan, the net periodic pension costs (benefits), prepaid pension costs and benefit obligation were determined based on the employees of Resources and their respective compensation levels.

Net pension cost for Resources includes the following components:

	CURRENT RESOURCES			FORMER RESOURCES
	TWELVE MONTHS ENDED DECEMBER 31, 1999	TWELVE MONTHS ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997
		(THOUSANDS OF DOLLARS)		
Service cost - benefits earned during the period	$ 15,031	$ 13,466	$ 5,095	$ 7,220
Interest cost on projected benefit obligation	35,184	33,357	15,015	20,313
Expected return on plan assets	(61,243)	(53,043)	(23,856)	(26,716)
Amortization(1)	(2,026)			66
Net pension cost (benefit)	$ (13,054)	$ (6,220)	$ (3,746)	$ 883

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(1) Amortization after the acquisition date represents amortization of unrecognized loss incurred after the acquisition date. For further discussion of the accounting for the Merger see Note 1(b).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Reconciliations of Resources' beginning and ending balances of its benefit obligation, plan assets and funded status for 1999 and 1998 are set forth below:

	YEAR ENDED DECEMBER 31,	
	1999	1998
	(THOUSANDS OF DOLLARS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of period	$ 553,210	$ 513,247
Service cost	15,031	13,466
Interest cost	35,184	33,357
Benefits paid	(35,306)	(23,870)
Plan amendments		(53,736)
Actuarial (gain) loss	(121,162)	70,746
Benefit obligation, end of period	$ 446,957	$ 553,210
CHANGE IN PLAN ASSETS		
Plan asset, beginning of period	$ 624,362	$ 569,718
Benefits paid	(35,306)	(23,870)
Actual investment return	30,911	78,514
Plan assets, end of period	$ 619,967	$ 624,362
RECONCILIATION OF FUNDED STATUS		
Funded status	$ 173,010	$ 71,152
Unrecognized prior service cost	(48,459)	(53,736)
Unrecognized actuarial (gain) loss	(13,925)	84,618
Net amount recognized at end of year	$ 110,626	$ 102,034
ACTUARIAL ASSUMPTIONS		
Discount rate	7.5%	6.5%
Rate of increase in compensation levels	3.5 - 5.5%	3.5 -5.5%
Expected long-term rate of return on assets	10.0%	10.0%

In 1998, Reliant Energy's and Resources Corp.'s respective board of directors approved the amendment and restatement of the retirement plan, effective January 1, 1999, which converted the present value of the accrued benefits under their existing pension plans into a cash balance pension plan. Under the cash balance formula, each participant has an account, for recordkeeping purposes only, to which credits are allocated annually based on a percentage of the participant's pay. The applicable percentage for 1999 is 4%. The purpose of the plan change is to continue to provide uniform retirement income benefits across all employee groups, which are competitive both within the energy services industry as well as with other companies within the United States. Resources will continue to reflect the costs of the pension plan according to the provisions of SFAS No. 87, "Employers' Accounting for Pensions" as amended. As a result of the January 1, 1999 amendment and restatement, which is reflected in the December 31, 1998 disclosure, Resources' benefit obligation declined $54 million.

The actuarial gains and losses are due to changes in certain actuarial assumptions.

Prior to 1999, in addition to the noncontributory plans, Resources maintained certain non-qualified plans which allowed participants to retain the benefits to which they would have been entitled under its noncontributory plans except for the federally mandated limits on such benefits or on the level of salary on which such benefits may be calculated. Effective January 1, 1999, these non-qualified plans were merged into a similar plan of Reliant Energy. As of December 31, 1999, Resources had recorded a prepaid benefit obligation of $0.6 million related to these plans.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

As of December 31, 1998, a benefit obligation of $8.2 million was recorded related to these plans. Expense of approximately $1 million associated with these non-qualified plans was recorded each year during 1999, 1998 and 1997, respectively.

(c) Savings Plan.

Prior to April 1, 1999, Resources had an employee savings plan which covered substantially all employees other than Reliant Energy Minnegasco employees. Under the terms of the Resources savings plan beginning January 1, 1999, employees could contribute up to 16% of total compensation, which contributions up to 6% were matched by Resources. During 1998 and 1997, employees could contribute up to 12% of total compensation, which contributions up to 6% were matched by Resources. Prior to April 1, 1999, the Reliant Energy Minnegasco employees were covered by a savings plan, the terms of which were somewhat similar to the Resources savings plan. Effective April 1, 1999, the Resources savings plan and the Reliant Energy Minnegasco savings plan were merged into Reliant Energy's savings plan.

Reliant Energy's employee savings plan qualifies as cash or deferred arrangements under Section 401(k) of the Internal Revenue Code of 1986, as amended (IRC). Under Reliant Energy's plan, participating employees may contribute a portion of their compensation, pre-tax or after-tax, up to a maximum of 16% of compensation. In 1999, the savings plan was amended so that Reliant Energy now matches 75% to 125% of the first 6% of each employee's compensation contributed, subject to a vesting schedule, based on certain performance goals achieved by Reliant Energy and its subsidiaries. Substantially all of Reliant Energy's match is invested in Reliant Energy common stock. Reliant Energy allocates to Resources the savings benefit expense related to the employees of Resources.

Savings plan benefit expense related to Resources was $9.5 million, $10.8 million and $10.8 million in 1999, 1998 and 1997, respectively. Savings plan expense related to Resources from the Merger date through December 31, 1997 was $3.7 million.

(d) Postretirement Benefits.

Resources records the liability for postretirement benefit plans other than pensions (primarily health care) under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions."

The net postretirement benefit cost includes the following components:

	CURRENT RESOURCES			FORMER RESOURCES
	TWELVE MONTHS ENDED DECEMBER 31, 1999	TWELVE MONTHS ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997
	(THOUSANDS OF DOLLARS)			
Service cost - benefits earned during the period	$ 2,004	$ 635	$ 115	$ 164
Interest cost on projected benefit obligation	9,060	6,660	3,561	4,948
Expected return on plan assets	(583)	(463)	(73)	(107)
Net amortization	2,100			3,875
Net postretirement benefit cost	$ 12,581	$ 6,832	$ 3,603	$ 8,880

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Reconciliations of Resources' beginning and ending balances of its postretirement benefit plans benefit obligation, plan assets and funded status for 1999 and 1998 are set forth below:

	TWELVE MONTHS ENDED DECEMBER 31, 1999	1998
	(THOUSANDS OF DOLLARS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of period	$ 144,069	$ 118,472
Service cost	2,004	635
Interest cost	9,060	6,660
Benefits paid	(8,469)	(11,569)
Participant contributions	1,996	1,856
Plan amendments		28,936
Actuarial gain	(32,288)	(921)
Benefit obligation, end of period	$ 116,372	$ 144,069
CHANGE IN PLAN ASSETS		
Plan asset, beginning of period	$ 6,461	$ 4,502
Benefits paid	(8,469)	(11,569)
Employer contributions	8,871	11,163
Participant contributions	1,996	1,856
Actual investment return	328	509
Plan assets, end of period	$ 9,187	$ 6,461
RECONCILIATION OF FUNDED STATUS		
Funded status	$(107,185)	$(137,608)
Unrecognized prior service cost	25,881	28,936
Unrecognized actuarial (gain) loss	(22,195)	1,759
Net amount recognized at end of year	$(103,499)	$(106,913)
ACTUARIAL ASSUMPTIONS		
Discount rate	7.5%	6.5%
Rate of increase in compensation levels	3.5 - 5.5%	3.5 - 5.5%
Expected long-term rate of return on assets	10.0%	10.0%
Health care cost trend rates - Under 65	5.8%	6.0%
Health care cost trend rates - 65 and over	6.2%	6.7%

The assumed health care rates gradually decline to 5.4% for both medical categories by 2001.

If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of December 31, 1999 would be increased by approximately 5.3%. The annual effect of the 1% increase on the total of the service and interest costs would be an increase of approximately 4.1%. If the healthcare cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 1999 would be decreased by approximately 5.3%. The annual effect of the 1% decrease on the total of the service and interest costs would be a decrease of 4.2%.

In 1998, Reliant Energy's and Resources Corp.'s respective board of directors approved an amendment, effective January 1, 1999, which created an account balance based on credited service at December 31, 1998. Under the new plan, each participant has an account, for recordkeeping purposes only, to which a $750 credit is allocated annually. This account balance vests after 5 years of service after age 50. At retirement the account balance can be used to purchase medical benefits. It may not be taken as cash. Resources will continue to reflect the costs of the retiree medical plan according to the provisions of SFAS No. 106 as amended. As a result of the January 1, 1999 amendment, which is reflected in the December 31, 1998 disclosure, Resources' benefit obligation increased $29 million.

The actuarial gains and losses are due to changes to certain actuarial assumptions.

(e) Postemployment Benefits.

Resources records postemployment benefits based on SFAS No. 112, "Employer's Accounting for Postemployment Benefits," which requires the recognition of a liability for benefits provided to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily health care and life insurance benefits for participants in the long-term disability plan). Net postemployment benefit costs were $11 million in 1999. Net postemployment benefit costs were not material in 1998 and 1997.

(7) INCOME TAXES

Reliant Energy files a consolidated federal income tax return, in which Resources is included. Prior to the acquisition date, Resources Corp. and its subsidiaries filed a consolidated federal income tax return. Resources' pre-acquisition consolidated federal income tax returns have been audited and settled through the year 1986. Investment tax credits are generally deferred and amortized over the lives of the related assets. The unamortized investment tax credit in deferred credits on Resources' Consolidated Balance Sheets was $7.5 million and $8.0 million for 1999 and 1998, respectively.

The components of Resources' income tax provision are set forth below:

	CURRENT RESOURCES			FORMER RESOURCES
	TWELVE MONTHS ENDED DECEMBER 31, 1999	TWELVE MONTHS ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997
	(THOUSANDS OF DOLLARS)			
Federal				
Current	$ 27,732	$ 30,539	$ (12,005)	$ 16,339
Deferred	53,335	61,020	36,673	12,795
Investment tax credit	(536)	(609)	(262)	(363)
State				
Current	3,520	7,235	536	833
Deferred	4,720	13,645	(559)	1,794
Income tax expense	$ 88,771	$ 111,830	$ 24,383	$ 31,398

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 35% to income from continuing operations. The reasons for this difference are as follows:

	CURRENT RESOURCES			FORMER RESOURCES
	TWELVE MONTHS ENDED DECEMBER 31, 1999	TWELVE MONTHS ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997
	(THOUSANDS OF DOLLARS)			
Income before income taxes	$ 188,972	$ 205,654	$ 45,230	$ 77,273
Statutory rate	35%	35%	35%	35%
Income taxes at statutory rate	66,140	71,979	15,831	27,046
Increase (decrease) in tax resulting from:				
State income taxes, net of federal income tax benefit(1) ...	5,356	14,737	(9)	1,708
Investment tax credit	(536)	(609)	(262)	(363)
Goodwill amortization	17,746	17,971	7,242	2,430
Other, net	65	7,752	1,581	577
Total	22,631	39,851	8,552	4,352
Income taxes	$ 88,771	$ 111,830	$ 24,383	$ 31,398
Effective Rate	47.0%	54.4%	53.9%	40.6%

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(1) Calculation of the accrual for state income taxes at the end of each year requires that Resources estimate the manner in which its income for that year will be allocated and/or apportioned among the various states in which it conducts business, which states have widely differing tax rules and rates. These allocation/apportionment factors change from year to year and the amount of taxes ultimately payable may differ from that estimated as a part of the accrual process. For these reasons, the amount of state income tax expense may vary significantly from year-to-year, even in the absence of significant changes to state income tax valuation allowances or changes in individual state income tax rates.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities as of December 31, 1999 and 1998, were as follows:

	DECEMBER 31,	
	1999	1998
	(THOUSANDS OF DOLLARS)	
Deferred Tax Assets:		
Employee benefit accruals	$ 23,137	$ 41,244
Gas purchase contract accruals	3,395	8,116
Operating loss carryforwards	38,954	23,178
Alternative minimum tax credit carryforwards	34,239	38,361
Other	63,076	33,615
Valuation allowance	(19,139)	(8,591)
Total deferred tax assets - net	143,662	135,923
Deferred Tax Liabilities:		
Property, plant and equipment	547,646	522,944
Deferred gas costs	35,756	13,237
Deferred state income taxes	68,952	70,000
Other	24,033	27,504
Total deferred tax liabilities	676,387	633,685
Accumulated deferred income taxes - net	$ 532,725	$ 497,762

At December 31, 1999, Resources had approximately $492 million of state net operating losses available to offset future state taxable income through the year 2019. In addition, Resources has approximately $28 million of federal alternative minimum tax credits which are available to reduce future federal income taxes payable, if any, over an indefinite period (although not below the tentative minimum tax otherwise due in any year), and approximately $1.2 million of state alternative minimum tax credits which are available to reduce future state income taxes payable, if any, through the year 2002. The valuation allowance reflects a net increase of $10.5 million in 1999. This net increase results from a reassessment of Resources' usage of state tax attributes, including the future ability to use state net operating loss and alternative minimum tax credit carryforwards, offset by changes in valuation allowances provided for expiring state net operating loss carryforwards.

(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 leases 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, respectively, 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 restructured the ANR Agreement and Resources refunded in 1995 and 1993, respectively, $50 million and $34 million to ANR or an affiliate. Resources recorded $41 million as a liability reflecting ANR's or its affiliates' use of 130 Mmcf/day of capacity in certain of Resources' transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to an ANR affiliate. The ANR Agreement will terminate in 2005 with a refund of the remaining balance.

(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 are currently owned by others; and one site was previously owned and operated by Resources but is currently owned by others. Resources believes it has no liability with respect to the sites it neither owned nor operated.

At December 31, 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 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 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.

(9) 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 (N.V. UNA), Reliant Energy's investment in Time Warner securities and non-Resources corporate expenses.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies except that certain executive benefit costs have not been allocated to segments. Reliant Energy evaluates performance based on operating income excluding certain corporate costs not allocated to the segments. Reliant Energy and Resources Corp. account for intersegment sales as if the sales were to third parties, that is, at current market prices.

Reliant Energy has identified the following reportable segments: Electric Operations, Natural Gas Distribution, Interstate Pipelines, Wholesale Energy, Reliant Energy Europe, Reliant Energy Latin America and Corporate. Natural Gas Distribution operations consist of natural gas sales to, and natural gas transportation for, residential, commercial and certain industrial customers. Interstate Pipelines conducts interstate natural gas pipeline operations. Wholesale Energy is engaged in the acquisition, development and operation of non-rate regulated power generation facilities, as well as the wholesale energy marketing and natural gas gathering businesses in North America. Reliant Energy Europe, which was formed in 1999, owns, operates and sells electric power from generation facilities in the Netherlands and plans to participate in the emerging wholesale energy marketing and trading industry in Europe. Corporate includes the Reliant Energy's and Resources' unregulated retail electric and gas services businesses, a communications business, certain real estate holdings of Reliant Energy and corporate costs.

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

	NATURAL GAS DISTRIBUTION	INTERSTATE PIPELINES	WHOLESALE ENERGY	RELIANT ENERGY EUROPE	CORPORATE	RECONCILING ELIMINATIONS
Current Resources As of and for the Year Ended December 31, 1999:						
Revenues from external customers	$ 1,895,358	$ 121,514	$ 7,688,960	$ 152,865	$ 881,270	
Intersegment revenues	1,202	153,580	260,317		73,648	$(488,747)
Depreciation and amortization ...	132,424	49,127	25,323	20,737	10,726	
Operating income	124,863	113,018	45,308	32,049	(32,709)	
Total assets	3,386,596	2,211,842	2,773,070	3,247,290	4,645,403	(1,139,450)
Equity investments in and advances to unconsolidated subsidiaries	--	--	78,041			
Expenditures for additions to long-lived assets	205,545	30,131	529,805	834,300	89,840	
Current Resources As of and for the Year Ended December 31, 1998:						
Revenues from external customers	1,877,185	126,988	4,289,006		586,065	
Intersegment revenues	1,167	155,508	167,152		97,181	(421,008)
Depreciation and amortization ...	130,658	44,025	18,204		9,646	
Operating income	144,447	128,328	59,170		(50,243)	
Total assets	3,141,762	2,050,636	1,535,007		1,679,876	(915,895)
Equity investments in and advances to unconsolidated subsidiaries			42,252			
Expenditures for additions to long-lived assets	161,735	59,358	363,174		28,077	
Current Resources For the Five Months Ended December 31, 1997:						
Revenues from external customers	920,125	49,655	1,288,357		276,817	
Intersegment revenues	505	58,678	76,301		34,853	(170,337)
Depreciation and amortization	52,374	19,088	2,633		5,769	
Operating income	56,842	31,978	912		(39,680)	
Expenditures for additions to long-lived assets	61,078	16,304	14,038		1,426,323	
Former Resources For the Seven Months Ended July 31, 1997:						
Revenues from external customers	1,340,966	86,465	1,589,032		297,128	
Intersegment revenues	672	100,246	88,188		35,285	(224,391)
Depreciation and amortization ...	57,120	17,230	1,629		8,922	
Operating income	113,607	76,730	(13,262)		(22,035)	
Expenditures for additions to long-lived assets	62,998	9,619	8,996		7,025	

	ELIMINATION OF NON-RESOURCES OPERATIONS	CONSOLIDATED
Current Resources As of and for the Year Ended December 31, 1999:		
Revenues from external customers	(196,422)	$10,543,545
Intersegment revenues		
Depreciation and amortization ...	(39,661)	198,676
Operating income	15,154	297,683
Total assets	(7,911,954)	7,212,797
Equity investments in and advances to unconsolidated subsidiaries	(78,041)	

Expenditures for additions to long-lived assets	(1,400,861)	288,760
Current Resources As of and for the Year Ended December 31, 1998:		
Revenues from external customers	(120,832)	6,758,412
Intersegment revenues	--	--
Depreciation and amortization ...	(10,642)	191,891
Operating income	28,603	310,305
Total assets	(883,851)	6,607,535
Equity investments in and advances to unconsolidated subsidiaries	(42,252)	
Expenditures for additions to long-lived assets	(358,372)	253,972
Current Resources For the Five Months Ended December 31, 1997:		
Revenues from external customers	(8,772)	2,526,182
Intersegment revenues		
Depreciation and amortization ...	(1,777)	78,087
Operating income	40,704	90,756
Expenditures for additions to long-lived assets	(1,424,329)	93,414
Former Resources For the Seven Months Ended July 31, 1997:		
Revenues from external customers		3,313,591
Intersegment revenues		
Depreciation and amortization ...		84,901
Operating income		155,040
Expenditures for additions to long-lived assets		88,638

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

	CURRENT RESOURCES			FORMER RESOURCES
	YEAR ENDED DECEMBER 31, 1999	YEAR ENDED DECEMBER 31, 1998	FIVE MONTHS ENDED DECEMBER 31, 1997	SEVEN MONTHS ENDED JULY 31, 1997
	(THOUSANDS OF DOLLARS)			
RECONCILIATION OF OPERATING INCOME TO NET INCOME:				
Operating income	$ 297,683	$ 310,305	$ 90,756	$ 155,040
Interest expense	(119,492)	(111,337)	(47,490)	(78,660)
Distribution on trust preferred securities	(357)	(632)	(279)	(6,317)
Income taxes	(88,771)	(111,830)	(24,383)	(31,398)
Other income (expense)	11,138	7,318	2,243	7,210
Extraordinary gain				237
Net income	$ 100,201	$ 93,824	$ 20,847	$ 46,112
REVENUES BY PRODUCTS AND SERVICES:				
Retail gas sales	$ 2,669,393	$ 2,372,086	1,156,618	1,597,285
Wholesale energy and energy related sales	7,808,401	4,248,181	1,271,746	1,562,842
Gas transport	157,530	167,812	66,265	112,655
Energy products and services	104,643	91,165	40,671	40,809
Elimination of non-Resources operations	(196,422)	(120,832)	(9,118)	
Total	$ 10,543,545	$ 6,758,412	$ 2,526,182	$ 3,313,591
REVENUES AND LONG-LIVED ASSETS BY GEOGRAPHIC AREAS:				
REVENUES:				
US	$ 10,470,420	$ 6,879,244	$ 2,534,954	$ 3,313,591
Netherlands	152,865			
Other	116,682			
Eliminations of non-Resources operations	(196,422)	(120,832)	(8,772)	
Total	$ 10,543,545	$ 6,758,412	$ 2,526,182	$ 3,313,591
LONG-LIVED ASSETS:				
US	$ 6,050,501	$ 6,517,706		
Netherlands	3,186,146			
Other	102	110		
Eliminations of non-Resources operations	(3,834,078)	(1,409,200)		
Total	$ 5,402,671	$ 5,108,616		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(10) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

	DECEMBER 31,			
	1999		1998	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(THOUSANDS OF DOLLARS)			
Financial assets of Resources:				
Energy derivatives - non-trading..........		$ 2,823		
Financial liabilities of Resources:				
Long-term debt............................	$1,444,082	$1,426,223	$1,716,727	$1,746,641
Trust preferred securities................	967	1,030	1,157	1,467
Energy derivatives - non-trading..........		1,105		8,166

The fair values of cash and cash equivalents, marketable equity securities and notes payable are estimated to be equivalent to carrying amounts. The remaining fair values have been determined using quoted market prices of the same or similar securities when available or other estimation techniques.

The fair value of financial instruments included in the trading operations are marked-to-market at December 31, 1999 and 1998 (see Note 2). Therefore, they are stated at fair value and are excluded from the table above.

(11) UNAUDITED QUARTERLY INFORMATION

The following unaudited quarterly financial information includes, in the opinion of management, all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation. Quarterly results are not necessarily indicative of a full year's operations because of seasonality and other factors, including rate increases and variations in operating expense patterns.

	YEAR ENDED DECEMBER 31, 1999			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(THOUSANDS OF DOLLARS)			
Operating revenues..................................	$ 1,828,064	$ 2,430,890	$ 3,446,925	$ 2,837,666
Operating income....................................	150,177	44,949	27,728	74,829
Net income (loss)...................................	70,973	5,956	(6,532)	29,804

	YEAR ENDED DECEMBER 31, 1998			
	FIRST QUARTER(1)	SECOND QUARTER(1)	THIRD QUARTER(1)	FOURTH QUARTER
	(THOUSANDS OF DOLLARS)			
Operating revenues..................................	$ 1,754,541	$ 1,380,470	$ 1,927,156	$ 1,696,245
Operating income....................................	143,494	15,734	23,653	127,424
Net income (loss)...................................	61,828	(4,873)	(2,586)	39,455

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(1) First, second and third quarter of 1998 have been restated for the change in accounting principal to mark-to-market accounting. For further discussion , see Note 1(q).

(12) SUBSEQUENT EVENT (UNAUDITED).

In March 2000, Reliant Energy announced that it had retained an investment banking firm to assist it in evaluating strategic alternatives, including divestiture, for (i) two of its natural gas distribution divisions, Reliant Energy Arkla and Reliant Energy Minnegasco, (ii) its Interstate Pipelines' operations and (iii) its natural gas gathering and pipeline services operations.

INDEPENDENT AUDITORS' REPORT

Reliant Energy Resources Corp.:

We have audited the accompanying consolidated balance sheets of Reliant Energy Resources Corp. and its subsidiaries ("Resources") as of December 31, 1999 and 1998, and the related statements of consolidated income, consolidated stockholder's equity and comprehensive income and consolidated cash flows for the years ended December 31, 1999 and 1998, the five months ended December 31, 1997 and the seven months ended July 31, 1997. Our audits also included the Resources' financial statement schedule listed in Item 14(a)(2) for the years ended December 31, 1999 and 1998. These financial statements and the financial statement schedule are the responsibility of Resources' management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Reliant Energy Resources Corp. and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for the years ended December 31, 1999 and 1998, the five months ended December 31, 1997 and the seven months ended July 31, 1997 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP

Houston, Texas
March 1, 2000

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE RELIANT ENERGY AND RESOURCES CORP.

(a) Reliant Energy.

The information called for by Item 10, to the extent not set forth under Item 1 "Business --Executive Officers of Reliant Energy," is or will be set forth in the definitive proxy statement relating to Reliant Energy's 2000 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 10 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) Resources Corp.

The information called for by Item 10 with respect to Resources Corp. is omitted pursuant to Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

ITEM 11. EXECUTIVE COMPENSATION.

(a) Reliant Energy.

The information called for by Item 11 is or will be set forth in the definitive proxy statement relating to Reliant Energy's 2000 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 11 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) Resources Corp.

The information called for by Item 11 with respect to Resources Corp. is omitted pursuant to Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

(a) Reliant Energy.

The information called for by Item 12 is or will be set forth in the definitive proxy statement relating to Reliant Energy's 2000 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 12 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) Resources Corp.

The information called for by Item 12 with respect to Resources Corp. is omitted pursuant to Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

(a) Reliant Energy.

The information called for by Item 13 is or will be set forth in the definitive proxy statement relating to Reliant Energy's 2000 annual meeting of shareholders pursuant to the Commission's Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 13 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

(b) Resources Corp.

The information called for by Item 13 with respect to Resources Corp. is omitted pursuant to Instruction I(2)(a) to Form 10-K (Omission of Information by Certain Wholly Owned Subsidiaries).

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

The following schedules are omitted for each of the Company and Resources because of the absence of the conditions under which they are required or because the required information is included in the financial statements:

I, III, IV and V.

See Index of Exhibits for the Company (page 149) and Resources Corp. (page 156), which indexes also include the management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K.

The Company:

On October 18, 1999, a report on Form 8-K was filed reporting on the Company's (1) completion of the first phase of its acquisition of the Dutch Power Company N.V. UNA; (2) issuance of 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 having an original principal amount of $1.0 billion; (3) exercise of its option to convert its 11 million shares of Time Warner convertible preferred stock into 45.8 million shares of Time Warner common stock; and (4) preparation of an application to be filed with the Public Utility Commission of Texas requesting a financing order authorizing the issuance by a special purpose entity organized by the Company, pursuant to the Texas Electric Choice Plan, of transition bonds relating to Reliant Energy HL&P's generation related regulatory assets.

Resources:

There were no reports on Form 8-K filed in the fourth quarter of 1999.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

SCHEDULE II -- RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 1999
(THOUSANDS OF DOLLARS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO INCOME	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Year Ended December 31, 1999:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts	$17,566	$16,296	$ 187	$12,575	$21,474
Deferred tax assets valuation	8,591	10,548	--	--	19,139
Reserves other than those deducted from assets on balance sheet:					
Property insurance	(4,953)	2,187	--	3,906	(6,672)
Injuries and damages	2,497	878	--	1,479	1,896
Non-regulated project contingencies	200	--	--	200	--
Year Ended December 31, 1998:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts	16,783	11,714	--	10,931	17,566
Deferred tax assets valuation	6,353	2,238	--	--	8,591
Reserves other than those deducted from assets on balance sheet:					
Property insurance	(3,567)	2,187	--	3,573	(4,953)
Injuries and damages	3,181	2,724	--	3,408	2,497
Non-regulated project contingencies	1,780	693	--	2,273	200
Year Ended December 31, 1997:					
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts		5,625	16,843	5,685	16,783
Uncollectible advances	33,159	--	--	33,159	--
Deferred tax assets valuation	--	--	9,300	2,947	6,353
Reserves other than those deducted from assets on balance sheet:					
Property insurance	70	2,187	--	5,824	(3,567)
Injuries and damages	1,128	5,215	--	3,162	3,181
Non-regulated project contingencies	2,296	--	--	516	1,780

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Notes:

(a) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

(b) Charged to other account represents the provision for uncollectible accounts and deferred tax assets acquired in business combinations.

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

SCHEDULE II -- RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 1999
(THOUSANDS OF DOLLARS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO INCOME	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS FROM RESERVES	BALANCE AT END OF PERIOD
Accumulated provisions deducted from related assets on balance sheet:					
Uncollectible accounts					
Year ended December 31, 1999.............	$ 17,566	$ 16,296		$ 12,575	$ 21,287
Year ended December 31, 1998.............	16,783	11,714		10,931	17,566
Year ended December 31, 1997.............	13,023	14,684	$ 2,383	13,307	16,783
Deferred tax assets valuation					
Year ended December 31, 1999.............	8,591	10,548			19,139
Year ended December 31, 1998.............	6,353	2,238			8,591
Year ended December 31, 1997.............	6,761	2,539		2,947	6,353

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Notes:

(a) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Houston, the State of Texas, on the fifteenth day of March, 2000.

RELIANT ENERGY, INCORPORATED
(Registrant)

By: /s/ R. Steve Letbetter
R. Steve Letbetter,
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 15, 2000.

SIGNATURE	TITLE
/s/ R. Steve Letbetter (R. Steve Letbetter)	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer and Director)
/s/ Stephen W. Naeve (Stephen W. Naeve)	Vice Chairman and Chief Financial Officer (Principal Financial Officer)
/s/Mary P. Ricciardello (Mary P. Ricciardello)	Senior Vice President and Comptroller (Principal Accounting Officer)
/s/ James A. Baker, III (James A. Baker, III)	Director
/s/ Richard E. Balzhiser (Richard E. Balzhiser)	Director
/s/ Milton Carroll (Milton Carroll)	Director
/s/ John T. Cater (John T. Cater)	Director
/s/ O. Holcombe Crosswell (O. Holcombe Crosswell)	Director
/s/ Robert J. Cruikshank (Robert J. Cruikshank)	Director
/s/ Linnet F. Deily (Linnet F. Deily)	Director
/s/ Lee W. Hogan (Lee W. Hogan)	Director
/s/ T. Milton Honea (T. Milton Honea)	Director
/s/ Alexander F. Schilt (Alexander F. Schilt)	Director

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Houston, the State of Texas, on the fifteenth day of March, 2000.

RELIANT ENERGY RESOURCES CORP.
(Registrant)

By: /s/ R. Steve Letbetter
R. Steve Letbetter,
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 15, 2000.

SIGNATURE	TITLE
/s/ R. Steve Letbetter (R. Steve Letbetter)	Chairman, President and Chief Executive Officer (Principal Executive Officer and Principal Financial Officer)
/s/Mary P. Ricciardello (Mary P. Ricciardello)	Vice President and Comptroller (Principal Accounting Officer)
/s/ Stephen W. Naeve (Stephen W. Naeve)	Sole Director

RELIANT ENERGY, INCORPORATED
RELIANT ENERGY RESOURCES CORP.

EXHIBITS TO THE COMBINED ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 1999

INDEX OF EXHIBITS

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated herein by reference to a prior filing as indicated. Exhibits designated by an asterisk (*) are management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

(A) RELIANT ENERGY, INCORPORATED

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
2(a)(1)	Agreement and Plan of Merger among former Houston Industries Incorporated ("HI") Houston Lighting & Power ("HL&P" or "Reliant Energy"), HI Merger, Inc. and NorAm dated August 11, 1996	HI's Form 8-K dated August 11, 1996	1-7629	2
2(a)(2)	Amendment to Agreement and Plan of Merger among HI, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996	Registration Statement on Form S-4	333-11329	2(c)
2(b)(1)	Share Subscription Agreement dated March 29, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc., Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsdedrijf, Reliant Power Generation, Inc. and UNA	Form 10-Q for the quarter ended March 31, 1999	1-3187	10.2
2(b)(2)	Share Purchase Agreement dated March 29, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc., Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsdedrijf, Reliant Power Generation, Inc. and UNA	Form 10-Q for the quarter ended March 31, 1999	1-3187	10.3
+2(b)(3)	Deed of Amendment dated September 2, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc., Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsdedrijf, Reliant Power Generation, Inc. and UNA			
+2(c)	Purchase Agreement dated as of February 19, 2000 among Reliant Energy Power Generation, Inc., Reliant Energy, Sithe Energies, Inc. and Sithe Northeast Generating Company, Inc.			
3(a)	Restated Articles of Incorporation of Reliant Energy, restated as of September 1997	Form 10-K for the year ended December 31, 1997	1-3187	3(a)
3(b)	Amendment to Restated Articles of Incorporation of Reliant Energy, as of May 5, 1999	Form 10-Q for the quarter ended March 31, 1999	1-3187	3(b)
+3(c)	Amended and Restated Bylaws of Reliant Energy, as of November 1999			
3(d)	Statement of Resolution Establishing Series of Shares designated Series C Preference Stock	Form 10-Q for the quarter ended March 31, 1998	1-3187	3(c)
+3(e)	Statement of Resolution Establishing Series of Shares designated Series D Preference Stock			
+3(f)	Statement of Resolution Establishing Series of Shares designated Series E Preference Stock			
+3(g)	Statement of Resolution Establishing Series of Shares designated Series F Preference Stock			
+3(h)	Articles/Certificate of Correction relating to the Statement of Resolution Establishing Series of Shares designated Series F Preference Stock			
+3(i)	Statement of Resolution Establishing Series of Shares designated Series G Preference Stock			

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4(a)(1)	Mortgage and Deed of Trust, dated November 1, 1944 between HL&P and Chase Bank of Texas, National Association (formerly, South Texas Commercial National Bank of Houston), as Trustee as amended and supplemented by 20 Supplemental Indentures thereto	Form S-7 of HL&P filed on August 25, 1977	2-59748	2(b)
4(a)(2)	Twenty-First through Fiftieth Supplemental Indentures to Exhibit 4(a)(1)	HL&P's Form 10-K for the year ended December 31, 1989	1-3187	4(a)(2)
4(a)(3)	Fifty-First Supplemental Indenture to Exhibit 4(a)(1) dated as of March 25, 1991	HL&P's Form 10-Q for the quarter ended June 30, 1991	1-3187	4(a)
4(a)(4)	Fifty-Second through Fifty-Fifth Supplemental Indentures to Exhibit 4(a)(1) each dated as of March 1, 1992	HL&P's Form 10-Q for the quarter ended March 31, 1992	1-3187	4
4(a)(5)	Fifty-Sixth and Fifty-Seventh Supplemental Indentures to Exhibit 4(a)(1) each dated as of October 1, 1992	HL&P's Form 10-Q for the quarter ended September 30, 1992	1-3187	4
4(a)(6)	Fifty-Eighth and Fifty-Ninth Supplemental Indentures to Exhibit 4(a)(1) each dated as of March 1, 1993	HL&P's Form 10-Q for the quarter ended March 31, 1993	1-3187	4
4(a)(7)	Sixtieth Supplemental Indenture to Exhibit 4(a)(1) dated as of July 1, 1993	HL&P's Form 10-Q for the quarter ended June 30, 1993	1-3187	4
4(a)(8)	Sixty-First through Sixty-Third Supplemental Indentures to Exhibit 4(a)(1) each dated as of December 1, 1993	HL&P's Form 10-K for the year ended December 31, 1993	1-3187	4(a)(8)
4(a)(9)	Sixty-Fourth and Sixty-Fifth Supplemental Indentures to Exhibit 4(a)(1) each dated as of July 1, 1995	HL&P's Form 10-K for the year ended December 31, 1995	1-3187	4(a)(9)
4(b)(1)	Rights Agreement, dated July 11, 1990, between the Company and Texas Commerce Bank, National Association, as Rights Agent (Rights Agent), which includes form of Statement of Resolution Establishing Series of Shares designated Series A Preference Stock and form of Rights Certificate	HI's Form 8-K dated July 11, 1990	1-7629	4(a)(1)
4(b)(2)	Agreement and Appointment of Agent, dated as of July 11, 1990, between the Company and the Rights Agent	HI's Form 8-K dated July 11, 1990	1-7629	4(a)(2)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4(b)(3)	Form of Amended and Restated Rights Agreement executed on August 6, 1997, including form of Statement of Resolution Establishing Series of Shares Designated Series A Preference Stock and form of Rights Agreement	Registration Statement on Form S-4	333-11329	4(b)(1)
4(c)	Indenture, dated as of April 1, 1991, between the Company and NationsBank of Texas, National Association, as Trustee	HI's Form 10-Q for the quarter ended June 30, 1991	1-7629	4(b)

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company has not filed as exhibits to this Form 10-K certain long-term debt instruments, including indentures, under which the total amount of securities authorized do not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company hereby agrees to furnish a copy of any such instrument to the SEC upon request.

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(a)	Executive Benefit Plan of the Company and First and Second Amendments thereto effective as of June 1, 1982, July 1, 1984, and May 7, 1986, respectively	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(a)(1), 10(a)(2), and 10(a)(3)
*10(b)(1)	Executive Incentive Compensation Plan of the Company effective as of January 1, 1982	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(b)
*10(b)(2)	First Amendment to Exhibit 10(b)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(a)
*10(b)(3)	Second Amendment to Exhibit 10(b)(1) effective as of November 4, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(b)
*10(b)(4)	Third Amendment to Exhibit 10(b)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(b)(4)
*10(b)(5)	Fourth Amendment to Exhibit 10(b)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(b)(5)
*10(c)(1)	Executive Incentive Compensation Plan of the Company effective as of January 1, 1985	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(1)
*10(c)(2)	First Amendment to Exhibit 10(c)(1) effective as of January 1, 1985	HI's Form 10-K for the year ended December 31, 1988	1-7629	10(b)(3)
*10(c)(3)	Second Amendment to Exhibit 10(c)(1) effective as of January 1, 1985	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(c)(3)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(c)(4)	Third Amendment to Exhibit 10(c)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(b)
*10(c)(5)	Fourth Amendment to Exhibit 10(c)(1) effective as of November 4, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(c)(5)
*10(c)(6)	Fifth Amendment to Exhibit 10(c)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(c)(6)
*10(c)(7)	Sixth Amendment to Exhibit 10(c)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(c)(7)
*10(d)	Executive Incentive Compensation Plan of Houston Lighting & Power Company effective as of January 1, 1985	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(2)
*10(e)(1)	Executive Incentive Compensation Plan of the Company effective as of January 1, 1989	HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(b)
*10(e)(2)	First Amendment to Exhibit 10(e)(1) effective as of January 1, 1989	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(e)(2)
*10(e)(3)	Second Amendment to Exhibit 10(e)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(c)
*10(e)(4)	Third Amendment to Exhibit 10(e)(1) effective as of November 4, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(c)(4)
*10(e)(5)	Fourth Amendment to Exhibit 10(e)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(e)(5)
*10(f)(1)	Executive Incentive Compensation Plan of the Company effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(b)
*10(f)(2)	First Amendment to Exhibit 10(f)(1) effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(f)(2)
*10(f)(3)	Second Amendment to Exhibit 10(f)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(d)
*10(f)(4)	Third Amendment to Exhibit 10(f)(1) effective as of November 4, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(f)(4)
*10(f)(5)	Fourth Amendment to Exhibit 10(f)(1) effective as of January 1, 1993	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(f)(5)
*10(f)(6)	Fifth Amendment to Exhibit 10(f)(1) effective in part, January 1, 1995, and in part, September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(f)(6)
*10(f)(7)	Sixth Amendment to Exhibit 10(f)(1) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(a)
*10(f)(8)	Seventh Amendment to Exhibit 10(f)(1) effective as of January 1, 1996	HI's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(a)
*10(f)(9)	Eighth Amendment to Exhibit 10(f)(1) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(a)
*10(f)(10)	Ninth Amendment to Exhibit 10(f)(1) effective in part, January 1, 1997, and in part, January 1, 1998	Form 10-K for the year ended December 31, 1997	1-3187	10(f)(10)
*10(g)	Benefit Restoration Plan of the Company, effective as of June 1, 1985	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(c)
*10(h)	Benefit Restoration Plan of the Company as amended and restated effective as of January 1, 1988	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(2)
*10(i)(1)	Benefit Restoration Plan of the Company, as amended and restated effective as of July 1, 1991	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(3)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(i)(2)	First Amendment to Exhibit 10(i)(1) effective in part, August 6, 1997, in part, September 3, 1997, and in part, October 1, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(i)(2)
*10(j)(1)	Deferred Compensation Plan of the Company effective as of September 1, 1985	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(d)
*10(j)(2)	First Amendment to Exhibit 10(j)(1) effective as of September 1, 1985	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(2)
*10(j)(3)	Second Amendment to Exhibit 10(j)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(e)
*10(j)(4)	Third Amendment to Exhibit 10(j)(1) effective as of June 2, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(h)(4)
*10(j)(5)	Fourth Amendment to Exhibit 10(j)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(h)(5)
*10(j)(6)	Fifth Amendment to Exhibit 10(j)(1) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(d)
*10(j)(7)	Sixth Amendment to Exhibit 10(j)(1) effective as of December 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(j)(8)	Seventh Amendment to Exhibit 10(j)(1) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(b)
*10(j)(9)	Eighth Amendment to Exhibit 10(j)(1) effective as of September 1, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(j)(9)
*10(j)(10)	Ninth Amendment to Exhibit 10(j)(1) effective as of September 3, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(j)(10)
*10(k)(1)	Deferred Compensation Plan of the Company effective as of January 1, 1989	HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(a)
*10(k)(2)	First Amendment to Exhibit 10(k)(1) effective as of January 1, 1989	HI's Form 10-K for the year ended December 31, 1989	1-7629	10(e)(3)
*10(k)(3)	Second Amendment to Exhibit 10(k)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(f)
*10(k)(4)	Third Amendment to Exhibit 10(k)(1) effective as of June 2, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(i)(4)
*10(k)(5)	Fourth Amendment to Exhibit 10(k)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(i)(5)
*10(k)(6)	Fifth Amendment to Exhibit 10(k)(1) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(k)(7)	Sixth Amendment to Exhibit 10(k)(1) effective December 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(k)(8)	Seventh Amendment to Exhibit 10(k)(1) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(c)
*10(k)(9)	Eighth Amendment to Exhibit 10(k)(1) effective in part October 1, 1997 and in part January 1, 1998	Form 10-K for the year ended December 31, 1997	1-3187	10(k)(9)
*10(k)(10)	Ninth Amendment to Exhibit 10(k)(1) effective as of September 3, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(k)(10)
*10(l)(1)	Deferred Compensation Plan of the Company effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
*10(l)(2)	First Amendment to Exhibit 10(l)(1) effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
*10(l)(3)	Second Amendment to Exhibit 10(l)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(l)(4)	Third Amendment to Exhibit 10(l)(1) effective as of June 2, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(4)
*10(l)(5)	Fourth Amendment to Exhibit 10(l)(1) effective as of December 1, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(5)
*10(l)(6)	Fifth Amendment to Exhibit 10(l)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(j)(6)
*10(l)(7)	Sixth Amendment to Exhibit 10(l)(1) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(l)(8)	Seventh Amendment to Exhibit 10(l)(1) effective as of December 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(d)
*10(l)(9)	Eighth Amendment to Exhibit 10(l)(1) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(d)
*10(l)(10)	Ninth Amendment to Exhibit 10(l)(1) effective in part August 6, 1997, in part October 1, 1997, and in part January 1, 1998	Form 10-K for the year ended December 31, 1997	1-3187	10(l)(10)
*10(l)(11)	Tenth Amendment to Exhibit 10(l)(1) effective as of September 3, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(i)(11)
*10(m)(1)	Long-Term Incentive Compensation Plan of the Company effective as of January 1, 1989	HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)
*10(m)(2)	First Amendment to Exhibit 10(m)(1) effective as of January 1, 1990	HI's Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)
*10(m)(3)	Second Amendment to Exhibit 10(m)(1) effective as of December 22, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(k)(3)
*10(m)(4)	Third Amendment to Exhibit 10(m)(1) effective as of August 6, 1997	HI's Form 10-K for the year ended December 31, 1997	1-3187	10(m)(4)
*10(n)	Form of stock option agreement for nonqualified stock options granted under the Company's 1989 Long-Term Incentive Compensation Plan	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(h)
*10(o)	Forms of restricted stock agreement for restricted stock granted under the Company's 1989 Long-Term Incentive Compensation Plan	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(i)
*10(p)(1)	1994 Long-Term Incentive Compensation Plan of the Company effective as of January 1, 1994	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(1)
*10(p)(2)	Form of stock option agreement for non-qualified stock options granted under the Company's 1994 Long-Term Incentive Compensation Plan	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(2)
*10(p)(3)	First Amendment to Exhibit 10(p)(1) effective as of May 9, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(e)
*10(p)(4)	Second Amendment to Exhibit 10(p)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(p)(4)
*10(p)(5)	Third Amendment to Exhibit 10(p)(1) effective as of January 1, 1998	Form 10-K for the year ended December 31, 1998	1-3187	10(p)(5)
*10(q)(1)	Savings Restoration Plan of the Company effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(f)
*10(q)(2)	First Amendment to Exhibit 10(q)(1) effective as of January 1, 1992	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(l)(2)
*10(q)(3)	Second Amendment to Exhibit 10(q)(1) effective in part, August 6, 1997, and in part, October 1, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(q)(3)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(r)(1)	Director Benefits Plan, effective as of January 1, 1992	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(m)
*10(r)(2)	First Amendment to Exhibit 10(r)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1998	1-7629	10(m)(1)
*10(s)(1)	Executive Life Insurance Plan of the Company effective as of January 1, 1994	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(q)
*10(s)(2)	First Amendment to Exhibit 10(s)(1) effective as of January 1, 1994	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10
*10(s)(3)	Second Amendment to Exhibit 10(s)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(s)(3)
*10(t)	Employment and Supplemental Benefits Agreement between HL&P and Hugh Rice Kelly	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(f)
*10(u)(1)	Houston Industries Incorporated Savings Trust between the Company and The Northern Trust Company, as Trustee (as amended and restated effective April 1, 1999)	Company's Form 10-K for the year ended December 31, 1995	1-7629	10(s)(4)
10(u)(2)	Note Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(j)(3)
+10(u)(3)	Reliant Energy, Incorporated Master Retirement Trust (as amended and restated effective January 1, 1999 and renamed effective May 5, 1999)			
10(v)(1)	Stockholder's Agreement dated as of July 6, 1995 between the Company and Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	2
10(v)(2)	Registration Rights Agreement dated as of July 6, 1995 between the Company and Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	3
10(v)(3)	Amendment to Exhibits 10(v)(1) and 10(v)(2) dated November 18, 1996	HI's Form 10-K for the year ended December 31, 1996	1-7629	10(x)(4)
10(v)(4)	Certificate of Voting Powers, Designations, Preferences and Relative Participating, Optional or Other Special Rights, and Qualifications, Limitations or Restrictions Thereof of Series D Convertible Preferred Stock of Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	4
*10(w)(1)	Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of December 19, 1995	Form 10-K for the year ended December 31, 1995	1-7629	10(7)
*10(w)(2)	First Amendment to Exhibit 10(w)(1) effective as of August 6, 1997	Form 10-Q for the quarter ended June 30, 1998	1-3187	10
*10(x)	Supplemental Pension Agreement, dated July 17, 1996, between the Company and Lee W. Hogan	Registration Statement on Form S-4	333-11329	10(aa)
*10(y)	Consulting Agreement, dated January 14, 1997, between the Company and Milton Carroll	HI's Form 10-K for the year ended December 31, 1996	1-7629	10(bb)
*10(z)(1)	Employment Agreement, dated February 25, 1997, between the Company and Don D. Jordan	HI's Form 10-K for the year ended December 31, 1996	1-7629	10(cc)
*10(z)(2)	Amended and Restated Employment Agreement, dated November 7, 1997, between the Company and Don D. Jordan	Form 10-K for the year ended December 31, 1997	1-3187	10(z)(2)
*10(aa)(1)	Executive Severance Benefits Plan of the Company and Summary Plan Description effective as of September 3, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(aa)(1)
*10(aa)(2)	Form of Severance Agreements between the Company and each of the following executive officers: Lee W. Hogan, Hugh Rice Kelly, R. Steve Letbetter, and Stephen W. Naeve	Form 10-K for the year ended December 31, 1997	1-3187	10(aa)(2)

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10(aa)(3)	Form of Severance Agreements, between the Company and each of the following executive officers: David M. McClanahan, Charles M. Oglesby, Joe Bob Perkins, and Mary P. Ricciardello	Form 10-K for the year ended December 31, 1998	1-3187	10(aa)(3)
+*10(aa)(4)	Separation Agreement between Reliant Energy and Don D. Jordan, effective December 1, 1999			
*10(bb)(1)	Employment Agreement, dated as of February 16, 1998, between Reliant Energy and Charles M. Oglesby, and Waiver and Release pertaining thereto	Form 10-K for the year ended December 31, 1998	1-3187	10(bb)(1)
*10(bb)(2)	Employment Agreement, effective as of June 1, 1999, between Reliant Energy and Don D. Jordan	Form 8-K for the quarter ended March 31, 1999	1-3187	10(bb)(2)
+*10(bb)(3)	Employment Agreement effective January 1, 1999 between Reliant Energy and Wayne D. Stinnett			
+*10(bb)(4)	Employment Agreement effective January 1, 1999 between Reliant Energy and Rollie G. Bohall			
+*10(cc)(1)	Reliant Energy Incorporated Savings Plan (as amended and restated effective April 1, 1999)			
+*10(cc)(2)	Sixth Amendment to Exhibit 10(cc)(1) effective as of April 1, 1999			
+*10(cc)(3)	Seventh Amendment to Exhibit 10(cc)(1) dated April 29, 1999			
+*10(dd)	Reliant Energy, Incorporated Business Unit Performance Share Plan effective as of January 6, 1999			
+12	Computation of Ratios of Earnings to Fixed Charges			
+21	Subsidiaries of Reliant Energy			
+23	Consent of Deloitte & Touche LLP			
+27	Financial Data Schedule			
99(a)	Letter, dated February 2, 1999, from Secretary of State of the State of Texas regarding Assumed Name filed by Houston Industries Incorporated to conduct business under the name Reliant Energy, Incorporated	Form 10-K for the year ended December 31, 1998	1-3187	

(B) RELIANT ENERGY RESOURCES CORP.

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
2(a)(1)	Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996	HI's Form 8-K dated August 11, 1996	1-7629	2
2(a)(2)	Amendment to Agreement and Plan of Merger among the Company, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996	Registration Statement on Form S-4	333-11329	2(c)
3(a)(1)	Certificate of Incorporation of Resources	Form 10-K for the year ended December 31, 1997	1-3187	3(a)(1)
3(a)(2)	Certificate of Merger merging former NorAm Energy Corp. with and into HI Merger, Inc. dated August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	3(a)(2)
3(a)(3)	Certificate of Amendment changing the name to Reliant Energy Resources Corp.	Form 10-K for the year ended December 31, 1998	1-3187	3(a)(3)
3(b)	Bylaws of Resources	Form 10-K for the year ended December 31, 1997	1-3187	3(b)
4(a)(1)	Indenture, dated as of December 1, 1986, between NorAm and Citibank, N.A., as Trustee	NorAm's Form 10-K for the year ended December 31, 1986	1-13265	4.14

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
4(a)(2)	First Supplemental Indenture to Exhibit 4(a)(1) dated as of September 30, 1988	Form 10-K for the year ended December 31, 1997	1-3187	4(a)(2)
4(a)(3)	Second Supplemental Indenture to Exhibit 4(a)(1) dated as of November 15, 1989	Form 10-K for the year ended December 31, 1997	1-3187	4(a)(3)
4(a)(4)	Third Supplemental Indenture to Exhibit 4(a)(1) dated as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	4(a)(4)
4(b)(1)	Indenture, dated as of March 31, 1987, between NorAm and Chase Manhattan Bank, N.A., as Trustee, authorizing 6% Convertible Subordinated Debentures due 2012	NorAm's Registration Statement on Form S-3	33-14586	4.20
4(b)(2)	Supplemental Indenture to Exhibit 4(b)(1) dated as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	4(b)(2)
4(c)(1)	Indenture, dated as of April 15, 1990, between NorAm and Citibank, N.A., as Trustee	NorAm's Registration Statement on Form S-3	33-23375	4.1
4(c)(2)	Supplemental Indenture to Exhibit 4(c)(1) dated as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	4(c)(2)
4(d)(1)	Form of Indenture between NorAm and The Bank of New York as Trustee	NorAm's Registration Statement on Form S-3	33-64001	4.8
4(d)(2)	Form of First Supplemental Indenture to Exhibit 4(d)(1)	NorAm's Form 8-K dated June 10, 1996	1-13265	4.01
4(d)(3)	Second Supplemental Indenture to Exhibit 4(d)(1) dated as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	4(d)(3)
4(e)	Indenture, dated as of December 1, 1997, between Resources and Chase Bank of Texas, National Association	Registration Statement on Form S-3	333-41017	4.1
4(f)(1)	Indenture, dated as of February 1, 1998, between the Company and Chase Bank of Texas, National Association, as Trustee	Form 8-K dated February 5, 1998	1-13265	4.1
4(f)(2)	Supplemental Indenture No. 1, dated as of February 1, 1998, providing for the issuance of the Company's 6 1/2% Debentures due February 1, 2008	Form 8-K dated February 5, 1998	1-13265	4.2

There have not been filed as exhibits to this Form 10-K certain long-term debt instruments, including indentures, under which the total amount of securities do not exceed 10% of the total assets of Resources. Resources hereby agrees to furnish a copy of any such instrument to the SEC upon request.

EXHIBIT NUMBER	DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
10(a)	Service Agreement by and between Mississippi River Transmission Corporation and Laclede Gas Company dated August 22, 1989	NorAm's Form 10-K for the year ended December 31, 1989	1-13265	10.20
+12	Computation of Ratios of Earnings to Fixed Charges			
+27	Financial Data Schedule			

EXHIBIT (2)(b)(3)

DEED OF AMENDMENT

This deed of amendment, hereinafter referred to as the "Deed of Amendment", is entered into on this second day of September 1999

by and among

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

and

2. PROVINCIE NOORD HOLLAND
having its seat at Haarlem, the Netherlands,
herein represented by [N. Klijn],
hereinafter referred to as the "Province of North Holland";

and

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

and

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

and

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

and

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

and

7. RELIANT ENERGY, INCORPORATED,
a company incorporated under the laws of the State of Texas, United States of America, with its principal offices located at 1111 Louisiana, Houston, Texas USA, herein represented by [Charles M. Oglesby], hereinafter referred to as "Ultimate Parent 1";

and

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

and

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

(The New Partner, Province of North Holland, City of Amsterdam, Pegus, Province of Utrecht, City of Utrecht, Ultimate Parent 1, Ultimate Parent 2 and the Company hereinafter collectively referred to as the "Parties" and each individually as a "Party").

WHEREAS:

A. The Parties have entered into the Partnership Agreement (the "Partnership Agreement"), the Share Purchase Agreement ("Share Purchase Agreement"), and the Share Subscription Agreement ("Share Subscription Agreement"), each dated as of March 29, 1999 (the Partnership Agreement, Share Purchase Agreement, Share Subscription Agreement and any agreement pursuant thereto, including all schedules and annexes, as amended, collectively being referred to herein as the "Partnership Documentation");

B. Pursuant to the Partnership Documentation, the Existing Partners and the Company have requested that the Minister of Economic Affairs ("MEA") approve the transactions contemplated by the Partnership Documentation on or prior to September 3, 1999; and

C. In order to obtain the approval of the MEA, the Parties have agreed to amend certain provisions in the Partnership Documentation on the terms and conditions set forth in this Deed of Amendment, while preserving the other terms and conditions of the Partnership Documentation, which other terms and conditions shall, to the extent not amended by this Deed of Amendment, continue in full force and effect.

IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE 1 - DEFINITIONS

Capitalized terms used in this Deed of Amendment and not otherwise defined in this Deed of Amendment shall have the meanings ascribed to them in Schedule 1.1, as amended pursuant to this Deed of Amendment, to the Partnership Agreement, except as the context may otherwise require.

ARTICLE 2 - AMENDMENTS TO PARTNERSHIP AGREEMENT.

2.1 The Parties agree to amend the Partnership Agreement as set forth in this Article 2.

2.2 Article 11.8 of the Partnership Agreement shall be amended to read in its entirety as follows:

11.8 Resolutions of the General Meeting with respect to the settlement of Stranded Costs can only be adopted with the Simple Majority of the Existing Partners.

2.3 Article 13.1 shall be amended by the adding of the following phrase at the beginning of the first sentence:

"Except as otherwise provided in the Share Purchase Agreement,"

2.4 Article 20.1 of the Partnership Agreement shall be amended to read in its entirety as follows:

20.1 Until the Third Completion Date, and unless pursuant to this Partnership Agreement (including Article 20.2) and the Share Purchase Agreement, the Shareholders shall not sell, transfer, pledge, encumber or otherwise dispose of any Shares to a third party without the Unanimous Approval of the other Shareholders.

2.5 Article 20.4 of the Partnership Agreement shall be amended to read in its entirety as follows:

20.4 The Ultimate Parent 2 shall not sell, transfer, pledge, encumber or otherwise dispose of any shares in the share capital of the New Partner to a third party without the Unanimous Approval of the other Shareholders, provided however that the aforesaid restriction shall not apply to (i) any sale or transfer of the shares in the share capital of the New Partner to an Affiliate of Ultimate Parent 2 subject to the condition precedent that such Affiliate shall assume the obligations of the New Partner to this Partnership Agreement and any agreement pursuant thereto or (ii) any pledge by Ultimate Parent 2 of all or any portion of its ownership interest in New Partner to an Affiliate of Ultimate Parent 2 pursuant to a pledge agreement, in form and substance reasonably satisfactory to the Existing Partners, which pledge shall be, to the extent it relates to shares in New Partner also pledged for the benefit of the Existing Partners, subordinate to such pledge in favor of the Existing Partners made pursuant to Article 2.3 of this Share Purchase Agreement, and provided further, that at such time as New Partner and its Affiliates have acquired at least 75% of the issued and outstanding Shares, Ultimate Parent 2 and its subsidiaries may pledge or encumber the share capital of the New Partner to a third party and the other Shareholders hereby agree and consent to any such pledge or encumbrance, any transfer to the pledgee and any transfer by the pledgee to any other Person.

2.6 Schedule 1.1 (Definitions) to the Partnership Agreement shall be amended as set forth below:

2.6.1 The following definitions shall be deleted:

Adjustment Principles
Date of Payment
Definitive Stranded Costs
Estimated Stranded Costs
Existing Partners Accountant
Expected Allocation
New Partner's Accountant
Statement

2.6.2 The following definitions shall be added, in alphabetical order:

"Second Tranche Option Date" shall be the date on which the Existing Partners and/or the Company shall have obtained all required consents necessary for the Completion of the Second Tranche Shares and the Third Tranche Shares. The date of the Second Tranche Option Date shall be no later than 1 November 1999. The Existing Partners and/or the Company shall promptly provide notice to the New Partner when such consents have been obtained).

2.6.3 The definition of "Stranded Costs" shall be amended to read in its entirety as follows:

"Stranded Costs" shall mean the costs pertaining to all obligations entered into prior to the withdrawal of the Electricity Act of 1989 by the naamloze vennootschap Samenwerkende Elektriciteitsproduktiebedrijven (SEP) and/or the Dutch electricity production companies in relation to the Agreement of Cooperation (OvS) net of the Company's share of (i) any contributions to SEP as defined in Article 77(d) of the Bill dated as of June 3, 1999, amending, the Electricity Act of 1998 and any other contributions by the Dutch government to the Companies with respect to the aforementioned obligations pursuant to this Bill or any regulation or resolution pursuant thereto (the "Act"), (ii) the sum of the value of the (financial and non-financial) assets of SEP as realized either through the transfer to the Companies or distribution of proceeds from the sale of such assets or (iii) the final dividend distributed by SEP following the effective dissolution of SEP pursuant to the termination of the OvS. The adjustments in (ii) and (iii) above shall be reduced for purposes of this definition by NLG 125 million (in words one hundred and twenty five million Dutch Guilders). "Stranded Costs" shall also include "Legal Action Stranded Costs". These costs or obligations include, without limiting the generality of the foregoing, more specifically the realization of the district heating projects, the construction and exploitation of the experimental coal gasification installation "Demkolec" in Buggenum, the import of electricity from France and Germany and of electricity and gas from Norway and the construction of an electricity transportation link between the Netherlands and Norway. The assets of SEP include but are not limited to TenneT and Demkolec.

2.7 Schedule 18.2 (First Completion Actions) and Schedule 7.2.a, respectively, to the Partnership Agreement shall be amended as set forth below.

2.7.1 The Company and the Existing Partners shall execute and enter into the Escrow Agreement attached as Appendix A (as defined in Section 9.4 of the Share Purchase Agreement, as amended).

2.7.2 A new Section 1.1.19 shall be added to the First Completion Conditions that shall read as follows:

The Existing Partners shall irrevocably instruct the Notary in writing to arrange for the payment to the Escrow Account of NLG 450 million of the First Purchase Price to be received from Reliant Energy Wholesale (Europe) CV to the Escrow Account.

2.8 A new Section [ ] shall be added to the Second Completion Conditions that shall read as follows:

The Existing Partners shall irrevocably instruct the Notary in writing to arrange for payment to the Escrow Account of NLG 450 million of the Second Purchase Price to be received from Reliant Energy Wholesale (Europe) CV to the Escrow Account.

ARTICLE 3 - AMENDMENTS TO THE SHARE SUBSCRIPTION AGREEMENT

3.1 The Parties agree to amend the Share Subscription Agreement as set forth in this Article 3.

3.2 Article 13.1 of the Share Subscription Agreement shall be amended to read in its entirety as follows.

13.1 If the Partnership Agreement is terminated in accordance with article 22 of the Partnership Agreement, this Share Subscription Agreement shall terminate in accordance with its terms, except that the provisions of Article 12 shall continue to apply in accordance with the terms thereof.

3.3 The word "Purchase" appearing in Article 14.1 of the Share Subscription Agreement shall be deleted and be replaced with the word "Subscription".

ARTICLE 4 - AMENDMENTS TO THE SHARE PURCHASE AGREEMENT

4.1 The Parties agree to amend the Share Purchase Agreement as set forth in this Article 4.

4.2 Article 2.1.2 of the Share Purchase Agreement shall be amended to read in its entirety as follows:

2.1.2 Subject to the Second Completion Conditions, the Existing Partners hereby sell to the New Partner, and the New Partner hereby purchases, from the Existing Partners such number of Shares as is required to provide the New Partner with a majority interest of 52% (in words: fifty two percent), in the issued and outstanding share capital of the Company, whereby each Existing Partner sells to the New Partner one third of such number of Shares (the "Second Tranche Shares").

4.3 Article 2.3 of the Share Purchase Agreement shall be amended by adding at the end thereof the following:

Ultimate Parent 2 may also grant a second pledge with respect to all or any portion of its ownership interest in New Partner to an Affiliate of Ultimate Parent 2, which second pledge shall be, to the extent it relates to shares in New Partner also pledged for the benefit of the Existing Partners pursuant to this Article 2.3, subordinate to such pledge in favor of the Existing Partners on terms reasonably satisfactory to the Existing Partners.

4.4 Article 6.1.2 of the Share Purchase Agreement shall be amended to read in its entirety as follows:

6.1.2 the Completion of the Second Tranche Shares shall take place on a Business Day after the Second Tranche Option Date as specified in a written notice delivered by the New Partner to the Existing Partners, which notice shall be delivered at least 5 Business Days prior to the proposed date of the Completion of the Second Tranche Shares. The Completion of the Second Tranche Shares shall occur no later than 1 December 1999.

4.5 Article 6.1.3 of the Share Purchase Agreement, shall be amended to read in its entirety as follows:

6.1.3 the Completion of the Third Tranche Shares, shall take place in the following manner:

(i) On the Second Completion Date, each Existing Partner may, at its option and by delivery of written notice to the New Partner, to elect to sell all, but not part, of its remaining Shares to the New Partner, such closing to occur on March 1, 2000; or

(ii) If an Existing Partner does not exercise its option to sell its Third Tranche Shares pursuant to Article 6.1.3(i) above, then such Existing Partner may sell its Third Tranche Shares after the Second Completion Date pursuant to the delivery of a Request subject to Article 6.1.4 of the Share Purchase, such closing to occur within 60 (in words: sixty) Business Days of such Request, but in no event later than 31 December 2006 (the "Third Completion Date").

4.6 Article 6.1.4 of the Share Purchase Agreement shall be amended and restated in its entirety as follows:

6.1.4 The Request referred to in Article 6.1.3(ii) shall be submitted to the New Partner at least 120 (in words: one hundred twenty) days prior to the Third Completion Date or 60 (in words: sixty) days after the Third Completion Conditions have been fulfilled or waived by the Party to whose benefit these Completion Conditions inure, whichever is later.

4.7 Schedule 2.2.2 of the Share Purchase Agreement shall be amended to provide for an increase in the aggregate Purchase Price for the Second Tranche Shares equal to the sum of NLG 500 million (in words: five hundred million Dutch Guilders) which shall be paid by the New Partner to the Existing Partners on the Second Completion Date.

4.8 Article 9 of the Share Purchase Agreement (including the Schedules) shall be amended to read in its entirety as follows:

ARTICLE 9 STRANDED COSTS

9.1 The Existing Partners covenant and agree that they will indemnify the Companies (collectively, the Indemnified Parties) against, and hold each Indemnified Party harmless from and in respect of, all Stranded Costs not in excess of the Indemnification Amount. Until the Second Completion Date, the Indemnification Amount shall be equal to the amount as shall be received by the Indemnifying Parties on the First Completion Date (directly in escrow). Effective the Second Completion Date, the Indemnification Amount shall be increased up to the amount of NLG 1.400 million (in words: one billion four hundred million Dutch Guilders).

9.2 All claims for indemnification under this Article 9 shall be asserted as follows in this Article 9.2.

(a) An Indemnified Party shall promptly notify the Existing Partners from whom indemnification is sought under this Article 9 (for purposes of this Article 9, the "Indemnifying Parties") of any Stranded Cost that it believes to be for its account (such determination, a "Stranded Cost Determination" and such notice, a "Stranded Cost Claim Notice"). Any Stranded Cost Claim Notice shall include an estimate, to the extent feasible, of the amount of Stranded Costs for which the Company believes it is obligated (which estimate shall not be conclusive of the final amount of that claim): provided, however, that the failure to promptly deliver a Stranded Cost Claim Notice shall not relieve the Indemnifying Parties of their obligations to the Indemnified Party with respect to Stranded Costs. Within 15 days after receipt of any Stranded Cost Claim Notice (the "Election Period"), the Indemnifying Parties shall notify the Indemnified Party whether the Indemnifying Parties desire, at the sole cost and expense of the Indemnifying Parties, to contest or challenge the validity of the relevant Stranded Cost Determination. For purposes of this Article 9, the Indemnifying Parties shall act jointly and not separately. If the Indemnifying Party shall fail to notify the Indemnified Party that it desires to contest or challenge the Stranded Cost Determination, the Indemnifying Party shall pay the amount of Stranded Costs covered by the relevant Stranded Cost Determination.

(b) If the Indemnifying Parties notify the Indemnified Party within the Election Period that the Indemnifying Parties elect to contest or challenge the validity of the Stranded Cost Determination, then the Indemnifying Parties shall have the right to contest or challenge on behalf of the Indemnified Parties the validity, at their sole cost and expense, that Stranded Cost Determination by all appropriate proceedings, which proceedings shall be prosecuted diligently by the Indemnifying Parties to a final conclusion or settled at the discretion of the Indemnifying Parties in accordance with this Article 9.2.

(c) Notwithstanding Article 9.2(b), the Indemnifying Parties shall not have the right to contest or challenge the validity of a Stranded Cost Determination if, in the reasonable judgment of the Indemnified Party, pursuing such contest or challenge would (i) result in the loss of any material rights or licenses of the Company or any of its Affiliates or (ii) result in any injunction or other governmental, judicial or arbitral directive being imposed on the Company or any of its Affiliates that materially interferes with the existing or proposed business of the Companies.

(d) The Indemnified Party will cooperate with the Indemnifying Parties in any contest to or challenge of a Stranded Cost Determination; provided, however, that the Indemnifying Parties shall not enter into any settlement with respect to any Stranded Cost Determination that (i) purports to limit the activities of, or otherwise restrict in any way, any Indemnified Party or any Affiliate of any Indemnified Party, (ii) results in any liens being imposed on the properties or assets of the Company or any of its Affiliates, (iii) impairs any material business relationship maintained by the Company or any of its Affiliates, (iii) results in penalties being owed by the Company or any of its Affiliates, (iv) results in the loss of any material rights or licenses of the Company or any of its Affiliates or (v) results in any injunction or other governmental, judicial or arbitral directive being imposed on the Company or any of its Affiliates that materially interferes with the existing or proposed business of the Company and its Affiliates or (vi) would involve amounts that exceed the amount of indemnity to which the Indemnified Parties are entitled under this Article 9 without the prior consent of that Indemnified Party. The Indemnified Party is hereby authorized, to file during the Election Period, with prior written consent of the Indemnifying Parties, any motion, answer or other instrument that the Indemnified Parties shall deem necessary or appropriate to protect its interests or those of the Indemnifying Parties. The Indemnified Parties may participate in, but not control, any defense or settlement of any Stranded Cost Determination controlled by the Indemnifying Parties pursuant to this Article 9.2.

(e) If the Indemnifying Parties (i), within the Election Period, fail to notify the Indemnified Party that the Indemnifying Parties elect to contest or challenge any Stranded Cost Determination or (ii) elect to contest or challenge a Stranded Cost Determination but fail diligently and promptly to contest, challenge or settle the Stranded Cost Determination, then the Indemnified Party shall have the right, but not the obligation, to contest or challenge, at the sole cost and expense of the Indemnifying Parties, the Stranded Cost Determination by all appropriate proceedings, which proceedings shall be promptly and vigorously prosecuted by the Indemnified Party to a final conclusion or settlement. The Indemnified Party shall have full control of any such defense and proceedings. The Indemnifying Parties may participate in, but not control, any proceeding or settlement controlled by the Indemnified Party pursuant to this Article 9.2(e), and the Indemnifying Parties shall bear their own costs and expenses with respect to that participation.

(f) The Indemnified Parties shall not (i) enter into any definitive settlement agreement or (ii) waive any rights with respect to Stranded Costs without the prior written consent of the Indemnifying Parties.

(g) The Company shall keep the New Partner and the Existing Partners (i) fully informed of any actions taken by the Company with respect to settlement proposals with respect to Stranded Costs and (ii) shall provide the Existing Partners an opportunity to participate in any negotiations regarding the settlement of such costs. Subject to the limitations in Article 9.2(d), the Existing Partners shall be entitled to assume a primary role in such negotiations; provided, however, that (i) the Existing Partners first agree to designate a joint representative for that purpose and (ii) the Company shall be entitled to consent to the designation of such representative (which consent shall not be unreasonably withheld).

(h) Payments of all amounts owing by an Indemnifying Party pursuant to this Article 9 shall be made within 30 days after the date on which the Stranded Cost subject to the Stranded Cost Claim Notice shall have become final and binding on the Indemnifying Party and the Indemnified Parties. Any overdue payment under this Article 9 shall bear interest at the rate of Euribor + 2% per annum (based on a 360- day year) from (and including) the due date until (but excluding) the date the full payment is actually received by the Indemnified Parties. Any interest accrued pursuant to the preceding sentence shall be due and payable on the date the original amount owing is paid.

9.2a In the event that the Indemnified Parties shall have received any amounts pursuant to this Article 9 with respect to Stranded Cost, the Indemnified Parties shall utilise such amounts exclusively for the payment of the Stranded Costs concerned.

9.3 The obligations of each of the Indemnifying Parties under this Article 9 shall only be payable at 1/3 (in words: one-third) of the amounts due under this Article 9. The contractual obligation to indemnify set forth in this Article 9 shall not be subject to limitations specified in Section 13.6 of the Share Purchase Agreement.

9.4 Payment of any obligations, now existing or hereafter accruing, of the Indemnified Parties under this Article 9 shall be secured through an escrow account (the "Escrow Account") in form and substance satisfactory to the Indemnified Parties. The Existing Partners shall maintain such account through December 31, 2003. The maximum amount subject to these security arrangements shall be NLG 900 million (in words: nine hundred million Dutch Guilders) (the "Escrow Amount").

9.5 The Stranded Costs for district heating contracts which have been allocated to the Company pursuant to the Act shall be calculated only in accordance with the formulas set out in Appendix B and for the applicable heat sale volumes under each contract. The Company's Stranded Costs for import or other Stranded Cost contracts assigned to or assumed by the Company shall be calculated as the difference between the contract price and market price of the total volume for the period. The other Stranded Costs assets and liabilities assigned to the Company will be calculated on the basis of a valuation method to be agreed between the Indemnified Parties and the Indemnifying Parties. If no agreement can be reached within 20 days, an independent investment bank or accounting firm or similar expert shall be appointed by the Parties in order to carry out a valuation. If the parties are unable to reach an agreement on the basis of the advice from the independent expert, then the dispute will be decided by arbitration in accordance with the Dutch Arbitration Institute ("NAI").

9.6 With due observance of Article 9.7, a definitive and final amount will be determined for (i) district heating contracts on December 31, 2000, and (ii) import or other Stranded Costs contracts assigned or assumed by on December 31, 2002; unless the Existing Partners notify the Company that they will not seek to establish a final amount and (iii) other Stranded Costs assets and liabilities of the Company at the earlier of 30 days following the assignment or sale of such liabilities or assets or 31 December 2002.

9.6.1 The net present value of the district heating contracts shall be determined by discounting the yearly amounts as defined in Article 9.5 for the remaining years of the contract.

9.6.2 The net present value of the import and other Stranded Cost contracts shall be determined by discounting the yearly estimate of costs as defined in Article 9.5 for the remaining years of each contract, taking into account the price indexes, the flexibility of use and other optimisation opportunities arising from such contracts.

9.6.3 The value of the other Stranded Cost assets and liabilities other than the contracts described in Article 9.5 allocated to the Company, shall be calculated on the basis of a valuation method to be agreed between the Indemnified Parties and the Indemnifying Parties. If no agreement can be reached within 20 days, an independent investment bank or accounting firm or similar expert shall be appointed by the Parties in order to carry out a valuation. If the parties are unable to reach an agreement on the basis of the advice from the independent expert, then the dispute will be decided by arbitration in accordance with the Dutch Arbitration Institute ("NAI").

If no determination of Stranded Costs with respect to the foregoing contracts, assets or liabilities has been made that has become binding and definitive for the Company, the Parties will jointly designate an independent investment banking firm and/or other firm of international reputation having special expertise in the electric sector. For the purpose of calculating a net present value, a discount rate of 7% will be used. If the parties are unable to reach an agreement on the basis of the advice from the independent expert, then the dispute will be decided by arbitration in accordance with the Dutch Arbitration Institute ("NAI").

Any changes or expenses incurred in connection with the investment banker's or independent experts' reviews shall be allocated 50% to the New Partner and 50% to the Existing Partners.

9.7 The Indemnification by the Indemnifying Parties pursuant to this Article 9 shall not be limited in time. Any agreements, arrangements or settlements between the Parties including those referred to in Article 9.5 and 9.6 through 9.6.3 shall not affect in any way, whatsoever this Indemnification.

4.9 Article 14.1 of the Share Purchase Agreement shall be amended by adding after the word "terms" and before the period the following:

"except that the provisions of Article 9 and Article 13 shall continue to apply in accordance with the terms thereof"

4.10 Article 13.7 of the Share Purchase Agreement shall be amended to read in its entirety as follows:

13.7 (a) The maximum amount of all payments required to be made by the Existing Partners under Article 9 of this Share Purchase Agreement shall not exceed NLG 1.4 billion (in words: one billion four hundred million Dutch Guilders).

(b) The maximum amount of all final awards of Damages payable by the Existing Partners with respect to breaches of the Warranties shall not exceed NLG 500 million (in words: five hundred million Dutch Guilders).

(c) The New Partner may elect by written notice to the Existing Partners to reallocate any unused portion of the NLG 500 million amount referred to under Article 13.7(b) to the Company rather than to the New Partner for use by the Company to offset the burden associated with Stranded Costs.

(d) Notwithstanding the foregoing, the following items shall not be included in any calculations under 13.7(a) or 13.7(b) above: (x) any payments to adjust the estimated First Purchase Price to the actual First Purchase Price to reflect changes in net debt and dividend payments as provided in Schedule 2.1.1, (y) any requirements of an Existing Partner to pay expenses under the provisions of the Partnership Documentation including, but not limited to, articles 33.1 and 40.7 of the Partnership Agreement and articles 9.4 and 9.8.

4.11 Article 13.8 of the Share Purchase Agreement shall be amended to read in its entirety as follows:

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

4.12 Article 13.10 of the Share Purchase Agreement shall be amended to read in its entirety as follows:

13.10 The Existing Partners shall not owe Damages to the New Partner by virtue of this Article 13 or otherwise have obligations towards the New Partner if and to the extent that the Damages ensue from or are related to Stranded Costs.

4.13 The first sentence of Article 13.11 of the Share Purchase Agreement shall be amended to read in its entirety as follows:

13.11 The amount of any award or Damages owed by the Existing Partners to the New Partner shall at the option of the Existing Partners be either paid directly to the New Partner or subtracted from the remaining unpaid amount, if any, of the Second Purchase Price and the Third Purchase Price owed by the New Partner to the Existing Partners.

4.14 Article 13.12 shall be amended and restated in its entirety as follows:

13.12 Notwithstanding Article 13.13 above, the Province of Utrecht and the Municipality of Utrecht jointly ("niet hoofdelijk"), irrevocably and unconditionally guarantee to the New Partner as guarantor for Pegus prompt performance by Pegus of all its obligations under or in connection with the Share Purchase Agreement and such guarantee shall continue without limitation as to time or as to amount.

4.15 Article 14 shall be amended and restated in its entirety as follows:

All Parties to this Agreement waive any rights to (partially) terminate, (partially) annul, (partially) rescind or request the (partial) rescission or (partial) dissolution of this Agreement.

4.16 The New Partner shall undertake and procure that the member of the Management Board nor otherwise designated by the New Partner shall not be dismissed prior to 31 December 2002.

ARTICLE 5 - MISCELLANEOUS

5.1 Without prejudice to other provisions of the Partnership Agreement that are by their terms generally applicable, Articles 22, 24, 26, 27, 29, 31 through 36, 38 through 42 of the Partnership Agreement shall govern this Deed of Amendment.

5.2 Except as provided for herein, the Partnership Documentation shall continue in full force and effect.

5.3 Each of the Parties shall execute and deliver to the other Parties such other instruments and will take such other actions and execute and deliver such other documents or instruments as may be reasonably required in order to carry out, evidence and confirm the intended purposes of the Partnership Documentation provided that this shall not obligate any Party to waive any condition set forth in the Partnership Documentation.

IN WITNESS WHEREOF this Deed of Amendment has been executed by the Parties hereto in ninefold on the date set out on page one

SIGNED by

/s/ N. KLIJN
- ---
for and on behalf of Provincie Noord Holland
by: [N. Klijn]

SIGNED by

/s/ G. TER HORST
- ---
for and on behalf of Gemeente Amsterdam
By: [G. ter Horst]

SIGNED by

/s/ D.H. KOK
- ---
for and on behalf of Provincie Utrecht
By: [D.H. Kok]

SIGNED by

/s/ H.H.W. KERNKAMP
- ---
for and on behalf of Gemeente Utrecht
By: [H.H.W. Kernkamp]

SIGNED by

/s/ M. TEN KLOOSTER
- ---
for and on behalf of N.V. Provinciaal en
Gemeentelijk Utrechts Stroomleveringsbedrijf
By: [M. ten Klooster]

SIGNED by

/s/ CHARLES M. OGLESBY
- ---
for and on behalf of Reliant Energy Wholesale
Holdings (Europe) Inc.
By: Charles M. Oglesby

SIGNED by

/s/ CHARLES M. OGLESBY
- ---
Reliant Energy Power Generation, Inc.
By: Charles M. Oglesby

SIGNED by

/s/ CHARLES M. OGLESBY
- ---
Reliant Energy, Incorporated
By: Charles M. Oglesby

SIGNED by

/s/ P. KOPPEN DE NEVE
- ---
for and on behalf of N.V. Energieproduktiebedrijf UNA
By: [P. Koppen de Neve]

EXHIBIT 2(c)

PURCHASE AGREEMENT

dated as of February 19, 2000

Among

RELIANT ENERGY POWER GENERATION, INC.

as Buyer,

RELIANT ENERGY, INCORPORATED,

as Guarantor,

and

SITHE ENERGIES, INC.

and

Sithe Northeast Generating Company, Inc.,

as Sellers.

TABLE OF CONTENTS

SCHEDULES

PURCHASE AGREEMENT

This Purchase Agreement, dated as of February 19, 2000 (this "Agreement") is among Reliant Energy Power Generation, Inc., a Delaware corporation ("Buyer"), Reliant Energy, Incorporated, a Texas corporation ("Guarantor"), Sithe Energies, Inc., a Delaware corporation ("Sithe"), and Sithe Northeast Generating Company, Inc., a Delaware corporation and an indirect wholly-owned Subsidiary (as defined herein) of Sithe ("Genco" and, together with Sithe, the "Sellers").

RECITALS

A. Sithe owns, through Genco, all of the issued and outstanding capital stock of Sithe Mid-Atlantic Power Services, Inc., a Delaware corporation ("Sithe Mid-Atlantic"), and all of the limited liability company interests in each of Sithe Pennsylvania Holdings LLC, a Delaware limited liability company, Sithe Maryland Holdings LLC, a Delaware limited liability company, and Sithe New Jersey Holdings LLC, a Delaware limited liability company (Sithe Mid-Atlantic and each of the limited liability companies referred to above, individually, a "Company" and, collectively, the "Companies").

B. Sithe holds, through Genco, certain Intercompany Notes (as defined herein) issued by the Companies.

C. The Companies collectively own, or will own at or prior to the Closing (as defined herein) directly or indirectly through their wholly-owned Subsidiaries, all of the GPU Assets (as defined herein), together with any assets acquired after November 24, 1999 by Sithe or any of its Subsidiaries relating primarily to the GPU Assets.

D. The Companies collectively own, or will own at or prior to the Closing, directly or indirectly through their wholly-owned Subsidiaries, certain rights and assets relating to generation projects under development in the geographic area covered by PJM (as defined herein) that were not part of the assets acquired from GPU.

E. Buyer desires to purchase from Genco, and Genco desires to sell to Buyer, subject to the terms and conditions of this Agreement, (a) all of the issued and outstanding capital stock of Sithe Mid-Atlantic, (b) all of the limited liability company interests in each of the other Companies and (c) all of the Intercompany Notes held by Genco.

F. In order to induce the Sellers to enter into this Agreement, Guarantor is willing to enter into this Agreement in order to guarantee Buyer's obligation to pay, upon the terms and subject to the conditions set forth herein, the Guaranteed Obligations and for the other purposes set forth in Article 13.

G. The Board of Directors of each of the Sellers, Guarantor and Buyer have determined that the consummation of the transactions contemplated by this Agreement, upon the terms and conditions set forth in this Agreement, is in the best interests of each of the Sellers, Guarantor and Buyer, respectively, and their respective stockholders.

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE 1. CERTAIN DEFINITIONS

Section 1.1 Definitions. For the purposes of this Agreement, the following words and phrases shall have the following meanings:

"Acquired Assets" means collectively the GPU Assets and the Development Assets.

"Adjusted Net Working Capital" means the result obtained by subtracting the Base Net Working Capital from the Closing Net Working Capital.

"Adjustment Amount" means the difference between (i) the sum, without duplication, of (a) Adjusted Net Working Capital, (b) Budgeted Capital Expenditures and such additional amounts of Capital Expenditures as are allowed under Section 6.5.2(i)(1) or (3), (c) Budgeted Development Costs (whether expensed or capitalized) and such additional amounts of Development Costs as are allowed under Section 6.5.2(i)(2), and (d) expenditures to which Buyer has consented in writing, and (ii) the sum, without duplication, of (a) (1) any cash proceeds from any dispositions of Acquired Assets (other than current assets) that are obsolete, or (2) any salvage cash proceeds from the removal or replacement of Acquired Assets that are capital assets that have not been repaired or replaced or that have been repaired or replaced in accordance with Section 6.5.2(b), (b) the Preclosing Seller Breach Amount, (c) insurance proceeds received in connection with a casualty or property loss to the extent Sellers have not previously repaired or replaced the covered property and (d) the Mark to Market Adjustment Amount.

"Advisors" has the meaning as set forth in Section 14.8.2.

"Affiliate" means any Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, another Person. For purposes of the foregoing, "control", with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or by contract or otherwise.

"Aggregate Purchase Price" has the meaning as set forth in Section 2.1.2.

"Agreement" has the meaning as set forth in the first paragraph of this Agreement.

"Amended and Restated Transition Power Purchase Agreements" means (i) the Amended and Restated Transition Power Purchase Agreement among Sithe, Metropolitan Edison Company, Sithe Pennsylvania Holdings, LLC and Sithe Power Marketing, dated as of November 24, 1999, (ii) the Amended and Restated Transition Power Purchase Agreement among Sithe, Pennsylvania Electric Company, Sithe Pennsylvania Holdings, LLC, Sithe Maryland Holdings, LLC and Sithe Power Marketing, dated as of November 24, 1999, and (iii) the Amended and Restated Transition Power Purchase Agreement among Sithe, Jersey Central Power and Light Company, Sithe New Jersey Holdings, LLC and Sithe Power Marketing, dated as of November 24, 1999.

"Assignment" means that certain Assignment and Transfer Agreement and Bill of Sale, to be dated as of the Closing Date, substantially in the form of Schedule 9.3B.

"Balance Sheets" means the Opening Balance Sheet, the December Balance Sheet and the Closing Balance Sheet, all of which shall be prepared in accordance with GAAP.

"Base Net Working Capital" means the Net Working Capital of the Companies and their Subsidiaries on a combined basis as of November 24, 1999 as determined from the Opening Balance Sheet.

"BECO Facility" means that certain Credit Agreement, dated as of May 15, 1998, among Sithe New England Holdings, LLC, Bank of Montreal, as agent, and the financial institutions party thereto, as amended, modified and supplemented.

"Benefit Arrangement" means any executive incentive arrangement, consisting of: (i) any employment or individual personal services agreement involving an annual base salary of at least $250,000 (with respect to any such agreement that is an employment agreement) or annual compensation of at least $250,000 (with respect to any other such agreement), but excluding any agreement of at-will employment, (ii) any equity compensation plan and (iii) any deferred compensation plan.

"Benefit Plans" has the meaning as set forth in Section 3.12.1.

"Budgeted Capital Expenditures" means those expenditures incurred between January 1, 2000 and the Closing Date in accordance with Schedule 3.9.

"Budgeted Development Costs" means those costs incurred between January 1, 2000 and the Closing Date in the development of the Development Projects that are set forth on Schedule 1E.

"Business Day" means any day other than a Saturday, a Sunday or a day on which commercial banking institutions in New York, New York are authorized or obligated by law or executive order to be closed.

"Buyer" has the meaning as set forth in the first paragraph of this Agreement.

"Buyer Group" has the meaning as set forth in Section 6.1.1.

"Buyer's Representatives" has the meaning as set forth in Section 6.5.5(a).

"Buyer's Trading Representatives" has the meaning as set forth in Section 6.5.5(b).

"Capital Expenditures" means expenditures that may be capitalized in accordance with GAAP using the same accounting policies (which are in accordance with GAAP) as were used by the Sellers in the preparation of the Opening Balance Sheet or that Buyer agrees in writing should be treated as capitalized expenses under this Agreement.

"Cash Equivalents" means (i) cash, (ii) debt securities issued, guaranteed or insured by the United States government or any agency or instrumentality thereof, (iii) certificates of deposit, eurodollar time deposits, bankers' acceptances and bank deposits, (iv) repurchase obligations for underlying securities of the types described in clauses (ii) and (iii) above, and (v) commercial paper.

"CERCLA" means the federal Comprehensive Environmental Response, Compensation and Liability Act, as amended (42 U.S.C.ss.ss.9601-9675).

"CFO Certificate" has the meaning as set forth in Section 13.3.1.

"Chief Financial Officer of Guarantor" has the meaning as set forth in Section 13.3.1.

"Charter Documents" means, with respect to any Person, the certificate of incorporation, by-laws, articles of organization, limited liability company agreement, partnership agreement, formation agreement or other similar organizational documents of such Person.

"Closing" has the meaning as set forth in Section 9.1.

"Closing Date" has the meaning as set forth in Section 9.1.

"Closing Balance Sheet" means an audited combining balance sheet at the Closing Date of the Companies and their Subsidiaries, which balance sheet shall not reflect any intercompany payables or receivables, to be prepared in accordance with GAAP, using the same accounting policies (which are in accordance with GAAP) as were used by the Sellers in the preparation of the Opening Balance Sheet.

"Closing Net Working Capital" means the Net Working Capital of the Companies and their Subsidiaries on a combined basis as of the Closing Date as determined from the Closing Balance Sheet.

"Code" means the Internal Revenue Code of 1986, as amended. All citations to the Code or to the regulations promulgated thereunder shall include any amendments or any substitute or successor provisions thereto.

"Collective Bargaining Agreements" has the meaning as set forth in Section 3.11.

"Company" has the meaning as set forth in Recital A.

"Confidential Acquired Asset Information" has the meaning as set forth in Section 14.14(b).

"Confidential Information" has the meaning as set forth in Section 14.14(a).

"Confidentiality Agreement" has the meaning as set forth in Section 6.1.1.

"Contract" means a contract, agreement, note, bond, mortgage, indenture, easement, lease, license, instrument or other obligation.

"December Balance Sheet" has the meaning as set forth in Section 3.5.

"Development Assets" means all rights of the Sellers and their Affiliates relating primarily to the Development Projects, including but not limited to those arising pursuant to the Contracts, Permits and Environmental Permits and other rights listed on Schedule 1A, and all books and records (including but not limited to proposals, studies and applications) relating to the Development Projects; provided, that the term "Development Assets" shall not include any

GPU Assets and shall not include any assets of any Seller or any Affiliate of any Seller that are not primarily related to the Development Projects.

"Development Costs" means costs incurred (whether capitalized or expensed) in the development of the Development Projects including costs, fees and expenses to be paid to third parties and costs chargeable by Sellers or their Affiliates controlled by them to the Development Projects, in accordance with Sithe's standard practices existing at the date hereof.

"Development Projects" means the Hunterstown, Erie West, Portland, Atlantic, Seward and Gilbert generation projects under development by Sellers or any of their Affiliates in the geographic area covered by PJM.

"Direct Claim" has the meaning as set forth in Section 12.2.3.

"DOJ" has the meaning as set forth in Section 6.2.1.

"Due Date" has the meaning as set forth in Section 6.4.12.

"Easement Agreements" means, collectively, those certain Easement Agreements entered into pursuant to the Sithe/GPU Agreements with respect to certain of the Real Property.

"Election" has the meaning as set forth in Section 6.4.1.1.

"Emission Allowance" means all present and future authorizations to emit specified units of pollutants or Hazardous Substances, which units are established by a Governmental Authority with jurisdiction over the generating facilities included in the Acquired Assets and relating to such Acquired Assets under (i) an air pollution control and emission reduction program designed to mitigate global warming or interstate or intra-state transport of air pollutants or Hazardous Substances; (ii) a program designed to mitigate impairment of surface waters, watersheds or groundwater; or (iii) any pollution reduction program with a similar purpose. Emission

Allowances include allowances, as described above, regardless as to whether the Governmental Authority establishing such Emission Allowances designates such allowances by a name other than "allowances."

"Emission Reduction Credits" means credits in units that are established by a Governmental Authority with jurisdiction over the generating facilities included in the Acquired Assets that have obtained the credits, resulting from reductions in the emissions of air pollutants from an emitting source or facility (including, without limitation, and to the extent allowable under applicable law, reductions from shut-downs or control of emissions beyond that required by applicable law) that: (i) have been identified by the applicable state regulatory authorities as complying with applicable state laws and regulations governing the establishment of such credits (including, without limitation, that such emissions reductions are enforceable, permanent, quantifiable and surplus); or (ii) have been certified by any other applicable Governmental Authority as complying with the laws and regulations governing the establishment of such credits (including, without limitation, that such emissions reductions are enforceable, permanent, quantifiable and surplus). The term includes Emission Reduction Credits that have been approved by any applicable state regulatory agency and are awaiting United States Environmental Protection Agency approval. The term also includes certified air emissions reductions, as described above, regardless as to whether the Governmental Authority certifying such reductions designates such certified air emissions reductions by a name other than "emission reduction credits."

"Employee Benefit Plan" means any employee benefit plan, as defined in Section 3(3) of ERISA.

"Environmental Claim" means administrative or judicial actions, suits, orders, claims, liens, notices, notices of violations, investigations, complaints, requests for information, proceedings, or other written communication, whether criminal or civil, pursuant to or arising under any applicable Environmental Law by any Person to the extent based upon, alleging, asserting, or claiming any actual or potential (a) violation of, or liability under any Environmental Law, (b) violation of any Environmental Permit, or (c) liability for investigatory costs, cleanup costs, removal costs, remedial costs, response costs, natural resource damages, property damage, personal injury, fines, or penalties arising out of, based on, resulting from, or related to the presence, Release, or threatened Release into the environment of any Hazardous Substances at any location related to the Acquired Assets, including, but not limited to, any off-Site location to which Hazardous Substances, or materials containing Hazardous Substances, were sent for handling, storage, treatment, or disposal.

"Environmental Laws" means all applicable federal, state and local laws and regulations, relating to pollution or protection of the environment, natural resources or human health and safety, including laws and regulations relating to Releases or threatened Releases of Hazardous Substances (including, without limitation, Releases to ambient air, surface water, groundwater, land and surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, release, transport, disposal or handling of Hazardous Substances.

"Environmental Permits" means permits, certificates, certifications, licenses, franchises and other governmental filings, notices, authorizations, consents and approvals under Environmental Laws.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" of any Company and any Subsidiary of any

Company means any other Person that, together with the relevant Company or Subsidiary, is or was required to be treated as a single employer under Section 414 of the Code.

"Estimated Closing Statement" has the meaning as set forth in Section 2.2.1.

"Estimated Adjustment Amount" has the meaning as set forth in Section 2.2.1.

"Excluded Liabilities" means the sum of (a) affiliate notes payable, (b) GPU Post Closing Amounts, (c) maintenance reserves and (d) deferred taxes, all as determined from the Balance Sheets.

"FERC" has the meaning as set forth in Section 6.2.2.

"Financial Statements" has the meaning as set forth in Section 3.5.

"Financing Parties" has the meaning as set forth in Section 6.3.

"Fixed Purchase Price" has the meaning as set forth in Section 2.1.2.

"FTC" has the meaning as set forth in Section 6.2.1.

"Funded Debt" means indebtedness for borrowed money (other than under the Intercompany Notes, and other than accounts payable and trade payables incurred in the ordinary course of business).

"GAAP" means generally accepted accounting principles in the United States, consistently applied.

"Genco" has the meaning set forth in the first paragraph of this Agreement.

"Good Operating Practices" mean any of the practices, methods and acts engaged in or approved by a significant portion of the electric generation industry or any of the practices, methods and acts engaged in or approved by a significant portion of the electric generation industry or any of the practices, methods or acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, would have been expected to accomplish the desired result at a reasonable cost consistent with good electric generation industry business practices, reliability, safety and expedition during the relevant time period. Good Operating Practices are not intended to be limited to the optimum practices, methods or acts to the exclusion of all others, but rather to be acceptable practices, methods or acts generally accepted in the industry.

"Governmental Authority" means any federal, state, local or other governmental, regulatory or administrative agency, commission, department, board, or other governmental subdivision, court, tribunal, arbitrating body or other governmental authority.

"GPU" means GPU, Inc., a Pennsylvania corporation and a party to one or more of the Sithe/GPU Agreements.

"GPU Assets" means all of the following:

(a) the "Purchased Assets" as defined in the Sithe/GPU Agreements excluding assets identified or described in any Sithe/GPU Agreements as not being included in the transactions contemplated in the Sithe/GPU Agreements, but including any right that the Sellers and their Affiliates have to acquire the stock or assets of York Haven Power Company and of Forked River station (but excluding such stock or assets themselves);

(b) all rights of the Sellers and their Affiliates under the GPU Project Documents and all rights, claims and causes of actions accrued or accruing thereunder;

(c) all rights of the Sellers and their Affiliates under the Sithe/GPU Agreements and all rights, claims and causes of action accrued or accruing thereunder; and

(d) all of the assets and rights of the Sellers and their Affiliates, acquired or created since November 24, 1999 and used in connection with, and relating primarily to, the assets referred to in clause (a) of this definition, including without limitation such assets consisting of Real Property, Inventories, tangible personal property, Contract rights (including any rights to sell power), Real Property leases, Permits, Environmental Permits, books and records, Emission Reduction Credits and Emission Allowances, unexpired and transferable warranties and guaranties from third parties with respect to Real Property or personal property, year 2000 compliance information, names of plants (excluding the right to use the name "Sithe") and intellectual property; provided, that the GPU Assets shall not include (i) any Cash Equivalents, (ii) the name "Sithe" or any right of use thereof, or (iii) any corporate-wide information, technology, financial reporting or accounting systems, including software relating thereto and hardware not located on the premises of any facility included in the GPU Assets; provided however, that Buyer shall be furnished with data related to the GPU Assets in a form agreeable to Buyer and the Sellers.

"GPU Liabilities" means all of the obligations and liabilities (whether accrued, absolute, contingent or otherwise) of Sithe or any of its Subsidiaries (or any of their respective successors or assigns) under (i) the GPU Project Documents, including, without limitation, obligations arising out of GPU Project Documents that consist of assumed Contracts and Easement Agreements, and Permitted Liens, (ii) the "Assumed Liabilities" as defined in the Sithe/GPU Agreements, (iii) the Sithe/GPU Agreements (other than transaction expenses, including transfer taxes, incurred pursuant to the Sithe/GPU Agreements) and (iv) the Intercompany Notes.

"GPU Post Closing Amounts" means "Post-Closing Adjustments" as defined in Section 3.3(c) of the Sithe/GPU Agreements.

"GPU Project Documents" means the agreements and documents listed on Schedule 1B.

"GPU Sellers" has the meaning set forth in Section 6.8.

"Guaranteed Obligations" has the meaning as set forth in Section 13.1.

"Guarantor" has the meaning as set forth in the first paragraph of this Agreement.

"Hazardous Substances" or "hazardous substances" means (a) any petrochemical or petroleum products, coal ash, oil, radioactive materials, radon gas, asbestos in any form that is friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid which contains levels of polychlorinated biphenyls in excess of 50 parts per million, (b) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "hazardous constituents," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants," "pollutants," "toxic pollutants" or words of similar meaning and regulatory effect under any applicable Environmental Law; and (c) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any applicable Environmental Law.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"Indemnifiable Loss" has the meaning as set forth in Section 12.1.

"Indemnifying Party" has the meaning as set forth in Section 12.2.1.

"Indemnitee" has the meaning as set forth in Section 12.1.

"Independent Accounting Firm" means an independent accounting firm of national reputation that is mutually appointed by Sithe and Buyer (other than the regular outside accounting firm of any of Buyer, Guarantor or any Seller).

"Interim Services Agreement" shall mean that certain Interim Services Agreement, to be entered into between Sithe and Buyer, a general description of which is attached hereto as Schedule 1C.

"Inventories" means coal, fuel oil or alternative fuel inventories, limestone, materials, spare parts, consumable supplies and chemical and gas inventories relating to the operation of a generating facility included in the Acquired Assets.

"Intercompany Notes" means (a) the promissory note, dated November 24, 1999, issued by Sithe Pennsylvania Holdings LLC to Genco in the principal amount of $1,278,272,817.78, (b) the promissory note, dated November 24, 1999, issued by Sithe New Jersey Holdings LLC to Genco in the principal amount of $145,033,723.56, (c) the promissory note, dated November 24, 1999, issued by Sithe Maryland Holdings LLC to Genco in the principal amount of $11,840,000.00, (d) the promissory note, dated November 24, 1999, issued by Sithe Pennsylvania Holdings LLC to Genco in the initial principal amount of $124,784,102.22, (e) the promissory note, dated December 31, 1999, issued by Sithe Pennsylvania Holdings LLC to Genco in the initial principal amount of $15,262,506.00, (f) the promissory note, dated December 31, 1999, issued by Sithe New Jersey Holdings LLC to Genco in the initial principal amount of $0.00, and (g) the promissory note, dated December 31, 1999, issued by Sithe Maryland Holdings LLC to Genco in the initial principal amount of $118,446.00 (as the principal balance owing under the promissory notes referred to in clauses (e), (f) and (g) may change from time to time prior to the Closing in accordance with this Agreement).

"ISRA" has the meaning as set forth in Section 6.14.

"Keystone and Conemaugh Operating Agreements" means (i) the Conemaugh Operating Agreement between Pennsylvania Electric Company and Conemaugh Station Owners, dated as of December 1, 1967, as amended through the date hereof (the last such amendment being dated November 24, 1999) and (ii) the Keystone Operating Agreement between Pennsylvania Electric Company and Keystone Station Owners, dated as of December 1, 1967 as amended through the date hereof (the last such amendment being dated March 25, 1998).

"Keystone and Conemaugh Owners' Agreements" means (i) the Memorandum of Owners' Agreement Conemaugh Steam Electric Station among Conemaugh Station Owners, dated as of August 1, 1966; and (ii) the Memorandum of Owners' Agreement Keystone Steam Electric Station among Keystone Station Owners, dated December 7, 1964.

"knowledge" or words to such effect means (a) with respect to any Person that is an individual, the actual knowledge without independent investigation of such Person and (b) (i) in the case of Sithe, the actual knowledge of the executive officers listed on Schedule 1D after due inquiry by one or more of such executive officers of (A) the plant managers of the generating facilities included in the GPU Assets and (B) Martin Rosenberg, pursuant to Section 6.5.4 and (ii) in the case of Buyer, the actual knowledge of the executive officers listed on Schedule 1D.

"Liens" means liens, charges, restrictions, claims or encumbrances of any nature.

"LLC Interests" has the meaning as set forth in Section 4.4.

"Mark to Market Adjustment Amount" means the amount (which may be positive or negative) by which the market value (as defined by the mid-point of the bid and ask price, as agreed by Buyer and Seller) of any outstanding Trading Contracts, as of the Closing Date, listed in Schedule 6.5.2(f)(A) varies from the recorded value of such Trading Contracts at the Closing Date.

"material" or "materially," when used with respect to any Company or any Subsidiary of any Company or any of the Acquired Assets (except when used to modify the term "Lien" or "Liens" in Section 3.14), means material to (i) the Companies and their Subsidiaries, taken as a whole or (ii) any Specified Plant (as defined below in the definition of "Material Adverse Effect").

"Material Adverse Effect" means an effect that is or reasonably could be expected to be materially adverse to the business, assets, condition (financial or otherwise), prospects, properties or results of operations of (a) the Companies and their Subsidiaries, taken as a whole, or (b) a Specified Plant (as defined below), excluding in any case, (i) any changes, circumstances or effects resulting from or relating to changes or developments in the economy, financial markets, commodity markets (including power markets), laws, regulations or rules in the applicable electric power markets (including, without limitation, changes in laws or regulations affecting owners or providers of electric generation, transmission or distribution as a group and not the Companies exclusively) or in the political climate generally or in any specific region and (ii) any changes in conditions or developments generally applicable to the industries in which any of the Companies or any of their Subsidiaries is involved. As used herein, each of the following shall be a "Specified Plant": (1) the Shawville Station and associated GPU Assets taken as a whole;

(2) the Portland Station and associated GPU Assets taken as a whole; and (3) collectively, all GPU Assets taken as a whole that were conveyed to the Sellers or their Affiliates under the Sithe/GPU Agreement identified in clause (d) of the definition of Sithe/GPU Agreements.

"Material Contract" means each Contract to which any Company or any Subsidiary of any Company is a party or by which any of them or any of their respective property may be bound and which, in each case, is material to (a) the Companies and their Subsidiaries taken as a whole or (b) any Specified Plant (as defined above in the definition of "Material Adverse Effect"); provided, however, that the term "Material Contract" shall not include the Project Office Contracts.

"Mid-Atlantic Stock" has the meaning as set forth in Section 4.4.

"Multiemployer Plan" means a multiemployer plan, as defined in Sections 3(37) and 4001(a)(3) of ERISA.

"Net Working Capital" means the difference between (i) the sum of (a) fuel inventory, including with respect to the Opening Balance Sheet, the balance in any intercompany account with respect to fuel, (b) material and supplies inventories, (c) other current assets, (d) other assets (excluding land, property, plant & equipment, construction work in progress, project development costs, goodwill, and long-term receivables from joint owners), and (e) receivables from unaffiliated third parties (other than (1) insurance receivables to the extent covered property is not being repaired or replaced and (2) salvage receivables from the removal or replacement of Acquired Assets that are capital assets that have not been repaired or replaced or that have been repaired or replaced in accordance with Section 6.5.2(b)), and (ii) the sum of (x) third party trade payables and (y) any other liabilities to unaffiliated third parties other than (A) Excluded

Liabilities, (B) any liabilities related to the capacity payments payable under the transportation contract between Pennsylvania Power & Light Company, Interstate Energy Company and Jersey Central Power & Light Company, for the Gilbert Station, dated as of August 12, 1977, and (C) Taxes for which either Seller is liable pursuant to Section 6.4, all as determined from the Balance Sheets.

"Net Worth" means, with respect to any Person, (a) the total assets of such Person and its Subsidiaries on a consolidated basis, less (b) the total liabilities of such Person and its Subsidiaries, on a consolidated basis, in each case, determined in accordance with GAAP.

"NJDEP" has the meaning as set forth in Section 6.14.

"N.J.S.A." has the meaning as set forth in Section 3.20.

"Northeast Management" means Sithe Northeast Management Company, a Pennsylvania corporation.

"Opening Balance Sheet" has the meaning as set forth in Section 3.5.

"Other Transfer Taxes" has the meaning as set forth in Section 6.4.3.2.

"Payor" has the meaning as set forth in Section 6.4.2.

"Permits" means permits, certificates, certifications, licenses, franchises and other filings, notices, authorizations, consents and approvals of any Governmental Authority (other than Environmental Permits).

"Permitted Liens" has the meaning as set forth in Section 3.14.

"Person" means and includes an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization or a Governmental Authority.

"PJM" means the Pennsylvania - New Jersey - Maryland power pool.

"Post-Closing Statement" has the meaning as set forth in Section 2.2.4.

"Preclosing Seller Breach Amount" shall mean the sum of the amount of damages to Buyer, determined without regard to materiality or Material Adverse Effect, resulting from a breach by the Sellers or any Company or any Subsidiary of any Company of (i) the representations set forth in

(a) Sections 3.4.1 and 4.4 to the effect that the Sellers own 100% of the equity interests in the Companies and each Subsidiary of the Companies free and clear of any Liens, or

(b) Section 3.4.4 regarding the lack of business activities conducted in the Companies and the Subsidiaries of the Companies other than in connection with the acquisition, ownership, development and operation of the GPU Assets and the absence of any Funded Debt (or any Liens related to any Funded Debt), or

(ii) the covenants set forth in paragraphs (b), (d), (f), (h) and (i) of Section 6.5.2. For purposes of this definition, the damages to Buyer with respect to a breach shall be deemed to be the monetary difference between (i) the facts as represented as compared to the actual facts to which a specified representation relates or (ii) the performance required by a specified covenant as compared to actual performance. Such damages shall not include punitive, incidental, special, exemplary or consequential damages, but only such actual monetary differences as provided in the preceding sentence.

"Preclosing Seller Breach Amount Statement" has the meaning as set forth in Section 2.2.1.

"Preparer" has the meaning as set forth in Section 6.4.2.

"Project Office Contracts" shall mean the Contracts which are entered into or administered by the Keystone-Conemaugh Project Office on behalf of the owners of the Keystone and Conemaugh generating stations.

"PUHCA" means the Public Utility Holding Company Act of 1935, as amended.

"Real Property" means those certain parcels of land (including all buildings, facilities and other improvements thereon and all appurtenances thereto and any and all easements and rights of ingress and egress) included in the Acquired Assets, excluding the real property that are assets owned by the York Haven Power Company and those related to the Forked River station (to which the Company or any Subsidiary of the Company have rights pursuant to the Sithe/GPU Agreements).

"reasonable efforts" means commercially reasonable efforts.

"Recipient" has the meaning as set forth in Section 6.4.6.1.

"Release" means release, spill, leak, discharge, dispose of, pump, pour, emit, empty, inject, leach, dump or allow to escape into or through the environment.

"Remediation" means action of any kind to address a Release or the presence of Hazardous Substances at a Site or an off-Site location including, without limitation, any or all of the following activities to the extent they relate to or arise from the presence of a Hazardous Substance at a Site or an off-Site location: (a) monitoring, investigation, assessment, treatment, cleanup, containment, removal, mitigation, response or restoration work; (b) obtaining any permits, consents, approvals or authorizations of any Governmental Authority necessary to conduct any such activity; (c) preparing and implementing any plans or studies for any such activity; (d) obtaining a written notice from a Governmental Authority with jurisdiction over a

Site or an off-Site location under Environmental Laws that no material additional work is required by such Governmental Authority; and (e) the use, implementation, application, installation, operation or maintenance of removal actions on a Site or an off-Site location, remedial technologies applied to the surface or subsurface soils, excavation and off-Site treatment or disposal of soils, systems for long term treatment of surface water or groundwater, engineering controls or institutional controls, provided, that for purposes of the foregoing, references to "off-Site" locations refer to such locations only with respect to the period from November 24, 1999 to the Closing Date.

"Remediation Agreements" has the meaning as set forth in Section 6.14.

"RES" has the meaning as set forth in Section 6.18.

"Sellers" has the meaning as set forth in the first paragraph of this Agreement.

"Sellers' Representatives" has the meaning as set forth in Section 6.5.5(a).

"Sellers' Trading Representatives" has the meaning as set forth in Section 6.5.5(b).

"Senior Facility" means that certain Amended and Restated Senior Secured Revolving Credit Agreement, dated as of December 19, 1997 and amended and restated, among Sithe, certain Subsidiaries of Sithe, Bank of Montreal, as agent, and the financial institutions party thereto, as amended, modified and supplemented.

"Site" means, with respect to any generating facility included in the Acquired Assets, the Real Property (including improvements) forming a part of, or used or usable in connection with the operation of, such facility, including any disposal sites included in the Real Property. Any reference to the Sites shall include, by definition, the surface and subsurface elements, including the soils and groundwater present at the Sites, and any reference to items "at the Sites" shall include all items "at, on, in, upon, over, across, under and within" the Site.

"Sithe" has the meaning set forth in the first paragraph of this Agreement.

"Sithe/GPU Agreements" means, collectively (a) the Purchase and Sale Agreement dated as of October 29, 1998, as amended by Amendments 1 through 9, between Sithe and Jersey Central Power & Light Company, a New Jersey corporation; (b) the Purchase and Sale Agreement dated as of October 29, 1998, as amended by Amendments 1 through 9, between Sithe and Metropolitan Edison Company, a Pennsylvania corporation; (c) the Purchase and Sale Agreement dated as of October 29, 1998, as amended by Amendments 1 through 9, between Sithe and Pennsylvania Electric Company, a Pennsylvania corporation; and (d) the Purchase and Sale Agreement dated as of October 29, 1998, as amended by Amendments 1 through 9, among Jersey Central Power & Light Company, Metropolitan Edison Company, GPU and Sithe; in each case together with the related documents, instruments, agreements, including all closing statements, assignments, deeds, Easement Agreements, assumptions, bills of sale and other transfer documents executed or delivered in connection therewith.

"Sithe Mid-Atlantic" has the meaning as set forth in the Recitals.

"Sithe Power Marketing" shall mean Sithe Power Marketing, L.P.

"Subsidiary" of a Person means (i) any corporation, association or other business entity of which 50% or more of the total voting power of shares or other voting securities outstanding thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof) and (ii) any partnership or limited liability company (a) the sole general partner or the managing general partner or managing member of which is such Person or one or more of the other Subsidiaries of such Person (or any combination thereof) or (b) the only general partners or members of which are such Person or one or more of the other Subsidiaries of such Person (or any combination thereof). For purposes of clarification, neither the Keystone generation facility nor the Conemaugh generation facility shall be deemed to be Subsidiaries of any Company.

"Target Date" means the 90th day after the date of this Agreement.

"Tax Audit" has the meaning as set forth in Section 6.4.6.1.

"Tax Item" has the meaning as set forth in Section 6.4.12.

"Taxes" mean all federal, state, local, foreign and other net income, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, service use, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, windfall profits, fuel, gas import, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever imposed by any governmental entity, together with any interest and any penalties, additions to tax or additional amounts with respect thereto, and shall include all liability for the payment of any consolidated or combined income taxes (including, without limitation, any United States federal consolidated income tax liability) that is payable as a result of being a member of, and which may be imposed upon, any affiliated group (as defined in Section 1504 (a) of the Code or other applicable law) of which any Taxpayer or Northeast Management is a member, and the term "Tax" means any one of the foregoing Taxes.

"Taxpayer" means each Company and each Subsidiary of each Company other than Northeast Management.

"Tax Returns" means all returns, declarations, reports, statements and other documents required to be filed in respect of Taxes, and the term "Tax Return" means any one of the foregoing Tax Returns.

"Terminated Obligations" means (i) all (a) existing letters of credit set forth on Schedule 2.3 and any replacements thereof entered into in the ordinary course of business or (b) letters of credit issued after the date of this Agreement for the account of (1) any Company or any Subsidiary of any Company and as to which Sithe or any of its Subsidiaries has any reimbursement or other similar obligations or (2) Sithe or any of its Subsidiaries in connection with the GPU Assets, Development Assets or Development Projects, in case of clause (1) or (2), incurred in the ordinary course of business and consistent with Good Operating Practices or with the consent of Buyer and (ii) the bonds listed on Schedule 2.3 required by the State of Pennsylvania in connection with permits or licenses issued for the generating facilities of any Company and any Subsidiary of any Company in Pennsylvania.

"Third Party Claim" has the meaning as set forth in Section 12.2.1.

"Trading Contracts" has the meaning as set forth in Section 6.5.2(f).

"Unions" shall mean Local 459 of the International Brotherhood of Electrical Workers, AFL-CIO ("IBEW"), Local 777 of the IBEW, and System Council U-3 (consisting of Local Unions 327 and 1314) of the IBEW.

"WARN Act" has the meaning as set forth in Section 6.10.

Section 1.2 Certain Interpretive Matters. In this Agreement, unless the context otherwise requires, the singular shall include the plural, the masculine shall include the feminine and neuter, and vice versa. The term "includes" or "including" shall mean "including without limitation." References to a Section, Article, Exhibit or Schedule shall mean a Section, Article, Exhibit or Schedule of this Agreement, and reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented and restated through the date as of which such reference is made.

ARTICLE 2. PURCHASE AND SALE OF INTERCOMPANY NOTES, MID-ATLANTIC STOCK AND LLC INTERESTS

Section 2.1 Purchase and Sale of Intercompany Notes, Mid-Atlantic Stock and LLC Interests.

2.1.1 Transfer of Intercompany Notes, Mid-Atlantic Stock and LLC Interests. Upon the terms and subject to the conditions set forth in Articles 7 and 8, on the Closing Date Genco shall sell, convey, transfer, assign and deliver to Buyer, and Buyer shall purchase from Genco, the Intercompany Notes, the Mid-Atlantic Stock and the LLC Interests.

2.1.2 Aggregate Purchase Price. The aggregate consideration payable by Buyer to Genco for the transfer of the Intercompany Notes, the Mid-Atlantic Stock and the LLC Interests pursuant to Section 2.1.1 shall be US$ 2,100,000,000 (the "Fixed Purchase Price") plus the Adjustment Amount, which may be a positive or negative number (the Adjustment Amount plus the Fixed Purchase Price, the "Aggregate Purchase Price").

2.1.3 Allocation of Aggregate Purchase Price. Of the Aggregate Purchase Price, an amount equal to the aggregate principal amount of, and accrued and unpaid interest on, the Intercompany Notes shall be allocated to the purchase of the Intercompany Notes; provided, that such amount shall in no event exceed the Aggregate Purchase Price. The balance of the

Aggregate Purchase Price, if any, shall be allocated to the purchase of the Mid-Atlantic Stock and the LLC Interests.

Section 2.2 Determination of Adjustment Amount and Preclosing Seller Breach Amount.

2.2.1 At least 12 Business Days prior to the Closing Date, Buyer shall prepare and deliver to the Sellers a statement (the "Preclosing Seller Breach Amount Statement") which shall include an estimate of the Preclosing Seller Breach Amount, if any, and a description in reasonable detail of (i) each event or fact giving rise to the estimated damages included in such estimated Preclosing Seller Breach Amount and (ii) Buyer's good faith calculation as to the monetary value of the damages attributable to such event or fact, in accordance with the definition of Preclosing Seller Breach Amount set forth in this Agreement. At least ten (10) Business Days prior to the Closing Date, the Sellers shall prepare and deliver to Buyer an estimated closing statement (the "Estimated Closing Statement") that shall set forth the Sellers' best estimate of the Adjustment Amount (the "Estimated Adjustment Amount"), if any, including a calculation of such Estimated Adjustment Amount in reasonable detail, provided that, solely for the purpose of establishing the Estimated Adjustment Amount, the Preclosing Seller Breach Amount shall be deemed to be Buyer's estimate of the Preclosing Seller Breach Amount included in the Preclosing Seller Breach Amount Statement and any supplement thereto submitted by Buyer in accordance with this Section 2.2 no later than three (3) Business Days prior to the Closing Date. Solely for the purpose of establishing the amount of the Adjustment Amount payable by Buyer to Genco at the Closing as part of the Aggregate Purchase Price, the Estimated Adjustment Amount shall be deemed to be the Adjustment Amount and Buyer shall pay the Fixed Purchase Price plus the Estimated Adjustment Amount to Genco at the Closing, subject to this Section 2.2.

2.2.2 At any time from the date on which Buyer shall have delivered the Preclosing Seller Breach Amount Statement to the Sellers until the 30th day after the Closing Date, the Sellers may object in writing to the estimated Preclosing Seller Breach Amount or any other information included in the Preclosing Seller Breach Amount Statement, which objection should include a description, in reasonable detail, of the basis for such objection. If Sellers so object, the parties shall attempt to resolve such dispute by negotiation. If the parties are unable to resolve such dispute within ten (10) Business Days of receipt by Buyer of any objection by the Sellers, such dispute shall be submitted to final and binding arbitration before Jo Ao Mo S/ENDISPUTE, or its successor, pursuant to the United States Arbitration Act, 9 U.S.C. Sec. 1 et seq. Any party may commence the arbitration process called for in this Agreement by filing a written demand for arbitration with Jo Ao Mo S/ENDISPUTE, with a copy to the other parties. The arbitration will be conducted in accordance with the provisions of Jo Ao Mo S/ENDISPUTE's Comprehensive Arbitration Rules and Procedures in effect at the time of filing of the demand for arbitration. The parties will cooperate with Jo Ao Mo S/ENDISPUTE and with one another in selecting an arbitrator from Jo Ao Mo S/ENDISPUTE's panel of neutrals, and in scheduling the arbitration proceedings. The arbitrator shall be instructed to make a final determination with respect to the submitted dispute within sixty (60) days of the date of the appointment. The arbitrator shall consider only the alleged breaches described in the Preclosing Seller Breach Amount Statement and in any supplement thereto submitted in writing by Buyer to the Sellers on or prior to the Closing Date (which supplement, if any, shall contain the same type of information required to be included in the Preclosing Seller Breach Amount Statement with respect to any alleged breaches described in such supplement), which breaches may only be with respect to the matters specified in the definition of Preclosing Seller Breach Amount set forth in this Agreement. The Sellers may object to any supplement provided by Buyer in writing prior to the 30th day after the Closing Date, which objection should include a description, in reasonable detail, of the basis for any such objection. The arbitrator shall determine the amount of damages, if any, that constitute the Preclosing Seller Breach Amount in accordance with the definition of Preclosing Seller Breach Amount set forth in this Agreement. In no event may the amount of the Preclosing Seller Breach Amount exceed the estimate of the Preclosing Seller Breach Amount included in the Preclosing Seller Breach Amount Statement and any supplement thereto submitted by Buyer to the Sellers in accordance with this Section 2.2.2. The final determination of the Preclosing Seller Breach Amount resulting from such arbitration shall be final and binding on the parties hereto. The parties covenant that they will participate in the arbitration in good faith. The provisions of this Section 2.2.2 may be enforced by any court of competent jurisdiction.

2.2.3 In the event that the Preclosing Seller Breach Amount as determined pursuant to Section 2.2.2 (whether by arbitration or by settlement of the parties after the Closing), if any, is less than the estimate of the Preclosing Seller Breach Amount, if any, included in the Preclosing Seller Breach Amount Statement and any supplement thereto submitted by Buyer to the Sellers in accordance with Section 2.2.2, then Buyer shall pay to Genco, no later than five (5) Business Days after such determination pursuant to Section 2.2.2, by wire transfer of immediately available funds to an account designated by Genco, the amount of such difference, plus interest on such amount from and including the Closing Date to the date of payment at an annual rate of 18%. In addition, in the event that the estimate of the Preclosing Seller Breach Amount, if any, included in the Preclosing Seller Breach Amount Statement (and any supplement thereto submitted by Buyer to the Sellers in accordance with Section 2.2.2) is more than 118% of the Preclosing Seller Breach Amount determined pursuant to Section 2.2.2 (whether by arbitration or by settlement of the parties after the Closing), then Buyer shall also include in such payment to Genco the fees and expenses (including reasonable legal and accounting fees and expenses) incurred by the Sellers in connection with the determination of the Preclosing Seller Breach Amount pursuant to Section 2.2.2 (whether by arbitration or by settlement of the parties after the Closing).

2.2.4 Within ninety (90) days following the Closing Date, the Sellers shall prepare and deliver to Buyer a final closing statement (the "Post-Closing Statement") that shall set forth the amount of the Adjustment Amount (other than the Preclosing Seller Breach Amount). The Post-Closing Statement shall include (i) the Opening Balance Sheet, expanded to include financial statement footnotes, and (ii) the Closing Balance Sheet. The Sellers shall provide Buyer and Buyer's independent auditors with copies of, or access to, records and other information that Buyer may reasonably request with respect to the information set forth on the Post-Closing Statement (other than the Preclosing Seller Breach Amount). For purposes of the Post-Closing Statement, the values of fuel inventories and materials and supplies inventories on the Closing Balance Sheet will be determined after physical inventory observations, performed in accordance with normal and customary industry practices, performed on or about the Closing

Date, at Buyer's cost, utilizing inventory valuation methods consistent with those used on the Opening Balance Sheet.

2.2.5. Within thirty (30) days following the delivery of the Post-Closing Statement by the Sellers to Buyer, Buyer may object to the Adjustment Amount (other than the Preclosing Seller Breach Amount) in writing. If Buyer so objects to the Adjustment Amount, the parties shall attempt to resolve such dispute by negotiation. If the parties are unable to resolve such dispute within thirty (30) days of any objection by Buyer, the parties shall appoint the Independent Accounting Firm, and shall instruct such firm, at Sithe's and Buyer's joint expense, to review the calculation of the Adjustment Amount (other than the Preclosing Seller Breach Amount) and determine the appropriate amount of the Adjustment Amount (other than the Preclosing Seller Breach Amount), in accordance with this Agreement, within thirty (30) days of such appointment. The parties agree to cooperate with the Independent Accounting Firm and provide it with such information as it reasonably requests to enable it to make such determination. The finding of such Independent Accounting Firm shall be binding on the parties hereto.

2.2.6 Upon final determination of the Adjustment Amount (other than the Preclosing Seller Breach Amount) pursuant to Section 2.2.5, whether by agreement of the parties or as otherwise provided above, and regardless of whether the Preclosing Seller Breach Amount has been finally determined, (a) if the Adjustment Amount (assuming for this purpose that Preclosing Seller Breach Amount is zero) is more than the Estimated Adjustment Amount (assuming for this purpose that Preclosing Seller Breach Amount is zero), Buyer shall pay such difference to Genco and (b) if the Adjustment Amount (assuming for this purpose that Preclosing

Seller Breach Amount is zero) is less than the Estimated Adjustment Amount (assuming for this purpose that Preclosing Seller Breach Amount is zero), Genco shall pay such difference to Buyer, in either case, no later than five (5) Business Days after such determination, by wire transfer of immediately available funds to an account designated by the payee.

2.2.7 Notwithstanding anything else in this Agreement to the contrary, (a) in no event shall the Closing Balance Sheet or the calculation of Net Working Capital include any accrual, reserve or liability with respect to any matter included in the Preclosing Seller Breach Amount in excess of the accrual, reserve or liability with respect thereto included in the Opening Balance Sheet, (b) in no event shall any accrual, reserve or liability be included on the Closing Balance Sheet or in the calculation of Net Working Capital with respect to any matter disclosed in Section 3.2, 3.3, 3.6, 3.7, 3.8, 3.11, 3.12, 3.13, 3.14, 3.15, 3.17, 3.18, 3.19, 3.20 or 3.21, including any disclosure schedule relating to any of the foregoing Sections (except (i) to the extent that an accrual, reserve or liability with respect to such matter was included on the Opening Balance Sheet, in which case no adjustment shall be made to such accrual, reserve or liability for purposes of the Closing Balance Sheet and (ii) for accruals for third party trade payables and accrued expenses incurred in the ordinary course of business through the Closing Date) and (c) there shall be no accrual, reserve or liability on the Closing Balance Sheet or in the calculation of Net Working Capital with respect to any event or matter which gave rise to or was part of a Material Adverse Effect.

Section 2.3 Terminated Obligations.

On the Closing Date, in addition to paying the Fixed Purchase Price and the Estimated Adjustment Amount to the Sellers, Buyer shall provide evidence of the delivery of substitute letters of credit or other security for each of the Terminated Obligations in form and substance satisfactory to the beneficiary of each such Terminated Obligation and use reasonable efforts to deliver to the Sellers releases with respect to all Terminated Obligations as soon as reasonably practicable. If Buyer is unable to effect any such substitution on or prior to the Closing Date, Buyer will also indemnify and hold harmless each Seller from and against any liabilities, claims, demands, judgments, losses, costs, damages or expenses from and after the Closing Date that such Seller may sustain, suffer or incur and that result from or arise out of or relate to that Terminated Obligation until such time as substitutions of all such Terminated Obligations are effected and releases thereto have been obtained; provided that Buyer shall continue to use reasonable efforts to effect such substitution at all times after the Closing Date with respect to the Terminated Obligations until such time when the substitution of all Terminated Obligations has been effected. The Sellers shall cooperate with and use reasonable efforts to assist Buyer in obtaining any such releases; provided that none of the Companies, any Subsidiary of any Company, any Seller or any Affiliate of any Seller shall be obligated to seek any waiver or consent from any issuer of any Terminated Obligation; and provided further, that the failure of either Seller to perform its obligations in this Section shall not constitute an event that would, by itself, give rise to any claim by Buyer or right of Buyer to terminate this Agreement.

Section 2.4 Senior Credit Facility and BECO Facility. On or prior to the Closing Date, the Sellers shall, with respect to each of the Senior Credit Facility and the BECO Facility, either (i) obtain consent of the lenders under such facility to the consummation of the transactions contemplated by this Agreement or (ii) discharge all outstanding obligations of the

Sellers and their Affiliates under such facility. If the Sellers elect to follow clause (ii), the Sellers and Buyer shall cooperate with one another to arrange mutually satisfactory arrangements for the payment of the Aggregate Purchase Price to assure that the outstanding obligations referred to in such clause (ii) are discharged.

Section 2.5 Allocation of Aggregate Purchase Price. For United States federal and applicable state income tax purposes, the Aggregate Purchase Price and all other capitalized costs shall be allocated among the Mid-Atlantic Stock and the assets of the other Companies and their Subsidiaries. In connection therewith, Buyer shall prepare and submit to the Sellers a proposed allocation of the Aggregate Purchase Price and all other capitalized costs among the Mid-Atlantic Stock and the assets of the other Companies and their Subsidiaries as soon as reasonably practicable after the Closing. Sellers shall approve and agree to the proposed allocation unless Sellers reasonably determine that the proposed allocation is improper. Each of Buyer and each of the Sellers agrees to file Internal Revenue Service Form 8594, and all federal, state, local and foreign tax returns, in a manner consistent with any such agreed upon allocation. Each of Buyer and each of the Sellers agrees to provide the others promptly with any information required to complete Form 8594. Buyer and the Sellers shall notify and provide the others with reasonable assistance in the event of an examination, audit or other proceeding regarding any allocation of the Aggregate Purchase Price agreed to pursuant to this Section 2.5.

ARTICLE 3. REPRESENTATIONS AND WARRANTIES REGARDING THE COMPANIES

Except as otherwise disclosed in this Agreement, or in any Schedule, Sithe hereby represents and warrants to Buyer, as of the date hereof (except where such representation or warranty is expressly made as of another specific date), as follows:

Section 3.1 Organization, Qualification and Power.

3.1.1 Sithe Mid-Atlantic is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, and is duly licensed or qualified to transact business as a foreign corporation in each jurisdiction in which the nature of the business transacted by it or the character of the properties owned or leased by it requires such licensing or qualification, except where the failure to be so licensed or qualified would not have, individually or in the aggregate, a Material Adverse Effect. Each Company other than Sithe Mid-Atlantic is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware, and is duly licensed or qualified to transact business as a foreign business entity in each jurisdiction in which the nature of the business transacted by it or the character of the properties owned or leased by it requires such licensing or qualification, except where the failure to be so licensed or qualified would not have, individually or in the aggregate, a Material Adverse Effect. Each Company has full power and authority to own, lease or otherwise hold its properties and assets and to carry on its business as now conducted.

3.1.2 Each Subsidiary of any Company that is a corporation is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and each Subsidiary of any Company that is a partnership or limited liability company is duly formed, validly existing and in good standing under the laws of the jurisdiction of its organization. Each Subsidiary of any Company is duly licensed or qualified to transact business as a foreign corporation, limited liability company or partnership, as applicable, in each jurisdiction in which the nature of the business transacted by it or the character of the properties owned or leased by it requires such licensing or qualification, except where the failure to be so licensed or qualified would not, individually or in the aggregate, have a Material Adverse Effect. Each Subsidiary of any Company has the requisite corporate or organizational power and authority to own, lease or otherwise hold its properties and assets and to carry on its business as now conducted.

Section 3.2 Condemnation. Except as set forth in Schedule 3.2 and except as would not, individually or in the aggregate, have a Material Adverse Effect, none of the Companies and none of their Subsidiaries has received any written notices of, and Sithe has no knowledge of, any pending or threatened proceedings or governmental actions to condemn or take by power of eminent domain all or any part of the Real Property and there have been no casualties or condemnation proceedings relating to the Acquired Assets since November 24, 1999.

Section 3.3 No Conflict. Except as set forth in Schedule 3.3, the execution, delivery and performance by the Sellers of this Agreement and the consummation by the Sellers of the transactions contemplated hereby will not (i) violate, conflict with or result in a breach of any provisions of the Charter Documents of any Company or any Subsidiary of any Company, (ii) violate any law, regulation, order, judgment or decree applicable to any Company or any Subsidiary of any Company, or any order of any Governmental Authority having jurisdiction over any Company or any Subsidiary of any Company, (iii) violate or conflict with, or constitute (with due notice or lapse of time or both) a default (or give rise to any right of termination, consent, cancellation or acceleration) under (a) any Contract (other than the Project Office Contracts) to which any Company or any Subsidiary of any Company is a party or (b) any Contract (other than the Project Office Contracts) to which Sithe or any Affiliate of Sithe is a party that constitutes a part of the Acquired Assets or (iv) result in the creation or imposition of any Lien on the Acquired Assets or, to Sithe's knowledge, violate or conflict with, or constitute (with due notice or lapse of time or both) a default or give rise to any right of termination, consent, cancellation or acceleration under any Project Office Contract), except, in the case of clauses (ii), (iii) and (iv), as would not, individually or in the aggregate, have a Material Adverse Effect.

Section 3.4 Equity Interests.

3.4.1 Subsidiaries. The authorized, issued and outstanding capital stock of Sithe Mid-Atlantic and each Subsidiary of each Company that is a corporation are as set forth in Schedule 3.4. The limited liability company interests, partnership interests or equity securities of each Company and each Subsidiary of each Company that is not a corporation are as set forth in Schedule 3.4. The stockholders of record of each Subsidiary of each Company that is a corporation, and the owner or owners of each Subsidiary of each Company that is not a corporation, are as set forth in Schedule 3.4. There is no authorized or outstanding subscription, warrant, option, convertible security or other right (contingent or otherwise) to purchase or otherwise acquire from any Company or from any Subsidiary of any Company equity interests or partnership interests of any Company or any Subsidiary of any Company. There is no commitment on the part of any Company or any Subsidiary of any Company to issue shares, subscriptions, warrants, options, convertible securities, partnership interests or other similar rights. No equity securities of any Company or any Subsidiary of any Company are reserved for issuance for any such purpose. Neither any Company nor any Subsidiary of any Company has any obligation (contingent or otherwise) to purchase, redeem or otherwise acquire any of its equity securities. Except for this Agreement and except for the limited liability company operating agreements of the Companies and their Subsidiaries (other than Sithe Mid-Atlantic and Northeast Management), there is no voting trust or agreement, stockholders agreement, pledge agreement, buy-sell agreement, right of first refusal, preemptive right or proxy relating to any equity securities of any Company or any equity securities or partnership interests of any Subsidiary of any Company.

3.4.2 Duly Authorized Shares. All of the shares of Mid-Atlantic Stock and all of the issued and outstanding shares of capital stock of Northeast Management have been or at the Closing will be duly authorized, validly issued, fully paid and non-assessable.

3.4.3 Other Equity Interests. Set forth on Schedule 3.4 is (i) a list of each Person (other than any Company or any Subsidiary of any Company) in which either any Company or any Subsidiary of any Company (A) has any direct or indirect equity or other participation in, or (B) has any right (contingent or otherwise) to acquire the same, and (ii) a description of the nature and amount of each interest required to be set forth pursuant to clause (i). With respect to such interests, either a Company or a Subsidiary of a Company owns, of record and beneficially, the interests set forth opposite the name of the Company or the Subsidiary, as the case may be, free and clear of any Liens. On the Closing Date, upon consummation of the transactions contemplated hereby, either a Company or a Subsidiary of a

Company will own such interests free and clear of any Liens, except for any Liens created by or at the behest of Buyer.

3.4.4 Activities of the Companies. Each of the Companies was formed for the purpose of acquiring, owning, developing and operating the Acquired Assets, and no such Company is currently engaged or in the past has engaged in any activity since the date of its formation other than in connection with the ownership, operation and development of the Acquired Assets. No Subsidiary of any Company which Subsidiary is a limited liability company has conducted any material business activities since the date of its formation, other than the ownership, operation and development of the Acquired Assets, and Northeast Management has not conducted any material business activities since November 24, 1999, other than the ownership, operation and development of the Acquired Assets. None of the Companies and none of the Subsidiaries of the Companies has any Funded Debt.

Section 3.5 Financial Statements. Attached as Schedule 3.5 are (i) an unaudited combining balance sheet of the Companies and their Subsidiaries at November 24, 1999 (the "Opening Balance Sheet") and (ii) an unaudited combining balance sheet of the Companies and their Subsidiaries at December 31, 1999 (the "December Balance Sheet") and the related combining unaudited statements of income and cash flows of the Companies and their Subsidiaries for the period from November 24, 1999 to December 31, 1999 (such statements specified in clause (i) and (ii) collectively, the "Financial Statements"). Within 45 days after the date hereof (or, if such 45th day is not a Business Day, the next Business Day thereafter), the Sellers shall deliver to Buyer a supplement to Schedule 3.5 which shall (i) include a balance sheet analysis with respect to each of the Financial Statements and (ii) set forth the components of each balance sheet line item (including the GPU Post Closing Amounts, the liabilities related to the capacity payments payable under the transportation contract between Pennsylvania Power & Light Company, Interstate Energy Company and Jersey Central Power and Light Company for the Gilbert Station, long-term receivables from joint owners, reserves for environmental obligations accrued, the balance in any intercompany account with respect to fuel on the Opening Balance Sheet only, and other reconciling items). Within 45 days after the date hereof (or, if such 45th day is not a Business Day, the next Business Day thereafter), the Sellers shall also provide Buyer with an analysis of the fuel inventory at December 31, 1999, owned by Sithe Power Marketing with respect to the Acquired Assets. The Financial Statements have been prepared in accordance with GAAP and fairly present the financial condition, on a combined and individual basis, of the Companies and their Subsidiaries as of the dates thereof and the results of their operations, on a combined and individual basis, for the period covered thereby, except as set forth on Schedule 3.5 and except for the absence of financial statement footnotes and subject to normal recurring period-end adjustments. Neither any Company nor any Subsidiary of any Company has any liability or obligation (whether accrued, absolute, contingent or otherwise), other than (i) liabilities reflected (but only to the extent so reflected) or reserved against on the Opening Balance Sheet or the December Balance Sheet, (ii) the GPU Liabilities, (iii) liabilities or obligations (other than Funded Debt) that have arisen since November 24, 1999 (with respect to the Opening Balance Sheet) or December 31, 1999 (with respect to the December Balance Sheet) in the ordinary course of business, none of which, individually or in the aggregate, would have a Material Adverse Effect, (iv) liabilities or obligations explicitly disclosed herein or in any

Schedule, or (v) liabilities or obligations (other than Funded Debt) incurred in accordance with the terms of this Agreement or any Contract listed on Schedule 3.8.

Section 3.6 Litigation; Compliance with Law; Permits.

3.6.1 Schedule 3.6 lists each action, suit, claim or proceeding (including, but not limited to, any arbitration proceeding) pending or, to Sithe's knowledge, threatened, and each investigation which, to Sithe's knowledge, is pending or threatened, against any Company or any Subsidiary of any Company or Sithe or any Affiliate of Sithe, at law or in equity, or before or by any Governmental Authority that relates to (a) any Company or any Subsidiary of any Company or (b) any Acquired Assets, which (in the case of (a) or (b) above), if determined adversely to any Company or any Subsidiary of any Company or Sithe or any Affiliate of Sithe, would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. For purposes of the preceding sentence, no representation is made with respect to (i) any proceeding before any Governmental Authority initiated by any Company or any Subsidiary of any Company in which any Company or any such Subsidiary of any Company is an applicant for any Permit or Environmental Permit, to the extent the matters considered in such proceeding are limited to the approval or authority requested in such application, or (ii) proceedings initiated by a third party in which any Company or any Subsidiary of any Company is an intervener, and the subject matter of such intervention is of general applicability to similarly-situated parties. Neither any Company nor any Subsidiary of any Company is in default with respect to any order, writ, injunction or decree known to or served upon such entity of any Governmental Authority except for defaults which would not have, individually or in the aggregate, a Material Adverse Effect.

3.6.2 Except as set forth on Schedule 3.6, the Sellers and their Affiliates controlled by them, including each Company and each Subsidiary of each Company, are in compliance with all laws, rules, regulations and orders applicable to the business and operations of the Acquired Assets and the business of the Companies and their Subsidiaries (other than labor laws, which are addressed in Section 3.11, and other than Environmental Laws, which are addressed in Section 3.17), except where the failure to so comply would not have, individually or in the aggregate, a Material Adverse Effect.

3.6.3 Except as set forth on Schedule 3.6, each Company and each Subsidiary of each Company has all Permits and Environmental Permits necessary to own, lease or otherwise hold its properties and assets and to conduct its business as currently conducted, except where the failure to obtain the same would not have, individually or in the aggregate, a Material Adverse Effect. Except as disclosed on Schedule 3.6, neither any Company nor any Subsidiary of any Company has received any notification that it is in violation of any such Permits and Environmental Permits except notifications of violations which would not have, individually or in the aggregate, a Material Adverse Effect. Each Company and each Subsidiary of each Company is in compliance with all such Permits and Environmental Permits except where non-compliance would not have, individually or in the aggregate, a Material Adverse Effect.

Section 3.7 Tax Matters.

3.7.1 There have been properly completed and filed on a timely basis and in correct form all Tax Returns required to be filed (i) on or prior to the date hereof by any Taxpayer and (ii) after November 24, 1999 and on or prior to the date hereof (and, to Sithe's knowledge on or prior to November 24, 1999), by Northeast Management. As of the time of filing, the foregoing Tax Returns of any Taxpayer and, to Sithe's knowledge, of Northeast Management, were true and complete in all material respects.

3.7.2 Except as would not, individually or in the aggregate, have a Material Adverse Effect, with respect to all amounts in respect of Taxes (i) imposed on any Taxpayer with respect to all taxable periods or portions of periods ending on or before the Closing Date and (ii) imposed on Northeast Management with respect to all taxable periods or portions of periods beginning after November 24, 1999 and ending on or before the Closing Date (and, to Sithe's knowledge, with respect to all taxable periods or portions of periods beginning on or before November 24, 1999 and ending on or before November 24, 1999), (a) all applicable Tax laws and regulations have been complied with in all respects and (b) all such amounts required to be paid to taxing authorities or others on or before the date hereof have been paid, except such Taxes, if any, as are set forth in Schedule 3.7 that are being contested in good faith.

3.7.3 Except as set forth in Schedule 3.7 , no adjustments to the Tax liability of any Taxpayer have been proposed in writing (and are currently pending) by any taxing authority in connection with any Tax Return of any Taxpayer, except for adjustments that would not have a Material Adverse Effect. All deficiencies asserted or assessments made as a result of any examinations have been fully paid, or are fully reflected as a liability in the financial statements of the applicable Taxpayer, or are being contested in good faith and are described in Schedule 3.7 except for deficiencies or assessments that would not, individually or in the aggregate, have a Material Adverse Effect. Except as set forth on Schedule 3.7, with respect to all taxable periods or portions of periods beginning after November 24, 1999 (and, to Sithe's knowledge, with respect to all taxable periods or portions of periods beginning before November 24, 1999 and ending on or before November 24, 1999) no adjustments to the Tax liability of Northeast Management have been proposed in writing (and are currently pending) by any taxing authority in connection with any Tax Return of Northeast Management, except for adjustments that would not have a Material Adverse Effect. To Sithe's knowledge, all material deficiencies asserted or assessments made as a result of any examination have been fully paid or are fully reflected as a liability in the financial statements of Northeast Management, or are being contested in good faith and are described in Schedule 3.7.

3.7.4 Except as set forth on Schedule 3.7, there are no liens for Taxes (other than for current Taxes not yet due and payable) on any of the assets of any Company or any Subsidiary of any Company.

3.7.5 Each of the Companies (other than Sithe Mid-Atlantic) and each Subsidiary of each Company (other than Northeast Management) is properly treated as a disregarded entity for federal income tax purposes.

3.7.6 No property owned by any Company or any Subsidiary of any Company (i) is property required to be treated as being owned by another Person pursuant to the provisions of Section 168(f)(8) of the Internal Revenue Code of 1954, as amended and in effect immediately prior to the enactment of the Tax Reform Act of 1986, (ii) constitutes "tax-exempt use property" within the meaning of Section 168(h)(1) of the Code or (iii) except for pollution control facilities financed with the proceeds of Pollution Control Revenue Bonds (as described in Section 6.8 of this Agreement), is "tax-exempt bond financed property" within the meaning of Section 168(g) of the Code.

3.7.7 Genco is not a foreign person within the meaning of Section 1445 of the Code.

3.7.8 Genco and each of Sithe Mid-Atlantic and Northeast Management are members of a "selling consolidated group" as such term is defined in Treasury Regulation Section 1.338(h)(10)-1(c).

3.7.9 Except as set forth on Schedule 3.7 and other than the Sithe/GPU Agreements and except as would not, individually or in the aggregate, have a Material Adverse Effect, (i) no Company and no Subsidiary of any Company other than Northeast Management is a party to, is bound by or has any obligations under any Tax sharing agreement, any Tax indemnification agreement or similar contract or arrangement and (ii) to Sithe's knowledge, Northeast Management is not a party to, is not bound by and has no obligation under any Tax sharing agreement, any Tax indemnification agreement or similar contract or arrangement.

3.7.10 Except as set forth on Schedule 3.7, no tax audits or other administrative proceedings or court proceedings are presently pending with regard to any Taxes for which any Company or any Subsidiary of any Company would be liable except for audits or proceedings which would not have a Material Adverse Effect.

3.7.11 Except as would not have, individually or in the aggregate, a Material Adverse Effect, no Company and no Subsidiary of any Company has executed or entered into (or prior to the close of business on the Closing Date will execute or enter into) with any taxing authority (i) any agreement, waiver or other document extending or having the effect of extending or waiving the period for assessments or collection of any Taxes for which any Company or any Subsidiary of any Company would or could be liable or (ii) any closing agreement pursuant to Section 7121 of the Code, or any predecessor provision thereof or any similar provision of state, local or foreign tax law that relates to the assets or operations of any Company or any Subsidiary of any Company.

3.7.12 Except as would not have, individually or in the aggregate, a Material Adverse Effect, no Company and no Subsidiary of any Company has made any payments, is obligated to make any payments, or is a party to any agreement or other arrangement that could obligate it to make any payments that would not be deductible under Section 280G of the Code.

3.7.13 Except as would not have, individually or in the aggregate, a Material Adverse Effect, each Company and each Subsidiary of each Company has collected and withheld all Taxes that it has been required to collect or withhold and has timely submitted all such collected and withheld Taxes to the appropriate authorities. Each Company and each Subsidiary of each Company has complied and is in compliance with all applicable laws, rules and regulations relating to the payment, withholding and information reporting requirements relating to any Taxes required to be collected or withheld.

3.7.14 Neither Sithe Mid-Atlantic nor Northeast Management has made an election or filed a consent under Section 341(f) of the Code or agreed to have Section 341(f)(2) of the Code apply to any disposition of a subsection (f) asset (as such term is defined in Section 341(f)(4) of the Code) owned by such entity.

3.7.15 No claim has ever been made by an authority in a jurisdiction where any Company or any Subsidiary of any Company does not or has not filed tax returns that such Company or such Subsidiary of any Company is or may be subject to taxation by that jurisdiction.

Section 3.8 Material Contracts. The Contracts listed in Schedule 3.8 include all of the Material Contracts and certain other Contracts that are listed for the information of Buyer; provided, however, that no Contract shall be deemed a Material Contract solely by reason of the fact that it is listed on Schedule 3.8. Except as otherwise set forth in Schedule 3.8: (i) each Contract listed on Schedule 3.8 and, to Sithe's knowledge, each Project Office Contract, is valid, binding and in full force and effect, and is enforceable by a Company or a Subsidiary of a Company, as applicable, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereinafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law), except those Contracts which have expired or been terminated in the ordinary course of business or in accordance with Good Operating Practices, and except as would not, individually or in the aggregate, have a Material Adverse Effect, (ii) each Company and each Subsidiary of a Company that is a party to a Contract listed in Schedule 3.8 has performed in all material respects the obligations required to be performed by it to date under such Contract, except for such failure or failures to perform which would not, individually or in the aggregate, have a Material Adverse Effect and, to Sithe's knowledge, each Company and each Subsidiary of a Company that is a party to a Project Office Contract has performed in all respects the obligations required to be performed by it to date under such Project Office Contract, except for such failure or failures to perform which would not individually or in the aggregate, have a Material Adverse Effect, (iii) there is not, under any Contract listed on Schedule 3.8, or, to Sithe's knowledge, under any Project Office Contract any default or event which, with notice or lapse of time or both, would constitute a default on the part of any

Company or any Subsidiary of any Company and neither any Company nor any Subsidiary of any Company has received any notice of default, notice of force majeure or notice of other suspension of performance or notice exercising a right of renegotiation under any such Contract to which it is a party, except as would not have, individually or in the aggregate, a Material Adverse Effect; and (iv) none of the Companies or their Subsidiaries is seeking the renegotiation or substitute performance of any Contract listed Schedule 3.8, or to Sithe's knowledge, any Project Office Contract, except as would not have, individually or in the aggregate, a Material Adverse Effect. For purposes of this Section 3.8, the term "Contract listed on Schedule 3.8" shall not include any Project Office Contract.

Section 3.9 Capital Expenditures. Except as set forth in Schedule 3.9, as of the date of this Agreement, there are no capital expenditures that are planned by any Company or any Subsidiaries of any Company through December 31, 2000.

Section 3.10 Brokers. None of the Sellers, any Company or any Subsidiary or Affiliate of any Company has any contract, arrangement or understanding with any investment banking firm, broker or finder with respect to the transactions contemplated by this Agreement, except for Goldman, Sachs & Co., whose fees shall be borne by the Sellers.

Section 3.11 Labor Matters. The Sellers have delivered to Buyer true and correct copies of the agreements listed on Schedule 3.11 (the "Collective Bargaining Agreements"). The Collective Bargaining Agreements constitute all collective bargaining agreements to which any Seller, any Company or any Subsidiary of any Company is a party or is subject and that relate to the business and operations of any Company or any Subsidiary of any Company. Other than as set forth in Schedule 3.11, the applicable Company or the applicable Subsidiary of any Company

(a) is in compliance with all applicable laws and regulations regarding employment and employment practices, terms and conditions of employment, and wages and hours; (b) has not received written notice of any. unfair labor practice complaint against it pending before the National Labor Relations Board; (c) has no arbitration proceeding pending against it that arises out of or under any collective bargaining agreement that relates to the business or operations of any Company or any Subsidiary of any Company, and (d) is not currently experiencing, and has received no current threat of, any work stoppage, in each case, except as would not, individually or in the aggregate, have a Material Adverse Effect.

Section 3.12 ERISA.

3.12.1 Schedule 3.12 lists all Employee Benefit Plans and Benefit Arrangements that are sponsored or contributed to by Sithe, any Company or any Subsidiary of any Company covering the employees or former employees of any Company or any Subsidiary of any Company ("Benefit Plans"). With respect to each Benefit Plan, each Company and each Subsidiary of each Company has made available to Buyer a true and correct copy of each of the following, as applicable:

3.12.1.1 the current plan document (including all amendments adopted since the most recent restatement) and its most recently prepared summary plan description and all summaries of material modifications prepared since the most recent summary plan description, and all material employee communications relating to such plan;

3.12.1.2 a written description of any Benefit Plan for which no plan document exists;

3.12.1.3 annual reports or Code Section 6039D information returns (IRS Form 5500 Series), including financial statements, if applicable, for the last three years;

3.12.1.4 all contracts relating to any Benefit Plan with respect to which any Company or any Subsidiary of any Company has any liability, without limitation, each related trust agreement, insurance contract, service provider contract, subscription or participation agreement, or investment management agreement (including all amendments to each such document);

3.12.1.5 the most recent IRS determination letter or other opinion letter with respect to the qualified status under Code Section 401(a) of any Benefit Plan intended to satisfy the qualification requirements of Code Section 401(a); and

3.12.1.6 actuarial reports or valuations for the last three years.

3.12.2 To Sithe's knowledge, except as set forth in Schedule 3.12 and except as would not have, individually or in the aggregate, a Material Adverse Effect, all Benefit Plans subject to ERISA and the Code covering employees or former employees of any Company or any Subsidiary of any Company comply with ERISA and the Code.

3.12.3 Except as set forth in Schedule 3.12, all Employee Benefit Plans intended to be qualified under Code Section 401 maintained by any Company or any Subsidiary of any Company have received favorable determinations with respect to such qualified status from the Internal Revenue Service or will be amended as requested by the Internal Revenue Service within the remedial amendment period prescribed under Section 401(b) of the Code so as to obtain such favorable determination. Except as set forth in Schedule 3.12, to Sithe's knowledge, nothing has occurred in the operation of any such plan that would adversely affect its qualification under Section 401(a) of the Code.

3.12.4 None of the Companies, any Subsidiaries of any Company or their respective ERISA Affiliates currently sponsors, contributes to or has any obligation to contribute to any voluntary employees' beneficiary association, as defined in Section 501(c)(9) of the Code.

3.12.5 No Employee Benefit Plan that is subject to Title IV of ERISA and is sponsored by any Company or any Subsidiary of any Company or their respective ERISA Affiliates has (i) incurred an accumulated funding deficiency, whether or nor waived, within the meaning of Section 412 of the Code or Section 302 of ERISA, or (ii) been a plan with respect to which a reportable event, as defined in Section 4043 of ERISA, to the extent that the reporting of such event to the Pension Benefit Guaranty Corporation has not been waived, has occurred and is continuing, or will occur as a result of the consummation of the transactions contemplated by this Agreement. Except as set forth in Schedule 3.12, neither any Company nor any Subsidiary of any Company, nor any of their respective ERISA Affiliates, has incurred any liability under Section 4062(b) of ERISA or to the Pension Benefit Guaranty Corporation in connection with any Benefit Plan which is subject to Title IV of ERISA or any withdrawal liability with respect to any Benefit Plan, within the meaning of Section 4201 of ERISA.

3.12.6 Neither any Company nor any Subsidiary of any Company or their respective ERISA Affiliates sponsors or has previously sponsored, maintained, contributed to or incurred an obligation to contribute to any Multiemployer Plan.

3.12.7 Except as set forth in Schedule 3.12, to Sithe's knowledge, no Person has engaged in or been a party to a transaction that is prohibited under Section 4975 of the Code or Section 406 of ERISA and not exempt under Section 4975 of the Code or Section 408 of ERISA, respectively, in relation to any of the Employee Benefit Plans covering employees or former employees of any Company or any Subsidiary of any Company.

3.12.8 Except as set forth in Schedule 3.12 or as specifically provided in Sithe/GPU Agreements or the Collective Bargaining Agreements, as of the date hereof, no employee or former employee of any Company or any Subsidiary of any Company shall accrue or receive additional benefits, service or accelerated rights to payment of benefits under any Benefit Plan or become entitled to severance, termination allowance or similar payments as a result of the transactions contemplated by this Agreement.

3.12.9 Except as set forth in Schedule 3.12 and other than claims for benefits in the ordinary course, there is no material claim pending, or, to Sithe's knowledge, threatened, involving any Benefit Plan by any Person against such Benefit Plan. No Benefit Plan is subject to ongoing audit or other administrative proceeding of the IRS, the Department of Labor or any other governmental agency, and no Benefit Plan is the subject of any pending application for administrative relief under any voluntary compliance program of the IRS, the Department of Labor or any other governmental entity.

3.12.10 Except as set forth in Schedule 3.12, each Company and each Subsidiary of each Company has made full and timely payment of all amounts required to be contributed under the terms of each Benefit Plan.

3.12.11 Except as set forth in Schedule 3.12, no Benefit Plan provides for the continuation of medical or health benefits or death benefits after an employee's termination of employment (including retirement) except for continuation coverage required pursuant to Section 4980B of the Code and Part 6 of Title I of ERISA and the regulations thereunder.

3.12.12 Except as set forth in Schedule 3.12, or as specifically provided in the Sithe/GPU Agreements or a Collective Bargaining Agreement, neither any Company nor any Subsidiary of any Company is subject to any legal obligation to enter into any new form of compensation or employment agreement or to establish any new Employee Benefit Plan or benefit program of any nature, including (without limitation) any stock option, stock or cash award, non-qualified deferred compensation or executive compensation plan or policy or to modify or change any existing Benefit Plan. Except as set forth in Schedule 3.12, or as specifically provided in the Sithe/GPU Agreements or a Collective Bargaining Agreement, each Company and/or each Subsidiary of each Company has the right to, in any manner, and without the consent of any employee, beneficiary or dependent, employees' organization or other person, terminate, modify or amend any Employee Benefit Plan (or their participation in any such new Employee Benefit Plan) at any time sponsored, maintained or contributed to by any Company or any Subsidiary of any Company, effective as of any date before, on or after the Closing Date except to the extent that any retroactive amendment would be prohibited by Section 204(g) of ERISA or would adversely affect a vested accrued benefit or a previously granted award under any such plan not subject to Section 204(g) of ERISA.

Section 3.13 Events Subsequent to November 24, 1999. Except (a) as set forth in Schedule 3.13, (b) as specifically provided for by this Agreement or consented to or approved in writing by Buyer or (c) for transactions between or among any Company and any other Company and/or one or more of the Subsidiaries of any Company or between or among Subsidiaries of any Company, since November 24, 1999 neither any Company nor any Subsidiary of any Company, has:

3.13.1 incurred or guaranteed any Funded Debt;

3.13.2 acquired or disposed of, in either case in any manner, any Acquired Assets or properties, other than (i) acquisitions and dispositions in the ordinary course of business consistent with Good Operating Practices, (ii) dispositions of obsolete assets, (iii) acquisitions and dispositions in connection with property losses fully covered by insurance, (iv) acquisitions and dispositions in the ordinary course of business in accordance with any Contract listed on Schedule 3.8 or (v) distributions or other payments of Cash Equivalents to any Seller or any Affiliate of any Seller;

3.13.3 amended its Charter Documents other than amendments to remove the name "Sithe" from the name of any Company or Subsidiary of any Company;

3.13.4 failed to pay and discharge on a timely basis any liabilities which constitute current liabilities under GAAP, except for (i) liabilities not yet due, (ii) liabilities which are subject to good faith contest for which appropriate reserves have been established or (iii) liabilities for which the failure to pay would not, individually or in the aggregate, have a Material Adverse Effect;

3.13.5 cancelled any indebtedness owed to any Company or any Subsidiary of any Company or waived any rights of substantial value to any Company or any Subsidiary of any

Company, except for any such cancellations or waivers of intercompany indebtedness or which, individually or in the aggregate, do not have a Material Adverse Effect; or

3.13.6 entered into any agreement or commitment to take any of the actions described in Sections 3.13.1 to 3.13.5.

Section 3.14 Title to Properties. Except as set forth on Schedule 3.14, the Companies and their Subsidiaries (a) have, or on the Closing Date will have, good and valid title to, or a valid leasehold interest in, the Acquired Assets that consist of Real Property or tangible personal property and (b) own, lease or have rights to use, or have rights with respect to, or on the Closing Date will own, lease or have rights to use or have rights with respect, as applicable, to all other material Acquired Assets (other than, in the case of (a) or (b) above, material GPU Assets and the material Development Assets disposed of in the ordinary course of business and consistent with Good Operating Practices and dispositions that would not result in a breach of the representations set forth in Section 3.13), free and clear of any material Liens, except for: (i) Liens set forth in Schedule 3.14 or Liens incurred in the ordinary course of business in connection with the performance of the terms of any Contract listed on Schedule 3.8; (ii) Liens for current taxes not yet due and payable or being contested in good faith through appropriate proceedings, Liens to lenders incurred on deposits made in the ordinary course of business in connection with maintaining bank accounts, Liens in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, governmental permits, licenses and approvals, performance and return-of-money bonds and other similar obligations incurred in the ordinary course of business, (iii) materialmen's, warehousemen's and mechanics' Liens and other Liens arising by operation of law in the ordinary course of business for sums not yet due, and (iv) zoning, entitlement, conservation restriction and other land use and environmental regulations by Governmental Authorities, provided, in the case of clauses (ii) and (iii) above, that none of the foregoing would have, individually or in the aggregate, a Material Adverse Effect. The Liens described in the foregoing clauses (i), (ii), (iii) and (iv) are collectively referred to as "Permitted Liens."

Section 3.15 Insurance. Each Company and the Subsidiaries of each Company hold or are covered by valid policies of insurance of the types and in such amounts as is customary for companies similarly situated. Prior to the Closing Date, the Sellers shall provide a copy of each such policy, or if such policy is not available, a broker's confirmation of coverage or binder, to Buyer. Each Company and each Subsidiary of each Company is a named insured under these policies or covered pursuant to a broad form named insured wording. The Sellers shall use their reasonable efforts to have such policies endorsed to provide that effective at and from the Closing Date, Buyer and its Affiliates will be additional insureds, but only in respect of occurrences prior to the Closing Date. The Sellers shall use reasonable efforts to assist Buyer in filing any claims under such policies. In the event any such policies are "claims-made", prior to the Closing Date the Sellers shall, in consultation with Buyer, obtain terms to extend coverage thereunder for claims reported after the Closing Date. Buyer may, at its option, accept or decline such terms and if accepted, shall pay any premiums and related fees for the coverage extension.

Section 3.16 Transactions with Certain Persons. Except for liabilities and obligations arising out of their employment relationship with any Company or any Affiliate of any

Company, and except as set forth in Schedule 3.8, 3.12 or 3.16, neither any Company nor any Subsidiary of any Company has any outstanding liabilities or obligations owing to or from any officer, director or employee of any Seller or any of Sellers' Affiliates (other than the Companies and their Subsidiaries) nor any member of any such person's immediate family.

Section 3.17 Compliance With Environmental Laws. (a) Except as set forth in Schedule 3.17, the Companies and their Subsidiaries are in compliance with the applicable Environmental Laws, except where any such instance of non-compliance would not have, individually or in the aggregate, a Material Adverse Effect. Except as set forth in Schedule 3.17, (i) no written notice of any violation of the applicable Environmental Laws relating to the operations or properties of any Company or any Subsidiary of any Company has been received by, and is pending against, any Company or any Subsidiary of any Company, except where any such instance of non-compliance would not have, individually or in the aggregate, a Material Adverse Effect and (ii) there are no writs, injunctions, consents, decrees, orders or judgments outstanding, or any pending actions, suits, claims, or proceedings relating to compliance by any Company or any Subsidiary of any Company with or liability of any of them under the applicable Environmental Laws, including any Remediation of Hazardous Substances, except where any such instance of non-compliance or liability would not have, individually or in the aggregate, a Material Adverse Effect. Except as set forth on Schedule 3.17, there are no pending or, to Sithe's knowledge, threatened investigations, actions, suits, claims, or proceedings relating to compliance by any Company or any Subsidiary of any Company with or liability of any of them under the applicable Environmental Laws except where any such instance of non-compliance or liability would not have, individually or in the aggregate, a Material Adverse

Effect. Schedule 3.17 lists all Emission Allowances and Emission Reduction Credits included in the Acquired Assets.

(b) Except as disclosed on Schedule 3.17, (i) none of the Sellers, the Companies or their Subsidiaries has received any written request for information, or been notified in writing that it is a potentially responsible party, under CERCLA or any similar state law with respect to the Real Property or any other Acquired Asset and (ii) to Sithe's knowledge, since November 24, 1999, no Releases of Hazardous Substances have initiated at, from, in, on, or under any Site, and no Hazardous Substances are present in, on, about or migrating from any such Site that could reasonably be expected to give rise to an Environmental Claim related to the Acquired Assets for which Remediation reasonably could be required, except in any such case to the extent that any such Releases would not, individually or in the aggregate, create a Material Adverse Effect.

Section 3.18 Certain Matters Relating to GPU Assets and Development Assets.

Except as set forth in Schedule 3.18:

3.18.1 All conditions precedent to closing set forth in the Sithe/GPU Agreements or in any of the agreements that GPU or any of its Affiliates entered into in connection with the closing of the transactions contemplated by the Sithe/GPU Agreements (including, but not limited to, continuing services agreements, interconnection agreements, transition power purchase agreements and various easement, license, sublease and other agreements) were satisfied or waived and all post-closing obligations thereunder to be performed prior to the date hereof have been satisfied or waived.

3.18.2 All interconnection agreements contemplated by the Sithe/GPU Agreements, including the interconnection agreements with respect to the Keystone and

Conemaugh facilities, have (a) been fully executed and delivered by the intended parties thereto, and (b) been filed with FERC. The filing party has requested that all such interconnection agreements become fully effective as of November 24, 1999.

3.18.3 No assets provided by the Sithe/GPU Agreements to have been purchased by any Company or any of its Subsidiaries were excluded from purchase under Section 7.3 of such agreements for failure to meet the conditions therein.

3.18.4 Each of the Keystone and Conemaugh Operating Agreements and the Keystone and Conemaugh Owners' Agreements are in full force and effect and neither Sithe nor any of its Affiliates (including the Companies) has received any notice of or has knowledge of any termination thereunder.

3.18.5 None of the Sellers or any Affiliates controlled by them has any generation projects under development in the geographic area covered by the PJM other than the Development Projects.

3.18.6 Except as set forth in the disclosure schedules hereto, or otherwise provided in the Sithe/GPU Agreements, the Acquired Assets include all of the assets and rights material to the operation of the generation facilities included in the GPU Assets in accordance with Good Operating Practices.

Section 3.19 Consents and Approvals. Except as set forth in Schedule 3.19, no registration or filing with, or consent or approval of or other action by, any Governmental Authority or any other Person is or will be necessary for the valid execution, delivery and performance by the Sellers of this Agreement and the consummation of the transactions contemplated hereby, other than filings required pursuant to the HSR Act.

Section 3.20 Utility Regulation. Neither any Company nor any Subsidiary of any Company is a "public utility company", a "holding company" or a "subsidiary company" of a "holding company", each term as defined in PUHCA. Each of the Generator Equity Interests constitutes an "exempt wholesale generator" as such term is defined in PUHCA. As used in this Agreement, "Generator Equity Interest" means any corporation, association, partnership or other business entity owning any electric generating facilities and included in the Acquired Assets. None of the Companies is (i) a "public utility" as that term is defined in Section 102 of the Public Utility Code, 66 Pa. C.S. 102, an "electric distribution company", or "electric generation supplier" as those terms are defined in Section 2803 of the Public Utility Code, 66 Pa.C.S. 2803, (ii) an "electric company" or a "public service company" as defined in Section 1-101 of the Public Utility Companies Article of the Annotated Code of Maryland, (iii) an "electric public utility" as defined in New Jersey Statutes Annotated ("N.J.S.A.") 48:3-51 or a "public utility" as defined in N.J.S.A. 48:2-13, (iv) "engaged in the business of an electricity supplier" in the state of Maryland within the meaning of Section 7-507 of the Public Utility Companies Article of the Annotated Code of Maryland or (v) otherwise subject to regulation as to rates or the provision of service by the Pennsylvania Public Utility Commission, the Maryland Public Service Commission or the New Jersey Board of Public Utilities. Sithe New Jersey Holdings LLC is an "electric power generator" as that term is defined in N.J.S.A. 48:3-51.

Section 3.21 Intellectual Property. Except as disclosed in Schedule 3.21 (i) none of the Companies or their Subsidiaries is, nor has it received any notice that it is, in default (or with the giving of notice or lapse of time or both, would be in default), under any contract to use Intellectual Property, and (ii) to Sithe's knowledge, such Intellectual Property is not being infringed by any other Person. The Sellers have not received notice that they or any of the Companies or the Subsidiaries of the Companies are infringing any Intellectual Property of any other Person in connection with the operation or business of the Acquired Assets, and, to the knowledge of Sellers, none of the Sellers, the Companies or the Subsidiaries of the Companies are infringing any Intellectual Property of any other Person the effect of which, individually or in the aggregate, would have a Material Adverse Effect. "Intellectual Property" means all patents and patent rights, trademarks and trademark rights, copyrights and copyright rights owned by the Companies and their Subsidiaries and necessary for the operation and maintenance of the Acquired Assets, and all pending applications for registrations of patents, trademarks, and copyrights, as set forth as part of Schedule 3.21.

ARTICLE 4. REPRESENTATIONS AND WARRANTIES REGARDING THE SELLERS

Except as otherwise disclosed in this Agreement or in any Schedule, Sithe represents and warrants to Buyer, as of the date hereof (except where such representation or warranty is expressly made as of another specific date), as follows:

Section 4.1 Organization and Corporate Power. Each Seller is a corporation duly organized, validly existing and in good standing under the laws of Delaware. Genco has full corporate power and authority to own the Intercompany Notes, the Mid-Atlantic Stock and the LLC Interests and to transfer the Intercompany Notes, the Mid-Atlantic Stock and the LLC Interests as provided in this Agreement, and such transfer has been authorized by all requisite action on the part of the Sellers. Sellers have full corporate power and authority to execute, deliver and perform this Agreement.

Section 4.2 Authorization; Validity. The execution, delivery and performance of this Agreement by each Seller have been duly authorized by all requisite action on the part of such Seller. This Agreement has been duly executed and delivered by each Seller and constitutes the valid and binding obligation of such Seller, enforceable against such Seller in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereinafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law).

Section 4.3 No Conflict. Except as set forth in Schedule 4.3, the execution, delivery and performance by each Seller of this Agreement and the consummation by each Seller of the transactions contemplated hereby will not (i) violate the Certificate of Incorporation and By-laws of such Seller, (ii) violate any law or regulation applicable to such Seller, or (iii) violate or conflict with, or constitute (with due notice or lapse of time or both) a default under, any Contract by which such Seller or any of its assets is bound except, in the case of clauses (ii) and (iii) above, as would not materially adversely affect the Sellers' ability to consummate the transactions contemplated hereby.

Section 4.4 Ownership of Genco, Mid-Atlantic Stock and LLC Interests. Sithe owns, indirectly, all of the issued and outstanding capital stock of Genco. Genco owns all of the issued and outstanding capital stock of Sithe Mid-Atlantic (the "Mid-Atlantic Stock"), free and clear of any Liens. Genco owns all of the limited liability company interests, as defined in Section 18-101 of the Delaware Limited Liability Company Act, of each of the Companies other than Sithe Mid-Atlantic, and all voting and other rights appurtenant to the ownership of such interests (such interests and rights, collectively, the "LLC Interests"), free and clear of any Liens. Except for this Agreement and except for the limited liability company agreements of the Companies and their Subsidiaries (other than Sithe Mid-Atlantic and Sithe Northeast Management), there is no voting trust or agreement, stockholders agreement, pledge agreement, buy-sell agreement, right of first refusal, preemptive right, proxy or agreement or commitment to sell relating to the Mid-Atlantic Stock and the LLC Interests or the capital stock or other equity interests of any Subsidiary of any Company. On the Closing Date, upon the consummation of the transactions contemplated by this Agreement, Buyer will own the Mid-Atlantic Stock and the LLC Interests free and clear of any Liens, except for any Liens created by or at the behest of Buyer.

ARTICLE 5. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to the Sellers that, as of the date hereof (except where such representation or warranty is expressly made only as of a specific date) as follows:

Section 5.1 Organization and Corporate Power. Buyer is a corporation duly organized, validly existing and in good standing under the laws of Delaware. Buyer has full corporate power and authority to execute, deliver and perform this Agreement.

Section 5.2 Authorization; Validity. The execution, delivery and performance by Buyer of this Agreement have been duly authorized by all requisite corporate action on the part of Buyer. This Agreement has been duly executed and delivered by Buyer and constitutes the valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law).

Section 5.3 No Conflict. The execution, delivery and performance by Buyer of this Agreement and the consummation of the transactions contemplated hereby will not (i) violate the Certificate of Incorporation or By-Laws of Buyer; (ii) violate any law or regulation applicable to Buyer, or any order of any court or governmental agency or authority having jurisdiction over Buyer, or (iii) violate or conflict with, or constitute (with due notice or lapse of time or both) a default under, any Contract by which Buyer or any of its assets is bound.

Section 5.4 Consents and Approvals. Except as set forth in Schedule 5.4, no registration or filing with, or consent or approval of or other action by, any Governmental Authority or any other Person is or will be necessary for the valid execution, delivery and performance by Buyer of this Agreement and the consummation of the transactions contemplated hereby, other than filings required pursuant to the HSR Act.

Section 5.5 Brokers. Neither Buyer nor any Subsidiary or Affiliate of Buyer has any contract, arrangement or understanding with any investment banking firm, broker, finder or similar agent with respect to the transactions contemplated by this Agreement, except for Chase Securities Inc. whose fees shall be borne by Buyer.

Section 5.6 Availability of Funds. At the Closing, Buyer will have sufficient funds to pay the Aggregate Purchase Price and the Estimated Adjustment Amount and to consummate the transactions contemplated hereby.

Section 5.7 No Knowledge of the Sellers' Breach. Buyer has no knowledge of any breach by any Seller of any representation or warranty of such Seller or of any condition or circumstance that would excuse Buyer from its timely performance of its obligations hereunder.

Section 5.8 Investment. Buyer is not acquiring the Mid-Atlantic Stock or the LLC Interests with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act of 1933, as amended.

ARTICLE 6. ACCESS; ADDITIONAL AGREEMENTS

Section 6.1 Access to Information; Continuing Disclosure

6.1.1 Access. The Sellers agree that from the date hereof until the Closing Date, subject to the terms of the Confidentiality Agreement (as defined below) and for purposes of transition, upon reasonable notice from Buyer, (i) the Sellers shall, and shall cause each Affiliate controlled by Sithe to, provide to Buyer and its representatives (collectively, the "Buyer Group") reasonable access, at reasonable times during normal business hours, to the employees, auditors, counsel and consultants of the Sellers and the Affiliates controlled by Sithe relating to, and to the properties, books and records of the Sellers and the Affiliates controlled by Sithe relating to, the Acquired Assets and the GPU Liabilities and shall promptly furnish to the Buyer Group information as the Buyer Group may reasonably request; provided, that such access shall be afforded to the Buyer Group as soon as practicable but in no event more than two Business Days after receipt of notice, and only in such manner so as not to unreasonably disturb or interfere with the normal operations of the Companies or their Subsidiaries; and provided further, that neither Seller nor any of their respective Affiliates shall be required to take any action that would constitute a waiver of the attorney-client privilege or to supply to the Buyer Group any information that any Company or any such Subsidiary of any Company is under a legal obligation not to supply, and (ii) as soon as practicable after request by Buyer or its representatives but in no event more than two Business Days after receipt of notice, each Seller shall have, or cause the appropriate Affiliate of Sithe to have, meetings or discussions with the Buyer Group regarding the conduct of the business of each Company and its Subsidiaries, the Acquired Assets, the GPU Liabilities and the effect thereon of the transactions contemplated by this Agreement. All information furnished by or on behalf of any Company or any Subsidiary of any Company hereunder to a member of the Buyer Group shall be subject to the terms of the Confidentiality Agreement dated as of November 16, 1999 between Sithe and Buyer (the "Confidentiality Agreement"). Buyer shall not have the right to perform or conduct any environmental sampling or testing at, in, on or underneath the Acquired Assets.

6.1.2 Transition. In furtherance of the foregoing Section 6.1.1 and to further transition planning activities, from the date hereof, the Sellers shall permit designated representatives of Buyer and its Affiliates to use office space at the offices of the Companies in Johnstown, Pennsylvania in order to participate in transition planning. The Sellers will also designate certain representatives located in Johnstown to work on a daily basis with Buyer's designated representatives as a "transition team." The Companies shall keep Buyer's designated representatives reasonably informed on a timely basis about significant issues relating to the business of the Companies and their Subsidiaries and the ownership, operation and development of the Acquired Assets. Within 15 days of the date hereof, Buyer and the Sellers shall also establish a transition planning committee, which shall meet (whether in person or telephonically) not less than weekly and more frequently as appropriate to discuss matters relating to Closing and the transition to ownership of the Companies and the ownership, operation and development of the Acquired Assets by Buyer.

Section 6.2 Regulatory Approvals.

6.2.1 Antitrust Notification. Buyer and Sithe will as promptly as practicable, but in no event later than fifteen (15) days following the execution and delivery of this Agreement, each file with the United States Federal Trade Commission (the "FTC") and the United States Department of Justice (the "DOJ") the Notification and Report Form under the HSR Act, if any, required in connection with the transactions contemplated hereby and as promptly as practicable supply additional information, if any, requested in connection herewith pursuant to the HSR Act. Such Notification and Report Form and additional information, if any, submitted to the FTC or the DOJ shall be in substantial compliance with the requirements of the HSR Act. Each of Buyer and Sithe shall furnish to the other such information and assistance as the other may reasonably request in connection with its preparation of any filing or submission which is necessary under the HSR Act. Each of Buyer and Sithe shall keep the other apprised in a prompt manner of the status and substance of any communications with, and inquiries or requests for additional information from, the FTC and the DOJ and shall comply promptly with any such inquiry or request. Each of Buyer and Sithe will use its reasonable efforts to obtain the termination or expiration of any applicable waiting period required under the HSR Act for the consummation of the transactions contemplated hereby.

6.2.2 Regulatory Approval Process. Buyer and the Sellers shall, as promptly as practical, but in no event later than thirty days following the execution and delivery of this

Agreement, submit or cause the submission, to the appropriate agency/ies or third party/ies all declarations, filings and registrations listed on Schedules 7.4 and 8.4 required to be submitted by such Person or its Subsidiaries. The parties agree to make a joint filing for any approval required under Section 203 of the Federal Power Act. With respect to any filings that will be submitted to the Federal Energy Regulatory Commission ("FERC"), Buyer and the Sellers shall cooperate to share and develop information necessary for such filing(s) and prepare drafts of such filing(s) within fifteen days following execution and delivery of this Agreement and shall give each other reasonable opportunity to comment on and to revise such draft filings(s) before such filing(s) are submitted to FERC.

Section 6.3 Further Assurances. From time to time from the date hereof until the Closing Date, as and when requested by any party hereto, the requested party shall use reasonable efforts to execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as such other party may reasonably deem necessary to consummate the transactions contemplated by this Agreement, including, without limitation, such actions as are necessary in connection with obtaining any third party consent or any regulatory filings (including filings with FERC) identified on Schedule 7.4 or 8.4. Without limiting the generality of the foregoing, the Sellers shall: (i) use reasonable efforts to facilitate communication between Buyer and any Person having the right to consent to the termination or substitution of any Terminated Obligation, or to consent to the release of any obligation set forth on Schedule 6.16; and (ii) cooperate, and cause the Companies and their Subsidiaries to cooperate, with Buyer in connection with any financing transactions, which cooperation shall consist of making management of the Sellers, the Companies and the Subsidiaries of the Companies available to potential financing sources and other Persons who may be involved in potential financings (the "Financing Parties") (including any rating agencies, attorneys, consultants, potential investors, lenders, placement agents and underwriters) at management's offices on not less than two Business Days' notice and only in such a manner so as not to unreasonably disturb or interfere with the normal operations of Sithe and its Affiliates, and allowing the Financing Parties and their representatives to conduct customary due diligence, in each case, during normal business hours upon reasonable notice and subject to the execution by such Financing Parties and each such representative of a confidentiality agreement with the Sellers in form and substance consistent with the Confidentiality Agreement; provided, however, the failure of either Seller to perform its obligations in this sentence shall not constitute a breach of this Agreement by either Seller or otherwise constitute an event that would, by itself, give rise to any claim by Buyer or right of Buyer to terminate this Agreement. In the event that any Acquired Asset shall not have been effectively assigned, transferred or conveyed to the Companies or the Subsidiaries of the Companies at the Closing, the Sellers shall convey such asset to Buyer as promptly as is practicable after the Closing in the manner set forth in, and subject to the limitations set forth in, the Assignment.

Section 6.4 Certain Tax Matters.

6.4.1 Election Under Section 338(h)(10).

6.4.1.1 The Sellers and Buyer shall make a joint election for each of Sithe Mid-Atlantic and Northeast Management under Section 338(h)(10) of the Code and under any comparable provisions of state or local law (an "Election") with respect to the purchase of the Mid-Atlantic Stock and the deemed purchase of all outstanding capital stock of Northeast Management. The Sellers and Buyer shall mutually execute and complete copies of IRS Form 8023 and any similar state or local forms no later than 60 days prior to the due date (including extensions) for filing such forms or the Tax Returns to which such forms must be attached. If any changes are required in these forms as a result of information that is first available after such forms are prepared, the parties will promptly agree on such changes.

6.4.1.2 Buyer shall prepare and submit to the Sellers a proposed allocation of the Modified Adjusted Deemed Sales Price (as defined in Treasury Regulation Section 1.338(h)(10)-1(f)) for each of Sithe Mid-Atlantic and Northeast Management among the assets of each such corporation as soon as practicable after the Closing Date. Sellers shall approve and agree to the proposed allocation unless Sellers reasonably determine that the proposed allocation is improper. Neither Buyer nor the Sellers shall take any action inconsistent with, or fail to take any action necessary for, the validity of the Election, and, if an allocation schedule is agreed to among Buyer and the Sellers, Buyer and the Sellers shall adopt and utilize the asset values as determined on the allocation schedule for the purpose of all Tax Returns filed by them unless otherwise required by applicable law.

6.4.2 Tax Returns. The Sellers shall cause the Companies and their Subsidiaries to prepare and file at the Sellers' expense (i) all Tax Returns of the Companies and their Subsidiaries which are required to be filed (taking into account extensions of time to file) on or before the Closing Date and (ii) all federal and state income and franchise Tax Returns of the

Companies and their Subsidiaries for all periods ending on or prior to the Closing Date. Buyer shall prepare and file (or cause to be prepared and filed) at its own expense all other Tax Returns of the Companies and their Subsidiaries. If either Buyer, on the one hand, or either Seller, on the other hand, may be liable for any material portion of the Tax payable in connection with any Tax Return to be filed by the other, the party responsible under this Section 6.4.2 for filing such return (the "Preparer") shall prepare and deliver to the other party (the "Payor") a copy of such return and any schedules, work papers and other documentation then available that are relevant to the preparation of the portion of such return for which the Payor is or may be liable hereunder not later than 30 days before the Due Date (as defined in Section 6.4.12 of this Agreement). The Preparer shall not file such return until the earlier of either the receipt of written notice from the Payor indicating the Payor's consent thereto, or the Due Date. The Payor shall have the option of providing to the Preparer, at any time at least 15 days prior to the Due Date, written instructions as to how the Payor wants any, or all, of the items for which it may be liable reflected on such Tax Return. The Preparer shall, in preparing such return, cause the items for which the Payor is liable hereunder to be reflected in accordance with the Payor's instructions (unless, in the opinion of nationally recognized tax counsel to the Preparer, complying with the Payor's instructions would likely subject the Preparer to any criminal penalty or to civil penalties) and, in the absence of having received such instructions, in accordance with past practice.

If the Preparer fails to satisfy its obligations pursuant to this Section 6.4.2, the Payor shall have no obligation to indemnify the Preparer for any Taxes which are reflected on any such Tax

Return if and to the extent the Payor was actually prejudiced by such failure, and shall retain any and all remedies it may otherwise have which arise out of such failure.

6.4.3 Transfer Taxes.

6.4.3.1 Sales and Real Property Taxes. All sales and use and real property transfer taxes incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by Buyer, and Buyer at its own expense shall file, to the extent required by applicable laws and regulations, all necessary Tax Returns and other documentation with respect to all such transfer or sales and use taxes, and, if required by applicable law, Buyer shall cause the Companies and their Subsidiaries to join the execution of any such Tax Returns or other documentation.

6.4.3.2 Other Transfer Taxes. All excise, transfer (excluding real property transfer or gains taxes and excluding sales and use taxes), stamp, documentary, filing, recordation and other similar taxes (excluding real property transfer or gains taxes and excluding sales and use taxes), together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, resulting directly from the sale and transfer by the Sellers to Buyer of the Mid-Atlantic Stock and the LLC Interests (the "Other Transfer Taxes"), shall be borne by Buyer. Notwithstanding Section 6.4.2 of this Agreement, which shall not apply to Tax Returns relating to Transfer Taxes, any Tax Returns that must be filed in connection with Transfer Taxes shall be prepared and filed when due by Buyer, and Buyer will use its reasonable efforts to provide such Tax Returns to the Sellers at least 10 days prior to the Due Date for such Tax Returns.

6.4.4 Indemnification.

6.4.4.1 Sellers' Indemnification of Buyer. The Sellers shall indemnify Buyer from, against and in respect of any Taxes imposed on any Company or any Subsidiary of a Company with respect to any taxable period, or portion thereof, ending on or before the Closing Date; provided, however, that with respect to Northeast Management, the Sellers shall have no obligation to indemnify Buyer for taxes with respect to any taxable period or portion thereof ending on or before November 24, 1999.

6.4.4.2 Buyer's Indemnification of the Sellers. The Buyer shall indemnify the Sellers from, against and in respect of any liability of the Sellers or their Subsidiaries for (A) any Taxes imposed on any Company or any Subsidiary of a Company with respect to any taxable period, or portion thereof, beginning on or after the Closing Date; and (B) any Transfer Taxes for which Buyer is liable pursuant to Section 6.4.3 hereof.

6.4.5 Computation of Tax Liabilities.

6.4.5.1 Proration of Taxes and Earnings and Profits. To the extent permitted by law or administrative practice, the taxable years of each Company and each Subsidiary of each Company shall end on and include the Closing Date. Whenever it is necessary to determine the liability for Taxes, or the earnings and profits, of any Company or any Subsidiary of a Company for a portion of a taxable year or period that begins before and ends after the Closing Date, the determination of the Taxes or the earnings and profits for the portion of the year or period ending on, and the portion of the year or period beginning after, the Closing Date shall be determined by assuming that the taxable year or period ended on and included the Closing Date, except that exemptions, allowances or deductions that are calculated on an annual basis and annual property taxes shall be prorated on the basis of the number of days in the annual period elapsed through the Closing Date as compared to the number of days in the annual period elapsing after the Closing Date.

6.4.5.2 Standalone Basis. Whenever it is necessary to determine the liability of any Company or any Subsidiary of a Company for Taxes, such liability shall be computed as if such Company or such Subsidiary of a Company was not a member of Sithe's or Genco's consolidated, affiliated, combined or unitary group for Tax purposes.

6.4.6 Contest Provisions.

6.4.6.1 Notification of Contests. Each of Buyer, on the one hand, and the Sellers, on the other hand (the "Recipient"), shall notify the Vice President - Taxes or chief tax officer of the other party in writing within 45 days of receipt by the Recipient of written notice of any pending or threatened audits, adjustments or assessments (a "Tax Audit") which are likely to affect the liability for Taxes of such other party. If the Recipient fails to give such prompt notice to the other party, it shall not be entitled to indemnification for any Taxes arising in connection with such Tax Audit if and to the extent that such other party is actually prejudiced by such failure to give notice.

6.4.6.2 Which Party Controls.

6.4.6.2.1 Sellers' Items. If such Tax Audit relates to any taxable period, or portion thereof, ending on or before the Closing Date or for any Taxes for which the Sellers are liable in full hereunder, the Sellers shall at their expense control the defense and settlement of such Tax Audit.

6.4.6.2.2. Buyer's Items. If such Tax Audit relates to any taxable period, or portion thereof, beginning on or after the Closing Date or for any Taxes for which Buyer is liable in full hereunder, Buyer shall at its expense control the defense and settlement of such Tax Audit.

6.4.6.2.3 Combined and Mixed Items. If such Tax Audit relates to Taxes for which both the Sellers and Buyer are liable hereunder, to the extent practicable such Tax Items (as defined in Section 6.4.12 of this Agreement) will be distinguished and each party will control the defense and settlement of those Taxes for which it is so liable. If such Tax Audit relates to a taxable period, or portion thereof, beginning before and ending after the Closing Date and any Tax Item cannot be identified as being a liability of only one party or cannot be separated from a Tax Item for which the other party is liable, the party which has the greater potential liability for those Tax Items that cannot be so attributed or separated (or both) shall control the defense of the Tax Audit, provided that such party defends the items as reported on the relevant Tax Return and provided further that no such matter shall be settled without the written consent of both parties, not to be unreasonably withheld.

6.4.6.2.4 Participation Rights. Any party whose liability for Taxes may be affected by a Tax Audit shall be entitled to participate at its expense in such defense and to employ counsel of its choice at its expense.

6.4.7 Buyer's Claiming, Receiving or Using of Refunds and Overpayments. If after the Closing, Buyer, any Company, or any Subsidiary of a Company (A) receives any refund or (B) utilizes the benefit of any overpayment of Taxes which, in each case (A) and (B), (x) relates to Taxes paid by the Sellers or any Company, or any Subsidiary of a Company with respect to a taxable period, or portion thereof, ending on or before the Closing Date, or (y) is the subject of indemnification by the Sellers pursuant to this Agreement, Buyer shall promptly transfer, or cause to be transferred, to the Sellers the entire amount of the refund or overpayment (including interest) resolved or utilized by Buyer, any Company, or any Subsidiary of a Company. The Buyer agrees to notify the Sellers within 15 days following the discovery of a right to claim any such refund or overpayment and the receipt of any such refund or utilization of any such overpayment. The Buyer agrees to claim any such refund or to utilize any such overpayment as soon as possible and to furnish to the Sellers all information, records and assistance necessary to verify the amount of the refund or overpayment.

6.4.8 Resolution of All Tax-Related Disputes. In the event that the Sellers and Buyer cannot agree on the calculation of any amount relating to Taxes or the interpretation or application of any provision of this Agreement relating to Taxes, such dispute shall be resolved by a nationally recognized accounting firm mutually acceptable to each of the Sellers and Buyer, whose decision shall be final and binding upon all Persons involved and whose expenses shall be shared equally by the Sellers, on the one hand, and Buyer on the other hand.

6.4.9 Termination of Existing Tax Sharing Agreements. Any and all existing Tax sharing agreements or arrangements, written or unwritten, binding any Company or any Subsidiary of a Company, shall be terminated as of the Closing.

6.4.10 Assistance and Cooperation. The parties agree that, after the Closing Date:

6.4.10.1 Buyer, on the one hand, and the Sellers, on the other hand, shall each assist the other (and cause its respective Affiliates to assist) the other party in preparing any Tax Returns which such other party is responsible for preparing and filing;

6.4.10.2 Buyer, on the one hand, and the Sellers, on the other hand, shall cooperate fully in preparing for any Tax audits, or disputes with taxing authorities, relating to any Tax Returns or Taxes of any Company or any Subsidiary of a Company;

6.4.10.3 Buyer, on the one hand, and the Sellers, on the other hand, shall make available to each other upon written request and to any taxing authority as reasonably requested in writing all relevant books and records relating to Taxes but only to the minimum extent necessary to enable the other party to prepare Tax Returns or resolve disputes with taxing authorities relating to Tax Returns or Taxes of a Company or a Subsidiary of a Company. Any such information shall be kept strictly confidential;

6.4.10.4 Buyer, on the one hand, and the Sellers, on the other hand, shall promptly furnish the other party with copies of all relevant correspondence received from any taxing authority in connection with any Tax Audit or information request relating to Taxes for which such other party may have an indemnification obligation under this Agreement; and

6.4.10.5 Except as otherwise provided herein, the party requesting assistance or cooperation shall bear the other party's out-of-pocket expenses in complying with such request to the extent that those expenses are attributable to fees and other costs of unaffiliated third-party service providers.

6.4.11 This Section 6.4 alone shall govern the procedure for all Tax indemnification claims, notwithstanding any provision of Article 12.

6.4.12 For purposes of this Agreement, "Due Date" shall mean, with respect to any Tax Return, the date such return is due to be filed (taking into account any valid extensions); and "Tax Item" shall mean, with respect to Taxes, any item of income, gain, deduction, loss or credit or other tax attribute.

Section 6.5 Ordinary Course of Business.

6.5.1 Prior to the Closing, except (i) as set forth on Schedule 3.13 or 6.5 or actions taken in the ordinary course of business pursuant to or in connection with Contracts listed on Schedule 3.8, (ii) as specifically provided for by this Agreement or consented to or approved in writing by Buyer or (iii) for transactions between or among any Company and any other Company and/or one or more of the Subsidiaries of any Company or between or among Subsidiaries of any Company, the Sellers shall cause each Company and each Subsidiary of each Company to:

(a) conduct its business in the ordinary course of business, consistent with Good Operating Practices;

(b) maintain the insurance coverage described in Section 3.15, including the filing and prosecution of any claims related to the Acquired Assets; and

(c) comply with all applicable laws and regulations relating to the Acquired Assets, including without limitation, all Environmental Laws, except where the failure to so comply would not result, individually or in the aggregate, in a Material Adverse Effect.

6.5.2 Without limiting the generality of the foregoing, and, except as (i) contemplated in this Agreement, (ii) described in Schedule 6.5 or (iii) required under applicable laws and regulations or by any Governmental Authority, prior to the Closing, without the prior written consent of Buyer, the Sellers shall not, directly or indirectly through their Subsidiaries, with respect to the Acquired Assets:

(a) make any material change in the levels of Inventories customarily maintained with respect to the GPU Assets and the Development Assets, other than changes in the ordinary course of business consistent with Good Operating Practices or that would not have, individually or in the aggregate, a Material Adverse Effect;

(b) sell, lease (as lessor), encumber, pledge, transfer or otherwise dispose of any of the Acquired Assets (except for (i) Acquired Assets, used, consumed or replaced in the ordinary course of business consistent with Good Operating Practices, (ii) dispositions of obsolete assets in the ordinary course of business consistent with Good Operating Practices, (iii) property losses, (iv) dispositions in the ordinary course of business in accordance with any Contract listed on Schedule 3.8 and (v) dispositions of Acquired Assets not to exceed $10.0 million in the aggregate, except that no such disposition shall be of any Acquired Assets necessary for the operation of a generating facility included in the Acquired Assets), other than to encumber Acquired Assets with Permitted Liens;

(c) modify, amend, voluntarily terminate, waive or permit to expire prior to the scheduled expiration date any Contracts listed on Schedule 3.8, Real Property leases or any of the Permits or Environmental Permits associated with such Acquired Assets other than (i) in the ordinary course of business, to the extent consistent with Good Operating Practices, (ii) as may be required in connection with the transactions contemplated by this Agreement or the Sithe/GPU Agreements or (iii) as may be required by applicable law, rule or regulation;

(d) (i) enter into any commitment for the purchase, sale, or transportation of fuel unless (A) such commitment is terminable on or before the Closing Date either (1) automatically or (2) by option of any Company or any Subsidiary of any Company (or after the Closing, by Buyer) without penalty or premium in its sole discretion, (B) such commitment will by its terms be fully performed on or before the Closing Date, (C) such commitment is for an amount of fuel necessary to produce electricity sufficient to satisfy the obligations of the Sellers or their Subsidiaries pursuant to any Contract entered into pursuant to Section 6.5.2 (d)(ii)(C) or (D) the aggregate payment under such commitment for fuel and all other outstanding commitments for fuel not previously approved by Buyer would not exceed $5.0 million, or (ii) enter into any commitment for the purchase or sale of electricity, capacity or related products unless (A) such commitment is terminable on or before the Closing Date either (1) automatically or (2) by option of any Company or any Subsidiary of any Company (or after the Closing, by Buyer) without penalty or premium in its sole discretion, (B) such commitment will by its terms be fully performed on or before the Closing Date, (C) such commitment is for the sale of electricity into the PJM Energy Interchange Market, or a similar daily spot market, (1) for an amount of electricity not to exceed, with respect to any generating facility included in the GPU

Assets, the maximum capacity for such generating facility at the time such commitment is made and (2) for a term not to extend beyond the next Business Day following such commitment or (D) the aggregate payment under such commitment for electricity, capacity or related products and all other outstanding commitments for electricity, capacity or related products not previously approved by Buyer would not exceed $5.0 million;

(e) sell, lease or otherwise dispose of Emission Allowances, or Emission Reduction Credits identified in Schedule 3.17, except to the extent necessary to operate any of the Acquired Assets in accordance with this Section 6.5 or in accordance with Good Operating Practices;

(f) enter into any Contract relating to the Acquired Assets (other than any such Contract described in Section 6.5.2(d)) unless (i) such Contract is terminable on or before the Closing Date either (A) automatically or (B) by option of any Company or any Subsidiary of any Company (or, after the Closing, by Buyer) without penalty or premium in its sole discretion, (ii) such Contract will by its terms be fully performed on or before the Closing Date, (iii) the aggregate payments under any such Contract entered into after the date hereof and not previously approved by Buyer would not exceed $500,000 individually or together with all other such Contracts, $5,000,000 in the aggregate, (iv) such Contract relates to any outage and is entered into in accordance with Good Operating Practices or (v) such Contract is (A) listed on Schedule 6.5.2(f)(A) or (B) entered into by Sithe Power Marketing with the consent of Buyer and set forth on Schedule 6.5.2(f)(B), as such schedule may be amended from time to time in accordance with Section 6.5.5(b) (any Contract referred to in this clause (v), a "Trading Contract", and all such Contracts collectively, the "Trading Contracts"); provided that notwithstanding anything else herein to the contrary, any Seller or any Subsidiary of any Seller may at any time prior to the Closing Date amend, modify, supplement or terminate any Contract set forth on Schedule 6.5.2(f)(A), or remove any such Contract from Schedule 6.5.2(f)(A), with or without the consent of Buyer.

(g) except as otherwise required by the terms of the Collective Bargaining Agreements or the Sithe/GPU Agreements or, with the prior written consent of Buyer not to be unreasonably withheld, as Sithe believes is necessary for the operation of the business of the Companies and their Subsidiaries in accordance with Good Operating Practices: (i) hire any new employees prior to the Closing on terms that provide for an annual salary of more than $100,000; (ii) increase salaries or wages of employees prior to the Closing other than in the ordinary course of business and in accordance with the past practices of Sithe or any Affiliate of Sithe; (iii) take any action prior to the Closing to effect a change in a Collective Bargaining Agreement; (iv) take any action prior to the Closing to increase the aggregate benefits payable to its employees other than increases for non-union employees in the ordinary course of business and in accordance with past practices of Sithe or any Affiliate of Sithe; or (v) enter into any employment contracts or any collective bargaining agreements with labor organizations representing such employees;

(h) modify, amend, voluntarily terminate, waive or permit to expire prior to the scheduled expiration date any rights under or agree to any termination of any of the Contracts listed on Schedule 6.5.2, to the extent that any such amendment, modification, waiver or termination could reasonably be expected to affect the rights of the Companies and their Subsidiaries after the Closing Date without the prior consent of Buyer not to be unreasonably withheld, other than such amendments, modifications or alterations as (i) have already been agreed upon, in substance (as disclosed on Schedule 6.5) or (ii) reasonably incidental to the operation of the Acquired Assets in the ordinary course of business;

(i) make any Capital Expenditures or incur any Development Costs except for (1) Budgeted Capital Expenditures plus additional Capital Expenditures in an amount of up to 10% of the amount of Budgeted Capital Expenditures, (2) Budgeted Development Costs plus additional Development Costs in an amount of up to 10% of the amount of Budgeted Development Costs, (3) Capital Expenditures necessary in order to comply with (A) applicable law or the rules and regulations of any Governmental Authority or other entity having the legal authority to regulate the activities of the Companies, the Subsidiaries of the Companies or the Acquired Assets (including, without limitation, rules and regulations relating to PJM) and (B) to comply with the decisions of the owners of the Keystone and/or Conemaugh generating facilities with respect to the operation of such facilities, and (4) Capital Expenditures for the account of Sithe and its Subsidiaries, other than the Companies and their Subsidiaries; and

(j) make any changes in scheduled outages for the generating facilities included in the Acquired Assets, which scheduled outages are set forth on Schedule 6.5.2(j), except in accordance with Good Operating Practices; and

(k) except as otherwise provided herein, enter into any written or oral contract, agreement, commitment or arrangement with respect to any of the proscribed transactions set forth in the foregoing paragraphs (a) through (j).

6.5.3 Notwithstanding Section 6.5.1 or 6.5.2, (a) any Company and any Subsidiary of any Company shall be permitted to distribute or otherwise pay Cash Equivalents to any other Company or Subsidiary of any Company or any Seller or any Affiliate of any Seller (other than Cash Equivalents constituting proceeds from a disposition of assets made by a Company or a Subsidiary of a Company in breach of this Agreement without regard to materiality), (b) Sithe Northeast Management may enter into Contracts on behalf of the station owners under the Keystone and Conemaugh Operating Agreements, (c) Sithe Pennsylvania Holdings, LLC may enter into Contracts and otherwise perform its obligations as an owner in the Keystone and Conemaugh stations that are contemplated under the Keystone or Conemaugh annual station plan, under the Keystone coal supply plan or under the Conemaugh coal, natural gas and limestone supply plan and (d) Sithe and its Subsidiaries (other than the Companies and their Subsidiaries) may enter into letters of credit that satisfy the requirements of clause (b) of the definition of "Terminated Obligations".

6.5.4 The Sellers shall cause one or more of their executive officers set forth on Schedule 1D to make due inquiry of (a) each plant manager of the generating facilities included in the Acquired Assets and (b) Martin Rosenberg, as to the accuracy of the representations and warranties contained in Sections 3.2, 3.3, 3.6.1, 3.8 and the third sentence of Section 3.17 as of the date hereof and the Closing Date (except that, with respect to the plant managers, due inquiry regarding the representations and warranties contained in Section 3.3 and Section 3.8 shall be as of the Closing Date only), to the extent that any such representation or warranty is qualified as to Sithe's knowledge.

6.5.5 (a) Buyer hereby designates the two representatives of Buyer or its Affiliates listed on Schedule 6.5 under the heading "Buyer's Representatives" or such other representatives as Buyer may designate upon written notice to the Sellers (the "Buyer's Representatives"), to be responsible for determining whether consent to any action prohibited by this Section 6.5 (other than any action described in clause (b) below) shall be given by Buyer. The Sellers hereby designate the two representatives of the Sellers listed on Schedule 6.5 under the heading "Sellers' Representatives" or such other representatives as the Sellers may designate upon written notice to Buyer (the "Sellers' Representatives"), to contact Buyer's Representatives with requests for consent to any action prohibited by this Section 6.5 (other than any action described in clause (b) below). Buyer's Representatives shall respond promptly (in writing) to any request for consent (which must be written, except as set forth below) to the taking of any action under this Section 6.5 and Buyer shall not unreasonably withhold (taking into account Buyer's interests) the requested consent. If Buyer's Representatives do not respond to any request within three (3) Business Days of its receipt, such consent will be deemed to have been given. The Sellers' Representatives may rely on any consent given by either of Buyer's Representatives. The time periods within which Buyer's Representatives must respond shall commence on the date on which either of Buyer's Representatives receives a written request for consent.

(b) Buyer hereby designates the two representatives of Buyer listed on Schedule 6.5 under the heading "Buyer's Trading Representatives" or such other representatives as Buyer may designate upon written notice to the Sellers (the "Buyer's Trading Representatives"), to be responsible for determining whether any consent to any action that relates to a commitment referenced in Section 6.5.2(d) and that is to be entered into on the Business Day of the request shall be given by Buyer. The Sellers hereby designate the two representatives of the Sellers listed on Schedule 6.5 under the heading "Sellers' Trading Representatives" or such other representatives as the Sellers may designate upon written notice (the "Sellers' Trading

Representatives") to contact Buyer's Trading Representatives with respect to any such commitment. Such request may be made orally and such consent (x) shall not be unreasonably withheld (taking into account Buyer's interests), (y) shall be given as soon as practicable and (z) shall be deemed to have been given if Buyers Trading Representatives do not respond within 2 hours of receipt of such request. The Sellers' Trading Representatives may rely on any consent given by either of Buyer's Trading Representatives. The time periods within which Buyer's Trading Representatives must respond shall commence on the date and time on which either of Buyer's Trading Representatives receives a request for consent.

Section 6.6 Notice of Changes. Prior to the Closing, each party will promptly advise the other in writing with respect to any matter arising after execution of this Agreement of which that party obtains knowledge (including, without limitation, knowledge that if in existence on the date of this Agreement and not disclosed by Buyer would have resulted in the breach of Section 5.7) and which, if existing or occurring at the date of this Agreement, would have been required to be set forth in this Agreement, including any of the Schedules.

Section 6.7 Collective Bargaining Agreements. Effective as of the Closing, Buyer shall cause each Company and each Subsidiary of each Company to perform its respective obligations under any Collective Bargaining Agreement that covers the employees of any such entity for the duration of the term of any such Collective Bargaining Agreement. Effective as of the Closing, Buyer shall assume the Collective Bargaining Agreements in place of Sithe and shall thereafter recognize the Unions in place of Sithe and comply with all applicable obligations in place of Sithe under the Collective Bargaining Agreements. If, after the Closing, Buyer sells, transfers, or otherwise conveys any of the Acquired Assets covered by one or more of the

Collective Bargaining Agreements, whether by transfer, lease, assignment, corporate reorganization or otherwise, Buyer shall require, as an absolute precondition of such sale, transfer, or conveyance, that the purchaser, transferee, lessee or assignee of such assets assume the applicable Collective Bargaining Agreement(s) and agree to be bound by the terms, conditions and obligations thereof.

Section 6.8 Pollution Control Bonds. Notwithstanding any other provision hereof, Buyer covenants and agrees that, after the Closing Date, Buyer will not make any modifications to the "Purchased Assets" as defined under the Sithe/GPU Agreements or take any action which, in and of itself, results in a loss of the exclusion of interest on the "Pollution Control Revenue Bonds" as defined under the Sithe/GPU Agreements issued on behalf of Jersey Central Power & Light Company, Metropolitan Edison Company and Pennsylvania Electric Company (the "GPU Sellers") in connection with such Purchased Assets from gross income for federal income tax purposes under Section 103 of the Code. Actions with respect to Purchased Assets shall not constitute a breach by Buyer of this Section 6.8 in the following circumstances: (i) Buyer ceases to use or decommissions any of the Purchased Assets or subsequently repowers such Purchased Assets that are no longer used or decommissioned (but does not hold such Purchased Assets for sale); (ii) Buyer acts with respect to Purchased Assets in order to comply with requirements under applicable federal, state or local environmental or other laws or regulations; or (iii) Buyer acts in a manner the GPU Seller (i.e., a reasonable private provider of electricity of similar stature as the GPU Seller) would have acted during the term of the Pollution Control Revenue Bonds (including, but not limited to, applying new technology). In the event Buyer acts or anticipates acting in a manner that will cause a loss of the exclusion of interest on the Pollution

Control Revenue Bonds from gross income for federal income tax purposes, Buyer shall give prompt written notice to such effect. Buyer further covenants and agrees that, in the event that Buyer transfers any of the "Purchased Assets" (as described above), Buyer shall obtain from its transferee a covenant and agreement that is analogous to Buyer's covenant and agreement pursuant to this Section 6.8, including this sentence. In addition, Buyer shall not, without at least 60 days' advance written notice to the GPU Seller, take any action which would result in (x) a change in the use of the assets financed with the Pollution Revenue Control Bonds from the use in which such assets were originally intended, or (y) a sale of such assets separate from the generating assets to which they relate; provided that no notice is required of the events set forth in clause (i), (ii), or (iii) above. This covenant shall survive the Closing and shall continue in effect so long as the Pollution Control Revenue Bonds remain outstanding.

Section 6.9 Certain Benefits Matters.

6.9.1 Following the Closing, Buyer agrees to cause each Company and each Subsidiary of each Company to honor and perform the obligations of such Company and such Subsidiary under each Benefit Plan in accordance with the terms of any such Benefit Plan and in accordance with the obligations imposed under the Sithe/GPU Agreements and the Collective Bargaining Agreements; provided, however, that Buyer, any Company and any Subsidiary of any Company may make any lawful changes to any such Benefit Plan, or terminate any Benefit Plan, to the extent permitted under the terms of such Benefit Plan, the Sithe/GPU Agreements, the Collective Bargaining Agreements and applicable law. Effective as of the Closing, Buyer shall assume in place of Sithe all the obligations of Sithe under the Sithe/GPU Agreements that pertain to the Benefit Plans and shall cause Sithe to be released from all such obligations. In the event that any employees of a Company or Subsidiary of a Company are covered under a Benefit Plan sponsored by Sithe that is required to be maintained on behalf of such employees pursuant to the Sithe/GPU Agreements or a Collective Bargaining Agreement, Buyer shall, or shall cause the Company or the Subsidiary of any Company that employs such employees either to assume the sponsorship of such Benefit Plan, accept a spin-off of the portion of such Benefit Plan covering such employees, adopt a new Employee Benefit Plan or amend an existing Employee Benefit Plan to provide the required benefits, as Buyer may determine, provided that Buyer shall notify Sithe of the manner in which it will meet the obligation described in this sentence at least thirty (30) days before the Closing and cause Sithe to be released from its obligations under the Sithe/GPU Agreements effective upon the Closing. Nothing in this Agreement shall preclude a subsequent agreement by Buyer to assume the obligation to provide benefits under any Employee Benefit Plan to any group of employees under one or more of the Collective Bargaining Agreements with respect to service earned with a Company or a Subsidiary of any Company for the period commencing November 24, 1999 and ending on the Closing Date, subject to reimbursement of Buyer by Sithe for the cost of any such benefits, calculated as Buyer and Sithe may agree, and subject to the agreement of the Union that represents the affected employees.

6.9.2 Following the Closing, Buyer shall cause each Company and each Subsidiary of each Company to (A) waive all pre-existing conditions, exclusions, and waiting periods with respect to participation and coverage requirements applicable to the employees of such Company and each such Subsidiary and their covered dependents under any group health plan, within the meaning of Section 5000(b)(1) of the Code, in which such employees may be eligible to participate after the Closing Date except to the extent that such pre-existing conditions, exclusions and waiting periods were in effect in the Benefit Plans that covered such employees prior to the Closing; (B) provide each employee of such Company and each such Subsidiary with credit for payments made by such employee or his covered dependents prior to the Closing Date for purposes of satisfying any applicable deductible or out-of-pocket requirements under any such group health plan, and (C) give credit, to employees of such Company and each such Subsidiary, for purposes of satisfying any eligibility or vesting requirements of (but not for purposes of benefit accrual under) any Employee Benefit Plan, or other benefit program or arrangement in which employees of such Company and each such Subsidiary may be eligible to participate after the Closing Date, for services rendered by such employees prior to the Closing Date to such Company and each such Subsidiary or, to the extent recognized by the Benefit Plans, for services rendered to any other Person; provided, that the foregoing shall not apply to the extent it would result in duplication of benefits.

Section 6.10 WARN Act. Sellers and the Companies will provide Buyer on or prior to the Closing Date with a written list of all employees of the Companies or their Subsidiaries whose employment has been terminated and whose work hours have been reduced within 90 calendar days preceding the Closing Date. Such list will indicate the employee's site of employment, position or job title, name, starting and ending dates of employment and date of employment loss, termination, layoff and, if applicable, the amount of hour reduction. If a plant closing or a mass layoff occurs or is deemed to occur with respect to any Company or any Subsidiary of any Company or any of their respective facilities in connection with the transactions contemplated in this Agreement or at any time after the Closing, Buyer shall be solely responsible for providing all notices required under the Work Adjustment and Retraining Notification Act, 29 U.S.C. Section 2109 et seq. or the regulations promulgated thereunder (the "WARN Act") and for taking all remedial measures, including, without limitation, the payment of all amounts, penalties, liabilities, costs and expenses if such notices are not provided.

Section 6.11 Sithe Release from GPU Liabilities. If requested by Sithe, Buyer shall use reasonable efforts to cause all third parties to release Sithe and its Affiliates and their successors and assigns (other than the Companies and their Subsidiaries) from all GPU Liabilities and to obtain the acknowledgment or consent of any third party of or to the assumption by Buyer of the GPU liabilities as provided in Article 12; provided that the failure to cause such release or obtain such acknowledgement or consent shall not affect Buyer's obligations under Article 12.

Section 6.12 Change of Entity Names. Buyer acknowledges and agrees that the trade name "Sithe" shall not be deemed an Acquired Asset and that the Sellers shall be permitted (but shall not be required), on or prior to the Closing, to cause each Company and each Subsidiary of each Company to change its name such that the name "Sithe" is not used in any such entity's name. Following the Closing Date, Buyer shall, upon the request of any Seller, cause any Company or any Subsidiary of any Company the name of which includes the name "Sithe" to change its name within 90 days of such request to exclude the name "Sithe."

Section 6.13 Interim Services Agreement. As promptly as practicable but in any event within 30 days of the date of this Agreement, Buyer and Sithe shall negotiate in good faith and use reasonable efforts to enter into an Interim Services Agreement with respect to the services and on the terms and conditions described in Schedule 1C; provided that the execution and delivery of the Interim Services Agreement shall not be a condition to the performance by any party of any of such party's obligations under this Agreement.

Section 6.14 Environmental Matters/ISRA. Buyer acknowledges that Sithe New Jersey Holdings, LLC has entered into agreements with the New Jersey Department of Environmental Protection ("NJDEP") pursuant to the New Jersey Industrial Site Recovery Act ("ISRA"), N.J.S.A. ss.ss. 13:1K-6 et seq., ("Remediation Agreements") which obligate Sithe New Jersey Holdings, LLC to conduct a Remediation of the Glen Gardner, Sayreville, Werner and Gilbert generating facilities in conformance with applicable State standards. The Sellers shall cause Sithe New Jersey Holdings, LLC to take such actions as are necessary to obtain such authorizations as are required to consummate the transactions contemplated by this Agreement in compliance with ISRA, including the filings of any General Information Notices and any other required ISRA documents and applications. Buyer agrees to cooperate with the Sellers and Sithe New Jersey Holdings, LLC in these efforts, which cooperation shall include, but shall not be limited to, execution of, or consenting to, ISRA related applications, submissions or remediation agreements with NJDEP and the establishment of remediation funding sources satisfactory to NJDEP. Buyer agrees that the Sellers and their Affiliates shall have no responsibility for compliance with ISRA after Closing. Pursuant to Section 12.1 of this Agreement, at Closing, Buyer shall assume all of the Sellers' ISRA obligations and liabilities related to the GPU Assets and shall indemnify and hold harmless the Sellers, their Affiliates (other than the Companies and their Subsidiaries) and their shareholders for any costs or liabilities associated with the remediation of the GPU Assets, including those obligations and liabilities addressed in the existing Remediation Agreements between Sithe New Jersey Holdings, LLC and NJDEP and any further ISRA obligations or liabilities arising as a result of this Agreement, provided, that Buyer's obligation to indemnify and hold harmless the Sellers, their Affiliates (other than the Companies and their Subsidiaries) and their shareholders shall not apply to any fines or penalties imposed by NJDEP arising out of Sellers' decision to close the transactions provided for in this Agreement without obtaining NJDEP's authorizations pursuant to ISRA.

Section 6.15 Certain Rights Under Amended and Restated Transition Power Purchase Agreements.

Buyer shall promptly (but in no event later than 5:00 p.m., Eastern time, on February 23, 2000 provide the Sellers with written instructions setting forth the amount, if any, of capacity with respect to which the applicable Affiliates of the Sellers should exercise the put options. The Sellers shall cause the applicable Affiliates to exercise the put options or refrain from such exercise, in accordance with such instructions; provided, that Buyer shall have consulted with the Sellers regarding the benefits to the Companies and their Subsidiaries of complying with such instructions, and such instructions shall not be inconsistent with the operation of the Companies and their Subsidiaries in accordance with Good Operating Practices; and provided further, that in the absence of any such written instructions from Buyer at or prior to 5:00 p.m., Eastern time, on February 23, 2000, Buyer shall be deemed to have consented to either the exercise of such options (in whole or in part) or to a determination not to exercise such options, in either case, as determined by either Seller (or the applicable Affiliates) in the sole discretion of any such Person; and provided, further, that neither the Sellers nor Buyer (nor their respective Affiliates) shall be liable for any losses or damages alleged to have occurred as a result of or arising out of any action or inaction consistent with any instructions from Buyer given pursuant to this Section

6.15 or, failing delivery of such instruction from Buyer at or prior to 5:00 p.m., Eastern time, on February 23, 2000, any discretionary action or inaction by either Seller (or any of their Affiliates) with respect to Section 3.06 of any of the Amended and Restated Transition Power Purchase Agreements. The Sellers shall provide to Buyer copies of any and all correspondence from GPU or any of its Affiliates regarding the "put option" or the "call option" under any of the Amended and Restated Transition Power Purchase Agreements immediately after receipt thereof.

Section 6.16 Release of Certain Agreements. Buyer and Sellers shall use reasonable efforts to obtain for the benefit of each Seller and its Affiliates (other than the Companies and their Subsidiaries) a release from any and all obligations and liabilities of such Seller and such Affiliates arising under, or in connection with, each of the Contracts listed on Schedule 6.16.

Section 6.17 GPU Post Closing Amounts. The Sellers shall indemnify and hold harmless Buyer from and against any liabilities, claims, demands, judgments, losses, costs, damages or expenses from and after the Closing Date that Buyer may sustain, suffer or incur and that result from or arise out of or relate to the GPU Post Closing Amounts.

Section 6.18 Trading Contracts. On or prior to the Closing Date, the Sellers shall cause Sithe Power Marketing, and Guarantor shall cause Reliant Energy Services, Inc. ("RES") to enter into "back-to-back" Contracts pursuant to which Sithe Power Marketing shall purchase from (or sell to) RES any fuel, electricity, capacity or related products required to be sold by (or purchased by) Sithe Power Marketing, as the case may be, pursuant to each Trading Contract on substantially the same terms and conditions as are applicable to Sithe Power Marketing under such Trading Contract. The Sellers shall use reasonable efforts to cause Sithe Power Marketing to enter into the Trading Contracts described in Section 6.5.2(f)(v)(B) using the form of enabling agreement provided to the Sellers by Buyer with such changes thereto as shall be mutually acceptable to RES and Sithe Power Marketing.

Section 6.19 Matters Relating to Keystone and Conemaugh. From the date hereof until the Closing Date, the Sellers shall, and shall cause Sithe Pennsylvania Holdings LLC to, promptly notify Buyer of, and consult with Buyer with respect to, any proposed vote of the owners under the Keystone and Conemaugh Owners' Agreements. Buyer shall direct the vote of Sithe Pennsylvania Holdings LLC or any other Subsidiary of Sellers entitled to vote under such agreements with respect to any such matter, provided that Buyer agrees to execute such vote in a manner consistent with Good Operating Practices. Notwithstanding the foregoing, in the event that Buyer does not provide written direction to Sithe reasonably in advance of such proposed vote, but in any event no later than one Business Day preceding the date of such proposed vote, Buyer shall be deemed to have granted to Sithe Pennsylvania Holdings LLC the right to exercise discretion with respect to the matter subject to such vote. Neither the Sellers nor their Affiliates shall be liable for any losses or damages alleged to have occurred as a result of or arising out of any vote by Sithe Pennsylvania Holdings LLC under the Keystone and Conemaugh Owners' Agreements made in accordance with this Section 6.19.

ARTICLE 7. CONDITIONS PRECEDENT TO BUYER'S OBLIGATIONS

The obligations of Buyer under this Agreement shall be subject to the satisfaction (or waiver by Buyer in its sole discretion), at or before the Closing, of each of the following conditions, and the Sellers shall use reasonable efforts to cause each of such conditions to be satisfied on or before the Target Date and, in any event, as promptly as practicable:

Section 7.1 No Injunction. No Governmental Authority shall have issued any injunction or other order (whether temporary, preliminary or permanent) or enacted any statute, rule or regulation that prohibits the consummation of the transactions contemplated hereby; provided, that the parties shall use their reasonable efforts to litigate against, and obtain the lifting of, any such injunction or order.

Section 7.2 Representations and Warranties. The representations and warranties of each Seller contained in Articles 3 and 4 shall be true and correct in all material respects as of the Closing Date (in each case except (a) where such representation or warranty is expressly made only as of a date other than the date hereof, in which case such representation or warranty shall be true and correct in all material respects as of such date, and (b) where such representation or warranty is qualified by reference to materiality or a Material Adverse Effect, in which case such representation or warranty shall be true in all respects) as though such representations and warranties were made at and as of the Closing Date, except as otherwise contemplated by this Agreement or as may be specified in amendments to any of the Schedules provided at the Closing (none of which amendments may disclose the occurrence of any event or development which, individually or in the aggregate, would have a Material Adverse Effect); and Buyer shall have received at the Closing (i) a certificate of each Seller dated the Closing Date and signed on behalf of such Seller by an executive officer of such Seller to such effect, but only insofar as it is applicable to the representations and warranties set forth in Article 3, which certificate shall include a representation that one or more of the executive officers listed on Schedule 1D have made due inquiry of (A) the plant managers and (B) Martin Rosenberg not earlier than three (3) Business Days prior to the Closing Date for purposes of affirming those representations and warranties referred to in Section 6.5.4 that are qualified as to Sithe's knowledge, and (ii) a certificate of each Seller dated the Closing Date and signed by an executive officer of such Seller, to such effect, but only insofar as it is applicable to the representations and warranties set forth in Article 4.

Section 7.3 Performance. Each Seller shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by such Seller at or prior to the Closing (except where a covenant or agreement is qualified by reference to materiality or Material Adverse Effect, in which case such covenant or agreement shall be performed in all respects); and Buyer shall have received at the Closing a certificate of each Seller dated the Closing Date and signed on behalf of such Seller by an executive officer of such Seller to such effect.

Section 7.4 Approvals and Filings. All Permits, Environmental Permits, consents, authorizations and approvals from, and all declarations, filings and registrations with, Governmental Authorities or third parties that are listed on Schedule 7.4 shall have been obtained or made without any conditions or terms that, individually or in the aggregate, have or would have a Material Adverse Effect. All waiting periods under the HSR Act shall have expired or been properly terminated.

Section 7.5 Opinion of Counsel. Buyer shall have received an opinion or opinions dated the Closing Date of counsel to the Sellers, covering the matters set forth on Schedule 7.5.

Section 7.6 No Material Adverse Effect. Since the date of this Agreement, no events that have or would have, individually or in the aggregate, a Material Adverse Effect shall have occurred and be continuing.

Section 7.7 Buyer Permits. Buyer shall have obtained all Permits and Environmental Permits listed on Schedule 7.4, to the extent necessary, to own and operate the generating facilities included in the Acquired Assets in accordance with past emissions and operating practices, except for those Permits and Environmental Permits the absence of which would not individually or in the aggregate have a Material Adverse Effect.

Section 7.8 Resignations. Buyer shall have received the written resignations of the directors, limited liability company managers and officers of each of the Companies and their Subsidiaries, effective as of the Closing Date.

ARTICLE 8. CONDITIONS PRECEDENT TO THE OBLIGATIONS OF EACH SELLER

The obligations of Sellers under this Agreement shall be subject to the satisfaction (or waiver by the Sellers in their sole discretion) at or before the Closing, of each of the following conditions, and Buyer shall use reasonable efforts to cause each of such conditions to be satisfied on or before the Target Date and, in any event, as promptly as practicable:

Section 8.1 No Injunction. No Governmental Authority shall have issued any injunction or other order (whether temporary, preliminary or permanent) or enacted any statute, rule or regulation that prohibits the consummation of the transactions contemplated hereby; provided, that the parties shall use their reasonable efforts to litigate against, and obtain the lifting of, any such injunction or order.

Section 8.2 Representations and Warranties. The representations and warranties of Buyer and Guarantor contained in Articles 5 and 13, respectively, shall be true and correct in all material respects as of the Closing Date (in each case except (a) where such representation or warranty is expressly made only as of a date other than the date hereof, in which case such representation or warranty shall be true and correct in all material respects as of such date) as though such representations and warranties were made at and as of the Closing Date, except as otherwise contemplated by this Agreement; and the Sellers shall have received at the Closing (i) a certificate, dated the Closing Date, signed on behalf of Buyer by an executive officer of Buyer to such effect, but only insofar as it is applicable to the representations and warranties set forth in Article 5, and (ii) a certificate, dated the Closing Date, signed on behalf of Guarantor by an executive officer of Guarantor to such effect, but only insofar as it is applicable to the representations and warranties set forth in Article 13.

Section 8.3 Performance. Buyer shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing (except where a covenant or agreement is qualified by reference to materiality or Material Adverse Effect, in which case such covenant or agreement shall be performed in all respects); and the Sellers shall have received at the Closing a certificate, dated the Closing Date, signed on behalf of Buyer by an executive officer of Buyer to such effect.

Section 8.4 Approvals and Filings. All Permits, Environmental Permits, consents, authorizations and approvals from, and all declarations, filings and registrations with, Governmental Authorities or third parties that are listed on Schedule 8.4 shall have been obtained or made. All waiting periods under the HSR Act shall have expired or been properly terminated.

Section 8.5 Opinion of Counsel. The Sellers shall have received an opinion or opinions dated the Closing Date of counsel to Buyer and Guarantor, covering the matters set forth in Schedule 8.5.

ARTICLE 9. CLOSING

Section 9.1 Time and Place. Subject to the provisions of Articles 7 and 8, the closing of the sale by the Sellers and the purchase by Buyer of the Intercompany Notes, the Mid-Atlantic Stock and the LLC Interests and the consummation of the transactions contemplated by Article 2 (the "Closing") shall take place at the offices of Latham & Watkins, 885 Third Avenue, New York, New York 10022 on the Target Date; provided, however, that, if all of the conditions in Articles 7 and 8 are not satisfied by the Target Date, then, subject to Article 10, the Closing shall take place on the fifth Business Day after the date on which such conditions are satisfied (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the fulfillment or waiver of those conditions); and provided, further that, notwithstanding the foregoing, the Closing may take place at such other place, at such other time, or on such other date as the parties hereto may mutually agree (the date on which the Closing occurs being herein referred to as the "Closing Date").

Section 9.2 Payments and Terminated Obligations.

9.2.1 Payment for Intercompany Notes, Mid-Atlantic Stock and LLC Interests. At the Closing, upon the terms and subject to the conditions set forth herein, Buyer shall pay to Genco, by wire transfer of immediately available funds to an account designated by the Sellers, the Fixed Purchase Price, as adjusted by the Estimated Adjustment Amount, in United States dollars.

9.2.2 Terminated Obligations; Releases. At the Closing, upon the terms and subject to the conditions set forth herein, (a) Buyer shall deliver to the applicable Company or Subsidiary of a Company (i) any letters of credit in substitution for the Terminated Obligations that are required to be delivered pursuant to Section 2.3 or (ii) evidence of other arrangements made in satisfaction of Section 2.3 and (b) each Seller shall receive the releases obtained pursuant to Sections 6.11 and 6.16.

Section 9.3 Deliveries.

9.3.1 Transfer Instruments. Genco shall deliver to Buyer (a) the Intercompany Notes, duly endorsed in blank for transfer, (b) certificate(s) evidencing the Mid-Atlantic Stock, duly endorsed in blank for transfer or accompanied by a stock power duly executed in blank, (c) instruments of transfer in substantially the form attached hereto as Schedule 9.3A, in order to effectuate the transfer of the LLC Interests and (d) a general transfer and conveyancing instrument with respect to the Acquired Assets in substantially the form attached hereto as Schedule 9.3B duly executed by the Sellers.

9.3.2 Certificates; Opinions. Buyer and the Sellers shall deliver to each other the certificates, opinions of counsel and other items described in Articles 7 and 8.

9.3.3 Other Closing Transactions. Each of the parties shall take such other actions required hereby to be performed by it prior to or on the Closing Date, including, without limitation, satisfying the conditions set forth in Articles 7 and 8, and providing evidence of such satisfaction consisting of (i) the certificates required by Sections 7.2, 7.3, 8.2 and 8.3; (ii) copies of the consents, authorizations, approvals, declarations, filings and registrations listed on Schedules 7.4 and 8.4, and (iii) copies of the opinions of counsel required by Sections 7.5 and 8.5.

9.3.4 Senior Credit Facility and BECO Facility. The Sellers shall deliver to Buyer, with respect to each of the Senior Credit Facility and the BECO Facility, either (i) evidence of consent of the lenders under such facility to the consummation of the transactions contemplated by this Agreement or (ii) a payoff letter evidencing the discharge of all outstanding obligations of the Sellers and their Affiliates under such facility.

9.3.5 Additional Documents. Each party shall execute and deliver to the other parties all documents which the other reasonably determines are necessary to consummate the transactions contemplated hereby or to demonstrate or evidence compliance with the terms or the accuracy of any representation and warranty set forth herein. At the Closing, the Sellers shall deliver to Buyer the stock certificates, certificates of organization, limited liability company agreements and/or other instruments evidencing the Companies' ownership of their respective Subsidiaries.

ARTICLE 10. TERMINATION AND ABANDONMENT

Section 10.1 Methods of Termination. This Agreement may be terminated and the transactions herein contemplated may be abandoned at any time prior to the Closing Date:

10.1.1 by mutual consent of Sithe and Buyer; or

10.1.2 by Buyer at any time after September 30, 2000 if any of the conditions provided for in Article 7 of this Agreement shall not have been satisfied or waived in writing by

Buyer in its sole discretion prior to such date; provided, that if any condition in Article 7 has not been so satisfied or waived and diligent efforts are being undertaken to satisfy such condition, including, but not limited to, efforts to cure any breach of any representation or warranty, then the references to September 30, 2000 in this Section 10.1.2 shall be extended for up to 90 days so long as such diligent efforts continue; or

10.1.3 by Sithe at any time after September 30, 2000 if any of the conditions provided for in Article 8 of this Agreement shall not have been satisfied or waived in writing by Sithe in its sole discretion prior to such date; provided, that if any condition in Article 8 has not been so satisfied or waived and diligent efforts are being undertaken to satisfy such condition, including, but not limited to, efforts to cure any breach of any representation or warranty, then the references to September 30, 2000 in this Section 10.1.3 shall be extended for up to 90 days so long as such diligent efforts continue; or

10.1.4 (a) by Buyer, upon not less than 30 days' prior written notice, there has been a violation or breach by any Seller of any agreement, representation or warranty contained in this Agreement which, individually or in the aggregate, has or would have a Material Adverse Effect and which is not susceptible to cure (or if so susceptible is not the subject of diligent efforts on the part of the breaching party to cure; provided that no such efforts shall affect the time periods set forth in Section 10.1.2); provided, that Buyer is not in material violation or breach of its agreements, representations or warranties contained in this Agreement, or (b) by Sithe upon not less than 30 days, prior written notice, if there has been a material violation or breach by Buyer of any agreement, representation or warranty contained in this Agreement;

provided, that the Sellers are not in material violation or breach of their agreements, representations or warranties contained in this Agreement.

Section 10.2 Procedure Upon Termination and Consequences. Buyer or Sithe, as the case may be, may terminate this Agreement when permitted pursuant to Section 10.1 by delivering written notice of such termination, and such termination shall be effective upon delivery of such notice in accordance with Section 14.3. If this Agreement is terminated as provided herein:

10.2.1 Buyer will deliver all documents, work papers and other materials relating to the transactions contemplated hereby, whether obtained before or after the execution hereof, to the Sellers; and

10.2.2 no party hereto shall have any liability or further obligation to any other party to this Agreement (i) except with respect to the Confidentiality Agreement, which shall survive the termination of this Agreement, including with respect to information that is subject to the Confidentiality Agreement pursuant to Section 6.1, and the confidentiality agreement dated February 8, 2000 between Buyer and Sithe which shall survive the termination of this Agreement, (ii) except for such legal and equitable rights and remedies which any party may have by reason of any breach or violation of this Agreement by any other party prior to such termination and (iii) except pursuant to Section 14.6.

ARTICLE 11. SURVIVAL

Section 11.1 Survival. The several representations and warranties of each Seller contained in Article 4 (and in the certificate delivered pursuant to Section 7.2(ii)), the representations and warranties of Buyer contained in Sections 5.1, 5.2 and 5.3 (and the certificate delivered pursuant to Section 8.2(i) (only insofar as applicable to Sections 5.1, 5.2 and 5.3), the representations and warranties of Guarantor contained in Sections 13.2.1, 13.2.2. and 13.2.3 (and the certificate delivered pursuant to Section 8.2(ii) (only insofar as applicable to Sections 13.1, 13.2 and 13.3), the covenants and agreements of the Sellers contained in Sections 2.2, 2.3, 2.4, 2.5, the last sentence of Section 6.3, 6.4, 6.16, 6.17, 10.2.1, Articles 11, 12 and 14, the covenants and agreements of Buyer contained in Sections 2.2, 2.3, 2.4, 2.5, 6.4, 6.7, 6.8, 6.9, 6.10, 6.11, 6.12, 6.14, 6.16, Articles 11, 12 and 14, and the covenants and agreements of Guarantor contained in Articles 11 and 13, shall survive the Closing. Except as provided in the preceding sentence, the representations, warranties, covenants and agreements contained in this Agreement and in any certificate delivered pursuant to this Agreement shall not survive the Closing and shall terminate simultaneously therewith, and from and after the Closing no party shall have any liability with respect to any such terminated representation, warranty, covenant or agreement.

ARTICLE 12. ASSUMPTION OF GPU LIABILITIES; INDEMNIFICATION

Section 12.1 Assumption of GPU Liabilities; Indemnification. At the Closing, Buyer shall assume, pursuant to an instrument substantially in the form attached hereto as Schedule 12.1, all obligations and liabilities of any kind, whether fixed, contingent, accrued or otherwise, that any Seller or any Affiliate of any Seller (other than any Company or any Subsidiary of any Company) or any of their respective successors or assigns may have under, with respect to or in connection with the GPU Liabilities. Buyer shall indemnify, defend and hold harmless each Seller, their Affiliates (other than the Companies and their Subsidiaries) and their respective officers, directors, employees, shareholders, Affiliates and agents (each, an "Indemnitee") from and against any and all claims, demands, suits, losses, liabilities, damages, obligations, payments, costs and expenses (including, without limitation, the costs and expenses of any and all actions, suits, proceedings, assessments, judgments, settlements and compromises relating thereto and reasonable attorneys' fees and reasonable disbursements in connection therewith) (each, an "Indemnifiable Loss"), asserted against or suffered by any Indemnitee relating to, resulting from or arising out of (i) the GPU Liabilities or (ii) any Third Party Claims against any Indemnitee arising out of or in connection with the Acquired Assets, including the acquisition, ownership or operation thereof.

Section 12.2 Defense of Claims.

12.2.1 If any Indemnitee receives notice of the assertion of any claim or of the commencement of any claims, action, or proceeding made or brought by any Person (including Guarantor, Buyer, their respective Affiliates, officers, directors and shareholders, and the successors and assigns of any such Person) (a "Third Party Claim") with respect to which indemnification is to be sought from a Person that is required to indemnify such Indemnitee (an "Indemnifying Party"), the Indemnitee shall give such Indemnifying Party reasonably prompt written notice thereof but in any event such notice shall not be given later than ten (10) calendar days after the Indemnitee's receipt of notice of such Third Party Claim. Such notice shall describe the nature of the Third Party Claim in reasonable detail and shall indicate the estimated amount, if practicable, of the Indemnifiable Loss that has been or may be sustained by the Indemnitee. In addition, the Indemnitee shall transmit to the Indemnifying Party a copy of all papers served with respect to such claim (if any). The Indemnitee shall cooperate in good faith in such defense at the Indemnifying Party's expense. If the Indemnifying Party shall acknowledge in writing to the Indemnitee that the Indemnifying Party shall be obligated to indemnify the Indemnitee under the terms of its indemnity hereunder in connection with such Third Party Claim, then the Indemnifying Party will have the right to participate in or, by giving written notice to the Indemnitee, to elect to assume the defense of any Third Party Claim at such Indemnifying Party's expense and by employing such Indemnifying Party's own counsel; provided that the counsel for the Indemnifying Party who shall conduct the defense of such Third Party Claim shall be reasonably satisfactory to the Indemnitee. If an Indemnifying Party elects not to assume the defense of any Third Party Claim, the Indemnitee may compromise or settle such Third Party Claim over the objection of the Indemnifying Party, which settlement or compromise shall conclusively establish the Indemnifying Party's liability pursuant to this Agreement.

12.2.2 (i) If, within ten (10) calendar days after an Indemnitee provides written notice to the Indemnifying Party of any Third Party Claims, the Indemnitee receives written notice from the Indemnifying Party that such Indemnifying Party has elected to assume the defense of such Third Party Claim as provided in Section 12.2.1, the Indemnifying Party will not be liable for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof; provided, however, that if the Indemnifying Party shall fail to take reasonable steps necessary to defend diligently such Third Party Claim within twenty (20) calendar days after receiving notice from the Indemnitee, the Indemnitee may assume its own defense and the Indemnifying Party shall be liable for all reasonable expenses thereof. (ii) Without the prior written consent of the Indemnitee, the Indemnifying Party shall not enter into any settlement of any Third Party Claim which would lead to liability or create any financial or other obligation or restriction on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification hereunder. If a firm offer is made to settle a Third Party Claim without leading to liability or the creation of a financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification hereunder and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to the Indemnitee to that effect. If the Indemnitee fails to consent to such firm offer within ten (10) calendar days after its receipt of such notice, the Indemnifying Party shall be relieved of its obligations to defend such Third Party Claim and the Indemnitee may contest or defend such Third Party Claim. In such event, the maximum liability of the Indemnifying Party as to such Third Party Claim will be the amount of such settlement offer plus reasonable costs and expenses paid or incurred by Indemnitee up to the date of said notice.

12.2.3 Any claim by an Indemnitee on account of an Indemnifiable Loss which does not result from a Third Party Claim (a "Direct Claim") shall be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, stating the nature of such claim in reasonable detail and indicating the estimated amount, if practicable, and the Indemnifying Party shall have a period of thirty (30) calendar days after the Indemnifying Party's receipt of such notice within which to respond to such Direct Claim. If the Indemnifying Party does not respond within such thirty (30) calendar day period, the Indemnifying Party shall be deemed to have accepted such claim. If the Indemnifying Party rejects such claim, the Indemnitee will be free to seek enforcement of its right to indemnification under this Agreement.

12.2.4 Notwithstanding anything to the contrary contained herein:

12.2.4.1 Any Indemnitee shall use reasonable efforts to mitigate all losses, damages and the like relating to a claim under these indemnification provisions, including availing itself of any defenses, limitations, rights of contribution, claims against third Persons and other rights at law or equity. The Indemnitee's reasonable efforts shall include the reasonable expenditure of money to mitigate or otherwise reduce or eliminate any loss or expenses for which indemnification would otherwise be due, provided that the Indemnitee shall only be required to make expenditures if and to the extent that the Indemnifying Party shall have advanced funds to the Indemnitee for such expenditures after notice from the Indemnitee to the Indemnifying Party that such an expenditure would be required.

12.2.4.2 Any Indemnifiable Loss shall be net of the dollar amount of any insurance or other proceeds actually received by the Indemnitee with respect to the Indemnifiable Loss, but shall not take into account any income tax benefits to the Indemnitee, or any income taxes attributable to the receipt of any indemnification payments hereunder. Any party seeking indemnity hereunder shall use reasonable efforts to seek coverage (including both costs of defense and indemnity) under applicable insurance policies with respect to any such Indemnifiable Loss; provided, that the failure to seek or obtain such coverage shall not affect such party's rights pursuant to this Article 12, and provided, further, that no such party seeking indemnification shall be required to enter into or maintain any insurance policy or incur additional insurance premiums pursuant to this Section 12.2.4.2.

The expiration or termination of any covenant or agreement shall not affect the parties' obligations under this Section if the Indemnitee provides the Indemnifying Party with proper notice of the claim or event for which indemnification is sought prior to such expiration, termination or extinguishment.

Notwithstanding anything to the contrary herein, no party (including an Indemnitee) shall be entitled to recover from any other party (including an Indemnifying Party) for any liabilities, damages, obligations, payments, losses, costs, or expenses under this Agreement any amount in excess of the actual compensatory damages, court costs and reasonable attorney's and other advisor fees suffered by such party. Buyer and the Sellers waive any right to recover punitive, incidental, special, exemplary and consequential damages arising in connection with or with respect to this Agreement. The provisions of this last paragraph of Section 12.2.4.2. shall not preclude recovery of an Indemnifiable Loss by an Indemnitee to the extent such Indemnifiable Loss is payable to a third party in connection with a Third Party Claim.

12.2.5 A failure to give timely notice as provided in this Section 12.2 shall not affect the rights or obligations of any party hereunder except if, and only to the extent that, as a result of such failure, the party which was entitled to receive such notice was actually prejudiced as a result of such failure.

12.2.6 If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by, from or against any other entity, the amount of such reduction, less any costs or expenses incurred in connection therewith shall promptly be repaid by the Indemnitee to the Indemnifying Party.

ARTICLE 13. OBLIGATIONS OF GUARANTOR

Section 13.1 Guarantee. In order to induce the Sellers to enter into this Agreement and to consummate the transactions contemplated hereby, and for other good and valuable consideration received, Guarantor irrevocably and unconditionally guarantees Buyer's obligation to pay promptly when due the Aggregate Purchase Price in accordance with the terms of this Agreement (the "Guaranteed Obligations"). No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations, or of any security therefor, shall affect, impair or be a defense to the foregoing guarantee nor shall any other circumstances which may otherwise constitute a defense available to, or legal or equitable discharge of, Guarantor in respect of the Guaranteed Obligations, or of any security therefor, or in respect of the foregoing guarantee affect, impair or be a defense to the foregoing guarantee. The liability of Guarantor hereunder is absolute, primary and unconditional and shall not be subject to any offset, defense or counterclaim of Guarantor. Guarantor also agrees that no Seller need attempt to collect any part of the Guaranteed Obligations from Guarantor or others, but may require Guarantor to make immediate payment of the Guaranteed Obligations when due or at any time thereafter. To the fullest extent permitted by law, Guarantor hereby waives all defenses, counterclaims and all suretyship defenses.

Section 13.2 Representations and Warranties Regarding Guarantor. Guarantor represents and warrants to the Sellers that, as of the date hereof (except where such representation or warranty is expressly made only as of a specific date) as follows:

13.2.1 Organization and Corporate Power. Guarantor is a corporation duly organized, validly existing and in good standing under the laws of the State of Texas. Guarantor has full corporate power and authority to execute, deliver and perform this Agreement.

13.2.2 Authorization; Validity. The execution, delivery and performance by Guarantor of this Agreement have been duly authorized by all requisite corporate action on the part of Guarantor. This Agreement has been duly executed and delivered by Guarantor and constitutes the valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law).

13.2.3 No Conflict. The execution, delivery and performance by Guarantor of this Agreement and the consummation of the transactions contemplated hereby will not (i) violate the articles of incorporation or by-laws of Guarantor; (ii) violate any law or regulation applicable to Guarantor, or any order of any Governmental Authority having jurisdiction over Guarantor, or (iii) violate or conflict with, or constitute (with due notice or lapse of time or both) a default under, any Contract by which Guarantor or any of its assets is bound.

13.2.4 Consents and Approvals. No registration or filing with, or consent or approval of or other action by, any Governmental Authority or any other Person is or will be necessary for the valid execution, delivery and performance by Guarantor of its obligations under this Agreement.

Section 13.3 Covenants Relating to Buyer.

13.3.1 Guarantor hereby covenants and agrees that, for a period commencing on the Closing Date and terminating on the second anniversary of the Closing Date, Guarantor shall cause Buyer at all times to maintain (i) a Net Worth equal to the greater of (a) $611 million or (b) an amount that is not significantly less than the Net Worth of Buyer immediately after the Closing, and (ii) sufficient net assets to discharge and perform its obligations pursuant to this Agreement. Not later than forty five (45) days after the Closing Date, Guarantor shall deliver to the Sellers a certificate of the Chief Financial Officer of Guarantor (or an officer of Guarantor serving in a similar capacity) (the "Chief Financial Officer of Guarantor") setting forth the Net Worth of Buyer and its Subsidiaries as of the end of the calendar month immediately preceding the month in which the Closing occurs, on a pro forma basis to give effect to the purchase of the Intercompany Notes, the LLC Interests and the Sithe Mid Atlantic Stock (the "CFO Certificate") and certifying that the amount set forth in the CFO Certificate has been derived from a historical balance sheet prepared in accordance with GAAP and that the adjustments thereto are based upon reasonable assumptions. Not later than (y) the 45th day after the last day of each of the first, second and third fiscal quarters of Buyer and (z) the 100th day after the last day of each fiscal year of Buyer, Guarantor shall provide Sithe with a certificate of the Chief Financial Officer of Guarantor to the effect that Guarantor was in compliance with the provisions of this Section 13.3.1 during the preceding fiscal quarter (or fiscal year, in the case of any such certificate delivered with respect to a fiscal year-end balance sheet).

13.3.2 Upon the reasonable request of Sithe in connection with a possible acquisition, merger, consolidation, financing or other similar transaction, Buyer shall provide to Sithe, upon not less than 10 Business Days' prior notice, the most recent year-end audited consolidated balance sheet of Buyer and its Subsidiaries (and, if such request is made later than the 135th day following the last day of Buyer's fiscal year, the most recent unaudited consolidated balance sheet of Buyer and its Subsidiaries) together with a certificate of the Chief Financial Officer of Buyer that such balance sheet or balance sheets have been prepared in accordance with GAAP; provided that in no event shall Buyer be required to deliver the foregoing balance sheets pursuant to this Section 13.3.2: (a) more frequently than twice in any 365-day period; and (b) unless Buyer and Sithe (and any third party to which Sithe proposes to provide copies of such balance sheets) shall have executed a confidentiality agreement reasonably satisfactory to Buyer and Sithe. In addition, if there is a claim or threatened claim against Sithe or any of its Affiliates with respect to any matter as to which Buyer is obligated to provide indemnification pursuant to Article 12 and, based on the advice of Sithe's independent auditors, in the absence of evidence of Buyers ability to satisfy such obligation, such claim or threatened claim will be required to be disclosed, in footnotes or otherwise, in Sithe's consolidated financial statements, then upon the reasonable request of Sithe, Buyer shall provide to Sithe, upon not less than 10 Business Days' prior notice, the financial statements referred to the preceding sentence, but without regard to the number of other requests that Sithe may have delivered during the preceding 365-day period.

13.3.3 Notwithstanding Section 13.3.1, Guarantor may elect, at any time on or prior to the second anniversary of the Closing Date, to terminate Section 13.3.1 by delivering to the Sellers a guarantee of all of Buyer's obligations hereunder in form and substance satisfactory to the Sellers in their sole discretion by either (a) Guarantor or (b) another Person, provided that such other Person has (i) a Net Worth greater than or equal to the Net Worth of Guarantor immediately prior to the date of such assumption and (ii) either (A) securities listed on a national securities exchange in the United States, Britain, Japan, France, Germany, the Netherlands or Belgium, (B) an investment grade credit rating for long term unsecured indebtedness from either Standard and Poors Rating Group, a division of the McGraw-Hill Industries, Inc., or Moody's Investors Services, Inc. or (C) a financial condition reasonably acceptable to Sithe, as determined based upon financial statements that are mutually acceptable to Guarantor and Sithe. Any such guarantee shall terminate on the second anniversary of the Closing Date.

ARTICLE 14. MISCELLANEOUS

Section 14.1 Amendment and Modification. This Agreement may be amended, modified and supplemented only by written agreement of Buyer and Sithe.

Section 14.2 Waiver of Compliance. Any failure of Buyer, on the one hand, or any Seller, on the other hand, to comply with any obligation, covenant, agreement or condition contained herein may be expressly waived in writing by Sithe, in the event of any such failure by Buyer, or by Buyer, in the event of any such failure by any Seller, but such waiver or failure to insist upon strict compliance shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

Section 14.3 Notices. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement shall be in writing and may be given by any of the following methods: (a) personal delivery, (b) facsimile transmission,

(c) registered or certified mail, postage prepaid, return receipt requested, or (d) overnight courier service. Notices shall be sent to the appropriate party at its address or facsimile number given below (or at such other address or facsimile number for such party as shall be specified by notice given hereunder).

If to either Seller, to:

Sithe Energies, Inc.
335 Madison Avenue, 28th Floor
New York, New York 10017
Attn: Chief Executive Officer
Telecopy: (212) 351-0015
General Counsel
Telecopy: (212) 351-0019

with copies to:

Latham & Watkins
885 Third Avenue, Suite 1000
New York, New York 10022-4802
Attn: Roger H. Kimmel, Esq.
Samuel A. Fishman, Esq.
Telecopy: (212) 751-4864

or to such other Person or address as Sithe shall designate by notice to Buyer.

If to Buyer to:

Reliant Energy Power Generation, Inc.
1111 Louisiana
Houston, Texas 77002
Telecopy No.: 713-207-9605
Attn: J. Douglas Divine
Senior Vice President
Generation Development, Wholesale Group

with a copy to:

Reliant Energy, Incorporated
1111 Louisiana
Houston, Texas 77002
Telecopy: 713-207-0116
Attn: Michael L. Jines
Vice President and General Counsel, Wholesale Group

or to such other Person or address as Buyer shall designate by notice to Sithe.

All such notices, requests, demands, waivers and communications shall be deemed received upon (i) actual receipt thereof by the addressee, (ii) actual delivery thereof to the appropriate address or (iii) in the case of a facsimile transmission, transmission thereof by the sender and issuance by the transmitting machine of a confirmation slip that the number of pages constituting the notice have been transmitted without error. In the case of notices sent by facsimile transmission, the sender shall contemporaneously mail a copy of the notice to the addressee at the address provided for above by first class mail or by an overnight courier service, postage prepaid. However, such mailing shall in no way alter the time at which the facsimile notice is deemed received.

Section 14.4 Binding Nature; Assignment. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without prior written consent of (i) in the case of an assignment by Buyer or Guarantor, Sithe or (ii) in the case of an assignment by any Seller, Buyer; provided, that Buyer may assign and delegate its rights, interests and obligations hereunder to one or more wholly-owned direct or indirect Subsidiaries of Buyer or of Guarantor, upon written notice to

Sithe (which shall contain a representation that the assignee is a wholly-owned Subsidiary of Buyer or Guarantor) at or before the Closing Date, in which event Buyer shall remain liable for all of its obligations under this Agreement and such Subsidiary or Subsidiaries shall, together with Buyer, be jointly and severally liable for such obligations. Nothing contained herein, express or implied, is intended to confer on any Person other than the parties hereto or their successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement. Notwithstanding the proviso contained in the immediately preceding sentence, Buyer may not assign its rights, interests and obligations hereunder if such assignment could reasonably be expected to result in a delay or impediment to consummating those transactions hereunder which by their terms are to be performed on the Closing Date, including, without limitation, due to the need to obtain the consent of any third party, including any Governmental Authority, not required for Buyer to consummate the transactions contemplated hereby.

Section 14.5 Entire Agreement. This Agreement, including the Schedules and the Confidentiality Agreement, embodies the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein. This Agreement, including the Schedules, the Confidentiality Agreement and the confidentiality agreement, dated February 8, 2000 between Buyer and Sithe, supersede all prior drafts, agreements and understandings between or among any or all of the parties with respect to such subject matter and supersede any letters, memoranda or other documents or communications, whether oral, written or electronic, submitted or made by (i) Buyer or its agents or representatives to either Seller, Goldman, Sachs & Co. or any of their respective Affiliates, agents or representatives, or (ii) either Seller, Goldman, Sachs & Co. or their respective agents or representatives to Buyer or any of its agents or representatives, in connection with the bidding process which occurred prior to the execution of this Agreement or otherwise in connection with the negotiation and execution of this Agreement. No communications by or on behalf of any Seller, including responses to any questions or inquiries, whether orally, in writing or electronically, and no information provided in any data room or any copies of any information from any data room provided to Buyer or any other information shall be deemed to (i) constitute a representation, warranty or an agreement of such Seller, or (ii) be part of this Agreement.

Section 14.6 Expenses. Except as otherwise expressly provided in Section 2.2.3, each party to this Agreement will pay its own expenses in connection with the negotiation of this Agreement, the performance of its obligations hereunder, and the consummation of the transactions contemplated herein.

Section 14.7 Press Releases and Announcements; Disclosure. Prior to the Closing Date, no press release or other public announcement or disclosure related to this Agreement or the transactions contemplated herein (including but not limited to the terms and conditions of this Agreement) shall be issued or made without the prior approval of Buyer and Sithe. The foregoing shall not prohibit any disclosure required by law, provided such disclosure is made pursuant to the Confidentiality Agreement and that the disclosing party shall consult with the other parties in advance of such disclosure.

Section 14.8 Acknowledgment.

14.8.1 Buyer acknowledges that neither any Seller, any Company, any Subsidiary of any Company nor any other Person has made any representation or warranty, expressed or implied, as to the accuracy or completeness of any information regarding any Seller, any

Company or any Subsidiary of any Company not included in this Agreement and the Schedules. Without limiting the generality of the foregoing, no representation or warranty is made with respect to any information in the Confidential Offering Memorandum dated November 1999 or any supplement or amendment thereto provided in connection with the solicitation of proposals to enter into the transactions contemplated by this Agreement, such information having been provided for the convenience of Buyer in order to assist Buyer in framing its due diligence efforts.

14.8.2 Buyer further acknowledges that (i) Buyer, either alone or together with any Persons Buyer has retained to advise it with respect to the transactions contemplated hereby ("Advisors"), has knowledge and experience in transactions of this type and in the business of the Companies and their Subsidiaries and is therefore capable of evaluating the risks and merits of acquiring the Intercompany Notes, the Mid-Atlantic Stock and the LLC Interests and the consummation of the transactions contemplated hereby, (ii) it has relied on its own independent investigation, and has not relied on any information or representations furnished by any Seller, any Company, any Subsidiary of any Company or any representative or agent of any thereof or any other Person (except as specifically set forth herein), in determining to enter into this Agreement, (iii) neither any Seller, any Company, any Subsidiary of any Company nor any representative or agent of any thereof or any other Person has given any investment, legal or other advice or rendered any opinion as to whether the purchase of the Intercompany Notes, the Mid-Atlantic Stock and the LLC Interests or the consummation of the transactions contemplated hereby is prudent, and Buyer is not relying on any representation or warranty by any Seller, any Company, any Subsidiary of any Company or any representative or agent of any thereof or any other Person except as set forth in this Agreement, (iv) Buyer has conducted extensive due diligence, including a review of the documents contained in a data room prepared by or on behalf of the Sellers, the Companies and the Subsidiaries of the Companies; and (v) the Sellers made available to Buyer all documents, records and books pertaining to the Companies and the Subsidiaries of the Companies that Buyer's attorneys, accountants, Advisors, if any, and Buyer have requested, and Buyer and its Advisors, if any, have had the opportunity to visit the Companies and the Subsidiaries of the Companies, their facilities, plants, development sites, offices and other properties, and ask questions and receive answers concerning the Companies, the Subsidiaries of the Companies and the terms and conditions of this Agreement.

Section 14.9 Disclaimer Regarding Assets. Except as otherwise expressly provided herein, each Seller expressly disclaims any representations or warranties of any kind or nature, express or implied, as to the condition, value or quality of the assets or operations of the Companies or the Subsidiaries of the Companies or the prospects (financial and otherwise), risks and other incidents of the Companies or the Subsidiaries of the Companies and each Seller specifically disclaims any representation or warranty of merchantability, usage, suitability or fitness for any particular purpose with respect to such assets, or any part thereof, or as to the workmanship thereof, or the absence of any defects therein, whether latent or patent, or compliance with environmental requirements, or as to the condition of, or the rights of any Company or any Subsidiary of any Company, or their title to, any of their assets, or any part thereof, or whether any Company or any Subsidiary of any Company possesses sufficient Real Property or personal property interests to own or operate such assets. Except as expressly provided herein, no Schedule or exhibit to this Agreement, nor any other material or information provided by or communications made by any Seller, any Company, any Subsidiary of any Company, or any of their respective representatives will cause or create any warranty, express or implied, as to the condition, value or quality of such assets. Without limiting the generality of the foregoing, no representation or warranty is made with respect to the accuracy of any information provided in any site tours or on any web site, or in any meetings with management or other personnel of any Seller, any Company, any Subsidiary of any Company or their respective representatives, except as expressly set forth herein.

Section 14.10 Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of New York without giving effect to the choice of law principles thereof which would require the application of the laws of a jurisdiction other than New York. Each party consents to personal jurisdiction in any action arising out of or relating to this Agreement brought in the U.S. District Court for the Southern District of New York, or any New York court within the County and State of New York having subject matter jurisdiction as to a matter arising out of or relating to this Agreement (and the appropriate appellate courts), and each of the parties hereto agrees that (except as provided in Sections 2.2.2 and 2.2.3) any action instituted by either of them against the other arising out of or relating to this Agreement will be instituted exclusively in one of the above specified courts.

Section 14.11 Nonforeign Affidavit. At or prior to the Closing, Genco shall furnish Buyer an affidavit, stating, under penalty of perjury, that the indicated number is the transferor's United States taxpayer identification number and that the transferor is not a foreign person, pursuant to Section 1445(b)(2) of the Code. In the event that Genco fails to furnish such affidavit to Buyer, Buyer shall be entitled to deduct and withhold from the Aggregate Purchase

Price federal income taxes to the extent required to be withheld pursuant to Section 1445(a) of the Code.

Section 14.12 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Agreement by facsimile transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 14.13 Interpretation. The article and section headings contained in this Agreement are inserted for convenience only and shall not constitute a part hereof.

Section 14.14 Confidentiality. (a) (i) The terms and conditions of the Confidentiality Agreement are hereby incorporated by reference into this Agreement as of the Closing Date, as though fully set forth herein, except for the following amendments: (A) the provisions thereof shall terminate five years from the Closing Date; (B) the term "Confidential Information" as used therein shall mean all information, whether written, oral or otherwise and on whatever medium that is furnished to the Recipient (as defined in the Confidentiality Agreement) and its Representatives (each as defined in the Confidentiality Agreement) by Sithe which concerns Sithe, its affiliates, properties or assets or the properties or assets of GPU, and all analyses, compilations, forecasts, studies or other documents prepared by Recipient (as defined in the Confidentiality Agreement) or its Representatives which contain such information; and (C) the provisions of the Confidentiality Agreement shall not apply to any Confidential Information relating to the Acquired Assets (the "Confidential Acquired Asset Information"). From and after the Closing Date, the term "Confidentiality Agreement" shall mean the Confidentiality Agreement as so incorporated by reference herein and as so modified.

(b) From and after the Closing Date, Sithe agrees to maintain in confidence any Confidential Acquired Asset Information Sithe or any of its Subsidiaries have (with the exception of any publicly available information) for a period of five (5) years from the Closing Date to the same extent and subject to the same terms, conditions and exceptions as apply to the Recipient pursuant to Section 14.14(a) with respect to Confidential Information (including, without limitation, those terms, conditions and exceptions that were incorporated by reference therein), mutatis mutandis as though such terms, conditions and exceptions were set forth in this Section 14.14(b).

Section 14.15 Limitation on Due Inquiry. To the extent due inquiry is required to be made of Martin Rosenberg with respect to any representation or warranty made under this Agreement as of any date after Martin Rosenberg ceases to be an employee of Sithe or of an Affiliate of Sithe, such requirement shall be deemed to have been satisfied if such due inquiry is made within fourteen (14) days prior to or 14 days after the date on which Mr. Rosenberg ceases to be an employee of Sithe or an Affiliate of Sithe.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the day and year first above written.

SITHE ENERGIES, INC.

By: /s/ WILLIAM V. KRIEGEL

Name: William V. Kriegel
Title: Chief Executive Officer and President

SITHE NORTHEAST GENERATING COMPANY, INC.

By: /s/ WILLIAM V. KRIEGEL

Name: William V. Kriegel
Title: Chief Executive Officer and President

RELIANT ENERGY POWER GENERATION, INC.

By: /s/ J. DOUGLAS DIVINE

Name: J. Douglas Divine
Title: Senior Vice President,
Generation Development

Reliant Energy, Incorporated, is executing this Agreement solely for the purposes specified in Article 13.

RELIANT ENERGY, INCORPORATED,
as Guarantor

By: /s/ J. DOUGLAS DIVINE

Name: J. Douglas Divine
Title: Senior Vice President,
Generation Development

EXHIBIT 3(c)

AMENDED AND RESTATED BYLAWS

OF

RELIANT ENERGY, INCORPORATED

Adopted and Amended by Resolution of the Board of Directors on November 3, 1999

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, which may include, without limitation, a Chairman of the Board, a Chief Executive Officer, one or more Vice Presidents (whose seniority and titles, including Executive Vice Presidents, Senior Vice Presidents and such assistant or subordinate Vice Presidents, may be specified by the Board of Directors), a Treasurer, one or more Assistant Treasurers, and one or more Assistant Secretaries. Each officer shall hold office until his successor shall have been duly elected and shall qualify or until his death or until he shall resign or shall have been removed in the manner hereinafter provided. Any 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 sthat 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 3(e)

STATEMENT OF RESOLUTION ESTABLISHING SERIES OF SHARES

DESIGNATED

SERIES D PREFERENCE STOCK

OF

RELIANT ENERGY, INCORPORATED

Pursuant to Article 2.13D of
the Texas Business Corporation Act

Pursuant to the provisions of Article 2.13D of the Texas Business Corporation Act, the undersigned submits the following statement for the purpose of establishing and designating a series of shares of its Preference Stock, without par value, designated "Series D Preference Stock" and fixing and determining the relative rights and preferences thereof:

1. The name of the company is RELIANT ENERGY, INCORPORATED (the "Company").

2. The following resolution establishing and designating a series of shares and fixing and determining the relative rights and preferences thereof, was duly adopted by all necessary action on the part of the Company on September 22, 1999:

RESOLVED, that pursuant to the authority vested in the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently, by the Board of Directors of this Company in accordance with the provisions of the Restated Articles of Incorporation, a series of Preference Stock, without par value, of the Company be and hereby is created, and that the designation and number of shares thereof and the preferences, limitations and relative rights, including voting rights, of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

SERIES D PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series D Preference Stock," and the number of shares constituting such series shall be 5,880. Such number of shares may be increased or decreased by resolution of the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently; provided, however, that no decrease shall reduce the number of shares of Series D Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise

of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

2. Certain Defined Terms. Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Credit Agreement (the "Credit Agreement") to be entered into among Reliant Energy FinanceCo III LP, a Delaware limited partnership to be the Borrower thereunder, the Company, the Banks party thereto, Chase Manhattan International Limited as Administrative Agent, and Chase Securities, Inc. as Arranger, as in effect at the time of the initial funding thereunder, and as such terms may be amended in the Credit Agreement to the extent approved by the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series D Preference Stock, voting separately as a class. In addition, the following terms are used herein as defined below:

(i) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the indebtedness for borrowed money of the Borrower from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(ii) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(iii) "Dividend" means the dividend on the Series D Preference Stock declared by the Company's Board of Directors with respect to a Dividend Interval Period.

(iv) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(v) "Dividend Declaration Date" means the date on which Dividends on the Series D Preference Stock are declared (or would have been declared but for the fact that the amount of the Dividend determined in accordance herewith would have been zero) during a Dividend Interval Period by the Company's Board of Directors.

(vi) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(vii) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(viii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the indebtedness for borrowed money of the Borrower during such period.

(ix) "Other Sources Reconciliation Amount" means, to the extent applied to pay interest on the indebtedness for borrowed money of the Borrower or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by the Borrower from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), from the Determination Date occurring in the Prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(x) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xi) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the indebtedness for borrowed money of the Borrower from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xii) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Company to the Borrower from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

3. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series D Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series D Preference Stock, in preference to the holders of shares of any class or series of stock of the Company ranking junior to the Series D Preference Stock, shall be entitled to receive the amounts set forth below, when, as and if declared by the Board of Directors in the manner described below out of assets of the Company legally available for the purpose:

(a) On every regularly scheduled meeting of the Company's Board of Directors while any shares of Series D Preference Stock remain outstanding, the Board of Directors shall declare an aggregate Dividend (if a positive amount) equal the lesser of (i) the Dividend Declaration Amount or (ii) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(b) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Company's Board of Directors is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend Declaration Amount for such period. The Dividend for such succeeding Dividend Interval Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(c) The aggregate Dividends paid on the shares of Series D Preference Stock in accordance with this Section 3(A) shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(B) Accrued but unpaid dividends shall not bear interest. The Board of Directors may fix a record date for the determination of holders of shares of Series D Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

4. Voting Rights. Except as otherwise required by law or the Restated Articles of Incorporation of the Company or as otherwise provided herein, the holders of shares of Series D Preference Stock shall have no voting rights.

5. Certain Restrictions. At any time when dividends or distributions payable on the Series D Preference Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series D Preference Stock outstanding shall have been paid in full, the Company shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Preference Stock; or

(ii) declare dividends on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series D Preference Stock, except dividends declared ratably on the Series D Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled.

6. Reacquired Shares. Any shares of Series D Preference Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued

shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

7. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series D Preference Stock unless, prior thereto, the holders of shares of Series D Preference Stock shall have received (U)100,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series D Liquidation Preference"). Following the payment of the full amount of the Series D Liquidation Preference, no additional distributions shall be made to the holders of shares of Series D Preference Stock.

(B) In the event that there are not sufficient assets available to permit payment in full of the Series D Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series D Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Company into or with another Company nor the merger or consolidation of any other Company into or with the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7, but the sale, lease or conveyance of all or substantially all of the Company's assets shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7.

8. Redemption.

(A) The Company, at its option, may redeem shares of the Series D Preference Stock in whole at any time and in part from time to time, at a redemption price equal to (U)100,000 per share, plus, in the event all outstanding shares of the Series D Preference Shares are to be redeemed, unpaid accumulated dividends to the date of redemption.

(B) In the event that fewer than all the outstanding shares of the Series D Preference Stock are to be redeemed, (i) the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(C) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the shares of Series D Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Company. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series D Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series D Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(D) The shares of Series D Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series D Preference Stock shall rank junior to all series of the Company's Preferred Stock and pari passu with all other series of the Company's Preference Stock (other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series D Preference Stock are outstanding, the Restated Articles of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series D Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series D Preference Stock, voting separately as a class.

11. Fractional Shares. Series D Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series D Preference Stock.

IN WITNESS WHEREOF, RELIANT ENERGY, INCORPORATED has caused this Statement to be executed on its behalf by the undersigned officer this _____ day of September , 1999.

RELIANT ENERGY, INCORPORATED

/s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

EXHIBIT 3(f)

STATEMENT OF RESOLUTION ESTABLISHING SERIES OF SHARES

DESIGNATED

SERIES E PREFERENCE STOCK

OF

RELIANT ENERGY, INCORPORATED

Pursuant to Article 2.13D of
the Texas Business Corporation Act

Pursuant to the provisions of Article 2.13D of the Texas Business Corporation Act, the undersigned corporation submits the following statement for the purpose of establishing and designating a series of shares of its Preference Stock, without par value, designated "Series E Preference Stock" and fixing and determining the relative rights and preferences thereof:

1. The name of the corporation is RELIANT ENERGY, INCORPORATED (the "Company").

2. The following resolution establishing and designating a series of shares and fixing and determining the relative rights and preferences thereof, was duly adopted by all necessary action on the part of the Company on November 8, 1999:

RESOLVED, that pursuant to the authority vested in the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently, by the Board of Directors of this Company in accordance with the provisions of the Restated Articles of Incorporation, a series of Preference Stock, without par value, of the Company be and hereby is created, and that the designation and number of shares thereof and the preferences, limitations and relative rights, including voting rights, of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

SERIES E PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series E Preference Stock," and the number of shares constituting such series shall be 3,160. Such number of shares may be increased or decreased by resolution of the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently; provided, however, that no decrease shall reduce the number of shares of Series E Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise

of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

2. Certain Defined Terms. Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Fiscal Agency Agreement, including the Exhibits thereto (the "Fiscal Agency Agreement") to be entered into among Reliant Energy FinanceCo II LP, a Delaware limited partnership (the "Issuer"), the Company and Chase Bank of Texas, National Association, as in effect at the time of the initial issuance of Notes thereunder, and as such terms may be amended in the Fiscal Agency Agreement in accordance with the terms thereof. In addition, the following terms are used herein as defined below:

(i) "Affiliates" means any person that, directly or indirectly, Controls or is Controlled by or is under common Control with another person.

(ii) "Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

(iii) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the Notes from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(iv) "Controlled" means, with respect to any Person, the ability of another person (whether directly or indirectly and whether by the ownership of voting securities, contract or otherwise) to appoint and/or remove the majority of the members of the board of directors or other governing body of that person (and "Control" shall be similarly construed).

(v) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(vi) "Dividend" means the dividend on the Series E Preference Stock declared by the Company's Board of Directors with respect to a Dividend Interval Period.

(vii) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(viii) "Dividend Declaration Date" means the date on which Dividends on the Series E Preference Stock are declared (or would have been declared but for the fact that the amount of the Dividend determined in accordance herewith would have been zero) during a Dividend Interval Period by the Company's Board of Directors.

(ix) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(x) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(xi) "Excess Cash Flow" means, for any period, any excess funds of the Company after taking into account its cash requirements (including debt service and preferred stock payments, but before common stock payments), and any other expenditures in order to accommodate, with respect to Reliant Energy HL&P and Reliant Energy Resources Corp., regulatory requirements and sound utility financial and management practices, in each case, as determined in the discretion of the Company's senior management.

(xii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the Notes during such period.

(xiii) "Other Sources Reconciliation Amount" means, to the extent applied to pay interest on the Notes or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by the Issuer from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), from the Determination Date occurring in the Prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(xiv) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xv) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the Notes from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xvi) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Company to the Issuer from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

3. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series E Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series E Preference Stock, in preference to the holders of shares of any class or series of stock of the Company ranking junior to the Series E Preference Stock, shall be entitled to receive the amounts set forth below, when, as and if declared by the Board of Directors in the manner described below out of assets of the Company legally available for the purpose:

(i) On every regularly scheduled meeting of the Company's Board of Directors while any shares of Series E Preference Stock remain outstanding, the Board of Directors shall declare an aggregate Dividend (if a positive amount) equal to the lesser of (x) the Dividend Declaration Amount or (y) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(ii) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Company's Board of Directors is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend Declaration Amount for such period. The Dividend for such succeeding Dividend Interval Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(iii) The aggregate Dividends paid on the shares of Series E Preference Stock in accordance with this Section 3(A) shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(B) Accrued but unpaid dividends shall not bear interest. The Board of Directors may fix a record date for the determination of holders of shares of Series E Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

(C) Dividends on the Series E Preference Stock are cumulative.

4. Voting Rights. Except as otherwise required by law or the Restated Articles of Incorporation of the Company or as otherwise provided herein, the holders of shares of Series E Preference Stock shall have no voting rights.

5. Certain Restrictions. At any time when dividends or distributions payable on the Series E Preference Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series E Preference Stock outstanding shall have been paid in full, the Company shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series E Preference Stock; or

(ii) declare dividends on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series E Preference Stock, except dividends declared ratably on the Series E Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled.

(C) Notwithstanding the limitation on the amount of dividends declared or to be declared on the shares of Series E Preference Stock set forth in Section 3(A), for purposes of Section 7 and Section 8, the amount of accrued and unpaid dividends payable on the Series E Preference Stock as of the date of calculation of the Series E Liquidation Preference (as defined in Section 7 below) or any redemption price, as the case may be, for the Series E Preference Stock shall be equal to the aggregate amount of accrued and unpaid interest on the Notes as of such date, plus premium, if any.

6. Reacquired Shares. Any shares of Series E Preference Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

7. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series E Preference Stock unless, prior thereto, the holders of shares of Series E Preference Stock shall have received $100,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series E Liquidation Preference"). Following the payment of the full amount of the Series E Liquidation Preference, no additional distributions shall be made to the holders of shares of Series E Preference Stock.

(B) In the event that there are not sufficient assets available to permit payment in full of the Series E Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series E Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Company into or with another corporation nor the merger or consolidation of any other corporation into or with the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7, but the sale, lease or conveyance of all or substantially all of the Company's assets shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7.

8. Redemption.

(A) The Company, at its option, may redeem shares of the Series E Preference Stock in whole at any time and in part from time to time, at a redemption price equal to $100,000 per share plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of redemption.

(B) Upon maturity of the Notes, by acceleration or otherwise, the Company shall redeem the shares of the Series E Preference Stock in whole, at a redemption price equal to the lesser of (i) the Company's Excess Cash Flow or (ii) $100,000 per share plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of redemption.

(C) In the event that fewer than all the outstanding shares of the Series E Preference Stock are to be redeemed, the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(D) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the shares of Series E Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Company. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series E Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series E Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(E) The shares of Series E Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series E Preference Stock shall rank junior to all series of the Company's Preferred Stock and pari passu with all other series of the Company's Preference Stock

(other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series E Preference Stock are outstanding, the Restated Articles of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series E Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series E Preference Stock, voting separately as a class.

11. Fractional Shares. Series E Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series E Preference Stock.

IN WITNESS WHEREOF, RELIANT ENERGY, INCORPORATED has caused this Statement to be executed on its behalf by the undersigned officer this _____ day of November, 1999.

RELIANT ENERGY, INCORPORATED

/s/ MARC KILBRIDE

Name: Marc Kilbride

Title: Treasurer

EXHIBIT 3(g)

STATEMENT OF RESOLUTION ESTABLISHING SERIES OF SHARES

DESIGNATED

SERIES F PREFERENCE STOCK

OF

RELIANT ENERGY, INCORPORATED

Pursuant to Article 2.13D of
the Texas Business Corporation Act

Pursuant to the provisions of Article 2.13D of the Texas Business Corporation Act, the undersigned corporation submits the following statement for the purpose of establishing and designating a series of shares of its Preference Stock, without par value, designated "Series F Preference Stock" and fixing and determining the relative rights and preferences thereof:

1. The name of the corporation is RELIANT ENERGY, INCORPORATED (the "Company").

2. The following resolution establishing and designating a series of shares and fixing and determining the relative rights and preferences thereof, was duly adopted by all necessary action on the part of the Company on December , 1999:

RESOLVED, that pursuant to the authority vested in the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently, by the Board of Directors of this Company in accordance with the provisions of the Restated Articles of Incorporation, a series of Preference Stock, without par value, of the Company be and hereby is created, and that the designation and number of shares thereof and the preferences, limitations and relative rights, including voting rights, of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

SERIES F PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series F Preference Stock," and the number of shares constituting such series shall be 2,100. Such number of shares may be increased or decreased by resolution of the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently; provided, however, that no decrease shall reduce the number of shares of Series F Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

2. Certain Defined Terms. Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Fiscal Agency Agreement, including the Exhibits thereto (the "Fiscal Agency Agreement") to be entered into among Reliant Energy FinanceCo II LP, a Delaware limited partnership (the "Issuer"), the Company and Chase Bank of Texas, National Association, as in effect at the time of the initial issuance of Notes thereunder, and as such terms may be amended in the Fiscal Agency Agreement in accordance with the terms thereof. In addition, the following terms are used herein as defined below:

(i) "Affiliates" means any person that, directly or indirectly, Controls or is Controlled by or is under common Control with another person.

(ii) "Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

(iii) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the Notes from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(iv) "Controlled" means, with respect to any Person, the ability of another person (whether directly or indirectly and whether by the ownership of voting securities, contract or otherwise) to appoint and/or remove the majority of the members of the board of directors or other governing body of that person (and "Control" shall be similarly construed).

(v) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(vi) "Dividend" means the dividend on the Series F Preference Stock declared by the Company's Board of Directors with respect to a Dividend Interval Period.

(vii) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(viii) "Dividend Declaration Date" means the date on which Dividends on the Series F Preference Stock are declared (or would have been declared but for the fact that the amount of the Dividend determined in accordance herewith would have been zero) during a Dividend Interval Period by the Company's Board of Directors.

(ix) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(x) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(xi) "Excess Cash Flow" means, for any period, any excess funds of the Company after taking into account its cash requirements (including debt service and preferred stock payments, but before common stock payments), and any other expenditures in order to accommodate, with respect to Reliant Energy HL&P and Reliant Energy Resources Corp., regulatory requirements and sound utility financial and management practices, in each case, as determined in the discretion of the Company's senior management.

(xii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the Notes during such period.

(xiii) "Other Sources Reconciliation Amount" means, to the extent applied to pay interest on the Notes or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by the Issuer from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), from the Determination Date occurring in the Prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(xiv) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xv) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the Notes from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xvi) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Company to the Issuer from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

3. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series F Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series F Preference Stock, in preference to the holders of shares of any class or series of stock of the Company ranking junior to the Series F Preference Stock, shall be entitled to receive the amounts set forth below, when, as and if declared by the Board of Directors in the manner described below out of assets of the Company legally available for the purpose:

(i) On every regularly scheduled meeting of the Company's Board of Directors while any shares of Series F Preference Stock remain outstanding, the Board of Directors shall declare an aggregate Dividend (if a positive amount) equal to the lesser of (x) the Dividend Declaration Amount or (y) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(ii) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Company's Board of Directors is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend Declaration Amount for such period. The Dividend for such succeeding Dividend Interval Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(iii) The aggregate Dividends paid on the shares of Series F Preference Stock in accordance with this Section 3(A) shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(B) Accrued but unpaid dividends shall not bear interest. The Board of Directors may fix a record date for the determination of holders of shares of Series F Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

(C) Dividends on the Series F Preference Stock are cumulative.

4. Voting Rights. Except as otherwise required by law or the Restated Articles of Incorporation of the Company or as otherwise provided herein, the holders of shares of Series F Preference Stock shall have no voting rights.

5. Certain Restrictions. At any time when dividends or distributions payable on the Series F Preference Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series F Preference Stock outstanding shall have been paid in full, the Company shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series F Preference Stock; or

(ii) declare dividends on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series F Preference Stock, except dividends declared ratably on the Series F Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled.

(C) Notwithstanding the limitation on the amount of dividends declared or to be declared on the shares of Series F Preference Stock set forth in Section 3(A), for purposes of Section 7 and Section 8, the amount of accrued and unpaid dividends payable on the Series F Preference Stock as of the date of calculation of the Series F Liquidation Preference (as defined in Section 7 below) or any redemption price, as the case may be, for the Series F Preference Stock shall be equal to the aggregate amount of accrued and unpaid interest on the Notes as of such date.

6. Reacquired Shares. Any shares of Series F Preference Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

7. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series F Preference Stock unless, prior thereto, the holders of shares of Series F Preference Stock shall have received $100,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series F Liquidation Preference"). Following the payment of the full amount of the Series F Liquidation Preference, no additional distributions shall be made to the holders of shares of Series F Preference Stock.

(B) In the event that there are not sufficient assets available to permit payment in full of the Series F Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series F Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Company into or with another corporation nor the merger or consolidation of any other corporation into or with the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7, but the sale, lease or conveyance of all or substantially all of the Company's assets shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7.

8. Redemption.

(A) The Company, at its option, may redeem shares of the Series F Preference Stock in whole at any time and in part from time to time, at a redemption price equal to $100,000 per share plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of redemption.

(B) Upon maturity of the Notes, by acceleration or otherwise, the Company shall redeem the shares of the Series F Preference Stock in whole, at a redemption price equal to the lesser of (i) the Company's Excess Cash Flow or (ii) $100,000 per share plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of redemption.

(C) In the event that fewer than all the outstanding shares of the Series F Preference Stock are to be redeemed, the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(D) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the shares of Series F Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Company. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series F Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series F Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(E) The shares of Series F Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series F Preference Stock shall rank junior to all series of the Company's Preferred Stock and pari passu with all other series of the Company's Preference Stock (other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series F Preference Stock are outstanding, the Restated Articles of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series F Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series F Preference Stock, voting separately as a class.

11. Fractional Shares. Series F Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series F Preference Stock.

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IN WITNESS WHEREOF, RELIANT ENERGY, INCORPORATED has caused this Statement to be executed on its behalf by the undersigned officer this _____ day of December, 1999.

RELIANT ENERGY, INCORPORATED

/s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

EXHIBIT 3(h)

OFFICE OF THE
SECRETARY OF STATE

CORPORATION SECTION
P.O. BOX 13697
AUSTIN, TEXAS 78711-3697

ARTICLES/CERTIFICATE OF CORRECTION

This correction is submitted pursuant to article 1302-7.01, Texas Miscellaneous Corporation Laws Act for a corporation or limited liability company, or pursuant to section 2.13, Texas Revised Limited Partnership Act for a limited partnership, to correct a document which is an inaccurate record of the entity action, contains an inaccurate or erroneous statement, or was defectively or erroneously executed, sealed, acknowledged or verified.

ARTICLE ONE

The name of the entity is Reliant Energy, Incorporated.

ARTICLE TWO

The document to be corrected is the Statement of Resolution Establishing Series F Preference Stock which was filed in the Office of the Secretary of State on the 8th day of December, 1999.

ARTICLE THREE

The inaccuracy, error, or defect to be corrected is:

The first sentence of paragraph 1 entitled "Designation and Amount" references 2,100 shares of Series F Preference Stock which should be 2,400.

ARTICLE FOUR

As corrected, the inaccurate, erroneous, or defective portion of the document reads as follows:

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series F Preference Stock," and the number of shares constituting such series shall be 2,400.

By: /s/ Mark Kilbride

Its: Mark Kilbride, Treasurer

An Authorized Corporate Officer or Director
or Limited Liability Company Member or Manager
or Limited Partnership General Partner

EXHIBIT 3(i)

STATEMENT OF RESOLUTION ESTABLISHING SERIES OF SHARES

designated

SERIES G PREFERENCE STOCK

of

RELIANT ENERGY, INCORPORATED

Pursuant to Article 2.13D of
the Texas Business Corporation Act

Pursuant to the provisions of Article 2.13D of the Texas Business Corporation Act, the undersigned corporation submits the following statement for the purpose of establishing and designating a series of shares of its Preference Stock, without par value, designated "Series G Preference Stock" and fixing and determining the relative rights and preferences thereof:

1. The name of the corporation is RELIANT ENERGY, INCORPORATED (the "Company").

2. The following resolution establishing and designating a series of shares and fixing and determining the relative rights and preferences thereof, was duly adopted by all necessary action on the part of the Company on February 23, 2000:

> RESOLVED, that pursuant to the authority vested in the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently, by the Board of Directors of this Company in accordance with the provisions of the Restated Articles of Incorporation, a series of Preference Stock, without par value, of the Company be and hereby is created, and that the designation and number of shares thereof and the preferences, limitations and relative rights, including voting rights, of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

SERIES G PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series G Preference Stock," and the number of shares constituting such series shall be 6,825. Such number of shares may be increased or decreased by resolution of the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently; provided, however, that no decrease shall reduce the number of shares of Series G Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

2. Certain Defined Terms.

Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Credit Agreement (the "Credit Agreement") to be entered into among Reliant Energy FinanceCo IV, LP, a Delaware limited partnership to be the initial Borrower thereunder, the Company, the lenders parties thereto, Chase Securities, Inc. as arranger and The Chase Manhattan Bank, as the Administrative Agent thereunder. In addition, the following terms are used herein as defined below:

(i) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the indebtedness for borrowed money of the Borrower from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(ii) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(iii) "Dividend" means the dividend on the Series G Preference Stock declared by the Company's Board of Directors with respect to a Dividend Interval Period.

(iv) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(v) "Dividend Declaration Date" means the date on which Dividends on the Series G Preference Stock are declared (or would have been declared but for the fact that the amount of the Dividend determined in accordance herewith would have been zero) during a Dividend Interval Period by the Company's Board of Directors.

(vi) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(vii) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(viii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the indebtedness for borrowed money of the Borrower during such period.

(ix) "Other Sources Reconciliation Amount" means the sum of (a) to the extent applied to pay interest on the indebtedness for borrowed money of the Borrower or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by the Borrower from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), and (b) the cash proceeds of new borrowings under the Credit Agreement that are utilized to pay interest on outstanding borrowings thereunder, from the Determination Date occurring in the Prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(x) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xi) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the indebtedness for borrowed money of the Borrower from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xii) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Company to the Borrower from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

3. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series G Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series G Preference Stock, in preference to the holders of shares of any class or series of stock of the Company ranking junior to the Series G Preference Stock, shall be entitled to receive the amounts set forth below, when, as and if declared by the Board of Directors in the manner described below out of assets of the Company legally available for the purpose:

(i) On every regularly scheduled meeting of the Company's Board of Directors while any shares of Series G Preference Stock remain outstanding, the Board of Directors shall declare an aggregate Dividend (if a positive amount) equal to the lesser of (a) the Dividend Declaration Amount or (b) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(ii) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Company's Board of Directors is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend

Declaration Amount for such period. The Dividend for such succeeding Dividend Interval Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(iii) The aggregate Dividends paid on the shares of Series G Preference Stock in accordance with this Section 3(A) shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(B) Accrued but unpaid dividends shall not bear interest. The Board of Directors may fix a record date for the determination of holders of shares of Series G Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

4. Voting Rights. Except as otherwise required by law or the Restated Articles of Incorporation of the Company or as otherwise provided herein, the holders of shares of Series G Preference Stock shall have no voting rights.

5. Certain Restrictions. At any time when dividends or distributions payable on the Series G Preference Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series G Preference Stock outstanding shall have been paid in full, the Company shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series G Preference Stock; or

(ii) declare dividends on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series G Preference Stock, except dividends declared ratably on the Series G Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled.

6. Reacquired Shares. Any shares of Series G Preference Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

7. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series G Preference Stock unless, prior thereto, the holders of shares of Series G Preference Stock shall have received $100,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series G Liquidation Preference"). Following the payment of the full amount of the Series G Liquidation Preference, no additional distributions shall be made to the holders of shares of Series G Preference Stock.

(B) In the event that there are not sufficient assets available to permit payment in full of the Series G Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series G Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Company into or with another corporation nor the merger or consolidation of any other corporation into or with the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7, but the sale, lease or conveyance of all or substantially all of the Company's assets shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7.

8. Redemption.

(A) The Company, at its option, may redeem shares of the Series G Preference Stock in whole at any time and in part from time to time, at a redemption price equal to $100,000 per share plus, in the event all outstanding shares of the Series G Preference Stock are to be redeemed, unpaid accumulated dividends to the date of redemption.

(B) In the event that fewer than all the outstanding shares of the Series G Preference Stock are to be redeemed, (i) the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(C) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the shares of Series G Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Company. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series G Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series G Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(D) The shares of Series G Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series G Preference Stock shall rank junior to all series of the Company's Preferred Stock and pari passu with all other series of the Company's Preference Stock (other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series G Preference Stock are outstanding, the Restated Articles of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series G Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series G Preference Stock, voting separately as a class.

11. Fractional Shares. Series G Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series G Preference Stock.

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IN WITNESS WHEREOF, RELIANT ENERGY, INCORPORATED has caused this Statement to be executed on its behalf by the undersigned officer this ___ day of February, 2000.

RELIANT ENERGY, INCORPORATED

/s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

EXHIBIT 10(u)(3)

HOUSTON INDUSTRIES INCORPORATED
MASTER RETIREMENT TRUST

(As Amended and Restated Effective January 1, 1999)

RELIANT ENERGY, INCORPORATED
MASTER RETIREMENT TRUST

(As Renamed Effective May 5, 1999)

HOUSTON INDUSTRIES INCORPORATED
MASTER RETIREMENT TRUST

(As Amended and Restated Effective January 1, 1999)

RELIANT ENERGY, INCORPORATED
MASTER RETIREMENT TRUST

(As Renamed Effective May 5, 1999)

I N D E X

HOUSTON INDUSTRIES INCORPORATED
MASTER RETIREMENT TRUST

(As Amended and Restated Effective January 1, 1999)

RELIANT ENERGY, INCORPORATED
MASTER RETIREMENT TRUST

(As Renamed Effective May 5, 1999)

THIS TRUST AGREEMENT made and entered into as of the 1st day of January, 1999, by and between HOUSTON INDUSTRIES INCORPORATED (now known as Reliant Energy, Incorporated), a Texas corporation (the "Company"), and THE NORTHERN TRUST COMPANY, an Illinois corporation, as trustee;

W I T N E S S E T H:

WHEREAS, by Agreement (the "1978 Trust Agreement") dated August 29, 1978 but effective as of October 1, 1978, between the Company and Texas Commerce Bank National Association (the "Prior Trustee"), the Company amended, restated and continued a trust established, effective July 1, 1953, in connection with the Retirement Plan for Employees of Houston Lighting & Power Company, as adopted by the Company effective July 1, 1953 (the "1953 Plan", said Plan as it presently exists in the form of the Houston Industries Incorporated Retirement Plan, amended and restated effective December 1, 1995 and as amended through the date hereof, being incorporated herein by reference as fully as if set out in full herein, together with any amendments thereto hereafter made); and

WHEREAS, the Company amended and restated the 1978 Trust Agreement in the form of the Houston Industries Incorporated Master Retirement Trust, effective January 1, 1994 (the "1994 Trust Agreement"), to accommodate the consolidation with the KBLCOM Trust Agreement, as established effective January 1, 1991, and to provide for the investment and administration on a commingled basis, together with the assets of other defined benefit plans of the Company or such Affiliated Corporations; and

WHEREAS, effective December 1, 1995, the Company amended and restated the 1953 Plan to provide for a retiree welfare benefits account pursuant to Section 401(h) of the Internal Revenue Code of 1986, as amended (the "Code") and to make certain other changes therein (the "Prior Plan"); and

WHEREAS, effective as of July 1, 1998, the Company appointed the Trustee to replace the Prior Trustee as trustee of the 1994 Trust Agreement and in connection therewith, the Company and Trustee amended, restated and continued the 1994 Trust Agreement in the form of the Houston Industries Incorporated Master Retirement Trust ("Prior Trust Agreement"); and

WHEREAS, as a result of the merger by and among NorAm Energy Corp. ("NorAm"), Houston Industries Incorporated, Houston Lighting & Power Company and HI Merger Inc., NorAm became a wholly owned subsidiary of the Company and the Company assumed the sponsorship of the NorAm Energy Corp. Employees Retirement Plan (the "NorAm Plan") and the Minnegasco Division Employees' Pension Plan (the "Minnegasco Plan"), and adopted the NorAm Energy Corp. Master Retirement Trust (the "NorAm Trust") which held the assets of both the NorAm Plan and the Minnegasco Plan, and the Company assumed all duties, rights and responsibilities thereto as a party to the respective trust agreements in the place and stead of NorAm and the Minnegasco division of NorAm, as applicable, effective as of August 6, 1997.

WHEREAS, effective as of January 1, 1999, the Company authorized and directed that the NorAm Plan and the Minnegasco Plan be consolidated with, merged into, and continued in the form of the Prior Plan, and the Prior Plan be amended, restated and continued in the form of the Reliant Energy, Incorporated Retirement Plan, in order to reflect the merger, implement a cash balance plan, and make certain other changes therein. In connection therewith, the Company authorized and directed effective as of January 1, 1999, that all assets held under the NorAm Trust be merged with and into the assets held under the Prior Trust Agreement, and the Prior Trust Agreement be amended, restated and continued in the form of the Houston Industries Incorporated Master Retirement Trust.

WHEREAS, effective as of May 5, 1999, the name of the Company was changed to Reliant Energy, Incorporated and the trust was renamed the Reliant Energy, Incorporated Master Retirement Trust.

NOW, THEREFORE, the Trustee accepts the trust created hereby and covenants that it will hold all property which it may receive hereunder, IN TRUST, upon the terms and conditions hereinafter stated; and the parties hereto agree as follows:

ARTICLE I

DEFINITIONS AND CONSTRUCTION

1.1 Definitions: As used in the Master Trust, the following words and phrases shall have the following meanings unless the context clearly requires a different meaning:

AFFILIATED CORPORATION: Houston Industries Incorporated (renamed Reliant Energy, Incorporated effective May 5, 1999), a Texas corporation, and any corporation in which the shares owned or controlled directly or indirectly by Houston Industries Incorporated shall represent 50% or more of the voting power of the issued and outstanding capital stock of such corporation.

CODE: The Internal Revenue Code of 1986, as from time to time amended.

COMMITTEE: The Benefits Committee appointed by the Board of Directors of the Company, which shall serve as a "named fiduciary" hereunder and assist in the administration of the Master Trust Fund and whose duties also include the administration of the Plan.

COMPANY: Prior to May 5, 1999, Houston Industries Incorporated, a Texas corporation, and on and after May 5, 1999, Reliant Energy, Incorporated or a successor to Reliant Energy, Incorporated in the ownership of substantially all of its assets.

COMPANY STOCK: The common stock of the Company.

ERISA: Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as from time to time amended.

GROUP TRUST(S): The Dietche & Field Investment Trust A, the Sarofim Trust Co. Employee Benefit Investment Trust, the Oechsle International Group Trust Fund for Employee Benefit Trusts, The Beutel Trust and The Accel Fund or any other common, collective, group or commingled trust selected by the Committee which is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a).

INSURANCE CONTRACTS: The insurance and annuity contracts as provided in Section 5.2 hereof.

INVESTMENT MANAGER: The fiduciary or fiduciaries, if any, appointed hereunder by the Committee and meeting the definition set forth in Section 3(38) of ERISA.

MASTER TRUST: The Houston Industries Incorporated Master Retirement Trust, as amended and restated effective January 1, 1999, and as the same may hereafter be amended from time to time. Effective May 5, 1999, the Master Trust was renamed the Reliant Energy, Incorporated Master Retirement Trust.

MASTER TRUST FUND: The fund or funds to be established under the Master Trust and from which benefits under the Participating Plans are to be paid. Such fund shall consist of all assets, money and property, all investments made therewith and proceeds thereof and all earnings and profits thereon, less the payments or other distributions which, at the time of reference, shall have been made by the Trustee, as authorized herein.

PARTICIPANT: Each employee, former employee, spouse or beneficiary of an employee who is or was participating in the Plan in accordance with the terms thereof.

PARTICIPATING PLAN: An employee benefit plan which is maintained by the Company or an Affiliated Corporation and which participates hereunder pursuant to Section 2.2 and as listed in Exhibit A attached hereto.

PLAN: The Houston Industries Incorporated Retirement Plan, as amended and restated effective January 1, 1999, and as thereafter amended. Effective May 5, 1999, the Plan was renamed the Reliant Energy, Incorporated Retirement Plan.

PLAN ADMINISTRATOR: The person or persons, or committee whose duties include service as a "named fiduciary" hereunder and the authority to control and manage the operation and administration of each applicable Participating Plan.

PRIOR PLAN: The Houston Industries Incorporated Retirement Plan, as amended and restated effective December 1, 1995 and as thereafter amended.

PRIOR TRUST AGREEMENT: The trust agreement dated July 1, 1998 as thereafter amended, between the Company and the Trustee.

TRUSTEE: The Northern Trust Company, an Illinois corporation, and its successors, which shall carry out its duties hereunder as a "fiduciary" as provided in Section 3(21) of ERISA and shall have discretion and authority as set fort herein.

VALUATION DATE: The close of business on the last business day of each calendar month and any such other date or dates as the Committee may deem appropriate; provided, however, that any such interim valuation shall be exercised on a uniform and non-discriminatory basis.

1.2 Construction: The masculine gender, where appearing in the Master Trust, shall be deemed to include the feminine gender, and the singular may include the plural, unless the context clearly indicates to the contrary. The words "hereof," "herein," "hereunder" and other similar compounds of the words "here" shall mean and refer to the entire Master Trust, not to any particular provision or section. Article and Section headings are included for convenience of reference and are not intended to add to or subtract from the terms of the Master Trust.

ARTICLE II

MASTER TRUST; PARTICIPATING PLANS

2.1 Continuation of Master Trust: The Company hereby continues with the Trustee a Master Trust for the exclusive purposes of providing benefits to employees of the Company and the Affiliated Corporations, and to the beneficiaries of such employees, under each Participating Plan and defraying reasonable expenses of administering such Participating Plans. Each such Participating Plan, and each such Affiliated Corporation, as of the date hereof, is listed in Exhibit A attached hereto. The Master Trust shall consist of (a) such cash and other property held in trust by the Trustee under the Prior Trust Agreement at the close of business on December 31, 1998, (b) such cash and other property held in trust under the NorAm Energy Corp. Master Retirement Trust at the close of business on December 31, 1998, and which was transferred to this Master Trust, (c) such assets as may hereafter be transferred to the Trustee from any separate trust or other funding medium established under any Participating Plan and (d) such sums of money and such property acceptable to the Trustee as shall from time to time be paid or delivered to the Trustee as a contribution in respect of any Participating Plan, together with the income and gains therefrom. All such assets, money and property, all investments made therewith and proceeds thereof and all earnings and profits thereon, less the payments or other distributions which, at the time of reference, shall have been made by the Trustee, as authorized herein, are referred to herein as the "Master Trust Fund." The Master Trust shall be maintained at all times as a domestic trust in the United States.

2.2 Participating Plans: An employee benefit plan which is not already a Participating Plan hereunder (as listed in Exhibit A attached hereto) may become a Participating Plan hereunder only if the Company has determined that all of the following requirements are met:

(a) The Company, any Affiliated Corporation or any combination thereof, has established the plan;

(b) The plan is a "defined benefit plan" as defined in Section 3(35) of ERISA;

(c) The plan (and any other trust all or a part of whose assets are to be transferred to the Master Trust) is qualified under Section 401(a) of the Code;

(d) The Master Trust is exempt from taxation under Code Section 501(a);

(e) The Master Trust has been adopted as a trust under the plan and as part of the plan by due corporate action of the Company or Affiliated Corporation which maintains the plan, the Committee has consented thereto and an instrument in the form attached hereto as Exhibit B has been executed by the Company or Affiliated Corporation and such Committee and delivered to the Trustee; and

(f) The Committee has notified the Trustee in writing of the adoption of the Master Trust as a trust under such plan and the Trustee has acknowledged thereto by execution of such instrument.

ARTICLE III

GENERAL DUTIES OF THE PARTIES

3.1 General Duties of the Company:

A. The Company shall provide the Trustee with evidence acceptable to the Trustee that each Participating Plan (and any such other trust) has been duly adopted by the Company or Affiliated Corporation and has been determined to be qualified under Code Section 401(a).

B. The Board of Directors of the Company shall appoint a Benefits Committee, consisting of at least three individuals, which shall be authorized under each Participating Plan to serve as a "named fiduciary" (within the meaning of Section 402(a)(2) of ERISA) of the Participating Plans to assist in the administration of the Master Trust as hereinafter provided. Each member of the Committee shall serve at the pleasure of the Board of Directors of the Company and the Company shall certify to the Trustee the names and specimen signatures of the members of the Committee serving from time to time hereunder. The Company shall indemnify and hold harmless each member of the Committee from any and all claims, losses, damages, expenses (including counsel fees approved by the Committee), and liabilities (including any amounts paid in settlement with the Committee's approval but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Code Section 4975) arising from any act or omission of such member in connection with his duties and responsibilities under this Trust Agreement, except when the same is judicially determined to be due to the gross negligence and willful misconduct of such member.

C. The Company shall from time to time certify to the Trustee the name(s) (and specimen signature(s)) of the Plan Administrator.

3.2 Investment Guidelines; Contributions; Employee Records: From time to time the Committee shall communicate in writing to any Investment Manager who may be acting pursuant to Section 5.2 (and to the Trustee, if it is managing the investment of any of the assets of the Master Trust pursuant to such Section) the investment guidelines governing the portion of the assets of the Master Trust managed by such Investment Manager or the Trustee. The Company shall make, and shall cause the Affiliated Corporations to make, contributions to the Participating Plans as the same may be allowed in accordance with the Plan and applicable law and shall specify in writing to the Trustee the amount of such contributions allocable to each Participating Plan. The Company shall keep and shall cause the Affiliated Corporations to keep accurate books and records with respect to their respective employees, including, without limitation, records as to the periods of employment, compensation and ages of such employees.

3.3 General Duties of Trustee: The Trustee shall hold all property received by it hereunder, which, together with the income and gains therefrom and additions thereto, and less payments and other distributions therefrom, shall constitute the Master Trust Fund. Except as otherwise hereinafter provided, the Trustee shall manage, invest and reinvest the Master Trust Fund, collect the income thereof, and make payments therefrom, all in accordance with the terms of this

Agreement. The Trustee shall be responsible only for the property actually received by it hereunder. It shall have no duty or authority to compute any amount to be paid to it by the Company, by any Affiliated Corporation or by any participant in any Participating Plan, or to bring any action or proceeding to enforce the collection from any such person of any contribution to the Master Trust in respect of any Participating Plan.

ARTICLE IV

ACCOUNTS OF PARTICIPATING PLANS;
AUTHORITY OF COMPANY AND COMMITTEE

4.1 Accounts of Participating Plans; Valuation: The Trustee shall maintain separate accounts reflecting the proportional share in the Master Trust Fund of each Participating Plan. The Trustee shall determine the value of the assets of the Master Trust Fund as of each Valuation Date. Each such valuation shall be made as promptly as practicable after the Valuation Date as of which it is made. Each contribution to and payment and distribution from the Master Fund shall be made as of the Valuation Date next preceding the date on which, as applicable, the Trustee receives such contribution or receives notice from the Company, the Committee or the appropriate Plan Administrator that such payment or distribution is to be made, on the basis of the valuation of the Master Trust Fund and of the proportional share of each Participating Plan in the Master Trust Fund as of such Valuation Date (taking into account the liabilities of the Master Trust Fund as of such Date). The assets in the Master Trust Fund shall be allocated on a pro rata basis reflecting the interest in the Master Trust Fund of each Participating Plan unless the Committee shall direct in writing that a separate account or accounts are to be created within the Master Trust Fund to hold assets allocable solely to a particular Participating Plan or Plans. If such an account is created, income, distributions and gains and losses with respect to the assets or group of assets held therein shall be attributable solely to the proportional share of such Participating Plan or Plans.

At the close of business on the Valuation Date, the Trustee shall render to the Committee a statement of account for the Master Trust Fund using its pricing services for each respective type of security. In the absence of a readily ascertainable value, the Trustee shall rely conclusively on the determination of any Investment Manager (or the Committee if it has responsibility for a portion of the Master Trust Fund) with respect to the fair market value of those assets allocated such Investment Manager (or the Committee), and the Trustee shall have no responsibility with respect to the determination of the fair market value of such assets. Notwithstanding any other provision of this Section, the Committee or its agent, in determining the equitable share in the Master Trust Fund of any Participating Plan, may rely upon the determination of the issuer of any insurance contract held as part of the Master Trust Fund with respect to the value of such contract and may rely upon the determination of any Investment Manager with respect to the value of any interest of the Master Trust in any common, collective, commingled or group trust fund maintained by such Investment Manager in which assets of the Master Trust are permitted to be invested by Section 5.5(j) of this Agreement.

Any Investment Manager or the Committee who may be acting pursuant to Section 5.2 (and the Trustee, if it is managing the investment of any assets of the Master Trust pursuant to such Section) may in its discretion transfer or direct the transfer to a liquidating account of any investment of the portion of the Master Trust under its management which it determines should be liquidated for the benefit of those Participating Plans whose assets are commingled in the Master Trust on the date of determination and whose equitable share in the Master Trust Fund on such date includes such investment. Any investment that has been transferred to a liquidating account shall be segregated and administered or realized upon solely for the benefit ratably of such

Participating Plans and shall be excluded in determining the equitable share in the Master Trust Fund of any Participating Plan thereafter.

Notwithstanding the foregoing requirements of this Section 4.1, the Committee may direct the Trustee to establish and maintain a "Welfare Benefits Account" or a "Post-Retirement Medical Benefit Account" within the Master Trust Fund for one or more Participating Plans (hereinafter referred to as a "Post-Retirement Medical Benefit Account"). Each such Post-Retirement Medical Benefit Account shall be maintained for the sole purpose of paying certain medical claims incurred by retired employees who are entitled to pension benefits under the related Participating Plan and their eligible dependents in accordance with Section 401(h) of the Code. The assets of each such Post-Retirement Medical Benefit Account shall be separately accounted for on the Trustee's books and records as a part of a particular Participating Plan but may be commingled and invested with other assets of the Master Trust Fund at the Committee's discretion. Additions to a Post-Retirement Medical Benefit Account may be contributions from the Company or an Affiliated Corporation or by the transfer(s) of assets from the portion of the related Participating Plan which is not accounted for on the Trustee's books and records as a Post-Retirement Medical Benefit Account, as directed by the Committee, which direction shall be in accordance with Section 420 of the Code. The Committee shall designate the contributions which are allocable to a Post-Retirement Medical Benefit Account and shall designate the portion of the assets attributable to a Participating Plan which is not accounted for on the Trustee's books and records as a Post-Retirement Medical Benefit Account that is to be transferred to the Post-Retirement Medical Benefit Account maintained within such Participating Plan. The Trustee shall make the payments from a Post-Retirement Medical Benefit Account at the written direction of the Committee, which direction shall be pursuant to the related Participating Plan document and in accordance with Section 420 of the Code and other applicable law. Such direction may provide for the direct reimbursement of the Company or an Affiliated Corporation from the Participating Plan's Post-Retirement Medical Benefit Account for certain expenses the Company or an Affiliated Corporation has previously paid to provide post-retirement medical plan coverage to retired employees who are entitled to pension benefits under the related Participating Plan and their eligible dependents. Upon the Committee's determination that all liabilities for benefit payments under a Post-Retirement Medical Benefit Account have been satisfied, the Committee shall direct the Trustee in writing to remit any remaining amounts credited to such Account to the Company or one or more Affiliated Corporations, except to the extent that such remaining amounts are attributable to a transfer of assets from the portion of the Participating Plan which does not constitute a Post-Retirement Medical Benefit Account, in which event such remaining amounts shall be transferred back to such other portion of the Participating Plan.

4.2 Exclusive Benefit of Employees Under Participating Plans: At no time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under any Participating Plan shall any part of the equitable share of such Participating Plan in the Master Trust Fund be used for, or diverted to, any purposes other than for the exclusive benefit of such employees and their beneficiaries or the payment of Participating Plan or Master Trust administrative expenses.

4.3 Authority of Company and Committee: When the Master Trust is the trust under the plan of any Affiliated Corporation, such Affiliated Corporation shall be bound by the decisions, instructions, actions and directions of the Company, the Committee (or its representative), each Plan Administrator (or their designees), and each Investment Manager under this Agreement and the Trustee shall be indemnified by the Company and such Affiliated Corporation for expenses and liabilities incurred by relying upon such decisions, instructions, actions and directions, or in the event such expenses or liabilities were incurred by the Trustee due to the failure of such parties to carry out their responsibilities under the Plan and each Participating Plan. The Trustee shall not be required to give notice to or obtain the consent of any such Affiliated Corporation with respect to any action which is taken by the Trustee pursuant to this Agreement.

ARTICLE V

INVESTMENT, ADMINISTRATION AND
DISBURSEMENT OF MASTER TRUST FUND

5.1 Investment of Master Trust Fund: Except as provided elsewhere in this Agreement, the Master Trust Fund may be invested, in accordance with the procedures prescribed by Section 5.2, in any property, real, personal or mixed, wherever situated, and whether or not productive of income or consisting of wasting assets, including, without limitation, (i) common and preferred stocks, bonds, notes and debentures (including convertible stocks and securities but not including any stocks or securities of the Trustee or its affiliates), (ii) leaseholds, mortgages (including, without limitation, any collective or part interest in any bond and mortgage or note and mortgage), (iii) certificates of deposit, demand or time deposits (including any such deposit with any bank serving as trustee hereunder), (iv) shares of investment companies and mutual funds, (v) interests in partnerships, trusts and limited liability companies, insurance policies and contracts (including individual or group annuity contracts), (vi) oil, mineral or gas properties, royalties, interests or rights (including equipment pertaining thereto), without being limited to the classes of property in which trustees are authorized to invest trust funds by any law, or any rule of court, of any state and without regard to the proportion any such property may bear to the entire amount of the Master Trust Fund, and (vii) any common, collective, group or commingled trust fund, including but not limited to the Dietche & Field Investment Trust A, the Sarofim Trust Co. Employee Benefit Investment Trust, the Oechsle International Group Trust Fund for Employee Benefit Trusts, The Beutel Trust and The Accel Fund and the Trustee may cause the assets of the Master Trust Fund to be invested as part of the funds created pursuant to the agreements of trust establishing the Dietche & Field Investment Trust A, the Sarofim Trust Co. Employee Benefit Investment Trust, the Oechsle International Group Trust Fund for Employee Benefit Trusts, The Beutel Trust and The Accel Fund or any other common, collective, group or commingled trust for the commingled, collective and common investment of assets of eligible participating trusts, subject to all of the provisions of said agreements of trust, such agreements of trust being herein incorporated by this reference as fully as if set forth herein; provided, however, that (i) investments shall be so diversified as to minimize the risk of large losses unless under the circumstances it is clearly prudent not to do so, in the sole judgment of the person who is directing the investment of the Master Trust Fund under the provisions of Section 5.2, or in the sole judgment of the Trustee if it is managing the Master Trust Fund under such provisions and (ii) investments shall at all times be subject to the limitations set forth in the next following paragraph.

The Committee shall not direct the Trustee to invest any assets of the Master Trust Fund in any Company security which is not a "qualifying Company security" nor in any Company real property which is not "qualifying Company real property." Moreover, the Committee shall not direct the Trustee to acquire any "qualifying Company securities" and/or "qualifying Company real property" as an investment if such acquisition will result in the Master Trust Fund holding more than 10% of the then fair market value of the assets of the Master Trust Fund in "qualifying Company securities" and/or "qualifying Company real property." For purposes of this paragraph, the term "qualifying Company securities" means stock or marketable obligations of the Company or an Affiliated Corporation, as defined in Section 407 of ERISA. The term "qualifying Company real property" means parcels of real property leased to the Company or an Affiliated Corporation if a substantial number of the parcels are disbursed geographically and if each parcel is suitable for or adaptable to more than one use, as defined in Section 407 of ERISA.

The Committee shall have the sole investment responsibility with respect to retention, sale, purchase or voting of any Company Stock which has not been allocated to an Investment Manager. The Trustee shall have custody of such Company Stock and shall act with respect thereto only as directed by the Committee. The Trustee shall not make any investment review of, consider the propriety of holding or selling, or vote any such Company Stock. With respect to such Company Stock, the Committee shall have the investment power granted to the Trustee by Section 5.5 as limited by 4.2 and 5.1 of this Agreement, as if all references therein to the Trustee referred to the Committee.

To the extent that any portion of the Master Trust Fund is invested in mutual fund shares or bank commingled funds, the Committee shall initially select funds to be invested in and shall be responsible for retaining the availability of or terminating the availability of such funds. To the extent the Trustee is required to enter into a custody agreement with the sponsor of a bank commingled fund or such other type of fund, the Committee shall direct the Trustee to enter into such agreement.

With the prior approval of the Committee, the Trustee or the person directing the investment of a portion or all of the Master Trust Fund may utilize investment practices and techniques which include but are not limited to (i) securities lending, (ii) investments in futures contracts, forwards contracts and options, (iii) swap agreements and (iv) indexed securities in which value is linked to currencies, interest rates, commodities indices or other financial indicators.

With regard to the lending of securities, the Committee may direct the Trustee as fiduciary to lend securities of the Trust Fund held by the Trustee by entering into a written agreement with the Trustee. The terms of the agreement between the Committee and the Trustee shall be consistent with Department of Labor Prohibited Transaction Exemption 81-6 or any successor exemption. The written agreement between the Committee and the Trustee shall direct the Trustee to enter into a loan agreement with a borrower or borrowers.

The Trustee shall transfer securities to the borrower and invest or hold on behalf of the Trust Fund the collateral received in exchange for the securities. Notwithstanding anything in this agreement to the contrary, the borrower shall have the authority and responsibility to vote securities it has borrowed. The Trustee shall maintain a record of the market value of the loaned securities and shall be paid reasonable compensation as agreed to by the Trustee and the Committee.

With regard to investments in futures, the Committee may direct the Trustee to: (i) enter into such agreements as are necessary to implement investment in futures contracts and options on futures contracts; (ii) transfer initial margin to a futures commission merchant or third party safekeeping bank pursuant to directions from an Investment Manager and (iii) pay or demand margin in accordance with industry practice to or from such futures commission merchant based on daily mark to market calculations. The Trustee shall have no investment or custodial responsibility with respect to assets transferred to a futures commission merchant or third party safekeeping bank.

Any property at any time received by the Trustee may be retained in the Master Trust Fund. To the extent that the Trustee is managing the Master Trust Fund under the provisions of Section 5.2, the Trustee may invest and reinvest all or any portion of the Master Trust Fund collectively with funds of other pension and profit-sharing trusts exempt from tax under Section 501(a) of the Code by reason of qualifying under Section 401(a) of said Code either in obligations selected by the Trustee or by investment collectively through the medium of any common, collective or commingled trust fund which has been or hereafter may be established by the Trustee or by any other bank in the United States, the instrument or instruments establishing such trust fund or funds, as amended from time to time, being made a part of this Agreement so long as any portion of the Master Trust Fund shall be invested through the medium thereof.

With respect to any portion of the Master Trust Fund which is under the management of an Investment Manager or the Committee and except as otherwise provided in paragraph three of this section regarding the lending of securities, the Trustee shall not make any investment review of, consider the propriety of holding or selling, or vote other than as directed by an Investment Manager or the Committee, any assets of the Trust Fund allocated to an Investment Manager or the Committee in accordance with Section 5.2, except that if the Trustee shall not have received contrary instructions from the Investment Manager or the Committee, the Trustee shall invest for short term purposes any cash consisting of U.S. dollars, for which an Investment Manager or the Committee has investment responsibility, in its custody in the short-term collective investment fund maintained by the Trustee. For currencies other than U.S. dollars, the Trustee shall invest cash for which an Investment Manager or the Committee has investment responsibility as directed by the Investment Manager or the Committee with respect to those assets of the Master Trust Fund for which the Investment Manager or the Committee has investment responsibility and such investments may include an interest bearing account of a foreign custodian.

5.2 Direction of Investment: The Committee shall from time to time specify by written notice to the Trustee whether the investment of the Master Trust Fund (other than the portion thereof consisting of Insurance Contracts), in the manner provided in Section 5.1, shall be managed solely by the Trustee, or shall be directed by one or more Investment Managers, or whether both the Trustee and one or more Investment Managers are to participate in investment management and if so how the investment responsibility is to be divided with respect to assets. In the event that the Committee shall fail to specify pursuant to this Section 5.2 the person or persons who are to manage the investment of the Master Trust Fund or any portion or portions thereof (other than the portion or portions consisting of Insurance Contracts) the Trustee shall manage the Master Trust Fund or such portion or portions pursuant to the investment guidelines established by the Committee given in the exercise of that Committee's responsibility.

Any Investment Manager appointed to manage the investment of a part (or all) of the Master Trust Fund (other than the portion or portions thereof consisting of Insurance Contracts) shall either (i) be registered as an investment adviser under the Investment Advisers Act of 1940 or under the laws of any state, (ii) be a bank, as defined in that Act or under the laws of any state, or (iii) be an insurance company qualified to perform investment management services under the laws of more than one State. If investment of the Master Trust Fund (other than the portion or portions thereof consisting of Insurance Contracts) is to be directed in whole or in part by an Investment Manager, the Trustee shall be given copies of the instruments appointing the Investment Manager and evidencing his acceptance of such appointment and acknowledgment that he is a fiduciary of each Participating Plan, and a certificate evidencing the Investment Manager's registration under said Act or status as a bank or insurance company described in the next preceding sentence. The Trustee may continue to rely upon such instruments and certificate until otherwise notified in writing by the Committee.

The Trustee shall follow the directions of the Investment Manager regarding the investment and reinvestment of the portion or portions of the Master Trust Fund as shall be under management by the Investment Manager, and shall be under no duty or obligation to review any investment to be acquired, held or disposed of pursuant to such directions nor to make any recommendations with respect to the disposition or continued retention of any such investment. The Trustee shall have no liability or responsibility for acting without question on the direction of, or failing to act in the absence of any direction from, the Investment Manager, unless the Trustee participated knowingly in or knowingly undertook to conceal an act or omission of an Investment Manager knowing such act or omission to be a breach of fiduciary responsibility. The processing of investment orders by the Trustee pursuant to the direction of an Investment Manager shall not constitute participating knowingly.

The Investment Manager at any time and from time to time may issue orders for the purchase or sale of securities directly to a broker, and in order to facilitate such transaction the Trustee upon request shall execute and deliver appropriate trading authorizations. Written notification of the issuance of each such order shall be given promptly to the Trustee by the Investment Manager, and the execution of each such order shall be confirmed to the Trustee by the broker. Such notification shall be authority for the Trustee to pay for securities purchased against receipt thereof and to deliver securities sold against payment therefor, as the case may be. All notifications concerning investments made by the Investment Manager shall be signed by such person or persons, acting on behalf of the Investment Manager as may be duly authorized in writing; provided, however, that the transmission to the Trustee of such notifications by photostatic teletransmission with duplicate or facsimile signature or signatures shall be considered a delivery in writing of the aforesaid notifications until the Trustee is notified in writing by the Investment Manager that the use of such devices with duplicate or facsimile signatures is no longer authorized. The Trustee shall be entitled to rely upon such directions which it receives by such means if so authorized by the Investment Manager and shall in no way be responsible for the consequences of any unauthorized use of such device which was not, in fact, known by the Trustee at the time to be unauthorized. The Trustee shall, as promptly as possible, comply with any written directions given by the Investment Manager hereunder, and, where such directions are given by photostatic teletransmission with facsimile signature or signatures, the Trustee shall be entitled to presume any directions so given are fully authorized.

In the event that an Investment Manager should resign or be removed by the Committee, the Trustee shall, upon receiving written notice of such resignation or removal, manage, pursuant to Section 5.1, the investment of the portion of the Master Trust Fund under management by such Investment Manager at the time of its resignation or removal, unless and until it shall be notified of the appointment of another Investment Manager as provided in this Section 5.2, for such portion of the Master Trust Fund.

At any time and from time to time, the Committee may direct the Trustee to transfer a specified portion or all of the Trust Fund as it shall deem advisable to the trustees of the Dietche & Field Investment Trust A, the Sarofim Trust Co. Employee Benefit Investment Trust, the Oechsle International Group Trust Fund for Employee Benefit Trusts, The Beutel Trust and The Accel Fund or any other common, collective, group or commingled trust described in Section 5.1 (which trusts are hereinafter collectively called the "Group Trusts"), if and only if a Group Trust is qualified under Code Section 401(a) and exempt from tax under Code Section 501(a), and is maintained as a medium for the commingled, collective and common investment of assets of eligible participating trusts; and the Committee may direct the Trustee to withdraw all or any part of the Trust Fund so transferred. The terms and provisions of the agreements of trust establishing the Dietche & Field Investment Trust A, the Sarofim Trust Co. Employee Benefit Investment Trust, the Oechsle Inter national Group Trust Fund for Employee Benefit Trusts, The Beutel Trust and The Accel Fund and the provisions of any amendments thereto, are hereby incorporated herein by reference and shall be deemed a part of this Trust Agreement so long as any portion of the Trust Fund shall be invested through the medium thereof. The Trustee shall make any such transfer or withdrawal of all or any part of the Trust Fund only upon the express direction of the Committee. The Trustee shall be under no duty or obligation to review any investment acquired, held or disposed of by the trustees of a Group Trust pursuant to the provisions thereof, nor shall the Trustee be under a duty or obligation to review any investment acquired, held or disposed of by the duly appointed trustees of any Group Trust pursuant to the provisions establishing said Group Trust, and said trustees shall have all fiduciary powers, responsibilities and liabilities arising under this Trust Agreement with respect to the portion of the Trust Fund transferred to them pursuant to the Committee's directions to be held under the terms and provisions of the Group Trust. The Company shall indemnify and hold harmless the Trustee from any and all claims, losses, damages, expenses (including counsel fees approved by the Trustee) and liabilities (including any amounts paid in settlement with the Trustee's approval but excluding any excise tax assessed against the Trustee under Code Section 4975) arising from any act or omission of the trustees of a Group Trust in connection with their duties and responsibilities under this Trust Agreement with respect to the portion of Trust Fund transferred to them, except to any extent prohibited under ERISA.

The Trustee shall have custody of and custodial responsibility for all assets of the Master Trust Fund except as otherwise provided in this agreement or as follows:

(a) The subtrustee of a subtrust shall have custody of and custodial responsibility for any portion of the Master Trust Fund for which investment responsibility has been allocated to it by the Committee;

(b) The trustee of a collective or group trust fund (including without limitation an Investment Manager or its bank affiliate) shall have custody of and custodial responsibility for any portion of the Master Trust Fund for which investment responsibility has been allocated to it by the Committee and has been invested in such collective or group trust fund; and

(c) The Committee may direct in writing that the custody of additional assets of the Master Trust Fund (other than those referred to in paragraphs (a) and (b) immediately preceding this paragraph (c)) be maintained with one or more persons or entities designated by the Committee to maintain custody of assets of a portion of the Master Trust Fund (a "Custodial Agent"). In such event, the Committee shall approve, and direct the Trustee to enter into, a custody agreement with the Custodial Agent (which custody agreement may authorize the Custodial Agent to maintain custody of such assets with one or more subagents, including a broker or dealer registered under the Securities Exchange Act of 1934 or a nominee of such broker or dealer). The Custodial Agent shall have custodial responsibility for any assets maintained with the Custodial Agent or its subagents pursuant to the custody agreement. Notwithstanding any other provision of this agreement, the Company (which has the authority to do so under the laws of the state of Texas) agrees to indemnify the Trustee from any liability, loss and expense, including legal fees and expenses, which the Trustee may sustain by reason of acting in accordance with any directions of the Committee pursuant to this paragraph (c). This paragraph shall survive the termination of this agreement.

5.3 Insurance or Annuity Contracts: With respect to the investment of the Master Trust Fund in Insurance Contracts, the Committee shall direct the Trustee in the exercise of the powers set forth in Section 5.2 and the Trustee shall exercise such powers in the manner directed in writing by the Committee. It shall be the duty of the Trustee to act strictly in accordance with each direction of the Committee relating to the investment of the Master Trust Fund in Insurance Contracts and the Trustee shall not have any duty to question any such direction. The Trustee shall not have any duty to review any such Insurance Contracts held in the Master Trust Fund pursuant to such direction, or to make suggestions to the Committee with respect to the exercise or non-exercise of any of the said powers. The Trustee shall be under no liability for any loss of any kind which may result by reason of any action taken by it in accordance with any direction of the Committee or by reason of its failure to exercise any of the said powers in respect of such Insurance Contracts because of the failure of the Committee to give such direction, unless the Trustee knows that by following such direction it will be participating in a breach of fiduciary duty by the Committee. The processing of investment orders or other ministerial tasks taken by the Trustee pursuant to the direction of the Committee shall not constitute knowledge.

(a) The Trustee, upon written direction of the Committee, shall pay from the Master Trust Fund such sums to such insurance company or companies or other financial institutions (collectively referred to as an "insurance company") as the Committee or the appropriate Plan Administrator may direct for the purpose of procuring individual or group annuity contracts and/or policies or contracts of life insurance (hereinafter in this Section 5.3 referred to as "Contracts"). The Committee shall prepare, or cause to be prepared in such form as it shall prescribe, the application for any Contract to be applied for under any or all of the Participating

Plans and this Master Trust and the Trustee shall execute such application. The Trustee shall receive and hold in the Master Trust Fund, subject to the provisions hereinafter set forth in this Section, all Contracts obtained pursuant to the Participating Plans.

(b) The Trustee shall be the complete and absolute owner of Contracts held in the Master Trust Fund and, upon written direction of the Committee, shall have power, without the consent of any other person, to collect and receive all dividends or other payments of any kind payable with respect to any Contract held in the Master Trust Fund or to leave the same with the issuing insurance company; to convert from one form to another any Contract held in the Master Trust Fund; to change the person or persons designated in any Contract to receive the proceeds; to designate any mode of settlement of the proceeds of any Contract held in the Master Trust Fund; to sell or assign any Contract held in the Master Trust Fund; to surrender for cash any Contract held in the Master Trust Fund; to borrow sums of money from the issuing insurance company upon any Contract or Contracts issued by it and held in the Master Trust Fund, provided that the Trustee shall borrow such sums only in respect of all Contracts for the time being held in the Master Trust Fund and upon a uniform basis; to agree with the insurance company issuing any Contract to any release, reduction, modification or amendment thereof; and, without limitation of any of the foregoing, to exercise any and all of the rights, options or privileges that belong to the absolute owner of any Contract held in the Master Trust Fund or that are granted by the terms of any such Contract or by the terms of this Agreement. The Trustee shall have no discretion with respect to the exercise of any of the foregoing powers or to take any other action permitted by any Contract held in the Master Trust Fund, but shall exercise such powers or take such action only upon the written direction of the Committee; the Trustee shall have no duty to exercise any of such powers or to take any such action unless and until it shall have received such direction. The Trustee, upon the written direction of the Committee, shall deliver any Contract held in the Master Trust Fund to such person or persons as may be specified in the direction.

(c) The Trustee shall hold in the Master Trust Fund the proceeds of any sale, assignment or surrender of any Contract held in the Master Trust Fund and any and all dividends and other payments of any kind received in respect to any Contract held in the Master Trust Fund, and shall distribute and/or allocate such proceeds in accordance with the directions of the Committee.

(d) If the Trustee shall have borrowed any sums of money upon any Contract held in the Master Trust Fund, it shall have no duty to repay any part of the money so borrowed, notwithstanding the fact that thereafter it may have sufficient funds to make such repayment, unless and until it shall have received written direction from the Committee to make the repayment.

(e) Upon the written direction of the Committee, the Trustee shall pay from the Master Trust Fund premiums, assessments, dues, charges and interest, if any, upon any Contract held in the Master Trust Fund. The Trustee shall have no duty to make any such payment unless and until it shall have received such direction. The written direction of the Committee to pay the premiums becoming due on any Contract specified in the direction shall be sufficient authority for the Trustee to pay any and all bills presented to it for premiums or the amount specified in any premium notice received from the insurance company issuing the Contract, and for such purposes the Trustee may use any money held by it as part of the Master Trust Fund at the time the payment is due, unless the Committee shall have directed that such money shall not be used for such purpose.

(f) Upon the direction of the Committee, the Trustee shall have power to execute all necessary receipts and releases to any insurance company issuing any Contract or Contracts held in the Master Trust Fund, and, upon written advice from the Committee that the proceeds of any Contract held in the Master Trust Fund have become payable, shall make reasonable efforts to collect such sums as may appear to be due; but the Trustee shall have no duty to begin or maintain any action, suit or legal proceeding to collect the proceeds of any Contract unless it is in possession of funds sufficient for the purpose or unless it has been indemnified to its satisfaction for its counsel fees, costs, disbursements and all other expenses and liabilities to which it in its judgment may be subjected by beginning or maintaining the action, suit or other legal proceeding. The Trustee may use the proceeds of any Contract held in the Master Trust Fund to defray the expenses incurred in connection with enforcing payment of that Contract. The Trustee shall have power, with the written approval of the Committee, to compromise and adjust claims arising out of any Contract held in the Master Trust Fund upon such terms and conditions as it may deem just, and the discretion of the Trustee shall be binding and conclusive upon all persons interested in the Master Trust Fund.

(g) Any insurance company may deal with the Trustee as sole owner of any Contract issued by it and held in the Master Trust Fund, without inquiry as to the authority of the Trustee to act, and may accept and rely upon any written notice, instruction, direction, certificate or other communication from the Trustee believed by it to be genuine and to be signed by an officer of the Trustee. No insurance company shall be required to look into the terms of this Agreement, or to question any action of the Trustee or to see that any action of the Trustee is authorized by the terms of this Agreement.

(h) The Trustee shall follow directions of the Committee concerning the exercise or non-exercise of any powers or options concerning any Contract held in the Master Trust Fund. Notwithstanding any other provision of this Agreement to the contrary, the Company hereby agrees to indemnify the Trustee and hold it harmless from and against any claim or liability which may be asserted against the Trustee by reason of its acting on any direction from the Committee or failing to act in the absence of any such direction with respect to any Contract or the acquisition of any Contract or exercise of any right of option thereunder.

5.4 Voting of Securities: The Committee or its agent authorized to act for the Committee pursuant to Section 6.2 herein shall have the power in its discretion to exercise all voting rights with respect to any investment held in the Master Trust Fund and to grant proxies, discretionary or otherwise, with respect thereto, except that (a) at any time when an Investment Manager shall be acting as provided in Section 5.2, the Investment Manager shall exercise its discretion with respect to voting any securities under its management and shall exercise all voting rights with respect thereto, (b) the Committee, as provided in Section 5.1, shall have the sole responsibility with respect to the voting of any Company Stock which has not been allocated to an Investment Manager and (c) at any time when the securities are loaned as provided in Section 5.1, the borrower shall have the authority and responsibility to vote securities it has borrowed.

5.5 Powers of Trustee: Except as provided elsewhere in this Agreement, the Trustee shall have the power to:

(a) Manage, sell, contract to sell, grant options to purchase, convey, exchange, transfer, abandon, improve, repair, insure, lease for any term even though commencing in the future or extending beyond the term of the Trust, and otherwise deal with all property, real or personal, in such manner, for such considerations and on such terms and conditions as the Trustee decides;

(b) Participate in any plan of reorganization, consolidation, merger, combination, liquidation or other similar plan relating to any property held in the Master Trust Fund, and to consent to or oppose any such plan or any action thereunder, or any contract, lease, mortgage, purchase, sale or other action by any person or corporation;

(c) Deposit any property with any protective, reorganization or similar committee; and to pay and agree to pay part of the expenses and compensation of any such committee and any assessments levied with respect to any property so deposited;

(d) Exercise conversion and subscription rights pertaining to any property held in the Master Trust Fund;

(e) Extend the time of payment of any obligation held in the Master Trust Fund;

(f) Enter into stand-by agreements for future investment, either with or without a stand-by fee;

(g) Temporarily, hold any part of the assets in cash, without liability for interest, pending investment thereof or the payment of expenses or making of distributions therewith, notwithstanding the Trustee's receipt of "float" from such uninvested cash;

(h) Invest in any type of deposit of the Trustee (or of a bank related to the Trustee within the meaning of Code Section 414(b)) at a reasonable rate of interest or in a common trust fund, as described in Code Section 584, or in a collective investment fund, the provisions of which govern the investment of such assets and which the Plan incorporates by this reference, which the Trustee (or its affiliate as defined in Code Section 1504) maintains exclusively for the collective investment of money contributed by the bank (or the affiliate) in its capacity as trustee and which conforms to the rules of the Comptroller of the Currency;

(i) For the purposes of the Trust and with the prior approval of the Committee, to borrow money from others, to issue its promissory note or notes therefor, and to secure the repayment thereof by pledging any property in its possession; provided, however, that the amount or amounts of such loans shall not exceed in the aggregate 10% of the market value of the Master Trust Fund as of the date of the borrowing, and further provided that no such loan or advance shall be made by the Trustee hereunder other than temporary advances to the Master Trust Fund, on a cash or overdraft basis, on which no interest is payable; and

(j) If an Investment Manager directing investment under Section 5.2 is a bank, as defined in the Investment Advisers Act of 1940, to transfer to such Investment Manager all or any specified assets in that part of the Master Trust Fund which is subject to such Investment Manager's direction, for investment by such Investment Manager through the medium of any common, collective, commingled or group trust fund maintained by it which consists solely of assets of trusts qualified under Code Section 401(a) and which is exempt from tax under Code Section 501(a), whereupon the instrument establishing such common, collective, commingled or group trust fund, as amended from time to time, shall constitute a part of each Participating Plan the assets of which are included in such part of the trust fund as long as any portion of such assets shall be invested through the medium of such common, collective, commingled or group trust fund.

(k) Notwithstanding any provision of this Article V to the contrary, the Committee may authorize the Trustee to exercise in its sole discretion the powers relating to the lending of securities (and such other powers as may be incidental thereto) with respect to securities or other property held in the Master Trust Fund and designated to be subject to the discretion of the Trustee or an Investment Manager as otherwise provided hereunder ("Subject Account"). If the Subject Account is otherwise subject to the discretion of an Investment Manager, such Investment Manager shall retain investment authority over such account other than the exercise or direction of the powers relating to the lending of securities vested in the Trustee, and, subject to the requirements of ERISA, shall not be responsible for any act or omission of the Trustee.

(l) The Trustee shall have the power in its discretion:

(i) To cause any investment to be registered and held in its own name, in the name of a nominee, in the name of a nominee of any system for the centralized handling of securities, or in book-entry or bearer form (provided, however, that the Trustee's books and records shall at all times show that all such investments are a part of the Master Trust Fund);

(ii) To collect and receive any and all money and other property due to the Master Trust Fund and to give full discharge therefor;

(iii) To settle, compromise or submit to arbitration any claims, debts or damages due or owing to or from the Master Trust; to commence or defend suits or legal proceedings to protect any interest of the Master Trust; and to represent the Master Trust in all suits or legal proceedings in any court or before any other body or tribunal;

(iv) To organize under the laws of any state a corporation for the purpose of acquiring and holding title to any property which it is authorized to acquire under this Agreement and to exercise with respect thereto any or all of the powers set forth in this Agreement;

(v) To manage, operate, repair, improve, develop, preserve, mortgage or lease for any period any real property or any oil, mineral or gas properties, royalties, interests or rights held by it directly or through any corporation, either alone or by joining with others, using other Trust assets for any of such purposes; to modify, extend, renew, waive or otherwise adjust any or all of the provisions of any such mortgage or lease; and to make provision for amortization of the investment in or depreciation of the value of such property; and

(vi) Generally to do all acts, whether or not expressly authorized, which the Trustee may deem necessary or desirable for the protection of the Master Trust Fund.

5.6 Payments and Distributions from Master Trust Fund: The Trustee shall make such payments and distributions from the Master Trust Fund at such time or times and to such person or persons, including a paying agent or agents designated by the Committee or by a Plan Administrator as paying agent, as the Committee shall direct in writing (or as a Plan Administrator of a Participating Plan shall direct, with respect to the equitable share of such Plan in the Master Trust Fund), provided, however, (i) that disbursements for ordinary transaction costs associated with effecting the investment of transactions of the Master Trust Fund need not be authorized by the Committee and (ii) that no payment or distribution in respect of a Participating Plan shall exceed the equitable share in the Master Trust Fund of such Participating Plan on the date such payment or distribution is made. Any cash or property so paid or delivered to any such paying agent shall be held in trust by such payee until disbursed in accordance with the Participating Plan with respect to which the payment or distribution is made. Upon written direction by the Committee, the Trustee shall transfer and deliver such part of the equitable share of a Participating Plan or Plans in the Master Trust Fund as may be specified in such direction to any other trust established for the purpose of funding benefits under such Participating Plan or Plans or under any other plan, qualifying under Code Section 401 established for the benefit of participants in such Participating Plan or Plans or their beneficiaries by the Company, any Affiliated Corporation or any successor or transferee of the Company or such Affiliated Corporation; provided such transfer shall be in conformity with the requirements of Federal law. Any written direction of the Committee or of a Plan Administrator shall constitute a certification that the distribution or payment so directed is one which the Committee or Plan Administrator, as the case may be, is authorized to direct and the Trustee shall not be responsible for the adequacy of the equitable share of any Participating Plan to meet and discharge such distribution or payment.

The Trustee may make any distribution or payment required to be made by it hereunder by mailing its check for the specified amount, or delivering the specified property, to the person to whom such distribution or payment is to be made, at such address as may have been last furnished to the Trustee, or, if no such address shall have been so furnished, to such person in care of the Company or the Committee or the appropriate Plan Administrator, or (if so directed by the Committee or the appropriate Plan Administrator) by crediting the account of such person or by transferring funds to such person's account by bank wire or transfer. If a payment or distribution from the Trust is not claimed, the Trustee shall promptly notify the Committee thereof and thereafter handle such payment in accordance with the subsequent direction of the Committee.

In the event that the Trustee is negligent in making any distribution or payment hereunder and such negligence results in the making of such distribution or payment in excess of the amount instructed by the Committee or, in the case of a payment or distribution instructed by a Plan Administrator, in excess of the amount instructed by the Plan Administrator, it shall be the duty and the responsibility of the Trustee to pursue any action or proceeding necessary, including the payment of all attorney fees and related fees and expenses, to recover any such excess amounts. If the Trustee fails to recover such amounts, the Trustee shall be solely responsible for the reimbursement of the Master Trust Fund for such amounts to include reasonable interest thereon.

5.7 Trustee's Dealings with Third Parties: Any corporation, transfer agent or other third party dealing with the Trustee shall not make, nor be required by any person to make, any inquiry whether the Trustee has authority to take or omit any action under this Trust Agreement or whether the Committee or a Plan Administrator has instructed the Trustee to take or omit any such action, but shall be fully protected in relying upon the certificate of the Trustee that it has authority to take or omit such proposed action. The seal of the Trustee affixed to any instrument executed by it shall constitute the Trustee's certificate that it is authorized as Trustee hereunder to execute such instrument and proceed as may be provided for therein. No third party shall be required to follow the application by the Trustee of any money or property which may be paid or transferred to it.

5.8 Ancillary Trustee: If at any time the Master Trust Fund shall consist in whole or in part of assets located in a jurisdiction in which the Trustee is not authorized to act, the Trustee may appoint an individual or corporation in such jurisdiction as ancillary trustee and may confer upon such ancillary trustee, power to act solely with reference to such assets, and such ancillary trustee shall remit all net income or proceeds from the sale of such assets to the Trustee. The Trustee may pay such ancillary trustee reasonable compensation and may absolve it from any requirement that it furnish bond or other security unless otherwise required by law.

ARTICLE VI

FOR THE PROTECTION OF THE TRUSTEE

6.1 Composition of Committee and Plan Administrators: The Plan and each Participating Plan, if any, shall be administered by the applicable Plan Administrator, and the Trustee shall not be responsible in any respect for such administration. The Company shall indemnify and hold harmless each member of the Committee, or, in the case of a Participating Plan, any Plan Administrator, from any and all claims, losses, damages, expenses (including counsel fees approved by the Committee), and liabilities (including any amounts paid in settlement with the Committee's approval but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Code Section 4975) arising from any act or omission of such member in connection with his duties and responsibilities under this Trust Agreement, except when the same is judicially determined to be due to the gross negligence and willful misconduct of such member. The foregoing right of indemnification shall be in addition to any rights to which any member of the Committee, or, in the case of a Participating Plan, any Plan Administrator, may otherwise be entitled as a matter of law. When any member of the Committee, or, in the case of a Participating Plan, any Plan Administrator, shall cease to act, the Company shall promptly give written notice to that effect to the Trustee, but until such notice is received by the Trustee it shall be fully protected in continuing to rely upon the authority of such persons. If the full number of members of the Committee, as provided under the Plan, or the full number of members of a Plan Administrator provided for in a Participating Plan shall not at any time have been designated, the remaining member or members acting at such time shall be deemed to have all of the powers and duties of the Committee or such Plan Administrator; or, if at any time there is no member of the Committee or of a Plan Administrator, the Board of Directors of the Company or of such Affiliated Corporation shall be deemed to be the Committee or such Plan Administrator, as applicable.

6.2 Evidence of Action by Company or Committee: The Committee and each Plan Administrator, respectively, shall certify to the Trustee the name or names of any person or persons authorized to act for the Committee or for such Plan Administrator. Until the Committee or the appropriate Plan Administrator notifies the Trustee that any such person is no longer authorized to act for the Committee or for such Plan Administrator, the Trustee may continue to rely on the authority of such person. The Trustee may rely upon any certificate, notice or direction purporting to have been signed on behalf of the Committee or on behalf of a Plan Administrator which the Trustee believes to have been signed by the Committee or by a Plan Administrator or the person or persons authorized to act for the Committee or for a Plan Administrator.

Any action required by any provision of this Agreement to be taken by the Board of Directors of the Company or of an Affiliated Corporation shall be evidenced by a resolution of its Board of Directors, certified to the Trustee over the signature of its Secretary or Assistant Secretary, and the Trustee may rely upon, and shall be fully protected in acting in accordance with, such resolution so certified to it. Unless other evidence with respect thereto has been expressly prescribed in this Agreement, any other action of the Company or of an Affiliated Corporation under any provision of this Agreement, including any approval of, or exceptions to the Trustee's accounts, shall be evidenced by a certificate signed by an officer of the Company or of an Affiliated Corporation, as the case may be, and the Trustee shall be fully protected in relying upon such certificate.

Any action by the Trustee pursuant to any of the provisions of this Agreement shall be sufficiently evidenced by a certification of one of its Vice Presidents, Assistant Vice Presidents or other appropriate Trust Officers, and the Company, each Affiliated Corporation which has adopted this Master Trust, each Plan Administrator, the Committee and all other persons in interest may rely upon, and shall be fully protected in acting in accordance with, such certification.

6.3 Communications: Communications to the Trustee shall be addressed to it at 50 LaSalle Street, Chicago, Illinois, 60675. Communications to the Committee, each Plan Administrator, the Company or any Affiliated Corporation shall be addressed to it at 1111 Louisiana, Houston, Texas 77002, with a copy to the Benefits Committee, attention: Secretary, P.O. Box 61867, Houston, Texas 77208, unless the Trustee, the Committee, the appropriate Plan Administrator, the Company or any Affiliated Corporation, respectively, shall request that communications be sent to another address. No communication shall be binding upon the Master Trust Fund or the Trustee, or upon the Committee, any Plan Administrator, the Company or any Affiliated Corporation until it is received by the Trustee, the Committee, the appropriate Plan Administrator, the Company or the appropriate Affiliated Corporation, as the case may be.

6.4 Advice of Counsel or Plan Administrator: The Trustee may consult with any legal counsel, including counsel to the Company, the Committee or a Plan Administrator, with respect to the construction of this Trust Agreement, its duties hereunder, or any act which it proposes to take or omit.

6.5 Miscellaneous: The Trustee shall discharge its duties hereunder with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Trustee, to the extent that it has investment discretion, shall not be liable for any loss sustained by the Master Trust Fund by reason of the purchase, retention, sale or exchange of any investment in good faith and in accordance with the provisions of this Trust Agreement and of any applicable Federal law.

The Trustee's duties and obligations shall be limited to those expressly imposed upon it by this Master Trust, notwithstanding any reference to the Participating Plans.

The Company, any Affiliated Corporation, the Committee or any Plan Administrator, or all of them, at any time may employ as agent (to perform any act, keep any records or accounts, or make any computations required of the Company, an Affiliated Corporation, the Committee or any Plan Administrator by this Trust Agreement or any Participating Plan) the corporation serving as Trustee hereunder. Nothing done by said corporation as such agent shall affect its responsibility or liability as Trustee hereunder.

6.6 Fiduciary Responsibilities:

A. The Trustee, the Investment Managers, if any, the members of the Committee and each Plan Administrator shall discharge their duties with respect to the Master Trust solely in the interest of the participants in the respective Participating Plans and their beneficiaries and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

B. No "fiduciary" (as such term is defined in Section 3(21) of ERISA, or any successor statutory provision) under this Trust Agreement shall be liable for an act or omission of another person in carrying out any fiduciary responsibility where such fiduciary responsibility is allocated to such other person by this Trust Agreement or pursuant to a procedure established in this Trust Agreement except to the extent that:

(i) such fiduciary participated knowingly in, or knowingly undertook to conceal, an act or omission of such other person, knowing such act or omission to be a breach of fiduciary responsibility;

(ii) such fiduciary, by his failure to comply with Section 404(a)(1) of ERISA (or any successor statutory provision) in the administration of his specific responsibilities which give rise to his status as a fiduciary, has enabled such other person to commit a breach of fiduciary responsibility;

(iii) such fiduciary has knowledge of a breach of fiduciary responsibility by such other person, unless he makes reasonable efforts under the circumstances to remedy the breach; or

(iv) such fiduciary is a "named fiduciary" (as such term is defined in Section 402(a)(2) of ERISA, or any successor statutory provision) and has violated his duties under Section 404(a)(1) of ERISA (or any successor statutory provision):

(a) with respect to the allocation of fiduciary responsibilities among named fiduciaries or the designation of persons other than named fiduciaries to carry out fiduciary responsibilities under this Trust Agreement;

(b) with respect to the establishment or implementation of procedures for allocating fiduciary responsibilities among named fiduciaries or for designating persons other than named fiduciaries to carry out fiduciary responsibilities under this Trust Agreement; or

(c) in continuing the allocation of fiduciary responsibilities among named fiduciaries or the designation of persons other than named fiduciaries to carry out fiduciary responsibilities under this Trust Agreement.

C. In the event that the Company incurs any liability, loss, claim, suit or expense (including reasonable attorneys' fees) in connection with or arising out of the negligent, intentionally tortious, fraudulent or criminal act of the Trustee in carrying out its responsibilities under this agreement, the Trustee shall indemnify and hold the Company harmless from and against any such direct liability, loss, claim, suit or expense. Notwithstanding the above, nothing contained in this Section 6.6C. shall limit the Trustee's right to indemnification under Section 5.2(c) of this agreement or require the Trustee to indemnify the Company for any action or inaction pursuant to Section 5.2(c) of this agreement.

ARTICLE VII

TAXES, EXPENSES AND COMPENSATION OF TRUSTEE

7.1 Taxes and Expenses: Brokerage fees, commissions, stock transfer taxes and other charges and expenses incurred in connection with the purchase and sale of securities for the Master Trust Fund or distribution thereof shall be paid by the Trustee from the Master Trust Fund. All taxes imposed or levied with respect to the Master Trust Fund or any part thereof, under existing or future laws, shall be paid from the Master Trust Fund. The Trustee shall pay from the Master Trust Fund, to the extent not paid by the Company and/or the Affiliated Corporations which have adopted this Master Trust, its reasonable expenses of management and administration of the Master Trust, including reasonable compensation of counsel and any agents engaged by the Trustee to assist it in such management and administration, the fees of any Investment Manager and any specified expenses of administration of any Participating Plan including, but not limited to, audit fees, investment consulting fees, and actuarial and recordkeeping expenses.

Any amount paid from the Master Trust Fund which is specifically allocable to a particular Participating Plan or Plans shall be charged against the equitable share of such Participating Plan or Plans; any amount paid from the Master Trust Fund which is allocable to all of the Participating Plans shall be allocated to such Participating Plans on a pro rata basis.

7.2 Compensation of the Trustee: The Trustee shall receive for its services as Trustee hereunder such reasonable compensation which may be agreed upon from time to time by the Company and the Trustee. All amounts due the Trustee as compensation for its services shall be paid by the Company, or prorated among the Company and the Affiliated Corporations which have adopted this Master Trust in such a manner as they deem equitable, or disbursed by the Trustee out of the Master Trust Fund, and, until paid, shall constitute a charge upon the Master Trust Fund.

ARTICLE VIII

SETTLEMENT OF ACCOUNTS;
DETERMINATION OF INTERESTS UNDER MASTER TRUST

8.1 Settlement of Accounts of Trustee: The Trustee shall keep accurate and detailed accounts of all of its receipts, investments and disbursements under this Agreement on a modified cash basis. The financial statements, books and records of the Trustee with respect to the Master Trust shall be open to inspection during business hours of the Trustee by the Company or the Committee or their representatives, including, without limitation, independent certified public accountants engaged by the Company or the Committee, on behalf of all participants in the Participating Plans, to permit compliance with the reporting and disclosure requirements of ERISA. However, such financial statements, books and records may not be audited more frequently than twice in each fiscal year. If an examination of the financial statements of the Participating Plans requires a review of the underlying transactions affecting such financial statements, such independent certified public accountants shall rely on the report of the independent certified public accountants engaged by the Trustee to review its procedures and controls, to the extent such reliance is permitted by generally accepted auditing standards.

Within 90 days after the close of each calendar year, or any termination of the duties of the Trustee, the Trustee shall prepare, sign and mail in duplicate to the Company and the Committee an account of its acts and transactions as Trustee hereunder. Such account shall include a statement of the equitable share in the Master Trust Fund and in its component accounts of each Participating Plan (and where appropriate of each Affiliated Corporation which has adopted a Participating Plan) as of the last day of such year or other period and a statement of the portion of the Master Trust Fund under management by any Investment Manager as of the same date. If the Company finds the account to be correct, the Company shall sign the instrument of settlement annexed to one counterpart of the account and return such counterpart to the Trustee, whereupon the account shall become an account stated. If within 90 days after receipt of the account or any amended account the Company has not signed and returned a counterpart to the Trustee, nor filed with the Trustee notice of any objection to any act or transaction of the Trustee, the account or amended account shall become an account stated. If any objection has been filed, and if the Company is satisfied that it should be withdrawn or if the account is adjusted to its satisfaction, the Company shall in writing filed with the Trustee signify its approval of the account and it shall become an account stated. In each case in which an account becomes an account stated, the account shall be an account stated between the Trustee and the Company and any Affiliated Corporation which had adopted a Participating Plan.

When an account becomes an account stated, such account shall be finally settled, and the Trustee shall be completely discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee, the Company and any Affiliated Corporation which has adopted a Participating Plan were parties.

The account of the Trustee's acts and transactions delivered to the Committee shall be settled, and shall become an account stated, in the same manner as the account delivered to the Company hereunder. When an account becomes an account stated as between the Trustee and the Committee, the account shall be finally settled and the Trustee shall be completely discharged and released, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction in an action or proceeding in which the Trustee and the Committee were parties.

The Trustee, the Committee or the Company shall have the right to apply at any time to a court of competent jurisdiction for judicial settlement of any account of the Trustee not previously settled as hereinabove provided. In any such action or proceeding it shall be necessary to join as parties only the Trustee, the Committee and the Company (although the Trustee may also join such other parties as it may deem appropriate), and any judgment or decree entered therein shall be conclusive.

8.2 Determination of Rights and Benefits of Persons Claiming an Interest in the Master Trust Fund; Enforcement of Master Trust Fund: The Committee shall have authority to determine the existence, non-existence, nature and amount of the rights and interests of all persons under the Participating Plan and in or to the Master Trust Fund, and the Trustee shall have no power, authority, or duty in respect of such matters, or to question or examine any determination made by the Committee, or any direction given by the Committee to the Trustee. The Company, other Employers and the Committee shall have authority, either jointly or severally, to enforce this Trust Agreement on behalf of any and all persons having or claiming any interest in the Master Trust Fund or under this Trust Agreement or the Participating Plans.

ARTICLE IX

RESIGNATION, REMOVAL AND SUBSTITUTION OF THE TRUSTEE

9.1 Resignation of Trustee: The Trustee may resign its duties hereunder by filing with the Committee its written resignation. No such resignation shall take effect until 60 days from the date thereof unless shorter notice is acceptable to the Committee.

9.2 Removal of Trustee: The Trustee may be removed by the Board of Directors of the Company at any time upon not less than 60 days' notice to the Trustee, but such notice may be waived by the Trustee. Such removal shall be effected by delivering to the Trustee a written notice of its removal executed by the Company, and by giving notice to the Trustee of the appointment of a successor Trustee in the manner hereinafter set forth.

9.3 Appointment of Successor Trustee: The appointment of a successor Trustee hereunder shall be accomplished by and shall take effect upon the delivery to the resigning or removed Trustee, as the case may be, of (a) an instrument in writing appointing such successor Trustee, executed by the Company, together with a certified copy of the resolution of the Board of Directors of the Company to such effect and (b) an acceptance in writing of the office of successor Trustee hereunder executed by the successor so appointed, both of which documents shall be acknowledged in like manner as this Trust Agreement. The Company shall send notice of such appointment to each Affiliated Corporation which has a Participating Plan, and to each member of the Committee then in office and to each Plan Administrator. Any successor Trustee hereunder may be either a corporation authorized and empowered to exercise trust powers or one or more individuals. All of the provisions set forth herein with respect to the Trustee shall relate to each successor Trustee so appointed with the same force and effect as if such successor Trustee had been originally named herein as the Trustee hereunder. If within 60 days after notice of resignation shall have been given under the provisions of this Article IX a successor Trustee shall not have been appointed, the resigning Trustee or any member of the Committee may apply to any court of competent jurisdiction for the appointment of a successor Trustee.

9.4 Transfer of Master Trust Fund to Successor: Upon the appointment of a successor Trustee, the resigning or removed Trustee shall transfer and deliver the Master Trust Fund and the records relating thereto to such successor Trustee, after reserving such reasonable amount as it shall deem necessary to provide for its expenses in the settlement of its accounts, the amount of any compensation due it and any sums chargeable against the Master Trust Fund for which it may be liable, but if the sums so reserved are not sufficient for such purposes, the resigning or removed Trustee shall be entitled to reimbursement for any deficiency from the successor Trustee and from the Company and each Affiliated Corporation which has a Participating Plan, who shall be jointly and severally liable therefor.

ARTICLE X

DURATION AND TERMINATION OF MASTER TRUST; AMENDMENT

10.1 Duration and Termination: This Trust Agreement shall continue for such time as may be necessary to accomplish the purpose for which it was created but may be terminated at any time by the Company by action of its Board of Directors. Notice of such termination shall be given to the Trustee by an instrument in writing executed by the Company and acknowledged in the same form as this Agreement, together with a certified copy of the resolution of the Board of Directors of the Company authorizing such termination. The Company shall notify the Committee and each Plan Administrator of such termination.

10.2 Distribution Upon Termination: If this Trust Agreement is terminated, the Trustee upon the written direction of the Committee shall liquidate the Master Trust Fund to the extent required for distribution and, after its final account has been settled as provided in Article VIII, shall distribute the net balance thereof to such person or persons, at such time or times and in such proportions and manner as may be directed by the Committee or, with respect to the equitable share of any Participating Plan, by the appropriate Plan Administrator, or in the absence of such direction, as may be directed by a judgment or decree of a court of competent jurisdiction. Upon making such distributions, the Trustee shall be relieved from all further responsibility. The powers of the Trustee hereunder shall continue so long as any assets of the Master Trust Fund remain in its hands. Notwithstanding the foregoing provisions of this Section 10.2, the Company may promptly advise the appropriate District Director of Internal Revenue of the termination of the Master Trust and the Trustee may delay the final distribution to Participants in the terminated Participating Plans until said District Director shall advise in writing that such termination does not adversely affect the previously qualified status of the terminated Participating Plan or Plans or the exemption from tax of the Master Trust under Code Section 401(a) or 501(a).

10.3 Loss of Qualification of a Participating Plan; Certain Withdrawals: The equitable share of any Participating Plan shall be immediately segregated and withdrawn from the Master Trust Fund if the Plan ceases to be qualified under Code Section 401(a) and the Company shall promptly notify the Trustee of any determination by the Internal Revenue Service that any Participating Plan has ceased to be so qualified. Each Affiliated Corporation which has adopted the Master Trust shall have the right to withdraw from this Master Trust upon six months' written notice to the Trustee and the Committee, which written notice may be waived by the Trustee and the Committee. In the event that any Affiliated Corporation which has adopted the Master Trust shall cease to be an Affiliated Corporation of the Company, such corporation shall withdraw from this Master Trust as soon as arrangements may be reasonably made therefor, but in any event such withdrawal shall be made not more than six months after the date such corporation ceases to be an Affiliated Corporation. Upon such withdrawal, the Committee shall certify to the Trustee the interest in the Master Trust Fund of the participants of such withdrawing corporation and the Trustee shall thereupon separate such interest from the Master Trust Fund as provided below in this Section. The Committee may at any time direct the Trustee to segregate and withdraw the equitable share of any Participating Plan or that portion of such equitable share as may be certified to the Trustee by the Committee as allocable to any specified group or groups of employees or beneficiaries.

Whenever segregation is required, the Trustee shall withdraw from the Master Trust Fund such assets as it shall in its absolute discretion deem to be equal in value to the equitable share to be segregated. Such withdrawal from the Master Trust Fund shall be in cash or in any property held in such Fund, or in a combination of both, in the direction of the Committee. The Trustee shall thereafter hold the assets so withdrawn as a separate trust fund in accordance with the provisions either of this Agreement (which shall be construed in respect of such assets as if the employer maintaining such Participating Plan (determined without regard to whether any subsidiaries or affiliates of such employer have joined in such Participating Plan) had been named as the Company hereunder and as if the Plan Administrator for such Plan had been named as the Plan Administrator hereunder) or of a separate trust agreement. Such segregation shall not preclude later readmission to the Master Trust.

10.4 Amendment: By an instrument in writing delivered to the Trustee executed pursuant to the order of the Company's Board of Directors and acknowledged in the same form as this Agreement, the Company shall have the right at any time and from time to time to amend this Agreement in whole or in part except that the duties and responsibilities of the Trustee shall not be increased without the Trustee's written consent; provided, however, that no such amendment shall authorize or permit, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under any Participating Plan, any part of the equitable share of such Participating Plan in the Master Trust Fund to be used for, or diverted to, any purposes other than for the exclusive benefit of such employees and their beneficiaries. Notwithstanding the foregoing, the Committee may authorize any amendment or modification to Article V of this Agreement regarding the selection of investment advisors or investment options in which the Master Trust Fund may be invested including, without limitation, the Group Trusts.

Any such amendment shall become effective upon (a) delivery to the Trustee of the written instrument of amendment executed by the appropriate officers of the Company, together with a certified copy of the resolution of the Board of Directors of the Company authorizing such amendment and (b) endorsement by the Trustee on such instrument of its receipt thereof, together with its consent thereto if such consent is required.

10.5 Acceptance or Rejection of Amendment by Affiliated Corporations: Each Affiliated Corporation which has a Participating Plan shall be presumed to have consented to any amendment hereof made by the Company unless it shall object thereto in writing within 30 days after receiving written notice of such amendment. Any Affiliated Corporation not consenting to any amendment may obtain a separation of its interest in the Master Trust Fund in accordance with the provisions of Section 10.3 hereof, any time after 30 days after receipt of written notice of such amendment, to which such Affiliated Corporation shall not so consent.

ARTICLE XI

MISCELLANEOUS

11.1 Governing Law; No Bond Required of Trustee: Subject to the provisions of ERISA, as they may be amended from time to time, which may be applicable and provide to the contrary, this Trust Agreement and the Trust hereby created shall be governed, construed, administered and regulated in all respects under the laws of the State of Texas. No bond or other security for the faithful performance of its duties hereunder shall be required of the Trustee unless otherwise required by law.

11.2 Interest in Master Trust Fund; Assignment: No document shall be issued evidencing any interest in the Master Trust or in the Master Trust Fund, and no Participating Plan shall have the power to assign all or any part of its equitable share of the Master Trust Fund or of its interest therein.

11.3 Invalid Provisions: If any provision or provisions of this Trust Agreement shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this Trust Agreement, but shall be fully severable and the Trust Agreement shall be construed and enforced as if said illegal or invalid provisions had never been inserted herein.

11.4 Remedies: If a dispute arises between the Company and the Trustee, such dispute shall be settled by agreement between the parties. In the absence of an acceptable agreement resolving the dispute, such dispute shall be submitted to a court of competent jurisdiction for judicial settlement thereof.

11.5 Prohibition of Diversion: Except as provided in Article VII hereof, it shall be impossible under this Trust Agreement for any part of the corpus or income of the Master Trust Fund to be used for, or diverted to, purposes other than for the exclusive benefit of employees of the Company and Affiliated Corporations which have a Participating Plan and the beneficiaries of such employees. It shall also be impossible under this Trust Agreement for any part of the Master Trust Fund to revert directly or indirectly to the Company or any Affiliated Corporation which has a Participating Plan, except to the extent such reversions are specifically authorized under Section 403(c)(2) of ERISA.

11.6 Headings for Convenience Only: The headings and subheadings in this Trust Agreement are inserted for convenience of reference only and are not to be used in construing this instrument or any provision thereof.

11.7 Successors and Assigns: This Trust Agreement shall bind and inure to the benefit of the successors and assigns of the Company and the Trustee, respectively.

IN WITNESS WHEREOF, the Company and Trustee have caused these presents to be executed by their duly authorized officers, in a number of copies all of which shall constitute one and the same instrument which may be sufficiently evidenced by any executed copy hereof, this 29th day of December, 1999, but effective as of January 1, 1999.

RELIANT ENERGY, INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Chairman of the Benefits Committee

ATTEST:

/s/ LYNN HARKEL-RUMFORD

Secretary of the Benefits Committee

THE NORTHERN TRUST COMPANY, Trustee

By /s/ PATTY A. WEILAND

Name: Patty A. Weiland

Title: Vice President

ATTEST:

/s/ JOHN H. ST. LAUER

Asst. Secretary

EXHIBIT A

Participating Plans in the
Reliant Energy, Incorporated
Master Retirement Trust, under a Trust Agreement
with The Northern Trust Company,
Dated as of January 1, 1999

	Name of Plan	Plan Number
1.	Reliant Energy, Incorporated Retirement Plan	001

EXHIBIT B

To THE NORTHERN TRUST COMPANY, as Trustee:

The undersigned have duly adopted and hereby signify their intention to join in and become a party to the Reliant Energy, Incorporated Master Retirement Trust, dated as of January 1, 1999, between you and Reliant Energy, Incorporated so that the defined benefit plans maintained for employees of the undersigned may participate in the Master Trust established under such Trust Agreement.

IN WITNESS WHEREOF, the undersigned have caused these presents to be executed by their duly authorized officers and their seals to be hereto affixed this _____ day of _______________________, 1999, but effective as of January 1, 1999.

[AFFILIATED CORPORATION]

By ---------------------------------

Name: ----------------------------

Title: ---------------------------

ATTEST:

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

CONSENT BY THE BENEFITS COMMITTEE

The undersigned, being the Benefits Committee described in the above-mentioned Trust Agreement, hereby consents to the above-mentioned Affiliated Corporations joining in and becoming a party to such Trust Agreement. The Benefits Committee hereby certifies to the Trustee that a copy of this instrument has been received by each member of the Benefits Committee referred to in such Trust Agreement.

RELIANT ENERGY, INCORPORATED
BENEFITS COMMITTEE

By

Lee W. Hogan, Chairman

ATTEST:

- --------------------------------
Secretary

EXHIBIT 10(aa)(4)

SEPARATION AGREEMENT

THIS SEPARATION AGREEMENT (this "Agreement") is entered into by and between RELIANT ENERGY, INCORPORATED, a Texas corporation (said corporation, together with its successors and assigns permitted under this Agreement, hereinafter referred to as the "Company"), and DON D. JORDAN (the "Executive"), this first day of December, 1999.

W I T N E S S E T H:

WHEREAS, effective as of June 1, 1999, the Company and the Executive entered into an Amended and Restated Employment Agreement (the "Employment Agreement") under which the Executive would be employed by the Company until December 31, 2000; and

WHEREAS, Executive, with the express consent of the Board, has elected to terminate his employment with the Company by reason of Retirement and is therefore entitled to the payment of certain benefits pursuant to the Employment Agreement; and

WHEREAS, the Company and Executive desire to confirm and clarify their agreements regarding the termination of Executive's employment, as well as to provide for certain additional matters set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto agree to the following:

1. CERTAIN DEFINITIONS:

"ADJUSTED BASE SALARY" shall mean an annual amount of $1,635,000.

"ANNUAL BASE SALARY" shall mean the salary of the Executive provided for in Section 3(B)(i) of the Employment Agreement, as adjusted pursuant to Section 3(A)(i) for the calendar year 2000.

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

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

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

"DATE OF TERMINATION" shall mean December 31, 1999.

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

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

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

"EMPLOYMENT AGREEMENT" shall mean that certain Amended and Restated Employment Agreement For Don D. Jordan effective as of June 1, 1999.

"EMPLOYMENT PERIOD" shall mean the period commencing on June 1, 1999 and ending on December 31, 2000.

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

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

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

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

"STOCK DEFERRALS" shall mean the shares of Stock and accumulated dividends payable pursuant to Section 6 of the Employment Agreement, but delivery of which is deferred pursuant to Section 4 of this Agreement.

"STOCK DELIVERY DATE" shall mean January 1, 2001.

2. RETIREMENT OF EXECUTIVE PURSUANT TO EMPLOYMENT AGREEMENT: Executive's employment with the Company shall terminate by reason of his Retirement on the Date of Termination. The Company and Executive agree that Executive's termination is a "retirement with the express consent of the Board" within the meaning of the Employment Agreement. Except as specifically modified herein, the Employment Agreement remains in effect.

3. AGREEMENTS WITH RESPECT TO CERTAIN PAYMENTS AND BENEFITS:

A. For purposes of fulfilling the Company's obligations with respect to Section 5(B)(i)(a) of the Employment Agreement:

(i) Executive's Annual Base Salary for the calendar year 2000 shall be deemed to be the Adjusted Base Salary.

(ii) Executive's EICP bonuses for the 1999 and 2000 calendar years shall become payable on or before December 31, 1999, shall be deemed to have been achieved at the "maximum" or "opportunity" level, and shall be treated as regular bonuses subject to Executive's current deferral election under the Deferred Compensation Plan.

(iii) Executive's Annual Base Salary that would have been earned through December 31, 2000, shall become payable in full on or before December 31, 1999, and shall be treated as regular salary subject to Executive's current deferral election under the Deferred Compensation Plan.

(iv) Executive's outstanding award under the LICP for the 1997-99 performance cycle shall be paid, depending on the achievement of the relevant performance goals, in January 2000 in accordance with the terms of the LICP. The amount paid pursuant to this subsection (iv) shall not be eligible for deferral under the Deferred Compensation Plan.

(v) Upon payment and/or crediting to Executive of the amounts outlined above in subsections (i) - (iv), the Company's obligations with respect to Section 5(B)(i)(a) of the Employment Agreement shall be satisfied.

B. Executive's benefits under the company's retirement plan and SERP will commence according to the terms of such plans as provided in Section 5(B)(i)(b) of the Employment Agreement. For purposes of determining Executive's benefit payable pursuant to the SERP under Section 5(B)(i)(c) of the Employment Agreement, Executive shall be treated as if he continued to earn the Annual Base Salary throughout the remainder of the Employment Period and EICP bonuses for 1999 and for 2000 were credited in December 1999 and December 2000, respectively, each at the "maximum" or "opportunity" level. For this purpose, Executive's Annual Base Salary for the calendar year 2000 shall be deemed to be the Adjusted Base Salary.

C. Executive and his family shall remain eligible for the Company's welfare benefit plans until the end of the Employment Period as provided in Section 5(B)(i)(d) of the Employment Agreement. Thereafter, Executive shall be entitled to the welfare benefits in accordance with the plans, practices, programs and policies of the Company to the extent applicable generally to other peer executives of the Company.

D. During January 2000, Company shall pay to Executive a lump sum equal to the amount that the Company would have contributed as an employer contribution to the tax-qualified

Savings Plan of the Company for the remainder of the Employment Period, had Executive contributed at the maximum rate during said period. For this purpose, Executive's Annual Base Salary for the calendar year 2000 shall be the Adjusted Base Salary.

E. As provided in Section 5(B)(iii) of the Employment Agreement, Executive shall be entitled, for the remainder of the Employment Period, to the prompt reimbursement of all expenses incurred for civic or industry activities undertaken on behalf of the Company which are of a similar nature and scope to those expenses reimbursable by the Company to the Executive on the Effective Date. In this connection, the Executive shall also be afforded reasonable use of any Company aircraft.

F. The increase in Executive's Annual Base Salary for the year 2000 will satisfy the Company's obligation to provide off-site office space pursuant to Section 5(D) for the calendar year 2000. After January 1, 2001, the Company will continue to provide Executive with suitable executive office space and secretarial help at an acceptable location outside the premises of any Company location, as required pursuant to Section 5(D) of the Employment Agreement and as specified in a letter to Executive from Robert Cruikshank dated September 2, 1998, until such time as mutually agreed by the parties to be no longer necessary.

G. Executive's lump-sum payments pursuant to the Deferred Compensation Plan shall commence as soon as practicable after January 1, 2001. Executive's installment payments pursuant to the Deferred Compensation Plan shall commence only as provided in Section 16 of the Employment Agreement.

H. For purposes of the Executive Benefits Plan, Executive's salary shall be the Adjusted Base Salary.

I. Notwithstanding any provision of the EICP to the contrary, the Company hereby agrees to cause the EICP to be administered so that any and all amounts of salary and/or bonus earned by Executive with respect to calendar years 1984 and 1985 and theretofore deferred by Executive and held under the EICP with instructions from the Executive to pay in 15 annual installments (a) shall be paid in said 15 annual installments, (b) shall remain in the EICP earning interest at the rate prescribed therein until installment distributions are made and (c) shall commence on June 1, 2002 and shall be paid at the same times as the amounts payable under the second sentence of Section 3G above are payable.

4. PRIOR STOCK AWARD:

A. DEFERRAL: By executing this Agreement, the Executive hereby irrevocably elects to defer the receipt of any amounts which may be payable, or shares of Stock which may be deliverable, to him on account of Section 6 of the Employment Agreement (the "Stock Deferrals"). The Stock Deferrals shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the Executive's unfunded right to receive shares of Stock of the Company on the Stock Deferral Date.

B. DIVIDENDS AND INTEREST: The Company shall maintain a separate bookkeeping account (the "Dividend Deferral Account") to reflect the dividends accumulated on shares of Stock credited to the Deferral Account. The beginning balance of the Dividend Deferral Account shall be the amount of any cash payment to which the Executive would be entitled pursuant to Section 6(B) of the Employment Agreement on account of accumulated dividends. From the date the Stock Deferrals would otherwise be payable until the Stock Delivery Date, the Dividend Deferral Account shall be credited, as of the date any dividend is payable, with the amount of the dividend payable with respect to the shares of Stock represented in the Deferral Account. Until paid to the Executive, amounts credited to the Dividend Deferral Account shall be credited, on a quarterly basis, with interest calculated at an annual rate equal to the composite yield on Moody's Long-Term Corporate Bond Index for the applicable calendar quarter as determined from Moody's Bond Record published by Moody's Investors' Service, Inc. (or any successor thereto), or, if such yield is no longer published, a substantially similar average selected by the Compensation Committee, plus 2%.

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

5. POST-EMPLOYMENT OBLIGATIONS:

A. Executive shall continue to be subject to the fiduciary and confidentiality obligations of Section 10 of the Employment Agreement.

B. Until June 1, 2002, Executive shall make himself available to the Company for consultation on a reasonable basis from time to time, and shall use his best efforts to promote the goodwill of the Company through his various civic and industry activities.

C. As a material inducement to the Company to enter into this Agreement, Executive agrees that he will not (i) publicly criticize or disparage the Company or any affiliate, or privately criticize or disparage the Company or any affiliate in a manner intended or reasonably calculated to result in public embarrassment to, or injury to the reputation of, the Company or any affiliate in any community in which the Company or any affiliate is engaged in business; (ii) directly or indirectly, acting alone or acting in concert with others, institute or prosecute, or assist any person in any manner in instituting or prosecuting, any legal proceedings of any nature against the Company or any affiliate; subject, however, with respect to any legal action relating to Executive's employment; (iii) commit damage to the property of the Company or any affiliate or otherwise engage in any misconduct which is injurious to the business or reputation of the Company or any affiliate; or (iv) take any other action, or assist any person in taking any other action, that is materially adverse to the interests of the Company or any affiliate or inconsistent with fostering the goodwill of the Company or any affiliate; provided, however, that the Executive will not be in breach of the covenant contained in (ii) above solely by reason of his testimony which is compelled by process of law. As used in this section, the term "affiliate" means the Company, any subsidiary, any officer, director or executive of the Company or any subsidiary, and any former officer, director or executive of the Company or any subsidiary.

D. Executive agrees that for a period of five years after the Date of Termination, Executive will furnish such information and proper assistance as may be reasonably necessary in connection with any litigation in which the Company or any subsidiary is then or may become involved.

E. Executive and the Company agree to the press release set forth as Exhibit A.

F. Executive and the Company agree that the Company's obligations outlined in Sections 8, 9 and 16 of the Employment Agreement remain in effect as outlined in those sections.

6. WAIVER AND RELEASE: As a condition precedent to the receipt of the benefits under this Agreement, Executive shall execute a waiver and release of claims, in substantially the form attached hereto as Exhibit B.

7. SUCCESSORS:

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

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

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

8. SOURCE OF PAYMENTS: All payments provided in this Agreement shall, unless the plan or program pursuant to which they are made provide otherwise, be paid in cash from the general funds of the Company, and no special or separate funds shall be established and no other segregation of assets shall be made to assure payment. The Executive shall have no right, title or interest whatever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. Nothing contained in this Agreement, and no action taken pursuant to this provision, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and the Executive or any other person. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

9. CONSOLIDATION, MERGER OR SALE OF ASSETS: Nothing in this Agreement shall preclude the Company from consolidating or merging into or with, or transferring all or substantially all of its assets to, another corporation which assumes this Agreement and all obligations and undertakings of the Company hereunder; provided that no such action shall diminish the Executive's rights hereunder. Upon such a consolidation, merger or transfer of assets and assumption, the term "Company" as used herein shall mean such other corporation.

10. MISCELLANEOUS:

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

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

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

If to the Company: Reliant Energy, Incorporated
P.O. Box 4567
Houston, Texas 77210

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

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

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

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

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

RELIANT ENERGY, INCORPORATED

By /s/ ROBERT J. CRUIKSHANK

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

By /s/ R.S. LETBETTER

R.S. Letbetter, Chief Executive Officer

EXECUTIVE

/s/ DON D. JORDAN

Don D. Jordan

EXHIBIT A - AGREED PRESS RELEASE

To: All Reliant Energy Employees

From: Hugh Rice Kelly -- Corporate Secretary

Subject: New Chairman of the Reliant Energy Board of Directors

Don D. Jordan has announced that he will retire as Chairman of the Board effective December 31, 1999, after more than 44 years with the company. R. Steve Letbetter, who has been serving as President and Chief Executive Officer since June of 1999, has been named Chairman, President and Chief Executive Officer of the company.

Mr. Letbetter joined Houston Lighting & Power Company (then Reliant Energy's principal operating unit) as assistant secretary and assistant treasurer in 1974. He later served as assistant comptroller, then comptroller, and was elected vice president and comptroller in 1981. From 1983 to 1988 he was vice president of regulatory relations. He then served as group vice president finance and regulatory relations and in 1993, was elected president and chief operating officer. He was named president and chief operating officer of Reliant Energy in January 1997.

Mr. Letbetter serves on the board of directors of the Electric Power Research Institute, the Association of Electric Companies of Texas, and the American Gas Association. He also serves on the boards of Chase Bank - Houston, Central Houston, Greater Houston Partnership and the Houston International Festival. He also is a member of the Governor's Business Council, the Task Force Committee of Texas A & M University Vision 2020, the Council of Overseers for the Rice University Jesse H. Jones Graduate School of Management, and Lt. Governor Rick Perry's Special Commission on 21st Century Colleges and Universities. In 1998 he was a recipient of the Outstanding Alumnus Award from Texas A&M's Lowry Mays College & Graduate School of Business, where he serves on the college's Development Council.

During his 25 years with Reliant Energy, Steve Letbetter has been instrumental in shaping the company into the international energy business it is today. As one of Reliant Energy's primary strategists, he has overseen our transition to a combination gas/electric/energy services company and he has guided Reliant Energy through the deregulation of our core businesses and the opening of new markets.

Don Jordan's tenure as chairman and chief executive officer is among the longest in the energy industry. He was initially elected chief executive officer of Houston Lighting & Power Company in 1977 and named chairman in 1982.

A highly visible and public executive, Mr. Jordan has, throughout his career, been very active in civic, industry and public affairs. He has just completed three terms as president and then chairman of the Houston Livestock Show & Rodeo, is a member of the boards of directors of the Greater Houston Partnership, Edison Electric Institute and the Association of Electric Companies of Texas. He is president of the World Energy Council and served as chairman of the World Energy Congress in Houston, in September 1998. He is a director of AEGIS Services, Inc., BJ Services Company, the Texas Medical Center, the Texas Heart Institute, and is a member of the board of trustees of South Texas College of Law. He is advisory director of Chase Bank of Texas, N.A. Mr. Jordan has also served as chairman of nearly every national energy industry association as well as numerous leading Houston organizations.

Some of the honors he has received include 1999 Honoree of the Houston Chapter of the Texas Society of Certified Public Accountants; Wetlands Conservation Award from Ducks Unlimited; International Businessman of the Year from the World Affairs Council; People of Vision Award; Distinguished Alumnus from both the University of Texas and South Texas College of Law; Distinguished Non-alumnus of the University of Houston; South Texan of the Year from the Texas Chamber of Commerce; 1998 Executive of the Year from World Cogeneration Magazine; Community Service Award from the Houston Citizens Chamber of Commerce and 1998 Distinguished Citizen from the Rotary Club of Houston.

"All Reliant Energy employees can be proud to have had a leader like Don Jordan," said Steve Letbetter.

"Don has worked tirelessly and extraordinarily effectively over a four-decade career. He has led this organization successfully through energy shortages, nuclear difficulties, regulatory and political obstacles, and a host of other challenges. He's never failed to be concerned about employees and, as a result, maintains personal friendships at every level of the organization. On top of that, there has probably never been an executive in this city who has devoted more of his personal time and energy to make Houston a better place to live. We all wish him well in his future endeavors, and are proud to call him a friend and colleague."

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Comments, suggestions and news items may be distributed to Reliant Energy Corporate Communications via the following avenues:

EXHIBIT B

WAIVER AND RELEASE

SEPARATION AGREEMENT
RELIANT ENERGY, INCORPORATED
AND DON D. JORDAN

In exchange for the payment to me of benefits pursuant to that certain Separation Agreement between Reliant Energy, Incorporated ("REI") and me dated December 1, 1999 (the "Separation Agreement"), which are in addition to any remuneration or benefits to which I am already entitled, I agree not to sue and to release and forever discharge REI, and all of its subsidiaries, affiliates and unincorporated divisions, and their respective officers, directors, agents, servants, employees, successors, assigns, insurers, employee benefit plans and fiduciaries, and agents of any of the foregoing (collectively, the "Corporate Group"), and any and all other persons, firms, organizations, and corporations, from any and all damages, losses, causes of action, expenses, demands, liabilities, and claims on behalf of myself, my heirs, executors, administrators, and assigns with respect to all matters relating to or arising out of my employment with or separation from any member of the Corporate Group; provided, however, that this Waiver and Release shall not apply to any claim or cause of action to enforce or interpret any provision contained in the Separation Agreement. Any claim or cause of action to enforce or interpret any provision contained in the Separation Agreement must be asserted within the later of 90 days after the date of this Waiver and Release, or 90 days after the date I actually discover circumstances giving rise to such claim or cause of action.

This Waiver and Release includes, but is not limited to, claims and causes of action under: Title VII of the Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act of 1967, as amended, including the Older Workers Benefit Protection Act of 1990; the Civil Rights Act of 1866, as amended; the Civil Rights Act of 1991; the Americans with Disabilities Act of 1990; the Energy Reorganization Act, as amended, 42 U.S.C. Section 5851; the Workers Adjustment and Retraining Notification Act of 1988; the Pregnancy Discrimination Act of 1978; the Employee Retirement Income Security Act of 1974, as amended; the Family and Medical Leave Act of 1993; the Fair Labor Standards Act; the Occupational Safety and Health Act; the Texas Labor Code; claims in connection with workers' compensation or "whistle blower" status; and/or contract, tort, bodily injury or death, defamation, slander, wrongful termination or any other state or federal regulatory, statutory or common law.

I affirm and agree that my employment relationship will end on my Date of Termination as defined in the Separation Agreement and I then will withdraw unequivocally, completely and finally from my employment and waive all rights in connection with such relationship except to vested benefits and the payments and benefits described in the Separation Agreement. I agree that this Waiver and Release is valid. I agree that this Waiver and Release is fair, adequate and reasonable. I agree that my consent to this Waiver and Release was with my full knowledge and was not procured through fraud, duress or mistake.

I have read the Separation Agreement and it is incorporated herein by reference.

I acknowledge that signing this Waiver and Release is an important legal act and that I have been advised in writing to consult an attorney prior to execution. I also understand that, in order to be eligible for benefits under the Separation Agreement, I must sign and return this Waiver and Release to the Corporate Secretary of REI no later than 5:30 p.m. on December 31, 1999. I acknowledge that I have been given 21 days to consider whether to execute this Waiver and Release.

I understand that for a period of 7 calendar days following my signing this Waiver and Release, I may revoke my acceptance of the offer of Separation Agreement benefits by delivering a written statement to the Corporate Secretary of REI, by hand or by registered-mail, in which case the Waiver and Release will not become effective. In the event I revoke my acceptance of this offer, the Corporate Group shall have no obligation to provide me benefits under the Separation Agreement. I understand that failure to revoke my acceptance of the offer within 7 days after the date I sign this Waiver and Release will result in this Waiver and Release being permanent and irrevocable.

I agree that I have returned or will return immediately, and maintain in strictest confidence and will not use in any way, any proprietary, confidential, or other nonpublic information or documents relating to the business and affairs of REI, its subsidiaries, affiliates and unincorporated divisions. I acknowledge my continuing obligation of confidentiality regarding proprietary or confidential information of REI. I shall maintain the strictest confidence with respect to any and all information concerning the business or affairs of REI which I acquired during the course of employment. Such information includes, but is not limited to, business plans and studies, regulatory plans or strategy information, prices and related pricing information, memoranda, agreements, research, litigation, legal advice and work product, discounts, computer and information systems (including software), future plans, policies, inventions, ideas, technical data, products, services, processes, procedures, and all other knowledge in whatever form used in management, engineering, marketing, finance, litigation, operations, or otherwise concerning the business of REI which is of a proprietary or confidential nature. I hereby covenant not to use or disclose, and not to allow others to use or disclose, any such information at any time without the express written consent of the General Counsel of REI unless I am legally compelled to do so by proper legal process. Should I be served with legal process seeking to compel me to disclose any such information, I agree to notify the General Counsel immediately, in order that REI may seek to resist such process if it so chooses. REI agrees that if I am called upon by or on behalf of REI to serve as a witness or consultant in or with respect to any potential litigation, litigation, or regulatory proceeding, any such call shall be with reasonable notice, shall not unnecessarily interfere with my later employment, and shall provide for payment for my time and costs expended in such matters.

Both REI and I agree that the terms of this Waiver and Release are CONFIDENTIAL and that any disclosure to anyone for any purpose whatsoever (save and except disclosure to my spouse, to financial institutions as part of a financial statement, to immediate family members and/or heirs, financial, tax and legal advisors, outplacement, executive search and/or legal placement advisors, or as required by law; in the event confirmation of any such information is requested, the request should be directed to the General Counsel) by me or my agents, representatives, heirs, spouse, employees or spokespersons shall be a breach of this Waiver and Release. REI and I also agree to refrain from any criticisms or disparaging comments about each other or in any way relating to my employment or separation, and REI and I specifically acknowledge that our willingness to enter into this Waiver and Release is in anticipation of our fidelity to this commitment. The above is not intended to restrict me from seeking or engaging in other employment and, in that connection, from making confidential disclosure to potential employers of such facts or opinions as I may elect to convey, nor is it intended to restrict REI from conducting such confidential internal communications as may be necessary to manage this resignation in a businesslike way.

I understand that nothing in this Waiver and Release is intended to prohibit, restrict or otherwise discourage me from engaging in any activity related to matters of public or employee health or safety, specifically to include activity protected under 42 U.S.C. Section 5851 and 10 C.F.R. Section 50.7, including, but not limited to, providing information to the Nuclear Regulatory Commission ("NRC") or to REI regarding nuclear safety or quality concerns, potential violations or other matters within the NRC's jurisdiction.

I acknowledge that this Waiver and Release and the Plan set forth the entire understanding and agreement between me and the Corporate Group concerning the subject matter of this Waiver and Release and supersede any prior or contemporaneous oral and/or written agreements or representations, if any, between me and REI or any other member of the Corporate Group. The invalidity or enforceability of any provisions hereof shall in no way affect the validity or enforceability of any other provision.

/s/ DON D. JORDAN	/s/ R. STEVE LETBETTER
Don D. Jordan	R. Steve Letbetter
January 4, 2000	January 5, 2000
Don D. Jordan's Signature Date	Company's Execution Date

EXHIBIT 10(bb)(3)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made as of the 31st day of March, 1999, by and between HOUSTON INDUSTRIES INCORPORATED D/B/A RELIANT ENERGY, INCORPORATED, a Texas corporation having its principal place of business in Houston, Harris County, Texas (said corporation, together with all of its subsidiaries and affiliates thereof, hereinafter referred to as the "Company"), and WAYNE D. STINNETT, JR., an individual currently residing in Harris County, Texas ("Executive").

1. Employment of Executive: In consideration of the mutual covenants and agreements herein contained, the Company and Executive wish to establish a three year Employment Agreement retaining Executive's services as described herein, establishing certain incentive, tenure and performance criteria related to such employment and otherwise fixing Executive's benefits, base salary and incentive compensation on a basis comparable to that of other members of senior management of the Company. A principal objective of this Agreement is to facilitate the full integration of Executive into the senior management structure of the Company.

2. Term and Extent of Services: During the Term, as defined below, Executive shall be employed in an executive position with the Company and shall have all of the rights, powers and duties associated with those positions. During the Term, Executive agrees to devote his services full-time to the business of the Company and to perform to the best of his ability and with reasonable diligence the duties and responsibilities assigned to him by the appropriate management of the Company. The term hereof shall commence January 1, 1999 (the "Effective Date") and shall continue thereafter through, and expire at the close of business on, December 31, 2001 (the "Term").

3. Compensation and Benefits:

(a) Salary: During the Term, Executive's salary shall be not less than $195,000 per year, and shall be increased during the Term at the same time and on the same basis as other executives.

(b) Annual Bonus: During the Term, Executive shall receive the following annual bonus: (i) an amount paid in cash under the Executive Incentive Compensation Plan (A) prior to 2000, based upon the short-term incentive target bonus of 35% of Executive's salary under Section 3(a) and (B) after 1999, based upon a short-term incentive target bonus adjusted on the same basis as for all similarly situated executives (but in no event less than 35%); and (ii) an amount paid under the Houston Industries Incorporated Long-Term Incentive Compensation Plan, in the form provided under such plan as determined by the Company, based upon the long-term incentive target bonus opportunity of 59% of Executive's salary under Section 3(a); provided, however, that if Executive's employment is terminated due to death or disability, or by the Company without Cause or by Executive for Good Reason, and pursuant to Section 5(a), (b) or (d) Executive continues to be eligible for an annual bonus under this Section 3(b)(ii), then, in lieu of each annual award that would otherwise have been payable pursuant to the Long-Term Incentive Compensation Plan, the Company shall make a cash payment in an amount equal to 59% of Executive's salary under Section 3(a).

(c) Benefits: During the Term, in addition to participation in the annual bonus plans described in Section 3(b), Executive shall be eligible to participate in all of the Company's other general and executive compensation and benefit plans on a basis comparable to other similarly situated members of senior management.

(d) Additional Incentive Compensation: The Company recognizes Executive's area of responsibility as a strategically critical one for its future growth. Therefore, as additional incentive for Executive to remain in the employ of the Company during the Term and to use his best efforts to enhance the value of the Company during the Term, if Executive is in the employ of the Company on any December 31 occurring during the Term, then Executive shall receive as additional compensation a single lump_sum cash payment, as soon as reasonably practicable following any such December 31, if performance of the Executive's business unit (with such business unit to be defined by mutual agreement between the parties) during the entire calendar year ending on any such December 31 ("Measurement Period") satisfies one of the following:

(i) for Threshold Performance, a total payment of $100,000;

(ii) for Target Performance, the $100,000 from (i) above and an additional $133,333, for a total payment of $233,333; or

(iii) for Opportunity Performance, the $100,000 and $133,333 from (i) and (ii) above, respectively, and an additional $100,000, for a total payment of $333,333.

For purposes of this Section 3(d), the terms "Threshold Performance," "Target Performance" and "Opportunity Performance" shall have the same meanings as under the Company's Executive Incentive Compensation Plan and the determination of whether any of these performance levels are met shall be based on the performance of the applicable business unit during the annual Measurement Period in good faith by the Company under a method deemed appropriate by the Company. In the event that performance during a Measurement Period is determined to fall between Threshold Performance and Target Performance, or between Target Performance and Opportunity Performance, then the amount to be paid under this Section shall be calculated by using straight-line interpolation between the amounts set forth in Sections 3(d)(i) and 3(d)(ii), or in Sections 3(d)(ii) and 3(d)(iii), as appropriate. Any amounts paid to Executive under this Section 3(d) shall not be included as "Compensation" for purposes of the Company's Retirement and Savings Plans.

4. Special Lump-Sum Payment: As an inducement for Executive to enter into this Agreement, the Company shall pay Executive a one-time special lump-sum cash payment of $600,000 at the end of the next full pay period following the execution of this Agreement by the Company and Executive. The payment to Executive under this Section 4 shall not be included as "Compensation" for purposes of the Company's Retirement and Savings Plans.

5. Termination of Employment: Should Executive's employment terminate prior to the end of the Term, the following provisions of this Section 5 shall govern the rights of Executive under this Agreement:

(a) Termination Due to Death: In the event Executive's employment terminates during the Term as a result of Executive's death, the Company agrees (i) to pay all compensation that would have been payable to Executive under Sections 3(a) and 3(b) above during the remainder of the Term (had Executive's employment continued during the remainder of the Term) to Executive's beneficiary or beneficiaries under the group life insurance plan then sponsored by the Company and (ii) to continue to provide, during the remainder of the Term, all welfare benefit coverages that were provided under Section 3(c) above to Executive's legal spouse and children on the date of his death.

(b) Termination Due to Disability: In the event Executive's employment is terminated during the Term due to his disability within the meaning of any long-term disability plan maintained by the Company and covering Executive as of the date of Executive's disability, the Company agrees (i) to pay Executive all compensation that would have been payable to Executive under Sections 3(a) and 3(b) above during the remainder of the Term (had Executive's employment continued during the remainder of the Term) and (ii) to continue to provide, during the remainder of the Term, all welfare benefit coverages that were provided under Section 3(c) above to or in respect of Executive on the date of his disability, in addition to the benefits payable under the long-term disability plan; provided, however, that any salary due under clause (i) of this sentence shall be reduced by the amount of any long-term disability benefit actually paid to Executive during the Term. It is the intention of this Section 5(b) that the total of disability payments and base salary paid to Executive during the Term shall equal, but not exceed, Executive's base salary payable under Section 3(a) during the Term.

(c) Termination by the Company for Cause: Any termination of Executive's employment by the Company for Cause shall be authorized by an appropriate officer of the Company and effected by written notice to Executive within 12 months of such officer having actual knowledge of the event or circumstances providing a basis for such termination. In the event the Company terminates Executive's employment during the Term for Cause, he shall be entitled to:

(i) his salary under Section 3(a) through the date of the termination of his employment for Cause;

(ii) any other full year amounts earned, accrued or owing as of the date of termination of employment but not yet paid as compensation by the Company under Sections 3(b) or 3(d) above; and

(iii) other benefits for which he is eligible in accordance with applicable plans or programs of the Company.

"CAUSE" means Executive's (i) Gross Negligence in the performance of his duties, (ii) intentional and continued failure to perform his duties, (iii) intentional engagement in conduct which is materially injurious to the Company or its affiliates (monetarily or otherwise) or (iv) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of Executive will be deemed "intentional" only if done or omitted to be done by Executive not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company, and no act or failure to act on the part of Executive will be deemed "intentional" if it was due primarily to an error in judgment or ordinary negligence.

"GROSS NEGLIGENCE" as used herein carries the meaning used in Texas law as of the Effective Date, which requires a specific intent by Executive to cause substantial damage to the Company or an act or omission which, when viewed objectively from the standpoint of Executive at the time in question, involves an extreme degree of risk, considering the probability and magnitude of the potential harm to the Company; and of which Executive has actual, subjective awareness of the risk involved, but nevertheless proceeds with conscious indifference to the rights or welfare of the Company.

(d) Termination Without Cause or Voluntarily with Good Reason: In the event that, during the Term, the Company terminates Executive's employment without Cause (other than due to disability or death) or Executive voluntarily terminates employment for Good Reason, the Company agrees to pay Executive all amounts that would have been payable under Sections 3(a), 3(b) and 3(d) and to continue to provide all benefit coverages provided under Section 3(c) to the end of the Term. The failure of Executive to terminate employment upon the occurrence of Good Reason as to any one event constituting Good Reason shall not affect his entitlement to terminate his employment as to any other such event.

"GOOD REASON" means:

(i) any failure by the Company to comply with any of the provisions of Sections 3(a) or 3(b) above, other than any failure not occurring in bad faith that is remedied by the Company promptly after receipt of notice thereof from Executive;

(ii) relocation, without Executive's consent, of Executive's principal office to any office or location more than 50 miles from the principal office of Executive on the Effective Date;

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

(iv) the assignment of Executive to a job or duty with the Company that is not considered to be an executive level position.

(e) Voluntary Termination: Upon 30 days prior written notice to the Company, Executive may voluntarily terminate his employment with the Company. A voluntary termination pursuant to this Section 5(e) shall not include termination under Sections 5(a), 5(b) or 5(d) above, and shall not be deemed a breach of this Agreement by Executive. In the event Executive voluntarily terminates his employment, he shall be entitled to:

(i) his base salary through the date of the termination of his employment;

(ii) any other amounts earned, accrued or owing as of the date of termination of employment but not yet paid as compensation by the Company under Sections 3(b), 3(c) and 3(d) above; and

(iii) other benefits for which he is eligible in accordance with applicable plans or programs of the Company.

(f) Certain Benefit Calculations: Upon termination of employment pursuant to Sections 5(b) or 5(d) above, for purposes of any eligibility and benefit determinations under all benefit plans maintained by the Company and applicable to Executive or his beneficiaries upon such termination, and for purposes of eligibility for retiree medical coverage, (i) Executive will be credited with service for the period remaining in the Term (the "Remaining Term") and (ii) Executive's age on the last day of the Term shall be deemed to have been his age at the date of actual termination of employment.

(g) No Mitigation; No Offset: In the event of any termination of employment under this Section 5, Executive shall be under no obligation to seek other employment, and there shall be no offset against amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain.

(h) Nature of Payments: Any amounts due under this Section 5 are in the nature of severance payments, liquidated damages, or both, and shall compensate Executive, and the dependents, beneficiaries and estate of Executive for any and all direct damages and consequential damages that they may suffer as a result of the termination of Executive's employment, and are not in the nature of a penalty.

(i) Miscellaneous: For purposes of determining the amount of any payment under Sections 5(a), (b) and (d) based upon the achievement of a certain performance level under Section 3(b) and (d), such amount shall be determined as if the actual level of performance reached was "Target." In addition, the Company, in its sole discretion, may determine to commute to a lump sum the periodic cash payments otherwise payable pursuant to Sections 5(a), (b) and (d) and pay the same in a lump sum based upon a present value calculation utilizing an 8% interest assumption.

6. Confidentiality, Return of Property, and Covenant Not to Compete:

(a) Confidentiality. Executive agrees that in return for consideration provided in Section 6(c) he will not disclose or make available to any other person or entity, or use for his own personal gain, any Confidential Information, except for such disclosures as required in the performance of his duties hereunder. For purposes of this Agreement, "Confidential Information" shall mean any and all information, data and knowledge that has been created, discovered, developed or otherwise become known to the Company or any of its affiliates or ventures or in which property rights have been assigned or otherwise conveyed to the Company or any of its affiliates or ventures, which information, data or knowledge has commercial value in the business in which the Company is engaged, except such information, data or knowledge as is or becomes known to the public without violation of the terms of this Agreement. By way of illustration, but not limitation, Confidential Information includes trade secrets, processes, formulas, know-how, improvements, discoveries, developments, designs, inventions, techniques, marketing plans, manuals, records of research, reports, memoranda, computer software, strategies, forecasts, new products, unpublished financial statements or parts thereof, budgets or other financial information, projections, licenses, prices, costs, and employee, customer and supplier lists or parts thereof.

(b) Return of Property. Executive agrees that at the time of leaving the Company's employ, he will deliver to the Company (and will not keep in his possession, recreate or deliver to anyone else) all Confidential Information, as well as all other devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, customer or client lists or information, or any other documents or property (including all reproductions of the aforementioned items) belonging to the Company or any of its affiliates or ventures, regardless of whether such items were prepared by Executive.

(c) Covenant Not to Compete. Executive acknowledges that the Company's business is by its nature a worldwide business (the "Business Area"), and that the Company's business, research and products do not require that it maintain a physical location close to its customers. Executive further acknowledges that the skills, processes and information developed at the Company could be utilized directly and to the Company's detriment (or the detriment of any of the Company's affiliates or ventures) with any other business in the Business Area involved in the utilities business (a "Competitive Product"). Executive also acknowledges that the nature of his position at the Company will bring him into close contact with much of the Company's Confidential Information. Accordingly, for separate and additional consideration of $200,000 payable to Executive by the Company in a lump-sum cash payment at the end of the next full pay period following the execution and delivery to the Company by Executive of this Agreement, Executive agrees to be bound by the following restrictive covenants:

(i) During the Term, and for a period of 12 months after the termination of the Term for any reason other than the death or disability of Executive, Executive shall not, acting alone or in conjunction with others, directly or indirectly, invest or engage, directly or indirectly, in any business in the Business Area involved in researching, developing, or marketing a Competitive Product or accept employment with or render services to such a business as a director, officer, agent, employee, independent contractor or consultant, or take any action inconsistent with the fiduciary relationship of an employee to his employer; provided, however, that the beneficial ownership by Executive of up to 5% of the voting stock of any corporation subject to the periodic reporting requirements of the Securities and Securities Exchange Act of 1934 shall not violate this Section 6.

(ii) Executive further agrees that during the Term, and for a period of 24 months after the termination of the Term for any reason other than the death or disability of Executive, he shall not at any time, directly or indirectly, (1) induce, entice or solicit (or attempt to induce, entice or solicit) any employee of the Company or any of its affiliates or ventures to leave the employment of the Company or any of its affiliates or ventures or (2) contact, communicate with, solicit or attempt to solicit the business of any customer or acquisition prospect of the Company or any of its affiliates or ventures with whom Executive had any actual contact while employed at the Company.

(iii) Executive acknowledges that these restrictive covenants under Section 6, for which he received consideration from the Company as provided in this Section 6, are ancillary to otherwise enforceable provisions of this Agreement and that these restrictive covenants contain limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the good will or other business interests of the Company, such as the Company's need to protect its confidential and proprietary information. Executive acknowledges that in the event of a breach by Executive of these restrictive covenants, the covenants may be enforced by temporary restraining order, preliminary or temporary injunction, and permanent injunction. In that connection, Executive acknowledges that in the event of a breach, the Company will suffer irreparable injury for which there is no adequate legal remedy, in part because damages caused by the breach may be difficult to prove with any reasonable degree of certainty.

7. Notices: For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:

Houston Industries Incorporated
d/b/a Reliant Energy, Incorporated
P.O. Box 4567
Houston, Texas 77210
ATTENTION: Chairman of the Board

If to Executive:

Wayne D. Stinnett, Jr.
5000 Montrose Blvd., #16-G
Houston, Texas 77006

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

8. Applicable Law: The validity, interpretation, construction and performance of this Agreement will be governed by and construed in accordance with the substantive laws of the State of Texas, including the Texas statute of limitations, but without giving effect to the principles of conflict of laws of such State.

9. Severability: If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall

not affect the validity or enforceability of any other provision of this Agreement and all other provisions shall remain in full force and effect.

10. Withholding of Taxes: The Company may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

11. No Assignment; Successors: Executive's right to receive payments or benefits hereunder shall not be assignable or transferable, whether by pledge, creation or a security interest or otherwise, whether voluntary, involuntary, by operation of law or otherwise, other than a transfer by will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer contrary to this Section 11 the Company shall have no liability to pay any amount so attempted to be assigned or transferred. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributes, devises and legatees.

This Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns (including, without limitation, any company into or with which the Company may merge or consolidate). The Company agrees that it will not effect the sale or other disposition of all or substantially all of its assets unless either (a) the person or entity acquiring such assets or a substantial portion thereof shall expressly assume by an instrument in writing all duties and obligations of the Company hereunder or (b) the Company shall provide, through the establishment of a separate reserve therefor, for the payment in full of all amounts which are or may reasonably be expected to become payable to Executive hereunder.

12. Payment Obligations Absolute: Subject to the terms of this Agreement, the Company's obligation to pay (or cause one of its affiliates to pay) Executive the amounts and to make the arrangements provided herein shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counter-claim, recoupment, defense or other right which the Company (including its affiliates) may have against him or anyone else. All amounts payable by the Company (including its affiliates hereunder) shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any other employment shall in no event effect any reduction of the Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Agreement.

13. Effect of Prior Agreements: This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement or severance agreement between the Company or any predecessor of the Company and the Executive, except that this Agreement shall not effect or operate to reduce any benefit or compensation enuring to the Executive of a kind elsewhere provided and not expressly provided or modified in this Agreement. Specifically, but not by way of limitation, this Agreement supersedes and replaces that certain Severance Agreement between the parties, dated July 16, 1996.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered the 31st day of March, 1999, but effective as of the Effective Date.

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

By /s/ LEE W. HOGAN

Lee W. Hogan,
Executive Vice President

EXECUTIVE

/s/ WAYNE D. STINNETT, JR.

Wayne D. Stinnett, Jr.

EXHIBIT 10(bb)(4)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made as of the 5th day of April, 1999, by and between HOUSTON INDUSTRIES INCORPORATED D/B/A RELIANT ENERGY, INCORPORATED, a Texas corporation having its principal place of business in Houston, Harris County, Texas (said corporation, together with all of its subsidiaries and affiliates thereof, hereinafter referred to as the "Company"), and ROLLIE G. BOHALL, an individual currently residing in Harris County, Texas ("Executive").

1. Employment of Executive: In consideration of the mutual covenants and agreements herein contained, the Company and Executive wish to establish a three year Employment Agreement retaining Executive's services as described herein, establishing certain incentive, tenure and performance criteria related to such employment and otherwise fixing Executive's benefits, base salary and incentive compensation on a basis comparable to that of other members of senior management of the Company. A principal objective of this Agreement is to facilitate the full integration of Executive into the senior management structure of the Company.

2. Term and Extent of Services: During the Term, as defined below, Executive shall be employed in an executive position with the Company and shall have all of the rights, powers and duties associated with those positions. During the Term, Executive agrees to devote his services full-time to the business of the Company and to perform to the best of his ability and with reasonable diligence the duties and responsibilities assigned to him by the appropriate management of the Company. The term hereof shall commence January 1, 1999 (the "Effective Date") and shall continue thereafter through, and expire at the close of business on, December 31, 2001 (the "Term").

3. Compensation and Benefits:

(a) Salary: During the Term, Executive's salary shall be not less than $195,000 per year, and shall be increased during the Term at the same time and on the same basis as other executives.

(b) Annual Bonus: During the Term, Executive shall receive the following annual bonus: (i) an amount paid in cash under the Executive Incentive Compensation Plan (A) prior to 2000, based upon the short-term incentive target bonus of 40% of Executive's salary under Section 3(a) and (B) after 1999, based upon a short-term incentive target bonus adjusted on the same basis as for all similarly situated executives; and (ii) an amount paid under the Houston Industries Incorporated Long-Term Incentive Compensation Plan, in the form provided under such plan as determined by the Company, based upon the long-term incentive target bonus opportunity of 72% of Executive's salary under Section 3(a); provided, however, that if Executive's employment is terminated due to death or disability, or by the Company without Cause or by Executive for Good Reason, and pursuant to Section 5(a), (b) or (d) Executive continues to be eligible for an annual bonus under this Section 3(b)(ii), then, in lieu of each annual award that would otherwise have been payable pursuant to the Long-Term Incentive Compensation Plan, the Company shall make a cash payment in an amount equal to 72% of Executive's salary under Section 3(a).

(c) Benefits: During the Term, in addition to participation in the annual bonus plans described in Section 3(b), Executive shall be eligible to participate in all of the Company's other general and executive compensation and benefit plans on a basis comparable to other similarly situated members of senior management.

(d) Additional Incentive Compensation: The Company recognizes Executive's area of responsibility as a strategically critical one for its future growth. Therefore, as additional incentive for Executive to remain in the employ of the Company during the Term and to use his best efforts to enhance the value of the Company during the Term, if Executive is in the employ of the Company on any December 31 occurring during the Term, then Executive shall receive as additional compensation a single lump-sum cash payment, as soon as reasonably practicable following any such December 31, equal to $385,616.85 following December 31, 1999, $360,738.34 following December 31, 2000, and $335,859.84 following December 31, 2001. Any amounts paid to Executive under this Section 3(d) shall not be included as "Compensation" for purposes of the Company's Retirement and Savings Plans.

4. Special Lump-Sum Payment: As an inducement for Executive to enter into this Agreement, the Company shall pay Executive a one-time special lump-sum cash payment of $500,000 at the end of the next full pay period following the execution of this Agreement by the Company and Executive. The payment to Executive under this Section 4 shall not be included as "Compensation" for purposes of the Company's Retirement and Savings Plans.

5. Termination of Employment: Should Executive's employment terminate prior to the end of the Term, the following provisions of this Section 5 shall govern the rights of Executive under this Agreement:

(a) Termination Due to Death: In the event Executive's employment terminates during the Term as a result of Executive's death, the Company agrees (i) to pay all compensation that would have been payable to Executive under Sections 3(a), 3(b) and 3(d) above during the remainder of the Term (had Executive's employment continued during the remainder of the Term) to Executive's estate at the time or times such benefits would have otherwise been payable and (ii) to continue to provide, during the remainder of the Term, all welfare benefit coverages that were provided under Section 3(c) above to Executive's legal spouse and children on the date of his death.

(b) Termination Due to Disability: In the event Executive's employment is terminated during the Term due to his disability within the meaning of any long-term disability plan maintained by the Company and covering Executive as of the date of Executive's disability, the Company agrees (i) to pay Executive all compensation that would have been payable to Executive under Sections 3(a), 3(b) and 3(d) above during the remainder of the Term (had Executive's employment continued during the remainder of the Term) at the time or times such benefits would have otherwise been payable and (ii) to continue to provide, during the remainder of the Term, all welfare benefit coverages that were provided under Section 3(c) above to or in respect of Executive on the date of his disability, in addition to the benefits payable under the long-term disability plan; provided, however, that any base salary due under Section 3(a) shall be reduced by the amount of any long-term disability benefit actually paid to Executive during the Term. It is the intention of this Section 5(b) that the total of disability payments and base salary paid to Executive during the Term shall equal, but not exceed, Executive's base salary payable under Section 3(a) during the Term, but that payments under Section 3(b) and 3(d) shall not be reduced by disability payments during the Term.

(c) Termination by the Company for Cause: Any termination of Executive's employment by the Company for Cause shall be authorized by an appropriate officer of the Company and effected by written notice to Executive within 12 months of such officer having actual knowledge of the event or circumstances providing a basis for such termination. In the event the Company terminates Executive's employment during the Term for Cause, he shall be entitled to:

(i) his salary under Section 3(a) through the date of the termination of his employment for Cause;

(ii) any other full year amounts earned, accrued or owing as of the date of termination of employment but not yet paid as compensation by the Company under Section 3(b) or 3(d) above; and

(iii) other benefits for which he is eligible in accordance with applicable plans or programs of the Company.

"CAUSE" means Executive's (i) Gross Negligence in the performance of his duties, (ii) intentional and continued failure to perform his duties, (iii) intentional engagement in conduct which is materially injurious to the Company or its affiliates (monetarily or otherwise) or (iv) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of Executive will be deemed "intentional" only if done or omitted to be done by Executive not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company, and no act or failure to act on the part of Executive will be deemed "intentional" if it was due primarily to an error in judgment or ordinary negligence.

"GROSS NEGLIGENCE" as used herein carries the meaning used in Texas law as of the Effective Date, which requires a specific intent by Executive to cause substantial damage to the Company or an act or omission which, when viewed objectively from the standpoint of Executive at the time in question, involves an extreme degree of risk, considering the probability and magnitude of the potential harm to the Company; and of which Executive has actual, subjective awareness of the risk involved, but nevertheless proceeds with conscious indifference to the rights or welfare of the Company.

(d) Termination Without Cause or Voluntarily with Good Reason: In the event that, during the Term, the Company terminates Executive's employment without Cause (other than due to disability or death) or Executive voluntarily terminates employment for Good Reason, the Company agrees to pay Executive all amounts that would have been payable under Sections 3(a), 3(b) and 3(d), at the time or times as such amounts would otherwise have been payable if Executive had remained employed by the Company, and to continue to provide all benefit coverages provided under Section 3(c) to the end of the Term. The failure of Executive to terminate employment upon the occurrence of Good Reason as to any one event constituting Good Reason shall not affect his entitlement to terminate his employment as to any other such event.

"GOOD REASON" means:

(i) any failure by the Company to comply with any of the provisions of Section 3(a), 3(b), 3(c) or 3(d) above, other than any failure not occurring in bad faith that is remedied by the Company within 30 days after receipt of notice thereof from Executive;

(ii) relocation, without Executive's consent, of Executive's principal office to any office or location more than 50 miles from the principal office of Executive on the Effective Date;

(iii) requirement by the Company that Executive spend more than 50% of Executive's business time, measured over a six-month period, in a location other than Houston, Texas, unless consented to by Executive;

(iv) any failure by the Company to comply with and satisfy Section 11, provided that the successor described in Section 11 has received at least 10 days' prior written notice from the Company or Executive of the requirements of Section 11; or

(v) the assignment of Executive to a job or duty with the Company that is not considered to be an executive level position.

(e) Voluntary Termination: Upon 30 days' prior written notice to the Company, Executive may voluntarily terminate his employment with the Company. A voluntary termination pursuant to this Section 5(e) shall not include termination under Section 5(a), 5(b) or 5(d) above, and shall not be deemed a breach of this Agreement by Executive. In the event Executive voluntarily terminates his employment, he shall be entitled to:

(i) his base salary through the date of the termination of his employment;

(ii) any other amounts earned, accrued or owing as of the date of termination of employment but not yet paid as compensation by the Company under Sections 3(b), 3(c) and 3(d) above, including proration of incentive payments under Sections 3(b) and 3(d) based on the portion of the calendar year or relevant performance period that has elapsed prior to termination; and

(iii) other benefits for which he is eligible in accordance with applicable plans or programs of the Company.

(f) Certain Benefit Calculations: Upon termination of employment pursuant to Section 5(b) or 5(d) above, for purposes of any eligibility and benefit determinations under all benefit plans maintained by the Company and applicable to Executive or his beneficiaries upon such termination, and for purposes of eligibility for retiree medical coverage, (i) Executive will be credited with service for the period remaining in the Term (the "Remaining Term") and

(ii) Executive's age on the last day of the Term shall be deemed to have been his age at the date of actual termination of employment.

(g) No Mitigation; No Offset: In the event of any termination of employment under this Section 5, Executive shall be under no obligation to seek other employment, and there shall be no offset against amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that he may obtain.

(h) Nature of Payments: Any amounts due under this Section 5 are in the nature of severance payments, liquidated damages, or both, and shall compensate Executive, and the dependents, beneficiaries and estate of Executive for any and all direct damages and consequential damages that they may suffer as a result of the termination of Executive's employment, and are not in the nature of a penalty.

(i) Miscellaneous: For purposes of determining the amount of any payment under Sections 5(a), (b) and (d) based upon the achievement of a certain performance level under Section 3(b), such amount shall be determined as if the actual level of performance reached was "Target."

6. Confidentiality, Return of Property, and Covenant Not to Compete:

(a) Confidentiality: Executive agrees that in return for consideration provided in Section 6(c) he will not disclose or make available to any other person or entity, or use for his own personal gain, any Confidential Information, except for such disclosures as required in the performance of his duties hereunder. For purposes of this Agreement, "Confidential Information" shall mean any and all information, data and knowledge that has been created, discovered, developed or otherwise become known to the Company or any of its affiliates or ventures or in which property rights have been assigned or otherwise conveyed to the Company or any of its affiliates or ventures, which information, data or knowledge has commercial value in the business in which the Company is engaged, except such information, data or knowledge as is or becomes known to the public without violation of the terms of this Agreement. By way of illustration, but not limitation, Confidential Information includes trade secrets, processes, formulas, know-how, improvements, discoveries, developments, designs, inventions, techniques, marketing plans, manuals, records of research, reports, memoranda, computer software, strategies, forecasts, new products, unpublished financial statements or parts thereof, budgets or other financial information, projections, licenses, prices, costs, and employee, customer and supplier lists or parts thereof.

(b) Return of Property: Executive agrees that at the time of leaving the Company's employ, he will deliver to the Company (and will not keep in his possession, recreate or deliver to anyone else) all Confidential Information, as well as all other devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, customer or client lists or information, or any other documents or property (including all reproductions of the aforementioned items) belonging to the Company or any of its affiliates or ventures, regardless of whether such items were prepared by Executive.

(c) Covenant Not to Compete: Executive acknowledges that the Company's business is by its nature a worldwide business (the "Business Area"), and that the Company's business, research and products do not require that it maintain a physical location close to its customers. Executive further acknowledges that the skills, processes and information developed at the Company could be utilized directly and to the Company's detriment (or the detriment of any of the Company's affiliates or ventures) with any other business in the Business Area involved in the utilities business (a "Competitive Product"). Executive also acknowledges that the nature of his position at the Company will bring him into close contact with much of the Company's Confidential Information. Accordingly, for separate and additional consideration of $100,000 payable to Executive by the Company in a lump-sum cash payment at the end of the next full pay period following the execution and delivery to the Company by Executive of this Agreement, Executive agrees to be bound by the following restrictive covenants:

(i) During the Term, and for a period of 12 months after the termination of the Term for any reason other than the death or disability of Executive, Executive shall not, acting alone or in conjunction with others, directly or indirectly, invest or engage, directly or indirectly, in any business in the Business Area involved in researching, developing, or marketing a Competitive Product or accept employment with or render services to such a business as a director, officer, agent, employee, independent contractor or consultant, or take any action inconsistent with the fiduciary relationship of an employee to his employer; provided, however, that the beneficial ownership by Executive of up to 5% of the voting stock of any corporation subject to the periodic reporting requirements of the Securities and Securities Exchange Act of 1934 shall not violate this Section 6.

(ii) Executive further agrees that during the Term, and for a period of 24 months after the termination of the Term for any reason other than the death or disability of Executive, he shall not at any time, directly or indirectly, (1) induce, entice or solicit (or attempt to induce, entice or solicit) any employee of the Company or any of its affiliates or ventures to leave the employment of the Company or any of its affiliates or ventures or (2) solicit or attempt to solicit the business of any customer or acquisition prospect of the Company or any of its affiliates or ventures with whom Executive had any actual contact while employed at the Company.

(iii) Executive acknowledges that these restrictive covenants under Section 6, for which he received consideration from the Company as provided in this Section 6, are ancillary to otherwise enforceable provisions of this Agreement and that these restrictive covenants contain limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the good will or other business interests of the Company, such as the Company's need to protect its confidential and proprietary information. Executive acknowledges that in the event of a breach by Executive of these restrictive covenants, the covenants may be enforced by temporary restraining order, preliminary or temporary injunction, and permanent injunction. In that connection, Executive acknowledges that in the event of a breach, the Company will suffer irreparable injury for which there is no adequate legal remedy, in part because damages caused by the breach may be difficult to prove with any reasonable degree of certainty. Notwithstanding the above provisions of this Section 6 to the contrary, in the event Executive's employment is terminated during the Term for Cause (as defined herein), the 12- and 24-month periods referenced in paragraphs (c)(i) and (ii) above shall commence as of the date of the Executive's termination of employment with the Company.

7. Notices: For purposes of this Agreement, notices and all other communications provided for herein shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by United States registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Company:	Houston Industries Incorporated d/b/a Reliant Energy, Incorporated P.O. Box 4567 Houston, Texas 77210 ATTENTION: Chairman of the Board
If to Executive:	Rollie G. Bohall 3226 Canadian Katy, Texas 77493

or to such other address as either party may furnish to the other in writing in accordance herewith, except that notices of changes of address shall be effective only upon receipt.

8. Applicable Law: The validity, interpretation, construction and performance of this Agreement will be governed by and construed in accordance with the substantive laws of the State of Texas, including the Texas statute of limitations, but without giving effect to the principles of conflict of laws of such State.

9. Severability: If a court of competent jurisdiction determines that any provision of this Agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this Agreement and all other provisions shall remain in full force and effect.

10. Withholding of Taxes: The Company may withhold from any benefits payable under this Agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

11. No Assignment; Successors: Executive's right to receive payments or benefits hereunder shall not be assignable or transferable, whether by pledge, creation or a security interest or otherwise, whether voluntary, involuntary, by operation of law or otherwise, other than a transfer by will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer contrary to this Section 11 the Company shall have no liability to pay any amount so attempted to be assigned or transferred. This Agreement shall inure to the benefit of and be

enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributes, devises and legatees.

This Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns (including, without limitation, any company into or with which the Company may merge or consolidate). The Company agrees that it will not effect the sale or other disposition of all or substantially all of its assets unless either (a) the person or entity acquiring such assets or a substantial portion thereof shall expressly assume by an instrument in writing all duties and obligations of the Company hereunder or (b) the Company shall provide, through the establishment of a separate reserve therefor, for the payment in full of all amounts which are or may reasonably be expected to become payable to Executive hereunder.

12. Payment Obligations Absolute: Subject to the terms of this Agreement, the Company's obligation to pay (or cause one of its affiliates to pay) Executive the amounts and to make the arrangements provided herein shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counter-claim, recoupment, defense or other right which the Company (including its affiliates) may have against him or anyone else. All amounts payable by the Company (including its affiliates hereunder) shall be paid without notice or demand. Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any other employment shall in no event effect any reduction of the Company's obligations to make (or cause to be made) the payments and arrangements required to be made under this Agreement.

13. Effect of Prior Agreements: This Agreement contains the entire understanding between the parties hereto and supersedes any prior employment agreement or severance agreement between the Company or any predecessor of the Company and the Executive, except that this Agreement shall not effect or operate to reduce any benefit or compensation enuring to the Executive of a kind elsewhere provided and not expressly provided or modified in this Agreement. Specifically, but not by way of limitation, this Agreement supersedes and replaces that certain Severance Agreement between the parties, dated July 16, 1996.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered the _____ day of ______________, 1999, but effective as of the Effective Date.

HOUSTON INDUSTRIES INCORPORATED
d/b/a RELIANT ENERGY, INCORPORATED

By /s/ LEE W.HOGAN

Lee W. Hogan,
Executive Vice President

EXECUTIVE

/s/ ROLLIE G. BOHALL

Rollie G. Bohall

EXHIBIT 10(CC)(1)

RELIANT ENERGY, INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective April 1, 1999)

RELIANT ENERGY, INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective April 1, 1999)

I N D E X

Page

RELIANT ENERGY, INCORPORATED SAVINGS PLAN

(As Amended and Restated Effective April 1, 1999)

Recitals

Houston Industries Incorporated, a Texas corporation doing business as Reliant Energy, Incorporated, with its principal place of business in Houston, Harris County, Texas (the "Company"), established a tax-qualified defined contribution plan, effective July 1, 1973, for the benefit of its eligible Employees and retained the right to amend such Savings Plan under Section 10.3 thereof (the "Savings Plan").

Effective January 1, 1989, the Savings Plan was amended to comply with the provisions of the Tax Reform Act of 1986 and to make certain other changes therein. Effective October 5, 1990, the Savings Plan was amended and restated to include an employee stock ownership plan which is a stock bonus plan intended to qualify under Sections 401(a) and 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the "Code"), and as such is designed to invest primarily in Company Stock. Effective July 1, 1995, the Savings Plan was again amended and restated to make certain additional changes (the Savings Plan, as amended and restated effective July 1, 1995, and as thereafter amended and in effect on March 31, 1999, being herein referred to as the "Prior HII Plan").

Effective July 1, 1995, both the Houston Industries Incorporated Master Savings Trust and Houston Industries Incorporated ESOP Trust were amended, restated and continued in the form of a single trust known as the Houston Industries Incorporated Savings Trust (the "Savings Trust"), with The Northern Trust Company as trustee. The Savings Trust was intended to form a part of the Prior Plan.

As a result of the merger by and among NorAm Energy Corp. ("NorAm"), Houston Industries Incorporated, Houston Lighting & Power Company and HI Merger Inc., NorAm became a wholly owned subsidiary of the Company and the Company (1) assumed the sponsorship of the NorAm Employee Savings & Investment Plan (the "NorAm Plan") and the Minnegasco Division Employees' Retirement Savings Plan (the "Minnegasco Plan"), and (2) adopted (x) the NorAm Plan trust, known as the NorAm Employee Savings & Investment Plan Trust (the "NorAm Trust"), (y) the Minnegasco Plan trust, known as the Employees' Retirement Savings Plan Trust Agreement (the "Minnegasco Trust"), and (z) the Pooled Investment Trust Agreement for the Arkla, Inc. Common Stock Pooled Trust (the "Pooled Investment Trust"), a pooled investment trust holding commingled assets of the NorAm Trust and Minnegasco Trust, and the Company assumed all duties, rights and responsibilities thereto as a party to the respective trust agreements in the place and stead of NorAm and the Minnegasco division of NorAm, as applicable, effective August 6, 1997.

Effective April 1, 1999, the Committee authorized and directed that (i) the NorAm Plan and Minnegasco Plan be consolidated with, merged into, and continued in the form of the Prior Plan, (ii) the Prior HII Plan be amended, restated and continued in order to incorporate all prior amendments to the Prior HII Plan, including the amendments incorporating certain changes required by the Retirement Protection Act of 1994 under the General Agreement on Tariffs and Trades, the Uniformed Services Employment and Reemployment Rights Act, the Small Business Job Protection Act of 1996 and the Tax Reform Act of 1997, and to provide for a continuation of at least substantially identical benefits for the former participants of each of the NorAm Plan, the Minnegasco Plan and the Prior HII Plan, respectively, (iii) all assets held under the NorAm Trust, the Minnegasco Trust and the Pooled Investment Trust for the benefit of the participants in the NorAm Plan and the Minnegasco Plan be merged with all the assets held under the Savings Trust for the benefit of the participants in the Prior HII Plan, (iv) the amended and restated Prior HII Plan reflect the change in the name of the Plan sponsor from Houston Industries Incorporated to Reliant Energy, Incorporated, and (v) certain other changes be made to the Prior HII Plan so that, from and after April 1, 1999, the NorAm Plan, the Minnegasco Plan and the Prior HII Plan shall constitute a "single plan" within the meaning and purview of Section 414(l) of the Code, with the amended and restated Prior Plan, named the Reliant Energy, Incorporated Savings Plan (hereinafter referred to as the "Plan"), being the surviving plan for all legal purposes, including reporting and disclosure under the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The Plan and Savings Trust are intended to meet the requirements of Sections 401(a), 401(k), 501(a) and 4975(e)(7) of the Code and ERISA, as either may be amended from time to time.

The provisions of the Plan shall apply to a Participant who continues his Service after the Effective Date, and, except as otherwise expressly set forth herein, the rights and benefits, if any, of a Prior Plan Participant (as herein defined) who terminated his Service prior to the Effective Date shall be determined under the provisions of the applicable Prior Plan (as herein defined) in effect on the date his Service terminated.

NOW, THEREFORE, the Committee hereby merges the NorAm Plan and Minnegasco Plan into the Prior HII Plan and amends, restates, and continues the Prior HII Plan in the form of, and by the adoption of, the Plan as herein set forth, effective April 1, 1999, except as otherwise indicated herein, to read as follows:

ARTICLE I

DEFINITIONS

As used in the Plan, the following words and phrases shall have the following meanings unless the context clearly requires a different meaning:

1.1 ACCOUNT: Any of the accounts maintained for a Participant pursuant to Section 5.1, or all such accounts collectively, as the context requires.

1.2 AFFILIATE: A corporation or other trade or business which, together with an Employer, is "under common control" within the meaning of Section 414(b) or (c), as modified by Section 415(h) of the Code; any organization (whether or not incorporated) which is a member of an "affiliated service group" (within the meaning of Section 414(m) of the Code) which includes the Employer; and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code.

1.3 AFTER-TAX CONTRIBUTIONS: Any amount contributed by a Participant to the Trust Fund from his Compensation as "After-Tax Matched Contributions" (formerly referred to as "After-Tax Basic Contributions") and "After-Tax Unmatched Contributions" (formerly referred to as "After-Tax Excess Contributions") pursuant to Section 4.3.

1.4 AFTER-TAX CONTRIBUTION ACCOUNT: The account or accounts maintained for each Participant to reflect his After-Tax Matched Contributions and After-Tax Unmatched Contributions, and adjustments relating thereto.

1.5 ANNIVERSARY DATE: January 1.

1.6 BENEFICIARY: Such natural person or persons, or the trustee of an inter vivos trust for the benefit of natural persons, entitled to receive a Participant's death benefits under the Plan, as provided in Section 6.3 hereof.

1.7 CODE: The Internal Revenue Code of 1986, as amended.

1.8 COMMITTEE: The Benefits Committee as described in Article II and, in regard to any provision of this Plan under which an agent has been appointed by the Benefits Committee pursuant to Article II to administer such provision of this Plan, such agent.

1.9 COMPANY: Prior to May 5, 1999, Houston Industries Incorporated, a Texas corporation doing business as Reliant Energy, Incorporated, and on and after May 5, 1999, Reliant Energy, Incorporated or a successor to Reliant Energy, Incorporated in the ownership of substantially all of its assets.

1.10 COMPANY STOCK: Common stock or convertible preferred stock of the Company which is readily tradeable on an established securities market.

1.11 COMPENSATION: The total cash compensation actually paid for personal services to the respective Participant by the Employer during the applicable payroll period plus any amounts contributed by an Employer pursuant to a salary reduction agreement under Code Section 401(k) and any amounts not includable in gross income of the Participant under Code Section 125. Compensation specifically includes salaries, wages, commissions, overtime pay, performance-based bonuses paid in cash, and any other payments of compensation which would be subject to tax under Code Section 3101(a), without the dollar limitations of Code Section 3121(a)(1). Compensation specifically excludes (i) expense allowances; (ii) benefits received under the Long-Term Disability Plan of an Employer; (iii) contributions of the Employer to or benefits under this Plan or any other welfare or deferred compensation plan not expressly included above; (iv) any payments made in connection with a Participant's termination of employment or severance pay; and (v) Compensation taken into account under the Plan for any Participant during a given Plan Year exceeding $160,000, or such other dollar amount as may be prescribed by the Secretary of the Treasury or his delegate from time to time. The Compensation of the respective Participants as reflected by the books and records of the Employer shall be conclusive.

1.12 CONTRIBUTION: Any amount contributed to the Trust Fund pursuant to the provisions of this Plan by the Employer or by a Participant from his Compensation, including ESOP Contributions, Employer Matching Contributions, Pre-Tax Matched Contributions, Pre-Tax Unmatched Contributions, After-Tax Matched Contributions, and After-Tax Unmatched Contributions.

1.13 DEFINED BENEFIT PLAN: The Reliant Energy, Incorporated Retirement Plan (formerly the Houston Industries Incorporated Retirement Plan) and/or any other defined benefit plan (as defined in Section 415(k) of the Code) maintained by the Company or by any Affiliate.

1.14 DISABILITY: A disability incurred by a Participant that satisfies the requirements of Section 6.2.

1.15 EFFECTIVE DATE: April 1, 1999, except (A) as otherwise provided in specific provisions of the Plan and (B) that provisions of the Plan required to have an earlier effective date by application of statute and/or regulation shall be effective as of the required effective date in such statute and/or regulation.

1.16 EMPLOYEE: Any person employed by an Employer, and including (i) any disabled individual on "Initial LTD Status" or inactive status under the Long-Term Disability Plan of an Employer and (ii) any "leased employee" (as defined in Section 414 of the Code, subject to Section 414(n)(5)) performing services for an Employer. In addition to the above, the term "Employee" shall include any person receiving remuneration for personal services (or would be receiving such remuneration except for an authorized leave of absence) rendered as an employee of a foreign affiliate (as defined in Code Section 3121(l)(6)) of an Employer to which an agreement extending coverage under the Federal Social Security Act entered into by an Employer under Section 3121(l) of said Code applies, provided that such person is a citizen or resident of the United States.

1.17 EMPLOYER: The Company (including its successors) and any other eligible organization that shall adopt this Plan pursuant to the provisions of Article X, and the successors, if any, to such organization.

1.18 EMPLOYER CONTRIBUTIONS: Collectively, the Employer Matching Contributions and ESOP Contributions.

1.19 EMPLOYER MATCHING ACCOUNT: The account maintained to reflect the Employer Matching Contributions to the Plan for each Participant and any adjustments thereto made pursuant to the provisions of the Plan.

1.20 EMPLOYER MATCHING CONTRIBUTIONS: Any amount, with the exception of ESOP Contributions, contributed to the Trust Fund by the Employer pursuant to Section 4.1.

1.21 ERISA: Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.22 ESOP ACCOUNT: The account maintained for each Participant to reflect the interest in the ESOP Fund allocated to each Participant.

1.23 ESOP CONTRIBUTIONS: The Employer Contributions to the Trust on behalf of the ESOP Fund for the purpose of repayment of an Exempt Loan, as described in Section 4.1.

1.24 ESOP FUND: The investment fund held by the Trustee which shall be primarily invested and reinvested in shares of Company Stock.

1.25 EXEMPT LOAN: Any loan or other extension of credit made or guaranteed by a disqualified person as defined in Code Section 4975(e)(2) that is used to finance the purchase of Company Stock by the Trustee and that meets the requirements of Section 5.6.

1.26 FIDUCIARIES: The Employer, the Committee, the Trustee, and any other person designated as a Fiduciary with respect to the Plan or the Trust Agreement, but only with respect to the specific responsibilities of each as described in Section 2.13 hereof. Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

1.27 FINANCED STOCK: Company Stock acquired with the proceeds of an Exempt Loan; provided, however, that the number of shares of Financed Stock shall be proportionately adjusted to reflect any share split, share dividend or combination of outstanding shares of the Company Stock that were acquired with the proceeds of an Exempt Loan.

1.28 HII PARTICIPANT: A Participant who was participating in the Prior HII Plan immediately prior to April 1, 1999.

1.29 INVESTMENT FUND: One of the Investment Funds held under the Trust Fund, as described in Section 8.1, of which the ESOP Fund is not a part.

1.30 INVESTMENT MANAGER: The Investment Manager, if any, appointed by the Committee under the Trust Agreement, as such term is defined by Section 3(38) of ERISA.

1.31 LEAVE FOR BUSINESS AND CIVIC REASONS: The period of an "Authorized Absence" (as defined in Section 3.5) taken in order to hold an office or position in a business or civic organization which has been approved by the Committee.

1.32 MINNEGASCO PARTICIPANT: A Participant who was participating in the Minnegasco Plan immediately prior to April 1, 1999.

1.33 MINNEGASCO PLAN: The Minnegasco Division Employees' Retirement Savings Plan as in effect immediately prior to April 1, 1999.

1.34 NORAM PARTICIPANT: A Participant who was participating in the NorAm Plan immediately prior to April 1, 1999.

1.35 NORAM PLAN: The NorAm Employee Savings & Investment Plan as in effect immediately prior to April 1, 1999.

1.36 PARTICIPANT: A current or former eligible Employee who, pursuant to the provisions of Article III hereof, has elected to participate in the Plan, and who at any relevant time is either making, or has made, Pre-Tax Matched Contributions and/or After-Tax Matched Contributions to the Plan, and for whom contribution accounts continue to be held under the Plan. A former Employee shall be deemed a Participant under the Plan as long as he has an Account in the Trust Fund which has not been forfeited under Section 6.1 hereof and thus will be entitled to exercise all the rights and privileges granted active Employees who are Participants except as otherwise specifically provided in the case of Participant loans under Section 7.5 hereof.

1.37 PLAN: The Reliant Energy, Incorporated Savings Plan set forth herein, which is intended to constitute a profit-sharing plan under Section 401(a)(27) of the Code and an employee stock ownership plan under Section 4975(e)(7) of the Code, including all subsequent amendments hereto.

1.38 PLAN YEAR: The 12-month period commencing on January 1 and ending on December 31.

1.39 PRE-TAX CONTRIBUTIONS: Any amount deferred by a Participant from his Compensation as "Pre-Tax Matched Contributions" (formerly referred to as "Pre-Tax Basic Contributions") and "Pre-Tax Unmatched Contributions" (formerly referred to as "Pre-Tax Excess Contributions") pursuant to Section 4.2.

1.40 PRE-TAX CONTRIBUTION ACCOUNT: The account or accounts maintained for each Participant to reflect his Pre-Tax Matched Contributions and Pre-Tax Unmatched Contributions to the Plan, and any adjustments thereto made pursuant to the provisions of the Plan.

1.41 PRIOR HII PLAN: The Houston Industries Incorporated Savings Plan, as amended and restated effective July 1, 1995 and as thereafter amended and in effect on March 31, 1999.

1.42 PRIOR PLAN: The applicable of (i) the Minnegasco Plan, (ii) the NorAm Plan and (iii) the Prior HII Plan.

1.43 PRIOR PLAN ACCOUNTS: The (i) "Prior Plan Matching Account," (ii) "Prior Plan ESOP Account," (iii) "Cengas Account," and (iv) "Prior Plan 1999 Matching Account," as each such Prior Plan Account is defined in Section 5.1(a).

1.44 PRIOR PLAN PARTICIPANT: Any person who is in the employment of an Employer or Affiliate on the Effective Date and was included in and covered by a Prior Plan immediately prior thereto, or who is the alternate payee, beneficiary, spouse or estate representative of such a person who died or was receiving or entitled to receive benefits under a Prior Plan.

1.45 QUALIFIED MILITARY SERVICE: Any service in the uniformed services (as defined in Chapter 43 of Title 38 of the United States Code or its successor) by an Employee who is entitled to reemployment rights under such chapter with respect to such service.

1.46 RETIREMENT: Termination of Service on or after the Retirement Date of a Participant.

1.47 RETIREMENT DATE: With respect to Participants in the Houston Industries Incorporated Savings Plan employed prior to January 1, 1988, the term "Retirement Date" shall mean the first day of the calendar month coincident with or next following the 65th birthday of a Participant; and, with respect to all other Participants hired on or after January 1, 1988, such term shall mean the later of (i) the Participant's attainment of age 65 or (ii) the fifth anniversary of the Participant's commencement of participation in the Plan.

1.48 ROLLOVER ACCOUNT: An account maintained for an Employee or Participant to record rollover contributions to this Plan pursuant to Section 4.16, and any allocations and adjustments thereto.

1.49 SERVICE: An Employee's or Participant's period of employment with an Employer or Affiliate, as determined in accordance with Article III.

1.50 STOCK SUSPENSE ACCOUNT: The suspense account maintained by the Trustee in accordance with Section 5.1 and to which will be credited all shares of Financed Stock prior to the allocation of such shares to the ESOP Accounts in accordance with Section 5.3.

1.51 TRUST AGREEMENT: The Reliant Energy, Incorporated Savings Trust, as amended and restated effective April 1, 1999, as it may hereafter be amended from time to time.

1.52 TRUST FUND: All contributions of Employers and Participants, and the investments and reinvestments thereof, held by the Trustee under the Trust Agreement, together with all income, profits or increments thereon.

1.53 TRUSTEE: The Northern Trust Company, an Illinois corporation, or any successor Trustee or Trustees under the relevant Trust Agreement.

1.54 VALUATION DATE: Any date on which the New York Stock Exchange is open for trading and any date on which the value of the assets of the Trust Fund is determined by the Trustee pursuant to Section 5.2. The last business day of each March, June, September and December of each Plan Year shall be the "quarterly Valuation Date" and the last business day of each December of each Plan Year shall be the "annual Valuation Date."

1.55 VESTING SERVICE: The period of a Participant's Service considered in the determination of his eligibility for benefits under the Plan, in accordance with Article III.

Words used in this Plan and in the Trust Agreement in the singular shall include the plural and in the plural the singular, and the gender of words used shall be construed to include whichever may be appropriate under any particular circumstances of the masculine, feminine or neuter genders.

ARTICLE II

ADMINISTRATION OF THE PLAN

2.1 Appointment of Committee: The Board of Directors of the Company shall appoint a Committee of not less than three persons, who may be Employees of the Company, to perform the administrative duties set forth herein. The Committee shall be the administrator of the Plan for the purposes of ERISA. Each member of the Committee shall serve for such term as the Board of Directors of the Company may designate or until his death, resignation or removal by the Board. The Board of Directors of the Company shall promptly appoint successors to fill any vacancies in the Committee.

2.2 Records of Committee: The Committee shall keep appropriate records of its proceedings and the administration of the Plan. The Committee shall make available to Participants and their Beneficiaries for examination, during business hours, such records of the Plan as pertain to the examining person and such documents relating to the Plan as are required by any applicable disclosure acts.

2.3 Committee Action: The Committee may act through the concurrence of a majority of its members expressed either at a meeting of the Committee, or in writing without a meeting. Any member of the Committee, or the Secretary or Assistant Secretary of the Committee (who need not be members of the Committee), may execute on behalf of the Committee any certificate or other written instrument evidencing or carrying out any action approved by the Committee. The Committee may delegate any of its rights, powers and duties to any one or more of its members or to an agent. The Chairman of the Committee shall be agent of the Plan and the Committee for the service of legal process at the principal office of the Company in Houston, Texas.

2.4 Committee Disqualification: A member of the Committee who may be a Participant shall not vote on any question relating specifically to himself.

2.5 Committee Compensation and Expenses: The members of the Committee shall serve without bond (unless otherwise required by law) and without compensation for their services as such. The Committee may select and authorize the Trustee to suitably compensate such attorneys, agents and representatives as it may deem necessary or advisable to the performance of its duties. Expenses of the Committee that shall arise in connection with the administration of the Plan shall be paid by the Company or, if not paid by the Company, by the Trustee out of the Trust Fund.

2.6 Committee Liability: Except to the extent that such liability is created by ERISA, no member of the Committee shall be liable for any act or omission of any other member of the Committee, nor for any act or omission on his own part except for his gross negligence or willful misconduct, nor for the exercise of any power or discretion in the performance of any duty assumed by him hereunder. The Company shall indemnify and hold harmless each member of the Committee from any and all claims, losses, damages, expenses (including counsel fees approved by the

Committee) and liabilities (including any amounts paid in settlement with the Committee's approval, but excluding any excise tax assessed against any member or members of the Committee pursuant to the provisions of Section 4975 of the Code) arising from any act or omission of such member in connection with duties and responsibilities under the Plan, except where the same is judicially determined to be due to the gross negligence or willful misconduct of such member.

2.7 Committee Determinations: The Committee shall enforce this Plan in accordance with its terms and shall have all powers necessary for the accomplishment of that purpose, including, but not by way of limitation, the following powers:

(a) To employ such agents and assistants, such counsel (who may be of counsel to the Company) and such clerical, accounting, administrative, and investment services as the Committee may require in carrying out the provisions of the Plan;

(b) To authorize one or more of their number, or any agent, to make payment, or to execute or deliver any instrument, on behalf of the Committee, except that all requisitions for funds from, and requests, directions, notifications, certifications, and instructions to, the Trustee (except as provided in (i) below) or to the Company shall be signed either by a member of the Committee or by the Secretary or Assistant Secretary of the Committee;

(c) To determine from the records of the Company the considered Compensation, Service and other pertinent facts regarding Employees and Participants for the purpose of the Plan;

(d) To construe and interpret the Plan, decide all questions of eligibility and determine the amount, manner and time of payment of any benefits hereunder;

(e) To prescribe forms and procedures to be followed by Employees for participation in the Plan, by Participants or Beneficiaries filing applications for benefits, by Participants applying for withdrawals or loans, and for other occurrences in the administration of the Plan;

(f) To prepare and distribute, in such manner as the Committee determines to be appropriate, information explaining the Plan;

(g) To furnish the Company and the Participants, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate;

(h) To certify to the Trustee the amount and kind of benefits payable to Participants and their Beneficiaries;

(i) To authorize all disbursements by the Trustee from the Trust Fund by a written authorization signed either by a member of the Committee or by the Secretary or Assistant Secretary of the Committee; provided, however, that disbursements for ordinary expenses incurred in the administration of the Trust Fund and disbursements to Participants need not be authorized by the Committee;

(j) In the event of any share split, share dividend or combination of outstanding shares of Company Stock, to determine the appropriate allocation of shares of Company Stock to the Stock Suspense Account and the Accounts maintained for the Participants and to determine the appropriate number of shares distributable to a Participant under Section 6.6 hereof immediately following such share split, share dividend or combination so as to effectuate the intent and purpose of the Plan;

(k) To interpret and construe all terms, provisions, conditions and limitations of this Plan and to reconcile any inconsistency or supply any omitted detail that may appear in this Plan in such manner and to such extent, consistent with the general terms of this Plan, as the Committee shall deem necessary and proper to effectuate the Plan for the greatest benefit of all parties interested in the Plan;

(l) To make and enforce such rules and regulations for the administration of the Plan as are not inconsistent with the terms set forth herein; and

(m) In addition to all other powers herein granted, and in general consistent with provisions hereof, the Committee shall have all other rights and powers reasonably necessary to supervise and control the administration of this Plan.

2.8 Information from Employer: To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee of all matters relating to the dates of employment of its Employees for purposes of determining eligibility of Employees to participate hereunder, the Compensation of all Participants, their Retirement, death or other cause for termination of employment, and such other pertinent facts as the Committee may require; and the Committee shall advise the Trustee of such of the foregoing facts as may be pertinent to the Trustee's administration of the Trust Fund.

2.9 Uniform Administration: Whenever in the administration of the Plan any action is required by the Employer or the Committee, including, but not by way of limitation, action with respect to eligibility of Employees, Contributions, and benefits, such action shall be uniform in nature as applied to all persons similarly situated, and no action shall be taken which will discriminate in favor of Participants who are officers or shareholders of the Employer, highly compensated Employees, or persons whose principal duties consist of supervising the work of others.

2.10 Reporting Responsibilities: As administrator of the Plan under ERISA, the Committee shall file or distribute all reports, returns and notices required under ERISA or other applicable law.

2.11 Disclosure Responsibilities: The Committee shall make available to each Participant and Beneficiary such records, documents and other data as may be required under ERISA, and Participants or Beneficiaries shall have the right to examine such records at reasonable times during business hours. Nothing contained in this Plan shall give any Participant or Beneficiary the right to examine any data or records reflecting the Compensation paid to, or relating to any Account of, any other Participant or Beneficiary, except as may be required under ERISA.

2.12 Quarterly Statements: As soon as practicable after each quarterly Valuation Date, the Committee shall prepare and deliver to each Participant a written statement reflecting as of that quarterly Valuation Date:

(a) Such information applicable to contributions by and for each such Participant and the increase or decrease thereof as a consequence of valuation adjustments as may be pertinent in the premises; and

(b) The balance in his Account as of that quarterly Valuation Date.

2.13 Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration: The Fiduciaries shall have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan or the Trust Agreement. In general, the Employer shall have the sole responsibility for making the Contributions provided for under Sections 4.1, 4.2 and 4.3. The Company shall have the sole authority to appoint and remove the Trustee and members of the Committee. The Company may amend or terminate, in whole or in part, this Plan or the Trust Agreement. The Committee shall have the sole responsibility for the administration of the Plan and the sole authority to appoint and remove any Investment Manager which may be provided for under the Trust. The Trustee shall have the sole responsibility for the administration of the Trust Fund and shall have exclusive authority and discretion to manage and control the assets held under the Trust Fund, except to the extent that the authority to manage, acquire and dispose of the assets of the Trust Fund is delegated to an Investment Manager, all as specifically provided in the Trust Agreement. Each Fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust Agreement, as the case may be, authorizing or providing for such direction, information or action. Furthermore, each Fiduciary may rely upon any such direction, information or action of another Fiduciary as being proper under this Plan or the Trust Agreement and is not required under this Plan or the Trust Agreement to inquire into the propriety of any such direction, information or action. It is intended under this Plan and the Trust Agreement that each Fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust Agreement and shall not be responsible for any act or failure to act of another Fiduciary. No Fiduciary guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

2.14 Annual Audit: The Committee shall engage, on behalf of all Participants, an independent Certified Public Accountant who shall conduct an annual examination of any financial statements of the Plan and Trust Fund and of other books and records of the Plan and Trust Fund as the Certified Public Accountant may deem necessary to enable him to form and provide a written opinion as to whether the financial statements and related schedules required to be filed with the Internal Revenue Service, Securities and Exchange Commission, or Department of Labor or furnished to each Participant are presented fairly and in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding Plan Year. If, however, the statements required to be submitted as part of the reports to the Department of Labor are prepared by a bank or similar institution or insurance carrier regulated and supervised and subject to periodic examination by a state or federal agency and if such statements are, in fact, made a part of the annual report to the Department of Labor and no such audit is required by ERISA, then the audit required by the foregoing provisions of this Section shall be optional with the Committee.

2.15 Presenting Claims for Benefits: Any Participant or any other person claiming under any deceased Participant may submit written application to the Committee for the payment of any benefit asserted to be due him under the Plan. Such application shall set forth the nature of the claim and such other information as the Committee may reasonably request. Promptly upon the receipt of any application required by this Section, the Committee shall determine whether or not the Participant or Beneficiary involved is entitled to a benefit hereunder and, if so, the amount thereof and shall notify the applicant of its findings.

The Committee shall notify the applicant of the benefits determination within a reasonable time after receipt of the claim, such time not to exceed 90 days unless special circumstances require an extension of time for processing the application. If such an extension of time for processing is required, written notice of the extension shall be furnished to the applicant prior to the end of the initial 90-day period. In no event shall such extension exceed a period of 90 days from the end of such initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render its final decision. Notice of the Committee's decision to deny a claim in whole or in part shall be set forth in a manner calculated to be understood by the applicant and shall contain the following:

(a) the specific reason or reasons for the denial;

(b) specific reference to the pertinent Plan provisions on which the denial is based;

(c) a description of any additional material or information necessary for the applicant to perfect the claim and an explanation of why such material or information is necessary; and

(d) an explanation of the claims review procedures set forth in Section 2.16 hereof.

If notice of denial is not furnished and if the claim is not granted within the period of time set forth above, the claim shall be deemed denied for purposes of proceeding to the review stage described in Section 2.16. Participants shall be given timely written notice of the time limits set forth herein for determination on claims, appeal of claim denial and decisions on appeal.

2.16 Claims Review Procedure: If an application filed by a Participant or Beneficiary under Section 2.15 above shall result in a denial by the Committee of the benefit applied for, either in whole or in part, such applicant shall have the right, to be exercised by written request filed with the Committee within 60 days after receipt of notice of the denial of his application or, if no such notice has been given, within 60 days after the application is deemed denied under Section 2.15, for the review of his application and of his entitlement to the benefit for which he applied. Such request for review may contain such additional information and comments as the applicant may wish to present. The Committee shall reconsider the application in light of such additional information and comments as the applicant may have presented and, if the applicant shall have so requested, may grant the applicant a formal hearing before the Committee in its discretion. The Committee shall also permit the applicant or his designated representative to review pertinent documents in its possession, including copies of the Plan document and information provided by the Employer relating to the applicant's entitlement to such benefit. The Committee shall render a decision no later than the date of the Committee meeting next following receipt of the request for review, except that (i) a decision may be rendered no later than the second following Committee meeting if the request is received within 30 days of the first meeting and (ii) under special circumstances which require an extension of time for rendering a decision (including but not limited to the need to hold a hearing), the decision may be rendered not later than the date of the third Committee meeting following the receipt of the request for review. If such an extension of time for review is required because of special circumstances, written notice of the extension shall be furnished to the applicant prior to the commencement of the extension. Notice of such final determination of the Committee shall be furnished to the applicant in writing, in a manner calculated to be understood by him, and shall set forth the specific reasons for the decision and specific references to the pertinent provisions of the Plan upon which the decision is based. If the decision on review is not furnished within the time period set forth above, the claim shall be deemed denied on review.

2.17 Disputed Benefits: If any dispute shall arise between a Participant or other person claiming under a Participant and the Committee after review of a claim for benefits, or in the event any dispute shall develop as to the person to whom the payment of any benefit under the Plan shall be made, the Trustee may withhold the payment of all or any part of the benefits payable hereunder to the Participant or other person claiming under the Participant until such dispute has been resolved by a court of competent jurisdiction or settled by the parties involved.

ARTICLE III

PARTICIPATION IN THE PLAN

3.1 Eligibility of Employees: An Employee eligible to participate under the applicable Prior Plan immediately preceding the Effective Date shall be eligible to become a Participant in this Plan as of the Effective Date. From and after the Effective Date, each Employee who is eligible and who is not a Participant and who began Service with an Employer on or after April 1, 1999 shall be initially eligible to participate in the Plan as soon as practicable following the later of (i) the Effective Date or (ii) the date he first began Service with such Employer. Notwithstanding the foregoing, each of the following individuals shall be ineligible to participate in this Plan: (i) an Employee who is employed as a building trades worker under a construction industry collective bargaining agreement providing specifically for retirement benefit payments to be made thereunder for such building trades worker; (ii) an Employee who is a "leased employee" as defined in Section 414(n) of the Code; (iii) an individual who is designated, compensated, or otherwise classified or treated as an independent contractor by an Employer or an Affiliate; and (iv) an individual who is a non-resident alien and who receives no United States source earned income from the Employer.

3.2 Employee Information: The Committee shall maintain records which shall reflect as to each Employee his date of birth, all dates reflecting when he entered into or left the employment of any Employer, and his years of Vesting Service. The Employer shall make available to the Committee all such information as may be required by the Committee for the purposes of maintaining such information as to each Employee.

3.3 Notification of Eligible Employees: Each eligible Employee shall be notified that he is eligible to participate in the Plan upon commencement of his Service as soon as administratively practicable.

3.4 Application by Participants: Each Employee who shall become eligible to participate in the Plan and who shall desire to become a Participant shall complete an application in such form as may be prescribed by the Committee in which the Participant shall elect to make and designate the amount of his Contributions, as contemplated under Sections 4.2 and 4.3 hereof, and his choice of investment options under Section 8.1 hereof.

3.5 Service Defined: For purposes of the Plan, the term "Service" shall mean the following:

(a) With respect to Service prior to April 1, 1999, (i) for Minnegasco Participants and NorAm Participants, all service determined in accordance with the provisions of the Minnegasco Plan and NorAm Plan, respectively, as of March 31, 1999; and (ii) for HII Participants, all service determined based on each HII Participant's service under the Reliant Energy, Incorporated Retirement Plan (formerly) the Houston Industries Incorporated Retirement Plan) as of October 31, 1998, with such service increased by one year.

(b) With respect to Service after March 31, 1999, all years, months and days of active employment with an Employer or an Affiliate from and after April 1, 1999 as an Employee, a Participant or a Participant on inactive status, as described in Section 3.11 ("Transferred Participant"), including periods includable under Sections 3.8 and 3.9, and the following periods of "Authorized Absence" during which a Participant or Transferred Participant is:

(i) Absent due to Qualified Military Service, provided that such Employee or Participant complies with all prerequisites of applicable Federal law and applied for reinstatement of employment pursuant to the procedures and requirements of the Employer and, if applicable, the Committee, to the extent consistent with applicable Federal law; or

(ii) Absent due to accident or sickness as long as the Employee or Participant is continued on the employment rolls of the Employer and remains eligible to work upon his recovery, provided that such Employee or Participant timely applied for reinstatement of employment following his date of recovery in accordance with the procedures and requirements of the Employer and, if applicable, the Committee; or

(iii) Absent due to an authorized leave of absence, including periods of Leave for Business and Civic Reasons, subject to such conditions as may be approved by the Committee consistently applied in a uniform and non-discriminatory manner to all employees similarly situated.

(c) An Employee's or Participant's Service shall also include any period required to be included as Service by federal law other than ERISA or the Code, but only under the conditions and to the extent so required by such federal law. In addition, the Committee, in its discretion, may credit an individual with Service based on employment with an entity other than the Employer, but only if and when such individual becomes an Employee eligible to participate in the Plan under this Article III and only if such crediting of Service (i) has a legitimate business reason, (ii) does not by design or operation discriminate significantly in favor of "highly compensated employees" (as defined in Code Section 414(q)), and (iii) is applied to all similarly-situated Employees eligible to participate in the Plan under this Article III. Furthermore, in the event that the Plan constitutes a plan of a predecessor employer within the meaning of section 414(a) of the Code, service for such predecessor employer shall be treated as Service to the extent required by Section 414(a) of the Code.

3.6 Commencement and Termination of Service:

(a) From and after April 1, 1999, an Employee's or Participant's Service shall commence (or recommence) on the date he first performs an "hour of service" within the meaning of Department of Labor Regulation Section 2530.200b-2(a)(1) for an Employer or Affiliate. All periods of Service shall be aggregated so that a one-year period of Service shall be completed as of the date the Employee or Participant completes 365 days of Service. Hours of service and Service will be credited for employment with other members of an affiliated service group (under Code Section 414(m)), a controlled group of corporations (under Code Section 414(b)), or a group of trades or businesses under common control (under Code Section 414(c)), of which the Employer is a member.

(b) Except as otherwise provided in this Article III, a period of Service of an Employee or Participant shall terminate on the date of the first to occur of:

(i) His Retirement or death;

(ii) His quitting or discharge;

(iii) His deemed date of termination of employment pursuant to his failure to return to work upon the expiration of such an Authorized Absence; or

(iv) One year from the date the Employee or Participant is absent from active employment for any reason other than Retirement, quitting, discharge, Authorized Absence or death.

For purposes of clause (iii) immediately above, an Employee's or Participant's deemed date of termination shall be the earlier of (1) the expiration date of such Authorized Absence or (2) one year from the date such Authorized Absence commenced. Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to Qualified Military Service will be provided in accordance with Section 414(u) of the Code.

3.7 Break In Service:

(a) With respect to a termination of Service occurring prior to April 1, 1999, a Break in Service shall be determined in accordance with the "break in service" provisions of the applicable Prior Plan. For purposes of eligibility and vesting, any

Employee or Participant who has a Break In Service commencing prior to April 1, 1999 shall have his rights surrounding such Break In Service determined in accordance with the provisions of the applicable Prior Plan in which he participated.

(b) With respect to a termination of Service occurring from and after April 1, 1999, a Break In Service shall occur upon the expiration of the 12 consecutive month period next following an Employee's or a Participant's termination of Service, as determined in accordance with the provisions of Section 3.6(b), unless such Employee or Participant sooner recommences Service with an Employer or Affiliate. In the event an Employee or Participant recommences Service with an Employer or Affiliate prior to incurring a Break In Service, the period of his interim absence shall constitute Service for all purposes of the Plan, as provided under Section 3.8 below.

(c) Solely for purposes of determining whether a Break In Service has occurred under this Plan, the Service of an individual who is absent from work for maternity or paternity reasons shall not terminate until the expiration of two years after the date such absence commenced. For purposes of this paragraph, an absence from work for maternity or paternity reasons means an absence (i) by reason of the pregnancy of the Employee or Participant, (ii) by reason of the birth of a child of the Employee or Participant, (iii) by reason of the placement of a child with the Employee or Participant in connection with the adoption of such child by such Employee or Participant or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement. In order for the absence of a Participant or an Employee to qualify as a maternity/paternity leave, the Participant must furnish the Committee in a timely manner, with such information and documentation as the Committee shall reasonably require to establish that the absence from work is for the reasons referred to above and the number of days for which there was such absence.

(d) Notwithstanding any provision of this Article III to the contrary, for purposes of determining eligibility to participate and vesting under the Plan, Service shall be continued during any leave taken pursuant to the Family and Medical Leave Act of 1993 and no Break In Service shall occur due, in whole or in part, to such leave.

3.8 Effect of Re-employment Prior to a Break In Service: In the event an Employee or Participant is re-employed by an Employer or Affiliate prior to a Break In Service, the period of his interim absence shall constitute Service for eligibility and vesting purposes under the Plan.

3.9 Effect of Re-employment After a Break In Service: In the event an Employee or Participant is re-employed by an Employer or Affiliate after a Break In Service, the following rules shall apply in determining his participation in the Plan under Section 3.1 and his Vesting Service under Section 3.10:

(a) Participation: If the re-employed person was not a Participant during his prior period of Service, he shall be eligible to commence participation in the Plan on the date of his re-employment if he otherwise meets the requirements of Section 3.1. If the re-employed Employee was a Participant during his prior period of Service, he shall recommence participation in the Plan on the date of his re- employment if he otherwise meets the requirements of Section 3.1, and any forfeitures from his Employer Matching Account and ESOP Account shall be reinstated to the extent provided in Section 6.9.

(b) Vesting Service: Any Vesting Service attributable to the re-employed Employee's prior period of Service shall be reinstated as of the date of his recommencement of participation in the Plan.

3.10 Vesting Service: Subject to the Break In Service provisions of this Article III, a Participant's Vesting Service shall equal the sum of the following:

(a) Vesting Service prior to April 1, 1999, which shall be (i) for a Minnegasco or NorAm Participant, his Vesting Service as defined under the Minnegasco Plan or NorAm Plan, as applicable, with respect to Service earned prior to April 1, 1999, and (ii) for an HII Participant, his Vesting Service determined under the Prior HII Plan, with respect to Service earned prior to April 1, 1999, as determined under Section 3.5(a); and

(b) Vesting Service on and after April 1, 1999, which shall be earned for each day of Service after the Participant's employment date with an Employer or Affiliate.

3.11 Transferred Participants:

(a) For purposes of determining eligibility to participate in the Plan and Vesting Service under this Article III, a Participant's Service shall include his employment with an Affiliate after it becomes an Affiliate; provided, however, that all such employment is determined in accordance with the re-employment provisions of Section 3.8 and 3.9. If an individual is transferred from an employment classification with an Employer that is not covered by the Plan to an employment classification that is so covered, or from an Affiliate that is not an Employer to an employment classification with an Employer that is so covered, his period of Service prior to the date of transfer shall be considered for purposes of determining his eligibility to become a Participant under Section 3.1 and for purposes of vesting under Section 6.1. In addition, if such transferred Participant had an account in a qualified defined contribution plan maintained by such Affiliate, such account shall be transferred to the Trust Fund under this Plan if the transfer is permitted by the terms of said plan and if the Committee determines that the transferred account will not fail to satisfy Section 401(a) or 411(d)(6) of the Code. Any transferred account shall be subject to the provisions of this Plan; provided, however, that the vesting provisions of the transferor plan shall continue to apply.

(b) If a Participant is transferred to employment with an Employer or Affiliate which is not eligible employment covered by the Plan, his participation in the Plan shall be suspended; provided, however, that during the period of his employment in such ineligible position:

(i) Subject to the re-employment provisions of Sections 3.8 and 3.9, he shall be credited with Service in accordance with this Article III;

(ii) He shall cease to have any right to make Contributions pursuant to Sections 4.2 and 4.3;

(iii) His Employer Matching Account and ESOP Account shall receive no Employer Matching Contribution or ESOP Contribution allocations under Section 4.1;

(iv) He shall continue to participate in income allocations of the earnings and/or losses of the Trust Fund pursuant to Section 5.3;

(v) No distribution event shall be deemed to have occurred under Section 6.1; and

(vi) The loan privileges under Article VII and the provisions of Article VIII shall continue to apply.

In addition, the Committee may, at its discretion, authorize the transfer of his Accounts under this Plan to the Trust Fund funding the qualified defined contribution plan, if any, of the Affiliate to which the Participant was transferred. In such event, the provisions of the transferee plan shall govern.

(c) In addition and with respect to only those Participants who previously had an account established under the STP Nuclear Operating Company Savings Plan as of October 1, 1997, prior to their employment after such date by an Employer covered by this Plan, the period of employment of such Participant by STP Nuclear Operating Company, a Texas nonprofit corporation, shall be deemed to be employment by an Affiliate hereunder for purposes of eligibility and vesting and shall be calculated as provided in Section 3.11(a) above.

ARTICLE IV

CONTRIBUTIONS TO THE PLAN

4.1 Employer Contributions: For each Plan Year during which an Exempt Loan is outstanding, the Employer shall make an ESOP Contribution to the Trust Fund in such amount and at such times as shall be determined by the Company.

The Employer shall also make an Employer Matching Contribution (subject to adjustments for forfeitures and limitations on annual additions as elsewhere specified in the Plan) in the amount, if any, necessary to result in a total allocation under Article V to each Participant's ESOP Account of not less than 75% of the total of his Pre-Tax Matched Contribution and After-Tax Matched Contribution for the Plan Year. Further, the Employer shall make an additional ESOP Contribution and/or Employer Matching Contribution, if necessary, to make the allocation required under Section 5.3(d)(ii) with respect to dividends used to repay an Exempt Loan.

In addition, for any Plan Year, the Employer, in its discretion, may make an additional Employer Matching Contribution in an amount (1) determined by the Chairman of the Committee on behalf of (i) Participants who are in active Service as of the last day of the applicable Plan Year and (ii) Participants (A) whose Service terminates during the applicable Plan Year and who are age 55 or older with five years of Service as of such termination date or (B) whose Service terminates during the applicable Plan Year due to death or Disability, and (2) communicated to such eligible Participants within 90 days following the close of the applicable Plan Year.

To the extent specified in Section 5.3(d)(iii), any amounts attributable to forfeitures will be applied to reduce, to the extent of such forfeitures, the Employer Matching Contributions required to be made next following the determination of any such forfeiture amounts and/or pay incident expenses of the Plan.

In the event that a forfeiture arising under Section 6.1 is reinstated under Section 6.9 because of the return to the employment of the terminated Participant, or in the event that a forfeiture arising under Section 6.11 is reinstated in accordance with the provisions of Section 6.11 because of an appropriate claim of forfeited unclaimed benefit by the Participant, Beneficiary or other distributee, the Employer shall contribute, within a reasonable time following such re-employment or claim, an amount equal to the forfeiture to be reinstated.

4.2 Pre-Tax Contributions: Each Participant who has elected to defer a portion of his salary as a Pre-Tax Matched Contribution to the Plan pursuant to Section 3.4 shall defer as his Pre-Tax Matched Contribution to the Trust Fund 1%, 2%, 3%, 4%, 5% or 6%, as he may designate, of his Compensation. In addition, each Participant may also elect to defer any whole percent, up to a maximum of 10%, of his Compensation as a Pre-Tax Unmatched Contribution. Each Participant's Pre-Tax Matched Contribution and Pre-Tax Unmatched Contribution, if any, shall be contributed to the Trust Fund by the Employer as soon as practicable. A Participant's Pre-Tax Contributions under this Plan and all other plans, contracts or arrangements of the Employer shall not exceed a maximum contribution of $10,000, as adjusted by the Secretary of the Treasury or his delegate, for each calendar year. In the event a Participant's Pre-Tax Contributions exceed the applicable limit described in the preceding sentence, or in the event the Participant submits a written claim under the Plan, at the time and in the manner prescribed by the Committee, specifying an amount of Pre-Tax Contributions that will exceed the applicable limit of Section 402(g) of the Code when added to the amounts deferred by the Participant in other plans or arrangements, such excess (the "Excess Deferrals"), plus any income and minus any loss allocable to such amount, shall be returned to the Participant by the April 15 of the following year. Excess Deferrals shall be treated as Annual Additions under Section 5.5 of the Plan. Each Participant's Pre-Tax Contribution Account shall be fully vested and non-forfeitable at all times.

When first electing to participate in the Plan, each Participant shall give advance notification by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee, of the amount he elects to defer as a Pre-Tax Matched Contribution and as a Pre-Tax Unmatched Contribution. Each such election shall continue in effect during subsequent Plan Years unless the Participant shall give timely notice of his election to change or discontinue his Pre-Tax Matched Contribution or his Pre-Tax Unmatched Contribution in accordance with procedures established from time to time by the Committee.

A Participant may change the rate of his Pre-Tax Matched Contribution and/or Pre-Tax Unmatched Contribution, with no restrictions on frequency, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee. A Participant may discontinue his Pre-Tax Matched Contribution and/or Pre-Tax Unmatched Contribution, with no restrictions on frequency, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee. Any such change or discontinuance in the rate of Pre-Tax Matched and/or Unmatched Contributions shall be effective as soon as reasonably practicable following receipt of the change or discontinuance of elections.

4.3 After-Tax Contributions: Each Participant who has elected to make a Pre-Tax Matched Contribution of less than 6% of his Compensation may elect to make an After-Tax Matched Contribution to the Plan pursuant to Section 3.4 of 1%, 2%, 3%, 4%, 5% or 6%, as he may designate, of his Compensation, provided that the total of his Pre-Tax Matched Contribution, if any, and his After-Tax Matched Contribution does not exceed 6% of his Compensation. In addition, each Participant who has elected to make a Pre-Tax Unmatched Contribution of less than 10% of his Compensation may elect to contribute to the Plan any whole percent, up to a maximum of 10%, of his Compensation as an After-Tax Unmatched Contribution; provided, however, that the total of his Pre-Tax Unmatched Contribution, if any, and his After-Tax Unmatched Contribution does not exceed 10% of his Compensation. Each Participant's After-Tax Matched Contribution and After-Tax Unmatched Contribution, if any, shall be withheld from each of his paychecks and contributed to the Trust Fund by the Employer as soon as practicable. Each Participant's After-Tax Contribution Account shall be fully vested and non-forfeitable at all times.

When first electing to participate in the Plan, each Participant shall give advance notification by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee, of the amount he elects to contribute as an After-Tax Matched Contribution and as an After-Tax Unmatched Contribution. Each such election shall continue in effect during subsequent Plan Years unless the Participant shall give timely notice of his election to change or discontinue his After-Tax Matched Contribution or his After-Tax Unmatched Contribution in accordance with procedures established from time to time by the Committee.

A Participant may change the amount of his After-Tax Matched Contribution and/or After-Tax Unmatched Contribution, with no restrictions on frequency, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee. A Participant may discontinue his After-Tax Matched Contribution and/or After-Tax Unmatched Contribution, with no restrictions on frequency, by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee. Any such change or discontinuance in the amount of After-Tax Matched or Unmatched Contributions shall be effective as soon as reasonably practicable following receipt of the change or discontinuance of elections.

4.4 Actual Deferral Percentage: The Actual Deferral Percentage for a specified group of Employees for a Plan Year shall be the average of the ratios (calculated separately for each Employee in such group) of:

(a) the amount of Pre-Tax Contributions (i) allocated to each such Employee's Account under the Plan as of a date during the Plan Year, without contingency on future participation in the Plan or performance of future services, (ii) actually paid to the Plan on behalf of each such Employee for such Plan Year no later than the end of the 12-month period immediately following such Plan Year and (iii) that relate to Compensation that either would have been received by the Employee in such Plan Year (but for the deferral election) or are attributable to services performed by the Employee in the Plan Year and would have been received by the Employee within 2 1/2 months after the close of the Plan Year (but for the deferral election); over

(b) the Employee's Compensation (as defined in Treasury Regulation Section 1.414(s)-1(c)) for such Plan Year.

The Plan uses the Actual Deferral Percentage for Participants who are Highly Compensated Employees (as defined in Section 4.5) for the current Plan Year and the Actual Deferral Percentage for Participants who are non-Highly Compensated Employees (1) for the current Plan Year, effective January 1, 1997 through December 31, 1998, and (2) for the preceding Plan Year, effective from and after January 1, 1999, in performing the nondiscrimination testing required under this Section IV. Notwithstanding any provision in this Plan to the contrary, an Employer may, to the extent permitted by the Code and applicable regulations, elect to include as Compensation pre-tax or after-tax contributions made under this Plan or any other plan of the Employer, and may elect to exclude as Compensation any Compensation received by a Participant during the Plan Year while such Participant was not eligible to be a Participant in the Plan.

An eligible Employee for the purpose of computing the Actual Deferral Percentage is defined in Treasury Regulation Section 1.401(k)-1(g)(4). The Actual Deferral Percentage of an eligible Employee who makes no Pre-Tax Contributions is zero. The individual ratios and Actual Deferral Percentages shall be calculated to the nearest 1/100 of 1% of an Employee's Compensation.

4.5 Actual Deferral Percentage Limits: The Actual Deferral Percentage for the eligible Highly Compensated Employees for any Plan Year shall not exceed the greater of (a) or (b), as follows:

(a) the Actual Deferral Percentage of Compensation for the eligible non-Highly Compensated Employees times 1.25; or

(b) the lesser of (i) the Actual Deferral Percentage of Compensation for the eligible non-Highly Compensated Employees times 2.0 or (ii) the Actual Deferral Percentage of Compensation for the eligible non-Highly Compensated Employees plus two percentage points or such lesser amount as the Secretary of the Treasury shall prescribe to prevent the multiple use of this alternative limitation with respect to any Highly Compensated Employee.

"Highly Compensated Employee" shall mean any Employee and any employee of an Affiliate who is a highly compensated employee under Section 414(q) of the Code, including any Employee and any employee of an Affiliate who:

(i) was a "5% owner" (as defined in Code Section 416(i)) during the current Plan Year or prior Plan Year; or

(ii) received Compensation during the prior Plan Year (as defined in Section 5.5(d)(6)) in excess of $80,000, or such other amount as determined by the Secretary of the Treasury or his delegate, and, if elected by the Employer, was in the "top-paid group" (the top 20% of payroll) for the Plan Year, excluding Employees described in Code Section 414(q)(8).

In determining an Employee's status as a Highly Compensated Employee within the meaning of Section 414(q), the entities set forth in Treasury Regulation Section 1.414(q)-1T Q&A-6(a)(1) through (4) must be taken into account as a single employer.

A former Employee shall be treated as a Highly Compensated Employee if (1) such former Employee was a Highly Compensated Employee when he separated from Service or (2) such former Employee was a Highly Compensated Employee in Service at any time after attaining age 55.

The Actual Deferral Percentage for any Highly Compensated Employee who is eligible to have deferred contributions allocated to his account under one or more plans described in Section 401(k) of the Code that are maintained by an Employer or an Affiliate in addition to this Plan shall be determined as if all such contributions were made to this Plan. For purposes of determining whether the Actual Deferral Percentage limits of this Section are satisfied, all Pre-Tax Contributions that are made under two or more plans that are aggregated for purposes of Code Section 401(a)(4) or 410(b) (other than Code Section 410(b)(2)(A)(ii)) are to be treated as made under a single plan, and if two or more plans are permissively aggregated for purposes of Code Section 401(k), the aggregated plans must also satisfy Code Sections 401(a)(4) and 410(b) as though they were a single plan.

4.6 Reduction of Pre-Tax Contribution Rates by Leveling Method: If, on the basis of the Pre-Tax Contribution rates elected by Participants for any Plan Year, the Committee determines, in its sole discretion, that neither of the tests contained in (a) or (b) of Section 4.5 will be satisfied, the Committee may reduce the Pre-Tax Contribution rate of any Participant who is among the eligible Highly Compensated Employees to the extent necessary to reduce the overall Actual Deferral Percentage for eligible Highly Compensated Employees to a level which will satisfy either (a) or (b) of Section 4.5. The reductions in Pre-Tax Contribution rates shall be made in a manner so that the Actual Deferral Percentage of the affected Participants who elected the highest Actual Deferral Percentage shall be first lowered to the level of the affected Participants who elected the next to the highest Actual Deferral Percentage. If further overall reductions are required to achieve compliance with (a) or (b) of Section 4.5, both of the above-described groups of Participants will be lowered to the level of Participants with the next highest Actual Deferral Percentage, and so on, until sufficient total reductions in Pre-Tax Contribution rates have occurred to achieve compliance with (a) or (b) of Section 4.5. The Committee may, in its discretion, permit a Participant whose Pre-Tax Contributions are reduced under this paragraph to contribute a like amount to his After-Tax Contribution Account.

4.7 Increase in Pre-Tax Contribution Rates: If a Participant's Pre-Tax Contribution is reduced below the level necessary to satisfy either (a) or (b) of Section 4.5 for the Plan Year, such Participant may be eligible to increase his Pre-Tax Contribution rate for the remainder of the Plan Year to a level not in excess of that level which will satisfy the greater of (a) or (b) of Section 4.5. Such an increase in the Pre-Tax Contribution rate shall be made by Participants on a uniform and non-discriminatory basis, pursuant to such rules and procedures as the Committee may prescribe.

4.8 Excess Pre-Tax Contributions: As soon as possible following the end of the Plan Year, the Committee shall determine whether either of the tests contained in Section 4.5 were satisfied as of the end of the Plan Year, and any excess Pre-Tax Contributions, plus any income and minus any loss attributable thereto, of those Participants who are among the Highly Compensated Employees shall be distributed to such Participants in the manner provided below based on the amount of Pre-Tax Contributions. In addition, the Employer Contribution made with respect to such excess Pre-Tax Contributions shall be forfeited and applied to reduce future Employer Contributions otherwise required under Section 4.1. Such income shall include the allocable gain or loss for the Plan Year only.

The amount of any excess Pre-Tax Contributions to be distributed to a Participant shall be reduced by Excess Deferrals previously distributed to him pursuant to Section 4.2 for the taxable year ending in the same Plan Year. All excess Pre-Tax Contributions shall be returned to the Participants no later than the last day of the following Plan Year. The excess Pre-Tax Contributions, if any, of each Participant who is among the Highly Compensated Employees shall be determined by computing the maximum Actual Deferral Percentage which each such Participant may defer under (a) or (b) of Section 4.5 and then reducing the Actual Deferral Percentage of some or all of such Participants through the distribution of such excess Pre-Tax Contributions, on the basis of the amount of Pre-Tax Contributions of such Participants, as necessary to reduce the overall Actual Deferral Percentage for eligible Participants who are among the Highly Compensated Employees to a level which satisfies either (a) or (b) of Section 4.5, according to the following procedures:

(a) the Pre-Tax Contributions of the Highly Compensated Employee or Employees with the highest dollar amount of Pre-Tax Contributions shall be reduced to equal the dollar amount of the Pre-Tax Contributions of the Highly Compensated Employee or Employees with the next highest dollar amount of Pre-Tax Contributions;

(b) the reduction amount determined in clause (a) shall be distributed to the Highly Compensated Employee or Employees who had the highest dollar amount of Pre-Tax Contributions prior to such reduction; and

(c) the procedures in clauses (a) and (b) shall be repeated until the total excess Pre-Tax Contributions are distributed and compliance is achieved with (a) or (b) of Section 4.5.

If these distributions are made, the Actual Deferral Percentage is treated as meeting the nondiscrimination test of Section 401(k)(3) of the Code regardless of whether the Actual Deferral Percentage, if recalculated after distributions, would satisfy Section 401(k)(3) of the Code. The above procedures are used for purposes of recharacterizing excess Pre-Tax Contributions under Section 401(k)(8)(A)(ii) of the Code. For purposes of Section 401(m)(9) of the Code, if a corrective distribution of excess Pre-Tax Contributions has been made, or a recharacterization has occurred, the Actual Deferral Percentage for Highly Compensated Employees is deemed to be the largest amount permitted under Section 401(k)(3) of the Code.

The income or loss attributable to the Participant's excess Pre-Tax Contributions for the Plan Year shall be determined by multiplying the income or loss attributable to the Participant's Pre-Tax Contribution Account balance for the Plan Year by a fraction, the numerator of which is the excess Pre-Tax Contribution and the denominator of which is the Participant's total Pre-Tax

Contribution Account balance. Excess Pre-Tax Contributions shall be treated as Annual Additions under Section 5.5 of the Plan.

4.9 Contribution Percentage and ESOP Percentage:

A. Contribution Percentage: The Contribution Percentage for a specified group of Employees for a Plan Year shall be the average of the ratios (calculated separately for each Employee in such group) of:

(a) the total of the Employer Matching Contributions and the After-Tax Contributions (the "Aggregate Contributions") paid under the Plan on behalf of each such Employee for such Plan Year; to

(b) the Employee's Compensation (as defined in Section 4.4(b)).

The Plan uses the Contribution Percentage for Participants who are Highly Compensated Employees for the current year and the Contribution Percentage for Participants who are non-Highly Compensated Employees (1) for the current Plan Year, effective January 1, 1997 through December 31, 1998, and (2) for the preceding Plan Year, effective from and after January 1, 1999, in performing the non-discrimination testing required under this Section IV. In computing the Contribution Percentage, the Employer may elect to take into account After-Tax and Pre-Tax Contributions made under this Plan or any other plan of the Employer to the extent that the following requirements are satisfied:

(i) the amount of non-elective contributions, including those qualified non-elective contributions treated as Employer Matching Contributions for purposes of calculating the Contribution Percentage, satisfies the requirements of Section 401(a)(4) of the Code;

(ii) the amount of non-elective contributions, excluding those qualified non-elective contributions treated as Employer Matching Contributions for purposes of calculating the Contribution Percentage and those qualified non-elective contributions treated as elective contributions under Treasury Regulation Section 1.401(k)-1(b)(5) for purposes of calculating the Actual Deferral Percentage, satisfies the requirements of Section 401(a)(4) of the Code;

(iii) the elective contributions, including those treated as Employer Matching Contributions for purposes of calculating the Contribution Percentage, satisfy the requirements of Code Section 401(k)(3);

(iv) the qualified non-elective contributions are allocated to the Employee under the Plan as of a date within the Plan Year and the elective contributions satisfy Treasury Regulation Section 1.401(k)-1(b)(i) for the Plan Year; and, if applicable, the Plan and the plans to which the qualified non-elective contributions and elective contributions are made, are or could be aggregated for purposes of Code Section 410(b).

A Participant's Contribution Percentage shall be determined after determining the Participant's Excess Deferrals, if any, pursuant to Section 4.2, and after determining the Participant's excess Pre-Tax Contributions pursuant to Section 4.8.

An eligible Employee for purposes of computing the Contribution Percentage is defined in Treasury Regulation Section 1.401(m)-1(f)(4). The Contribution Percentage will be zero for an eligible Employee who received no allocation of Aggregate Contributions.

B. ESOP Percentage: The ESOP Percentage for a specified group of Employees for a Plan Year shall be the average of the ratios (calculated separately for each Employee in such group) of:

(a) The total of the ESOP Contributions paid under the Plan on behalf of each such Employee for such Plan Year; to

(b) The Employee's Compensation (as defined in Section 4.4(b)).

The Plan uses the ESOP Percentage for Participants who are Highly Compensated Employees for the current year and the ESOP Percentage for Participants who are non-Highly Compensated Employees (1) for the current Plan Year, effective January 1, 1997 through December 31, 1998, and (2) for the preceding Plan Year, effective from and after January 1, 1999, in performing the non-discrimination testing required under this Section IV.

A Participant's ESOP Percentage shall be determined after determining the Participant's Excess Deferrals, if any, pursuant to Section 4.2 and after determining the Participant's excess Pre-Tax Contributions pursuant to Section 4.8.

An eligible Employee for purposes of computing the ESOP Percentage is defined in Treasury Regulation Section 1.401(m)-1(f)(4). The ESOP Percentage will be zero for an eligible Employee who received no allocation of Aggregate Contributions.

4.10 Contribution Percentage and ESOP Percentage Limits: Each of the Contribution Percentage and ESOP Percentage (with respect to each, the "Applicable Percentage") for the eligible Employees for any Plan Year who are Highly Compensated Employees shall not exceed the greater of (a) or (b), as follows:

(a) the Applicable Percentage for the eligible Employees who are not Highly Compensated Employees times 1.25; or

(b) the lesser of (i) the Applicable Percentage for the eligible Employees who are not Highly Compensated Employees times 2.0 or (ii) the Applicable Percentage for the eligible Employees who are not Highly Compensated Employees plus two percentage points or such lesser amount as the Secretary of the Treasury shall prescribe to prevent the multiple use of this alternative limitation with respect to any Highly Compensated Employee.

The Applicable Percentage for any Highly Compensated Employee for any Plan Year who is eligible to have matching employer contributions made on his behalf or to make after-tax contributions under one or more plans described in Section 401(a) of the Code that are maintained by an Employer or an Affiliate in addition to this Plan shall be determined as if all such contributions were made to this Plan.

In the event that this Plan must be combined with one or more other plans in order to satisfy the requirements of Code Section 410(b), then the Applicable Percentage shall be determined as if all such plans were a single plan. If two or more plans are permissively aggregated for the purposes of Code Section 410(b) (other than the average benefit percentage test), then the Applicable Percentage shall be determined as if all such plans were a single plan.

4.11 Treatment of Excess Aggregate Contributions or ESOP Contributions: If neither of the tests described above in Section 4.10 are satisfied with respect to either Aggregate Contributions or ESOP Contributions, the excess Aggregate Contributions or ESOP Contributions (as applicable), plus any income and minus any loss attributable thereto, shall be forfeited or, if not forfeitable, shall be distributed no later than the last day of the Plan Year following the Plan Year in which such excess Aggregate Contributions or ESOP Contributions (as applicable) were made. Such income shall include the allocable gain or loss for the Plan Year only. The income or loss attributable to the Participant's excess Aggregate Contributions or ESOP Contributions (as applicable) for the Plan Year shall be determined by multiplying the income or loss attributable to the Participant's Account for the Plan Year by a fraction, the numerator of which is the excess Aggregate Contribution or ESOP Contributions (as applicable), and the denominator of which is the Participant's total Account balance. Excess Aggregate Contributions or ESOP Contributions shall be treated as Annual Additions under Section 5.5 of the Plan.

The excess Aggregate Contributions or ESOP Contributions (as applicable), if any, of each Participant who is among the Highly Compensated Employees shall be determined by computing the maximum Contribution or ESOP Percentage under (a) or (b) of Section 4.10 (as applicable) and then reducing the Contribution or ESOP Percentage of some or all of such Participants whose Contribution or ESOP Percentage exceeds the maximum through the distribution or forfeiture of the excess Aggregate Contributions or ESOP Contributions (as applicable), on the basis of the amount of such excess contributions attributable to such Participants, as necessary to reduce the overall Contribution or ESOP Percentage for eligible Participants who are among the Highly Compensated Employees to a level which satisfies either (a) or (b) of Section 4.10, according to the following procedures:

(a) the Aggregate Contributions or ESOP Contributions (as applicable) of the Highly Compensated Employee or Employees with the highest dollar amount of such contributions shall be reduced to equal the dollar amount of the Aggregate Contributions or ESOP Contributions (as applicable) of the Highly Compensated Employee or Employees with the next highest dollar amount of such contributions;

(b) the reduction amount determined in clause (a) shall be forfeited by or, if not forfeitable, distributed to the Highly Compensated Employee or Employees who had the highest dollar amount of Aggregate Contributions or ESOP Contributions (as applicable) prior to such reduction; and

(c) the procedures in clause (a) and (b) shall be repeated until the total excess Aggregate Contributions or ESOP Contributions (as applicable) are forfeited and/or distributed and compliance is achieved with (a) or (b) of Section 4.10.

If these forfeitures and/or distributions are made, the Contribution or ESOP Percentage is treated as meeting the nondiscrimination test of Section 401(m)(2) of the Code regardless of whether the Contribution or ESOP Percentage, if recalculated after such forfeitures and/or distributions would satisfy Section 401(m)(2) of the Code. For purposes of Section 401(m)(9) of the Code, if a corrective distribution of excess Aggregate Contributions or ESOP Contributions (as applicable) has been made, the Contribution or ESOP Percentage (as applicable) for Highly Compensated Employees is deemed to be the largest amount under Section 401(m)(2) of the Code.

For each Participant who is a Highly Compensated Employee, the amount of excess Aggregate Contributions or ESOP Contributions (as applicable) is equal to the total Employer Contributions and After-Tax Contributions on behalf of the Participant (determined prior to the application of this paragraph) minus the amount determined by multiplying the Participant's actual contribution ratio (determined after application of this paragraph) by his Compensation used in determining such ratio. The individual ratios and Contribution and ESOP Percentages shall be calculated to the nearest 1/100 of 1% of the Employee's Compensation, as such term is used in paragraph (b) of Section 4.10.

4.12 Multiple Use of Alternative Limitation: The rules set forth in Treasury Regulation Section 1.401(m)-2(b) for determination of multiple use of the alternative methods of compliance with respect to Sections 4.5(b) and 4.10(b) are hereby incorporated into the Plan. If a multiple use of the alternative limitation occurs with respect to two or more plans or arrangements maintained by an Employer, it shall be treated as an excess Aggregate Contribution and must be corrected by reducing the actual contribution ratio of Highly Compensated Employees eligible both to make elective contributions to receive matching contributions under the 401(k) arrangement or to make contributions under the 401(m) plan. Such reduction shall be by the leveling process set forth in Section 4.11.

4.13 ESOP Contributions, Employer Matching Contributions and Pre-Tax Contributions to be Tax Deductible: ESOP Contributions, Employer Matching Contributions and Pre-Tax Contributions shall not be made in excess of the amount deductible under applicable Federal law now or hereafter in effect limiting the allowable deduction for contributions to profit-sharing plans. The ESOP Contributions, Employer Matching Contributions and Pre-Tax Contributions to this Plan when taken together with all other contributions made by the Employer to other qualified retirement plans shall not exceed the maximum amount deductible under Section 404 of the Code.

4.14 Maximum Allocations: Notwithstanding the above, the total Annual Additions made to the Account of any Participant shall not exceed the limits prescribed in Section 5.5.

4.15 Refunds to Employer: Once Contributions are made to the Plan by the Employer on behalf of the Participants, they are not refundable to the Employer unless a Contribution:

(a) was made by mistake of fact; or

(b) was made conditioned upon the contribution being allowed as a deduction and such deduction was disallowed.

Any Contribution made by the Employer during any Plan Year in excess of the amount deductible or any Contribution attributable to a good faith mistake of fact shall be refunded to the Employer. The amount which may be returned to the Employer is the excess of the amount contributed over the amount that would have been contributed had there not occurred a mistake of fact or the excess of the amount contributed over the amount deductible, as applicable. A Contribution made by reason of a mistake of fact may be refunded only within one year following the date of payment. Any Contribution to be refunded because it was not deductible under Section 404 of the Code may be refunded only within one year following the date the deduction was disallowed. Earnings attributable to any such excess Contribution may not be withdrawn, but losses attributable thereto must reduce the amount to be returned. In no event may a refund be due which would cause the Account balance of any Participant to be reduced to less than the Participant's Account balance would have been had the mistaken amount, or the amount determined to be non-deductible, not been contributed.

4.16 Rollover Contributions: Notwithstanding any other provision of the Plan, the Trustee shall be authorized to accept an "eligible rollover distribution" within the meaning of Code Section 402(c)(4) on behalf of or from a person who is (or who will be entitled under Section 3.1 to become) a Participant in this Plan, provided that the transfer of the assets to this Plan is one described in Section 402(c)(4), 403(a)(4) or 408(d)(3)(A)(ii) of the Code. Such a transferred distribution is referred to herein as a "rollover contribution."

The acceptance of rollover contributions under this Section 4.16 shall be subject to the following conditions:

(a) No rollover contribution shall be in an amount less than $500.

(b) Rollover contributions shall be in cash only.

(c) No rollover contribution may be transferred to the Plan without the prior approval of the Committee. The Committee shall develop such procedures and may require such information from an Employee desiring to make such a transfer as it deems necessary or desirable. The Committee may act in its sole discretion in determining whether to accept the transfer, and shall act in a uniform, non-discriminatory manner in this regard.

(d) Upon approval by the Committee, a rollover contribution shall be paid to the Trustee to be held in the Trust Fund.

(e) A separate Rollover Account shall be established and maintained for each Employee who has made a rollover contribution. A Rollover Account shall share in the earnings and/or losses of the Trust Fund (and component Investment Funds in which such account may be invested) commencing on the Valuation Date coincident with or next following the date on which the transferred amount is placed in the Trust Fund. The Employee's interest in his Rollover Account shall be fully vested and non-forfeitable. If an Employee who is otherwise eligible to participate in the Plan but who has not yet begun participation under Section 3.1 of the Plan makes a rollover contribution to the Plan, his Rollover Account shall represent his sole interest in the Plan until he becomes a Participant.

(f) The Committee shall be entitled to rely on the representation of the Employee that the rollover contribution is an eligible rollover distribution. If, however, it is determined that a transfer received from or on behalf of a Employee failed to qualify as an eligible rollover distribution within the meaning of Code Section 402(c)(4), then the balance in the Employee's Rollover Account attributable to the ineligible transfer shall, along with any earnings thereon, as soon as is administratively practicable, be:

(1) segregated from all other Plan assets;

(2) treated as a non-qualified trust established by and for the benefit of the Participant; and

(3) distributed to the Employee.

Such an ineligible transfer shall be deemed never to have been a part of the Plan or Trust.

ARTICLE V

PARTICIPANTS' ACCOUNTS

5.1 Trust Accounts: The Committee shall create and maintain adequate records to reflect all transactions of the Trust Fund and to disclose the interest in the Trust Fund of each Participant (whether on active or inactive status), former Participant and Beneficiary.

(a) Accounts for Participants: Accounts shall be maintained for each Participant as may be appropriate from time to time to reflect his interest in the ESOP Fund and each Investment Fund in which he may be participating at any time as contemplated under Section 8.1. The interest in each Investment Fund attributable to the Contributions made by or on behalf of each Participant under the Plan and Prior Plans shall be reflected in a Pre-Tax Contribution Account and/or an After-Tax Contribution Account for each Participant. The interest in the Reliant Energy Common Stock Fund of each Participant attributable to the Employer Matching Contributions made to the Plan shall be reflected in an Employer Matching Account for each Participant. The interest in the ESOP Fund of each Participant shall be reflected in an ESOP Account for each Participant as described in Section 5.3. An Employee or Participant also may have a Rollover Account.

The foregoing to the contrary notwithstanding, with respect to certain amounts transferred to the Plan as of the Effective Date from the Minnegasco and NorAm Plans, the following Prior Plan Accounts shall be maintained:

(i) Prior Plan Matching Account: The interest in each Investment Fund attributable to employer matching contributions to the Minnegasco and NorAm Plans prior to January 1, 1999 for Minnegasco and NorAm Participants, respectively, shall be reflected in a Prior Plan Matching Account;

(ii) Prior Plan ESOP Account: The interest in each Investment Fund attributable to ESOP contributions to the Minnegasco and NorAm Plans prior to January 1, 1999 for Minnegasco and NorAm Participants, respectively, shall be reflected in a Prior Plan ESOP Account;

(iii) Cengas Account: The interest in each Investment Fund attributable to the after-tax contributions of certain Minnegasco Participants under the Minnegasco, Inc. Retirement Plan for Employees of the Former Cengas Division shall be reflected in a Cengas Account; and

(iv) Prior Plan 1999 Matching Account: The interest in the Reliant Energy Common Stock Fund attributable to employer matching contributions to the Minnegasco and NorAm Plans for the period commencing on January 1, 1999 and ending on March 31, 1999 for Minnegasco and NorAm Participants, respectively, shall be reflected in a Prior Plan 1999 Matching Account.

(b) Stock Suspense Account: There shall also be established and maintained under the Trust a suspense account to be known as the Stock Suspense Account.

(c) Rights in Trust Fund: The maintenance of individual Accounts is only for accounting purposes, and a segregation of the assets of the Trust Fund to each Account shall not be required. Distribution and withdrawals made from an Account shall be charged to the Account as of the date paid.

5.2 Valuation of Trust Fund: A valuation of the Trust Fund shall be made as of each Valuation Date of each Plan Year. For the purposes of each such valuation, the assets of each Investment Fund shall be valued at their respective current market values, and the amount of any obligations for which the Investment Fund may be liable, as shown on the books of the Trustee, shall be deducted from the total value of the assets. For the purposes of maintenance of books of account in respect of properties comprising the Trust Fund, and of making any such valuation, the Trustee shall account for the transactions of the Trust Fund on an accrual basis. The current market value shall, for the purposes hereof, be determined as follows:

(a) Where the properties are securities which are listed on a securities exchange, or which are actively traded over the counter, the value shall be the net asset value, if appropriate, otherwise the last recorded sales price. In the event transactions regarding such property are recorded over more than one such exchange, the Trustee may select the exchange to be used for purposes hereof. Recorded information regarding any such securities published in The Wall Street Journal or any other publication deemed appropriate may be relied upon by the Trustee. If no transactions involving any such securities have been recorded as of a particular Valuation Date, then such securities shall be valued as provided in paragraph (b) below.

(b) Where paragraph (a) hereof shall be inapplicable in the valuation of any properties, the Trustee shall obtain from at least two qualified persons an opinion as to the value of such properties as of the close of business on the particular Valuation Date. The average of such estimates shall be used.

5.3 Allocation to Accounts:

(a) Pre-Tax, After-Tax and Employer Matching Contributions: Pre-Tax Contributions and After-Tax Contributions received in the Trust Fund since the preceding Valuation Date shall be credited to the respective Pre-Tax Contribution Accounts and After-Tax Contribution Accounts of the Participants and invested in the Investment Funds in accordance with their instructions pursuant to Section 8.1. Employer Matching Contributions received in the Trust Fund since the preceding Valuation Date shall be allocated to the Participants' Employer Matching Accounts in the ratio that the sum of each Participant's Pre-Tax Matched Contribution and After-Tax Matched Contribution for the period bears to the total Pre-Tax Matched Contributions and After-Tax Matched Contributions of all Participants for the period.

(b) ESOP Accounts: The ESOP Account of each Participant shall be credited with his allocable portion of (i) the Company Stock investment in the ESOP Fund purchased and paid for by the Trust (other than Financed Stock) or contributed in kind by the Employer, (ii) forfeitures from the ESOP Fund, (iii) the Company Stock investment in the ESOP Fund released from the Stock Suspense Account and (iv) any cash held in the ESOP Fund. Such allocation shall be made in the ratio that the sum of each Participant's Pre-Tax Matched Contribution and After-Tax Matched Contribution for the period bears to the total Pre-Tax Matched Contributions and After-Tax Matched Contributions of all Participants for the period. Allocations made pursuant to this Section 5.3(b) shall be made as soon as practicable after the close of each payroll period in an amount not to exceed 75% of the total of each Participant's Pre-Tax Matched Contributions and After-Tax Matched Contributions.

(c) Stock Suspense Account: The Stock Suspense Account shall be credited as of Valuation Date occurring at the end of each payroll period with the number of shares of Financed Stock purchased by the Trustee since the preceding payroll period Valuation Date. In addition, the Stock Suspense Account shall be credited with all ESOP Contributions for the Plan Year which are to be used to repay Exempt Loans. The Stock Suspense Account shall be debited with amounts used to repay Exempt Loans and with the number of shares of Financed Stock that are to be released from such Account in accordance with the provisions of Section 5.3(b).

(d) Allocation Procedures: The Accounts of Participants, former Participants and Beneficiaries shall be adjusted in accordance with the following:

(i) Earnings of the Investment Fund: The earnings (or loss) of the Investment Fund since the preceding Valuation Date (including the appreciation or depreciation in value of the assets of the Investment Fund) shall be allocated to the Accounts of Participants (other than a terminated Participant's Accounts which have become current obligations of the Investment Fund) in proportion to the balances in such Accounts on the preceding Valuation Date, but after first reducing each such Account balance by any distribution from such Account since the preceding Valuation Date.

(ii) Income and Appreciation in Value of Stock Suspense Account and ESOP Accounts in the Trust Fund: The income of the ESOP Fund shall be allocated in proportion to the balances, as of the preceding Valuation Date, in the Stock Suspense Account and the ESOP Accounts, but after first reducing each such Account balance by any distributions or charges from such Accounts since the preceding Valuation Date. Notwithstanding anything to the contrary in the Plan, if and to the extent that dividends credited to Participants' ESOP Accounts are used to amortize an Exempt Loan pursuant to Section 5.6, an interest in the ESOP Fund with a fair market value not less than the amount of such dividends must be allocated to the Participants' ESOP Accounts (resulting from the release of Financed Stock attributable to such use of dividends to amortize the Exempt Loan) for the year of payment of such dividends to the Plan, and the Company shall make such additional Employer Matching Contributions as are necessary to accomplish such result. Any dividends with respect to Financed Stock that are used to amortize an Exempt Loan shall be used first to repay current principal and then to repay current interest with respect to such loan.

(iii) Forfeitures: As of each Valuation Date, any amounts in the Employer Matching Accounts which have become forfeitures since the preceding Valuation Date shall first be made available to reinstate previously forfeited Account balances of former Participants, if any, in accordance with Section 6.9 and previous Participants who have unclaimed benefits, if any, in accordance with Section 6.11 and/or to pay incident expenses of the Plan. The remaining forfeitures from the Employer Matching Accounts and all forfeitures from the ESOP Accounts, if any, shall be used to reduce Employer Matching Contributions as specified under Section 4.1.

5.4 Treatment of Company Stock Purchased with an Exempt Loan:

(a) Financed Stock: Any Company Stock purchased by the Trust on behalf of the ESOP Fund with the proceeds of an Exempt Loan shall be credited initially to the Stock Suspense Account.

(b) Allocation from Stock Suspense Account to ESOP Accounts: As of each monthly Valuation Date, and as of any special Valuation Date if directed by the Committee, there shall be released an interest in the ESOP Fund equal to the excess, if any, of shares of Financed Stock determined in (i) over (ii), where (i) and (ii) are as follows: (i) is equal to the product of the number of shares of Financed Stock not released prior to January 1 of the current Plan Year multiplied by the ratio of (y) the amount of principal and interest paid under the Exempt Loan during the current Plan Year to (z) the sum of the amount determined in clause (y) plus the total of all principal and interest to be paid in the future, assuming if the interest rate is variable that the interest rate in the future will be the same as that currently in effect, and (ii) is equal to the number of shares of Financed Stock previously released in the current Plan Year. The Company Stock investment in the ESOP Fund released pursuant to the preceding sentence shall be allocated to the Participants' ESOP Accounts in accordance with the provisions of Section 5.3(b).

(c) Payments on Exempt Loans: As of each Valuation Date, installment payments, including principal and interest, made by the Trustee since the last preceding Valuation Date under Exempt Loans will be debited to the Stock Suspense Account and to Participants' ESOP Accounts under the provisions of Section 5.3 hereof. Specified income shall not include shares of Company Stock attributable to any share split or share dividend on outstanding shares.

For purposes of determining payments on Exempt Loans, payment of principal and interest shall be accounted for substantially in accordance with the following: All income ("specified income") allocable to the Stock Suspense Account that is attributable to collateral for the Exempt Loan or to ESOP Contributions shall be used, before any ESOP Contributions are so used, to pay principal amounts due under such Exempt Loan; ESOP Contributions shall be first applied to repay interest under such Exempt Loan with any excess ESOP Contribution used to fund current principal requirements not otherwise funded by the specified income; if the specified income exceeds the amount necessary to pay principal due on Exempt Loans for the Plan Year, then such excess amount shall be first used to pay interest currently due with respect to the Exempt Loans and any remaining amount of income may, at the direction of the Committee, be used to prepay principal due on Exempt Loans in succeeding periods. In the event that there are insufficient funds available to make payments of principal or interest on Exempt Loans when due, the Committee may direct (i) the Trustee to obtain a new Exempt Loan in an amount sufficient to make such payments or (ii) the Trustee to sell any Financed Stock which has not yet been allocated to ESOP Accounts provided such sale meets the requirements of the following sentence. In directing any such sale of Financed Stock, the Committee shall consider all of the facts and circumstances surrounding the proposed transaction and the reasons therefor and shall act in the best interest of Plan Participants in accordance with the applicable Treasury Regulations and ERISA.

5.5 Maximum Annual Additions: Notwithstanding anything contained herein to the contrary, the total Annual Additions made to the Account of a Participant for any Plan Year commencing on or after the Effective Date shall be subject to the following limitations:

(a) Single Defined Contribution Plan

1. If an Employer does not maintain any other qualified plan, the amount of Annual Additions which may be allocated under this Plan on a Participant's behalf for a Limitation Year shall not exceed the lesser of the Maximum Permissible Amount or any other limitation contained in this Plan.

2. Prior to the determination of the Participant's actual Compensation for a Limitation Year, the Maximum Permissible Amount may be determined on the basis of the Participant's estimated annual Compensation for such Limitation Year. Such estimated annual Compensation shall be determined on a reasonable basis and shall be uniformly determined for all Participants similarly situated. Any Employer contributions (including allocation of forfeitures) based on estimated annual Compensation shall be reduced by any Excess Amounts carried over from prior years.

3. As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for such Limitation Year shall be determined on the basis of the Participant's actual Compensation for such Limitation Year.

4. If there is an Excess Amount with respect to a Participant for the Limitation Year, such Excess Amount shall be disposed of as follows:

A. There shall first be returned to the Participant his After-Tax Unmatched Contributions as defined in Section 4.3, if any, attributable to that Limitation Year, and then his Pre-Tax Unmatched Contributions as defined in Section 4.2, if any, attributable to that Limitation Year to the extent such returned Contributions would reduce the Excess Amount. If any such Excess Amount shall then remain, the Participant's After-Tax Matched Contributions as defined in Section 4.3, if any, attributable to that Limitation Year shall be returned to the Participant, and the Employer Matching Contributions made with respect to said After-Tax Matched Contributions shall be reduced and allocated to a suspense account in the manner set forth in Paragraph B below, both to the extent such returned and reduced Contributions would reduce the Excess Amount. If any such Excess Amount shall then remain, the Participant's Pre-Tax Matched Contributions as defined in Section 4.2, if any, attributable to that

Limitation Year shall be returned to the Participant, and the Employer Matching Contributions made with respect to said Pre-Tax Matched Contributions shall be reduced and allocated to a suspense account in the manner set forth in Paragraph B below, both to the extent such returned and reduced Contributions would reduce the Excess Amount. All such amounts shall be adjusted for any income or loss allocated thereon.

B. The amount of the reduction of the Employer Matching Contributions for the Participant shall be reallocated out of the ESOP Account of such Participant and shall be held in a suspense account which shall be applied as a part of (and to reduce to such extent what would otherwise be) the Employer Matching Contributions for all Participants required to be made to the Plan during the next subsequent calendar quarter or quarters. No portion of such Excess Amount may be distributed to Participants or former Participants. If a suspense account is in existence at any time during the Limitation Year pursuant to this Paragraph B, such suspense account shall not participate in the allocation of investment gains or losses of the Trust Fund.

(b) Two or More Defined Contribution Plans

1. If, in addition to this Plan, the Employer maintains any other qualified defined contribution plan, the amount of Annual Additions which may be allocated under this Plan on a Participant's behalf for a Limitation Year, shall not exceed the lesser of:

A. the Maximum Permissible Amount, reduced by the sum of any Annual Additions allocated to the Participant's accounts for the same Limitation Year under such other defined contribution plan or plans; or

B. any other limitation contained in this Plan.

2. Prior to the determination of the Participant's actual Compensation for the Limitation Year, the amount referred to in paragraph 1.A. above may be determined on the basis of the Participant's estimated annual Compensation for such Limitation Year. Such estimated annual Compensation shall be determined on a reasonable basis and shall be uniformly determined for all Participants similarly situated. Any Employer Contribution (including allocation of forfeitures) based on estimated annual Compensation shall be reduced by any Excess Amounts carried over from prior years.

3. As soon as is administratively feasible after the end of the Limitation Year, the amounts referred to in paragraph 1.A. above shall be determined on the basis of the Participant's actual Compensation for such Limitation Year.

4. If a Participant's Annual Additions under this Plan and all such other defined contribution plans result in an Excess Amount, such Excess Amount shall be deemed to consist of the amounts last allocated.

5. If an Excess Amount was allocated to a Participant on an allocation date of this Plan which coincides with an allocation date of another plan, the Excess Amount attributed to this Plan will be the product of:

A. the total Excess Amount allocated as of such date (including any amount which would have been allocated but for the limitations of Section 415 of the Code); times -----

B. the ratio of (i) the amount allocated to the Participant as of such date under this Plan divided by (ii) the total amount allocated as of such date under all qualified defined contribution plans (determined without regard to the limitations of Section 415 of the Code).

6. Any Excess Amounts attributed to this Plan shall be disposed of as provided in paragraph (a) above.

(c) Defined Contribution Plan and Defined Benefit Plan

1. General Rule

If the Employer maintains (or has ever maintained) one or more defined contribution plans and one or more defined benefit plans, the sum of the "defined contribution plan fraction" and the "defined benefit plan fraction," as defined below, cannot exceed 1.0 for any Limitation Year. For purposes of this paragraph (c) of Section 5.5, employee contributions to a qualified defined benefit plan are treated as a separate defined contribution plan, and all defined contribution plans of an Employer are to be treated as one defined contribution plan, and all defined benefit plans of an Employer are to be treated as one defined benefit plan, whether or not such plans have been terminated.

2. Reduction

If the sum of the defined contribution plan fraction and defined benefit plan fraction exceeds 1.0, the annual benefit of the defined benefit plan or plans will be reduced so that the sum of the fractions will not exceed 1.0. If additional reductions are required for the sum of the fractions to equal 1.0, the reductions will then be made first to the Annual Additions of the defined contribution plans.

3. Defined Contribution Fraction

A. General Rule: The defined contribution fraction for any year is (i) divided by (ii), where (i) and (ii) are:

(i) the numerator: the sum of the actual Annual Additions to the Participant's account at the close of the Limitation Year; and

(ii) the denominator: the sum of the lesser of the following amounts determined for such year and for each prior year of service of the Employee:

a. 1.25 times the dollar limitation in effect for each such year (without regard to the special dollar limitations for employee stock ownership plans); or

b. 1.4 times 25% of the Participant's Compensation for each such year.

B. Special Adjustment to Defined Contribution Plan Fraction: The numerator of the Defined Contribution Plan Fraction of any Participant in the Plan on December 31, 1982 shall be reduced by an amount required to decrease the combined fractions of such Participant to 1.0 as of December 31, 1982. The amount to be subtracted is the product of (i) the excess of the sum of the fractions over 1.0 and (ii) the denominator of the Defined Contribution Plan Fraction, as computed through the Limitation Year ending December 31, 1982.

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (i) the excess of the sum of the fractions over 1.0 times (ii) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Code Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

The Annual Addition for any Limitation Year beginning before January 1, 1987, shall not be recomputed to treat all employee contributions as Annual Additions.

4. Defined Benefit Plan Fraction

A. General Rule: The defined benefit plan fraction for any year is (i) divided by (ii), where:

(i) is the projected annual benefit of the Participant under the Plan (determined as of the close of the Limitation Year); and

(ii) is the lesser of:

a. 1.25 times the dollar limitation (adjusted, if necessary) for such year; or

b. 1.4 times 100% of the Participant's Average Compensation for the high three years (adjusted, if necessary).

B. Special Rule for Accrued Benefits on December 31, 1982: In the case of an individual who before January 1, 1983 was a member in the Retirement Plan for Employees of Houston Industries Incorporated whose current accrued benefit under said Plan on December 31, 1982 exceeded the limitation of Section 415(b) of the Code, as amended by the Tax Equity and Fiscal Responsibility Act of 1982, then, for purposes of subsections (b) and (e) of said Section 415 of the Code, the maximum permissible amount under the limitation described in subsection (b) of Section 415 with respect to such individual shall be equal to such current accrued benefit under said Plan; and for purposes hereof, the term "current accrued benefit" shall be defined as provided in Section 415(b)(2) of the Code.

Notwithstanding the above, if the Participant was a participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 125% of the sum of the annual benefits accrued by the participant under such plans as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Code Section 415 for all Limitation Years beginning before January 1, 1987.

5. Termination of Section 5.5(c)

From and after January 1, 2000, the provisions of this Section 5.5(c) shall no longer apply.

(d) Definitions

1. Employer: The Employer that adopts this Plan. In the case of a group of employers which constitutes a controlled group of corporations (as defined in Section 414(b) of the Code as modified by Section 415(h)) or which constitutes trades and businesses (whether or not incorporated) which are under common control (as defined in Section 414(c) as modified by Section 415(h)) or an affiliated service group (as defined in Section 414(m)), all such employers shall be considered a single Employer for purposes of applying the limitations of this Section.

2. Annual Additions: With respect to each Plan Year (Limitation Year), the total of the Employer Matching Contributions, ESOP Contributions (except to the extent herein provided), Pre-Tax Contributions, After-Tax Contributions, forfeitures, and amounts described in Sections 415(e)(1) and 419(d)(2) of the Code, which are allocated to the Participant's Account; excluding, however, any amounts contributed to reinstate an amount forfeited or an unclaimed benefit. Provided Code Section 415(c)(6) is satisfied, ESOP Contributions used to repay interest on an Exempt Loan as described in Section 5.6 of the Plan shall not constitute an Annual Addition.

Subject to the provisions of Section 415(c)(6) of the Code, Annual Additions shall not include (i) forfeitures of Financed Stock, or (ii) ESOP Contributions used to pay interest on the Exempt Loan and charged against the Participant's Account.

3. Excess Amount: The excess of the Participant's Annual Additions for the Limitation Year over the Maximum Permissible Amount.

4. Limitation Year: A 12 consecutive month period ending on December 31.

5. Maximum Permissible Amount: For a Limitation Year, the Maximum Permissible Amount with respect to any Participant shall be the lesser of:

A. $30,000, as adjusted by the Secretary of the Treasury or his delegate; or

B. 25% of the Participant's Compensation for the Limitation Year.

6. Compensation: For purposes of applying the limitations of Code Section 415, Compensation shall include the Participant's wages, salaries, fees for professional service and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with an Employer maintaining the Plan to the extent that the amounts are includable in gross income (including, but not limited to, commissions paid to salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements and expense allowances) and shall exclude the following:

A. (i) Contributions made by the Employer to a plan of deferred compensation to the extent that, before the application of the Code Section 415 limitations to the Plan, the contributions are not includable in the gross income of the Employee for the taxable year in which contributed, (ii) Employer contributions made on behalf of an Employee to a simplified employee pension plan described in Code Section 408(k) to the extent such contributions are excludable from the Employee's gross income and (iii) any distributions from a plan of deferred compensation regardless of whether such amounts are includable in the gross income of the Employee when distributed, except any amounts received by an Employee pursuant to an unfunded non-qualified plan to the extent such amounts are includable in the gross income of the Employee;

B. Amounts realized from the exercise of a non-qualified stock option or when restricted stock (or property) held by an Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

C. Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

D. Other amounts which receive special tax benefits, such as premiums for group life insurance (but only to the extent that the premiums are not includable in the gross income of the Employee), or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of any annuity contract described in Code Section 403(b) (whether or not the contributions are excludable from the gross income of the Employee).

For the purposes of this Section, Compensation shall include any and all items which may be included in Compensation under Code Section 415(c)(3)), including (i) any elective deferral (as defined in Code Section 402(g)(3) and (ii) any amount which is contributed or deferred by the Employer at the election of the Employee and which is not includable in the gross income of the Employee by reason of Code Section 125 or 457, but shall exclude amounts that would otherwise be excluded from an Employee's gross income by reason of the application of Code Section 402(h)(1)(B) and, in the case of Employer contributions made pursuant to a salary reduction agreement, Code Section 403(b). The foregoing notwithstanding, Compensation shall be limited to $160,000 (unless adjusted in the same manner as permitted under Code Section 415(d)) for each "Limitation Year."

7. Average Compensation: The average compensation during a Participant's high three years of Service, which period is the three consecutive calendar years (or, the actual number of consecutive years of employment for those Employees who are employed for less than three consecutive years with the Employer) during which the Participant had the greatest aggregate compensation from the Employer.

8. Annual Benefit: A benefit payable annually in the form of a straight life annuity (with no ancillary benefits) under a plan to which Employees do not contribute and under which no rollover contributions are made.

5.6 Certain Conditions Applicable to Company Stock: It is the express purpose of this Plan and the Trust Agreement to invest substantial sums in Company Stock for the benefit of Participants in the Plan. Pursuant to this purpose, the Trustee has borrowed funds either through installment purchase contract, loan agreement or other instrument of indebtedness in order to purchase Company Stock (with such indebtedness qualifying as an "Exempt Loan" within the ambit of Section 54.4975-7(b)(1)(iii) of the Treasury Regulations). Such loans shall continue to be primarily for the benefit of Participants and their Beneficiaries within the meaning of Treasury Regulation Section 54.4975-7(b)(3). In addition to other provisions of the Plan as may be applicable from time to time, the provisions of this Section 5.6 shall be especially applicable to indebtedness which was incurred to purchase Company Stock and Company Stock purchased with loan proceeds.

(a) Use of Proceeds: All proceeds of such an Exempt Loan shall continue to be used within a reasonable time after receipt by the Trustee only for any or all of the following purposes: to purchase Company Stock, to repay obligations incurred under the loan agreement or to repay a prior Exempt Loan.

(b) Non-Recourse Loans Only: Any loan must continue to be without recourse as against the Plan and the Trust Fund.

(c) Collateral: The only assets of the Plan and Trust Fund that may be given as collateral for a loan are shares of Company Stock acquired with the proceeds of the loan and those shares of Company Stock that were used as collateral on a prior Exempt Loan repaid with the proceeds of the current Exempt Loan; provided, however, that such shares of Company Stock shall be proportionately adjusted upon any share split, share dividend or combination of outstanding shares of such Company Stock.

(d) Creditor's Rights to Assets: No person entitled to payment under the loan agreement shall have any right to assets of the Plan or Trust Fund other than collateral given for the loan, contributions (other than contributions of Company Stock) that are made under the Plan to meet the Plan's obligations under the loan and earnings attributable to such collateral and the investment of such contributions.

(e) Transfers upon Default: In the event of default of the Exempt Loan, the value of Plan assets transferred in satisfaction of the loan must not exceed the amount of default. If the lender is a "disqualified person," the loan must continue to provide for a transfer of Plan assets upon default only upon and to the extent of failure of the Plan to meet the payment schedule of the loan.

(f) Interest: The interest rate of any loan described herein must not be in excess of a reasonable rate of interest. In determining what is a reasonable rate of interest, all relevant factors will be considered, including the amount and duration of the loan, the security and guarantee (if any) involved, the credit standing of the Plan and Trust Fund and the guarantor (if any), and the interest rate prevailing for comparable loans. A variable interest rate is permissible if determined to be reasonable.

(g) Release from Collateral or Suspense: The instrument evidencing indebtedness shall continue to provide for release from collateral or suspense in accordance with the provisions of Section 5.4(b) of the Plan.

(h) Limitation on Restrictions on Company Stock: No Company Stock acquired with the proceeds of a loan described herein may be subject to a put, call, or other option, or buy-sell or similar arrangement while held by and when distributed from the Plan or its related Trust Fund, whether or not the Plan is then an "ESOP" within the ambit of Section 54.4975-7(b)(1) of the Treasury Regulations, unless specifically required or permitted by such regulations.

(i) Limitations on Payments: The payments made during any Plan Year, with respect to a loan described herein, may not exceed an amount equal to the sum of the ESOP Contributions and any earnings received during or previous to the current Plan Year on Company Stock purchased with such loan, less payments previously made with respect to such loan; provided, however, that payment may in any event be made from the proceeds of the sale of any Company Stock which was purchased with the loan and which has not yet been allocated to Participants' ESOP Accounts in the event of default, or in the event of termination of the Trust Fund, to the extent provided in Section 5.3(c) or Section 10.5, or under other circumstances determined appropriate by the Committee subject to the requirements of the last sentence of the second paragraph of Subsection (c) of Section 5.4 of the Plan. The ESOP Contributions and earnings described herein must be accounted for separately on the books of account of the Plan and Trust until any Exempt Loan is repaid, as is provided in the other provisions of Article V of this Plan. For purposes of this Section 5.6(i), Company Stock purchased with a loan shall reflect proportionate adjustments attributable to any share split, share dividend or combination of outstanding shares of Company Stock.

(j) Certain Rights with Respect to Financed Stock: Any Financed Stock, if it is not publicly traded when distributed or is subject to a trading limitation when distributed, must be subject to a put option. The put option is to be exercisable only by the Participant, the Participant's donees, or by a person (including an estate or its distributee) to whom the Company Stock passes by reason of a Participant's death. The put option must permit the Participant to put the Company Stock to the Employer. The put option must be exercisable during the 60 consecutive days beginning on the date that the Company Stock subject to the put option is distributed by the Plan, and for another 60 consecutive days during the Plan Year next following the Plan Year in which the shares were distributed. The put option may be exercised by the holder notifying the Employer in writing that the put option is being exercised. The period during which a put option is exercisable does not include any period when a distributee is unable to exercise it because the party bound by the put option is prohibited from honoring it by applicable Federal or State law. The price at which the put option is exercisable is the fair market value of the Company Stock on the date of the transaction determined in good faith based on all relevant factors. In the discretion of the Committee, either (i) payment under a put option will be in cash within 30 days after the put option is exercised or (ii) if the payment in respect of a put option is to repurchase Company Stock which is distributed as part of a total distribution, then the amount to be paid may be paid in substantially equal periodic payments not less frequently than annually over a period beginning not later than 30 days after the exercise of the put option and not exceeding five years provided that there is adequate security provided and a reasonable interest paid on unpaid amounts. For purposes of the preceding sentence, a total distribution means the distribution within one taxable year to the recipient of the balance of the credit of the recipient's Account. The provisions described in this subparagraph (j) are non-terminable even if the exempt loan is repaid or the Plan ceases to be an ESOP.

(k) Term of Exempt Loans: Any Exempt Loan made by the Plan or Trust Fund for the purpose of purchasing Company Stock must continue to be for a specific term and may not be payable on the demand of any person, except in the case of default.

ARTICLE VI

PARTICIPANTS' BENEFITS

6.1 Termination of Service: In the event of a Participant's termination of service prior to the Effective Date, the vesting provisions of the applicable Prior Plan as in effect immediately prior to the Effective Date shall govern. In the event of termination of Service on or after the Effective Date of any Participant for any reason other than Disability, Retirement or death, a Participant shall, subject to the further provisions of the Plan, be entitled to receive (i) 100% of the values in his Pre-Tax Contribution Account, After-Tax Contribution Account, Rollover Account and, if applicable, Cengas Account (as defined in Section 5.1(a)), plus (ii) a portion of his Employer Matching Account, ESOP Account and Prior Plan Accounts (excluding his Cengas Account) determined by reference to his number of years of Vesting Service and the following schedule:

Years of Vesting Service	Vesting Percentage
Less than 2	0%
2 but less than 3	25%
3 but less than 4	50%
4 but less than 5	75%
5 and more	100%

If a Participant terminates Service and, at the time of termination, the present value of the Participant's vested benefit is zero, the Participant will be deemed to have then received a distribution of such vested benefit. Any portion of the Employer Matching Account and ESOP Account of a terminated Participant in excess of the vested portion specified herein shall be forfeited to the extent provided in Section 6.9. Payment of benefits due under this Section shall be made in accordance with Section 6.6.

6.2 Disability of Participants: If a Participant satisfies the definition of "Disability" under the Company's Long-Term Disability Plan and commences to receive disability benefits thereunder, such Participant shall be fully vested in the entire amount of his Account as of the date of the Disability and shall be entitled to receive such amount in accordance with Section 6.6. The determination of whether a Participant has become "Disabled" under the Company's Long-Term Disability Plan by such disability plan's administrator shall be final and binding on all parties concerned.

6.3 Death of Participants: In the event of the death of any Participant, the entire amount in the Account of such Participant shall be fully vested and after receipt by the Committee of acceptable proof of death shall be payable as follows:

(a) The Participant's Account shall be distributed to the Participant's surviving spouse, but if there is no surviving spouse, or if the surviving spouse has previously consented by a qualified election pursuant to Section 6.3(b), to the Beneficiary or Beneficiaries designated by the Participant in a written designation filed with his Employer. If no such designation shall have been so filed, or if no designated Beneficiary survives the Participant or can be located by the Committee, using reasonable diligence, within six months of the Participant's death, then such Participant's Account shall be distributed to the duly appointed and serving personal representative of the Participant's estate, but only if that personal representative can provide the Committee with what the Committee reasonably determines is satisfactory documentary proof of that appointment and of the personal representative's identity (collectively, "Documentary Proof"); if, within six months of the Participant's death, there is no duly appointed and serving personal representative of the Participant's estate who has provided the Committee with Documentary Proof, or if such decedent left no will, then such Participant's Account shall be distributed to the Participant's heirs at law, determined in accordance with the laws of intestate succession of the state in which the Participant was domiciled at the time of the Participant's death, provided that such heirs provide the Committee with what the Committee reasonably determines is satisfactory Documentary Proof of information the Committee believes it needs to make the distribution to such heirs. No designation of any Beneficiary other than the Participant's surviving spouse shall be effective unless in writing and received by the Participant's Employer and in no event shall it be effective as of the date prior to such receipt. The former spouse of a Participant shall be treated as a surviving spouse to the extent provided under a qualified domestic relations order as described in Section 414(p) of the Code.

(b) The Participant's spouse may waive the right to be the Participant's sole Beneficiary and consent to the Beneficiary designation made by the Participant. The waiver must be in writing and the spouse must acknowledge the effect of the waiver. The spouse's waiver must be witnessed by a Plan representative or a notary public. The Beneficiary designated by the Participant may not be changed without the spouse's consent, unless the consent of the spouse permits designation of Beneficiaries by the Participant without any requirement of further consent by the spouse. The Participant may file a waiver without the spouse's consent if it is established to the satisfaction of the Committee that such written consent may not be obtained because there is no spouse or the spouse may not be located. Any consent under this Section 6.3(b) will be valid only with respect to the spouse who signs the consent. Additionally, a revocation of a prior spousal waiver may be made by a Participant without the consent of the spouse at any time before the distribution of the Account. The number of revocations shall not be limited.

6.4 Retirement of Participants on or After Retirement Date: A Participant's interest in the full balance of his Account shall be fully vested and non-forfeitable upon reaching his Retirement Date. Any Participant who terminates his Service on or after his Retirement Date shall attain a fully vested non-forfeitable interest in the entire amount of his Account and shall be entitled to receive the entire amount of his Account upon the termination of his Service.

6.5 In-Service Distributions: Cash dividends paid with respect to shares of Company Stock in a Participant's ESOP Account may be distributed at least annually in the discretion of the Committee. Otherwise, except to the extent that distribution of a Participant's Account is required prior to termination of his employment under Section 6.10 hereof (in the case of a Participant whose required beginning date occurs prior to his termination of employment) or under Section 10.5 hereof relating to termination of the Plan, or at the election of the Participant under Article VII hereof relating to certain withdrawals and loans, no distribution or withdrawal of any benefits under the Plan shall be permitted prior to the Participant's "separation from service, death or disability" within the meaning of Code Section 401(k) and the regulations thereunder other than a distribution authorized under the Plan upon the occurrence of an event described in, and made in accordance with, Code Section 401(k)(10) or any successor provision of the Code.

6.6 Payments of Benefits: Upon a Participant's entitlement to payment of benefits under either Section 6.1, 6.2 or 6.4, he shall file his written election on such form or forms, and subject to such conditions, as the Committee shall prescribe. His election shall specify whether he wishes payment of his benefits to be made as of such entitlement or to be deferred to the extent provided below. If payments become due for any reason other than death or Disability, and if the amounts due from the Participant's Accounts are in excess of $5,000, payment of such amounts shall be deferred to the extent provided below unless the Participant consents to earlier payment. If the Participant so consents to an earlier payment, such payment shall be made as soon as practicable. If the amounts due from the Participant's Accounts do not exceed $5,000, payment of such amounts shall automatically be made in a lump-sum cash payment as soon as possible following termination of employment for any reason.

In the case of a distribution under Section 6.3 on account of the Participant's death, the Committee shall pay the entire amount in the Participant's Accounts to the party or parties entitled thereto under Section 6.3 within five years after the death of such Participant.

Unless a Participant elects otherwise, payment of his benefits under this Plan shall commence no later than as required under Section 6.10. Subject to Section 6.10, any distribution to be made to a Participant under the provisions of this Article VI shall be made within one week of the termination of employment of such Participant, unless such Participant duly elects in writing for a deferred distribution as provided above. A Participant or his designated Beneficiaries (but only by his designated Beneficiaries in the event of the death of a Participant without having made such an election), may elect that the benefits payable to the Participant and/or Beneficiary be paid in one of the following methods:

(a) Lump-Sum Distributions: As a lump-sum distribution in cash, provided that no lump-sum distribution may be paid to the Participant or Beneficiary unless he has elected such distribution on an election form prescribed by the Committee.

(b) Installment Payments: As monthly, quarterly, semi-annual or annual installment payments over a specified term of ten years or less, as elected by the Participant or Beneficiary, in cash ("Installment Payments"), provided that no Installment Payments may be paid to the Participant unless he has elected such payments on an election form prescribed by the Committee. After Installment Payments commence, the Participant or Beneficiary shall have the right at any time to convert the remaining balance of his Account to a lump-sum distribution in cash.

(c) In-Kind Distributions: As a distribution in kind of the shares held for his Account in the Reliant Energy Common Stock Fund and the ESOP Fund as described below. If Company Stock acquired with the proceeds of an Exempt Loan and available for distribution consists of more than one class, a Participant shall receive substantially the same proportion of each such class to the extent the distribution is a distribution from the ESOP Fund. A Participant may elect to receive any percentage, up to 100%, of the vested portion of his Accounts in the Reliant Energy Common Stock Fund and the ESOP Fund in whole shares of Company Stock as either: (1) a lump-sum distribution in whole shares, with any remaining Reliant Energy Common Stock Fund balance and ESOP Fund balance and any other Investment Fund balances distributed in cash as a lump-sum distribution; or (2) Installment Payments in whole shares, with any remaining Reliant Energy Common Stock Fund balance and ESOP Fund balance and any other Investment Fund balances distributed in cash as Installment Payments. If a Participant elects to receive the entire vested portion of his Accounts in the Reliant Energy Common Stock Fund and the ESOP Fund in whole shares of Company Stock, such Participant shall be entitled to receive a number of whole shares of Company Stock, plus the cash value of any partial shares of Company Stock, necessary to equal the sum of (i) the value in the Reliant Energy Common Stock Fund held in his Pre-Tax Contribution Account and/or his After-Tax Contribution Account as of the Valuation Date specified in Section 6.8, and (ii) the vested portion of the value in the Reliant Energy Common Stock Fund held in his Employer Matching Account and the vested portion of the value in the ESOP Fund held in his ESOP Account as of such Valuation Date. If a Participant elects to receive a percentage which is less than 100% of the vested portion of his Accounts in the Reliant Energy Common Stock Fund and the ESOP Fund in whole shares of Company Stock, then the result obtained from the preceding formula shall be multiplied by such percentage to obtain the number of whole shares of Company Stock and cash for partial shares of Company Stock to be distributed to such Participant. The foregoing not withstanding, an in-kind distribution may not be paid to the Participant unless he has elected such distribution on an election form prescribed by the Committee.

(d) Joint and Survivor Annuity: As a joint and survivor annuity solely with respect to the amounts in the Prior Plan Accounts that represent the Cengas Account of a Minnegasco Participant who, at time of distribution under this Section 6.6, is married or dies before such distribution commences and his spouse survives him until the time such distributions commence. Unless the Participant elects one of the distribution options set forth above in (a) through (c) of this Section 6.6 ("optional forms of benefits"), pursuant to an election form prescribed by the Committee, the Participant's benefit provided by assets attributable to his Cengas Account shall be applied to the purchase of a qualified joint and survivor annuity or, if the Participant's death occurs on or before the date payments are to commence, a qualified survivor annuity. The Committee shall direct the Trustee to purchase an annuity contract based on considerations the Committee in its sole discretion deems appropriate. Once an annuity has been purchased, all benefits due to those assets shall be determined pursuant to the terms of the annuity. In the case of a qualified joint and survivor annuity, the applicable election period is the 90-day period ending on the date Plan distributions commence.

Unless the Participant establishes to the satisfaction of the Committee that he has no spouse or his spouse cannot be located, any election in favor of an optional form of benefit must be consented to by the Participant's spouse, with such consent witnessed by a notary public, in order to be valid. The consent will be valid only for the spouse who signs the consent, or in the event of a deemed election, the designated spouse. A Participant may revoke without limit any prior elections of an optional form of payment without the consent of the spouse at any time before the commencement of benefits. If revoked, an optional form cannot be subsequently elected without the spouse's consent as provided above. A Participant may not modify any election consented to by a spouse without the spouse's consent as provided above. A spouse's consent may not be revoked without the written consent of the Participant.

In case of a qualified joint and survivor annuity, within a reasonable period prior to the commencement of benefits the Committee shall provide each Participant with a written explanation of (i) the terms and conditions of the qualified joint and survivor annuity; (ii) the Participant's right to make the effect of an election to waive the qualified joint and survivor annuity; (iii) the rights of a Participant's spouse; and (iv) the right to make and the effect of a revocation of a previous election to waive the qualified joint and survivor annuity.

All amounts attributable to (i) any excess of the values attributable to the interest in his Pre-Tax Contribution Account and/or his After-Tax Contribution Account, and the vested portion of his interest in his Employer Matching Account, ESOP Account and Prior Plan Accounts that are invested in the Reliant Common Stock Fund and the ESOP Fund, over the interest therein provided to be distributed to him in kind, plus (ii) any interest of such Participant in his Pre-Tax Contribution Account and/or his After-Tax Contribution Account in any other Investment Fund, with the exception of the Reliant Common Stock Fund shall be distributed in cash.

6.7 Payment of Distribution Directly to Eligible Retirement Plan:

(a) Notwithstanding any provision of the Plan to the contrary that would otherwise limit a Distributee's election under this Section 6.7, a Distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an Eligible Rollover Distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a Direct Rollover.

(b) The terms used in Section 6.7(a) above shall have the following meanings:

(i) Eligible Rollover Distribution: An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent that such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(ii) Eligible Retirement Plan: An Eligible Retirement Plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

(iii) Distributee: A Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.

(iv) Direct Rollover: A Direct Rollover is a payment by the Plan to an Eligible Retirement Plan specified by the Distributee.

(c) In the event that a Distributee, after receiving the explanation required by Section 402(f) of the Code, does not affirmatively elect a Direct Rollover under Section 6.7(a) above, the Distributee shall be deemed to have elected not to have any portion of the Eligible Rollover Distribution paid directly to an Eligible Retirement Plan.

(d) Notwithstanding any provisions of this Section to the contrary, a Distributee may not elect a Direct Rollover with respect to Eligible Rollover Distributions under this Plan which are reasonably expected to total less than $200 during any calendar year.

6.8 Participation Rights Determined as of Valuation Date Coinciding with or Preceding Termination of Employment: In the case of any Participant whose employment shall be terminated for any reason, no further credits or charges arising from any source shall be made to the Accounts of any such terminating Participant after the credits or charges made as of the Valuation Date coinciding with or immediately preceding his termination of employment, except for:

(a) Pre-Tax Contributions, After-Tax Contributions and Employer Matching Contributions and ESOP Contributions made subsequent to such Valuation Date;

(b) Withdrawals or distributions made subsequent to such Valuation Date; or

(c) In the case of a delayed distribution pursuant to a Participant's election as provided in Section 6.6, such subsequent adjustments to the values in the Accounts of such Participant up to the Valuation Date coinciding with or preceding the receipt of the Participant's election for distribution.

6.9 Treatment of Non-Vested Account Balances Upon Termination of Service: This Section 6.9 does not apply to Participants who are fully vested at the time of termination of Service.

If a Participant receives an actual or deemed distribution pursuant to Section 6.1 prior to the close of the second Plan Year following the Plan Year in which the Participant's Service terminates, the non-vested portion of his Employer Matching Account, ESOP Account and Prior Plan Accounts shall be forfeited and shall become available for allocation as provided in Section 5.3(d)(iii). If a Participant who has received an actual distribution as described in this paragraph thereafter resumes Service under the Plan at any time, he shall be entitled to have the forfeited amounts reinstated to such Accounts upon his recommencement of participation in the Plan. If a Participant who has received a deemed distribution as described in this paragraph thereafter resumes Service under the Plan before incurring five consecutive one-year Breaks in Service, he shall be entitled to have the forfeited amounts reinstated to such Accounts upon his recommencement of participation in the Plan.

If a Participant does not receive a distribution of his vested benefit by the close of the second Plan Year following the Plan Year in which his Service terminates, but receives such a distribution before incurring five consecutive one-year Breaks in Service, the non-vested balance in the Participant's Employer Matching Account, ESOP Account and Prior Plan Accounts shall be credited to a separate account at the time of distribution of the vested benefit. If such a Participant is thereafter reemployed prior to incurring five consecutive one-year Breaks in Service, the Participant's vested interest in the separate account, including any gains or losses thereon, at any subsequent relevant time shall be an amount "X" determined by the following formula: $X = P(AB + D) - D$. For purposes of applying this formula: P is the vested percentage at such relevant time; AB is the account balance at the relevant time; D is the amount of the prior distribution to the Participant. If the Participant is not reemployed before he has incurred five consecutive one-year Breaks in Service, his separate account shall then be forfeited and shall become available for allocation as described in Section 5.3(d)(iii).

If a Participant does not receive a distribution of his vested benefit before incurring five consecutive one-year Breaks in Service, the non-vested balance in the Participant's Employer Matching Account, ESOP Account and Prior Plan Accounts shall then be forfeited and shall become available for allocation as described in Section 5.3(d)(iii).

If more than one class of Company Stock acquired with an Exempt Loan has been allocated to a Participant's ESOP Account and any amounts are forfeited from such Account pursuant to this Section, the same proportion shall be forfeited from each class.

6.10 Required Minimum Distributions: Notwithstanding any provision of this Plan to the contrary, prior to January 1, 1999, for a Participant attaining age 70 1/2 prior to January 1, 1999, any benefits to which a Participant is entitled shall commence not later than the April 1 following the calendar year in which the Participant attains age 70 1/2, whether or not such Participant's employment had terminated in such year. Effective January 1, 1999, for a Participant attaining age 70 1/2 after December 31, 1998, any benefits to which a Participant is entitled shall commence not later than the April 1 following the later of (i) the calendar year in which the Participant attains age 70 1/2 or (ii) the calendar year in which the Participant's employment terminates (provided, however, that clause (ii) of this sentence shall not apply in the case of a Participant who is a "5% owner" (as defined in Section 416 of the Code) with respect to the Plan Year ending in the calendar year in which such Participant attains age 70 1/2). If a Participant is receiving distributions from his Account on January 1, 1999 pursuant to this Section 6.10 as in effect prior to January 1, 1999, but would not be required to receive distributions under this Section 6.10 as in effect on January 1, 1999, then the Participant may elect to cease distributions from his Account until the April 1 following the end of the calendar year in which such Participant terminates employment. Distributions under this Section 6.10 shall be at least equal to the required minimum distributions under Section 401(a)(9) of the Code; provided, however, that any installment distributions pursuant to this Section 6.10 for Participants who have not terminated employment shall be made over a period not to exceed ten (10) years.

6.11 Unclaimed Benefits: If at, after or during the time when a benefit hereunder is payable to any Participant, Beneficiary or other distributee, the Committee, upon request of the Trustee, or at its own instance, shall mail by registered or certified mail to such distributee, at his last known address, a written demand for his present address or for satisfactory evidence of his continued life, or both, and if such distributee shall fail to furnish the same to the Committee within two years from mailing of such demand, then the Committee may, in its sole discretion, determine that such Participant, Beneficiary or other distributee has forfeited his right to such benefit and may declare such benefit, or any unpaid portion thereof, terminated, as if the death of the distributee (with no surviving Beneficiary) had occurred on the later of the date of the last payment made thereon, or the date such Participant, Beneficiary or other distributee first became entitled to receive benefit payments. Any such forfeited benefit shall be applied as a part of (and to reduce to such extent) the Employer Contributions required to be made next following the date such forfeiture is declared to be forfeited by the Committee. Notwithstanding the provisions of this Section 6.11, any such forfeited benefit shall be reinstated if a claim for the same is made by the Participant, Beneficiary or other distributee at any time thereafter. The reinstatement shall be made by a mandatory contribution by the Company, allocated solely to such reinstatement.

6.12 Optional Forms of Benefits: Notwithstanding anything in the Plan to the contrary, all optional forms of benefits which are "Section 411(d)(6) protected benefits," as described in Treasury Regulations Section 1.411(d)-4, shall continue to be optional forms of benefits for Participants to whom the optional forms apply, notwithstanding any subsequent amendment of the Plan purporting to revise or delete any such optional form of benefit and notwithstanding any contrary provision of this Article VI or Article VII, unless otherwise permitted by applicable law.

ARTICLE VII

WITHDRAWALS AND LOANS

7.1 Withdrawal of After-Tax Contributions: Pursuant to advance notice given in the manner prescribed by the Committee from time to time and subject to the conditions of Section 7.4, each Participant may elect to withdraw all or any amounts attributable to his After-Tax Matched and Unmatched Contributions, determined as of the Valuation Date immediately preceding the withdrawal date; provided, however, that, to the extent applicable, a Participant must first withdraw all amounts in his Cengas Account in accordance with Section 7.3 and subject to written consent of his spouse in a manner prescribed by the Committee. No amount withdrawn under this Section 7.1 shall be charged to the After-Tax Matched Contributions of a Participant until the withdrawable amounts attributable to the Participant's After-Tax Unmatched Contributions have been withdrawn.

7.2 Withdrawal of After-Tax and Pre-Tax Contributions On and After Age 59 1/2: Pursuant to advance notice given in the manner prescribed by the Committee from time to time and subject to the conditions of Section 7.4, in addition to withdrawals that may be available under Section 7.1 and Section 7.3, each Participant who is age 59 1/2 or older may elect to withdraw all or any amounts attributable to his After-Tax Matched and Unmatched Contributions, the vested portion of his Prior Plan Accounts, his Rollover Account and his Pre-Tax Matched and Unmatched Contributions, determined as of the Valuation Date immediately preceding the withdrawal date. Amounts withdrawn under this Section 7.2 shall be charged and withdrawn from a Participant's Accounts, to the extent applicable, in the following order: (i) Cengas Account; (ii) After-Tax Unmatched Contributions and then After-Tax Matched Contributions in his After-Tax Contribution Account; (iii) vested portion of his Prior Plan Matching Account; (iv) vested portion of his Prior Plan 1999 Matching Account; (v) vested portion of his Prior Plan ESOP Account; (vi) Rollover Account; and (vii) Pre-Tax Unmatched Contributions and then Pre-Tax Matched Contributions in his Pre-Tax Contribution Account. The foregoing notwithstanding, any withdrawal from a Participant's Cengas Account shall be subject to written consent of his spouse in a manner prescribed by the Committee.

7.3 Withdrawal from Prior Plan Accounts and Rollover Account: Pursuant to advanced notice given in a manner prescribed by the Committee from time to time and subject to the conditions of Section 7.4, in addition to withdrawals available under Section 7.1 and Section 7.2, a Participant, to the extent applicable, may elect to withdraw all or any vested amounts in his Prior Plan Accounts and his Rollover Account, determined as of the Valuation Date immediately preceding the withdrawal date. Amounts withdrawn under this Section 7.3 shall be charged and withdrawn from a Participant's Accounts, to the extent applicable, in the following order: (i) Cengas Account; (ii) vested portion of his Prior Plan Matching Account; (iii) vested portion of his Prior Plan 1999 Matching Account; (iv) vested portion of his Prior Plan ESOP Account; and (v) Rollover Account.

Moreover, a Minnegasco Participant (1) whose Service terminates prior to January 1, 2000 and (2) who as of such termination date is fully vested (100%) in his Accounts and is age 55 or older (a "Minnegasco Retiree") may elect to withdraw all or any amounts in his After-Tax Contributions Account, Pre-Tax Contributions Account, Prior Plan Accounts and Rollover Account, determined as of the Valuation Date immediately preceding the withdrawal date ("Minnegasco Retiree Withdrawal"). Amounts withdrawn with respect to a Minnegasco Retiree Withdrawal under this Section 7.3 shall be charged and withdrawn from a Minnegasco Retiree's Accounts, to the extent applicable, in the following order: (i) Cengas Account; (ii) After-Tax Contributions Account; (iii) Prior Plan Matching Account; (iv) Prior Plan 1999 Matching Account; (v) Prior Plan ESOP Account; (vi) Rollover Account; and (vii) Pre-Tax Contribution Account. The foregoing notwithstanding, any withdrawal from a Minnegasco Retiree's Cengas Account shall be subject to written consent of his spouse in a manner prescribed by the Committee.

7.4 Conditions of Withdrawals: Each Participant who is under the age of 59 1/2 and who has less than five years of Service at the time he elects to withdraw all or a portion of his After-Tax Matched Contributions shall be suspended from participation in the Plan from the Valuation Date preceding the distribution of the withdrawal until the date following six full months from the date of such withdrawal provided the Committee or its agent has received prior to such date the Participant's election (in the form and manner prescribed in Section 3.4 hereof) to commence participation after such suspension. Moreover, no withdrawal shall be permitted from the Prior Plan Matching Account or Prior Plan 1999 Matching Account of a NorAm or Minnegasco Participant who is under the age of 59 1/2 unless and until he is fully vested (100%) in such Accounts as of the withdrawal date. Subject to the conditions under this Section 7.4 and under Section 7.1, Section 7.2 and Section 7.3, as applicable, there shall be no limit on the number of withdrawals a Participant may make from his Pre- Tax Contribution Account, After-Tax Contribution Account, Prior Plan Accounts and Rollover Account within any 12-month period; provided, however, that (i) a Minnegasco Retiree shall not be permitted to make a Minnegasco Retiree Withdrawal (as defined in Section 7.3) during the six-month period following the date of his immediately preceding Minnegasco Retiree Withdrawal and (ii) the minimum amount that a Participant or Minnegasco Retiree is permitted to withdraw shall be the lesser of $500 or the entire balance of such Accounts. Except as provided in Section 7.5 and under Article VI, no withdrawals shall be permitted from a Participant's Employer Matching Account or ESOP Account. Notwithstanding any provision in this Article VII to the contrary, to the extent any amounts attributable to a Participant's Account or Accounts collateralizes a loan under Section 7.5, such collateralized amounts shall not be eligible for withdrawal under this Article VII.

7.5 Loans: Any Participant who is an Employee (including any such Participant on an Authorized Absence) may make application to borrow from his vested Accounts in the Trust Fund. In addition to Participants who are Employees (including any such Participant on an Authorized Absence), loans shall be available to any former Participant or any Beneficiary or "alternate payee" with respect to a former Participant, but, if and only if, such person is a "party in interest" with respect to the Plan within the meaning of ERISA Section 3(14) and who must be eligible to obtain a Plan loan in order for exemptions set forth in Department of Labor Regulation

Section 2550.408b-1 to apply to the Plan (herein, together with Participants who are Employees and those on Authorized Absence, collectively referred to as "Borrower"). Upon receipt of a loan application from a Borrower, the Committee may in its discretion direct the Trustee to make a loan to such Borrower. Such loans shall be granted in a uniform and non-discriminatory manner pursuant to the terms and conditions of a written loan procedure that shall be established by the Committee and subject to amendment from time to time and at any time by the Committee, with such written procedure hereby incorporated by reference as a part of the Plan. The amount of the loan when added to the amount of any outstanding loan or loans to the Borrower from any other plan of the Employer or an Affiliate which is qualified under Code Section 401(a) shall not exceed the lesser of (i) $50,000, reduced by the excess, if any, of the highest outstanding balance of loans from all such plans during the one-year period ending on the day before the date on which such loan was made over the outstanding balance of loans from the Plan on the date on which such loan was made or (ii) 50% of the present value of Borrower's vested Account balances under the Plan.

ARTICLE VIII

INVESTMENT DIRECTIONS

8.1 Investment of Trust Fund: Except as provided in Article VII with respect to Plan loans and as provided below with respect to the Employer Matching Account, ESOP Fund, ESOP Account and Prior Plan 1999 Matching Account, the Trustee shall divide the Trust Fund into Investment Funds, as set forth in Attachment A hereto, with such attachment hereby incorporated by reference as a part of the Plan, in accordance with the directions of the Participant and following such rules and procedures prescribed by the Committee. Notwithstanding any provision in this Section 8.1 to the contrary, a Participant may not direct the investment of the amounts in his Employer Matching Account, ESOP Account or Prior Plan 1999 Matching Account into any Investment Fund other than the Reliant Energy Common Stock Fund, as described in Attachment A hereto, except as provided in Section 8.2.

The Committee from time to time may revise the number and type of Investment Funds provided in Attachment A. Subject to such rules and procedures adopted by the Committee, each Participant shall have the right to direct the Committee or any agent appointed by the Committee to administer the investment of the Trust Fund to instruct the Trustee to invest his Pre-Tax Contributions, After-Tax Contributions, and amounts in his Prior Plan Accounts, excluding the Prior Plan 1999 Matching Account, and Rollover Account, and the earnings and accretions thereon, in any whole percentages totaling 100% among the Investment Funds.

With no restrictions on frequency, each Participant may by electronic, telephonic, written or other such manner as may be prescribed from time to time by the Committee and subject to any restrictions or conditions which may be established by the Committee, direct the investment of his future After-Tax and Pre-Tax Contributions or the transfer of the current values in his After-Tax Contribution Account, Pre-Tax Contribution Account, Prior Plan Accounts, excluding the Prior Plan 1999 Matching Account, and/or Rollover Account among the various Investment Funds in any whole percentages totaling 100%. Any such change in Investment Funds shall be effective as soon as reasonably practicable following receipt of the change of Investment Funds, but in no event shall such change be effective earlier than the close of business on the Valuation Date on which such change is received. If a Participant fails to make a proper designation, then his Account shall be invested as soon as administratively feasible in the Investment Fund or Funds specified by the Committee from time to time in a uniform and non-discriminatory manner.

Except as otherwise expressly provided herein, interest, dividends and other income and all profits and gains produced by each Investment Fund shall be paid in such Investment Fund, and such interest, dividends and other income, and profits or gains without distinction between principal and income, shall be invested and reinvested, but only in property of the class hereinabove specified for the particular Investment Fund. However, the Committee may direct that dividends paid with respect to shares in the ESOP Fund be distributed on an annual basis or more frequently in order that the deduction under Code Section 404(k) be available to the Company, in which event income that constitutes dividends on shares of Company Stock in the ESOP Fund shall not be invested in Company Stock but shall be temporarily invested in cash equivalents until distribution to Participants. In making payments in respect of Exempt Loans, the Trustee shall utilize income and ESOP Contributions as is specified in Section 5.3 hereof; namely, that income shall be first used to fund principal payments and ESOP Contributions shall be first used to fund interest payments. All purchases of Company Stock shall be made at prices which, in the judgment of the Trustee, do not exceed the fair market value of such Company Stock. Pending such investment or application of cash, the Trustee may retain cash uninvested without liability for interest if it is prudent to do so, or may invest all or any part thereof in Treasury Bills, commercial paper, or like holdings.

It is hereby explicitly provided and expressly acknowledged that up to 100% of the assets of the Plan held in the Trust Fund may be invested in Common Stock, as contemplated by the exception provided in Section 407(b) of ERISA.

8.2 Diversification Election:

(a) Subject to Section 8.2(b), each qualified Participant (as defined herein) may elect within 90 days after the close of each Plan Year in the initial election period (as defined herein), to direct the investment of up to 25% of the sum of the balances in the Participant's Employer Matching Account, ESOP Account, and Prior Plan 1999 Matching Account (to the extent such portion exceeds the amount to which a prior election to diversify under this Section 8.2(a) applies) into any or all Investment Funds with the exception of the Reliant Energy Common Stock Fund, and such diversification shall be made no later than as required under Code Section 401(a)(28). In the Plan Year after the initial election period, the percentage shall be 50% instead of 25%. A qualified Participant is any Participant who has completed at least ten years of participation in the Plan and applicable Prior Plan and who has attained age 55. The initial election period means the five Plan Year period beginning with the first Plan Year on or after January 1, 1992 in which the Participant first became a qualified Participant.

(b) If implemented by the Committee, effective as of the date specified by the Committee, this Section 8.2(b) shall replace, supersede and apply in lieu of Section 8.2(a), as follows:

(i) Each Participant who has (1) completed at least ten years of participation in the Plan and applicable Prior Plan and (2) attained age 55 (hereinafter, a "Qualified Participant") may elect within 90 days after the close of each Plan Year in the initial election period (as defined herein), to direct the investment of up to 25% of the sum of the balances in such Participant's Employer Matching Account, ESOP Account, and Prior Plan 1999 Matching Account (to the extent such portion exceeds the amount to which a prior election to diversify under this Section 8.2(a) applies) into any or all Investment Funds with the exception of the Reliant Energy Common Stock Fund, and such diversification shall be made no later than as required under Code Section 401(a)(28). In the Plan Year after the initial election period, the percentage shall be 50% instead of 25%. The initial election period means the five Plan Year period beginning with the first Plan Year in which the Participant first became a Qualified Participant.

(ii) Each Participant may elect, once each calendar year in the manner and subject to such rules, procedures and overriding Plan limits as specified by the Committee, to direct the investment of up to 50% of the balance in the Participant's ESOP Account which are attributable to Employer Contributions made to such account on or after the effective date of the implementation of this Section 8.2(b) into any or all Investment Funds with the exception of the Reliant Energy Common Stock Fund; provided, however, that at least 50% of the aggregate sum of the balances in the ESOP Accounts of all Participants must be invested in Company Stock. Such election shall be effective as soon as reasonably practicable following receipt of the election to diversify, but in no event shall the election be effective earlier than the close of business on the Valuation Date on which the election is received. Any amounts so diversified and reinvested may subsequently be directed by the Participant in the same manner as amounts in the Participant's After-Tax and Pre-Tax Contribution Accounts as described in Section 8.1, except that none of the amounts so diversified may be invested in the Reliant Energy Common Stock Fund.

8.3 Voting of Company Stock; Exercise of Other Rights:

(a) Voting rights with respect to shares of Company Stock in the ESOP Fund allocated to the ESOP Accounts of Participants and shares in the Reliant Energy Common Stock Fund allocated to the Accounts of Participants shall be voted by the Trustee in such manner as may be directed by the respective Participants, with fractional shares being voted on a combined basis to the extent possible to reflect the direction of the voting Participants. The Trustee shall vote both allocated shares of Company Stock for which they have not received direction, as well as shares of Company Stock held in the Stock Suspense Account, in the same proportion as directed shares are voted, giving effect to all affirmative directions by Participants, including directions to vote for or against, to abstain or to withhold the vote, and the Trustee shall have no discretion in such matter.

(b) In the event that there is a tender offer or exchange offer for outstanding shares of Company Stock, rights with respect to the tender offer or exchange offer shall be as with respect to voting rights described in Section 8.3(a) above. If the Trustee shall not receive timely instruction from a Participant as to the manner in which to respond to such a tender offer, the Trustee shall not tender or exchange any shares of Company Stock with respect to which such Participant has the right to direction, and the Trustee shall have no discretion in such matter. With respect to shares of Company Stock held in the Stock Suspense Account and fractional shares of Company Stock allocated to Participants' ESOP Accounts and Employer Matching Accounts, voting rights and rights to tender or exchange in connection with a tender offer or exchange offer for the shares of Company Stock shall be exercised by the Trustee in the same proportion as they vote, tender or exchange shares of Company Stock with respect to shares allocated to the Participants' ESOP Accounts and Employer Matching Accounts, and the Trustee shall have no discretion in such matter.

(c) Solicitation of exercise of Participants' voting rights by management of the Company and others under a proxy or consent provision applicable to all holders of Company Stock shall be permitted. Solicitation of exercise of Participant tender or exchange offer rights by management of the Company and others shall be permitted. The Trustee shall notify Participants of each occasion for the exercise of voting rights or rights with respect to a tender offer or exchange offer within a reasonable time before such rights are to be exercised. Such notification shall include all information distributed to shareholders by the Company regarding the exercise of such rights. Copies of Company written communications to Participants relating to each opportunity for Participant exercise of rights under this Section 8.3 shall be promptly furnished to the Trustee. The instructions received by the Trustee from Participants shall be held by the Trustee in confidence and shall not be divulged or released to any person, including the Committee or officers or employees of the Company or its Affiliates. In the event any shares of Company Stock held in the Stock Suspense Account are tendered or exchanged pursuant to this Section 8.3, the proceeds shall at the direction of the Board of Directors of the Company either (i) if and to the extent the proceeds are attributable to unallocated Company Stock be used to repay installment purchase or other indebtedness used to purchase the Common Stock to which such proceeds are attributable or (ii) be reinvested in Company Stock within 90 days, or within such longer period as may be approved by the Commissioner of Internal Revenue.

ARTICLE IX

TRUST AGREEMENT AND TRUST FUND

9.1 Trust Agreement: As part of the Plan, the Company has entered into the Trust Agreement with the Trustee. The provisions of such Trust Agreement are herein incorporated by reference as fully as if set out herein, and the assets held under said Trust Agreement on behalf of this Plan shall constitute the Trust Fund.

9.2 Benefits Paid Solely from Trust Fund: All of the benefits provided to be paid under Article VI hereof shall be paid by the Trustee out of the Trust Fund to be administered under such Trust Agreement. Neither the Employer nor the Trustee shall be responsible or liable in any manner for payment of any such benefits, and all Participants hereunder shall look solely to such Trust Fund and to the adequacy thereof for the payment of any such benefits of any nature or kind which may at any time be payable hereunder.

9.3 Committee Directions to Trustee: The Trustee shall make only such payments out of the Trust Fund as may be directed by the Committee. The Trustee shall not be required to determine or make any investigation to determine the identity or mailing address of any person entitled to any payments out of the Trust Fund and shall have discharged its obligation in that respect when it shall have sent checks or other papers by ordinary mail to such persons and addresses as may be certified to it by the Committee.

9.4 Trustee's Reliance on Committee Instructions: In any case where the Trustee shall be required hereunder to act upon instructions to be received from the Committee, the Trustee shall be protected in relying on any such instructions which shall be in writing and signed by any member of, or Secretary of, the Committee, and the Trustee shall be protected in relying upon the authority to act of any person certified to it by the Company as a member of, or Secretary of, the Committee until a successor to any such person shall be certified to the Trustee by the Company.

9.5 Authority of Trustee in Absence of Instructions from the Committee: If at any time the Committee shall be incapable for any reason of giving any directions, instructions or authorizations to the Trustee as are herein provided for and as may be required incidental to the administration of this Plan, the Trustee may act and shall be completely protected and without liability in so acting without such directions, instructions and authorizations as it in its sole discretion deems appropriate and advisable under the circumstances for the carrying out of the provisions of this Plan. In the event of termination of this Plan for any reason, the Committee shall be authorized to give all such instructions to the Trustee, and the Trustee shall be protected in relying on all such instructions, as may be necessary to make payment to any persons then interested in the Trust Fund of all such amounts as are specified herein to be paid under Section 10.5 hereof upon the termination of this Plan and the Trust Agreement.

9.6 Compliance with Exchange Act Rule 10(b)(18): At any time that the Trustee makes open market purchases of Company Stock, the Trustee will either (i) be an "agent independent of the issuer" as that term is defined in Rule 10(b)(18) promulgated pursuant to the Securities and Exchange Act of 1934, as amended (the "Exchange Act") or (ii) make such open market purchases in accordance with the provisions, and subject to the restrictions, of Rule 10(b)(18) of the Exchange Act.

ARTICLE X

ADOPTION OF PLAN BY OTHER CORPORATIONS, AMENDMENT AND TERMINATION OF THE PLAN, AND DISCONTINUANCE OF CONTRIBUTIONS TO THE TRUST FUND

10.1 Adoption by Employers: Every Employer which shall have adopted the Plan shall thereby become a participating Employer whose eligible Employees, subject to the Plan provisions, shall make and receive Contributions and have established for them Accounts under the Plan. Any corporation or other organization with employees, now in existence or hereafter formed or acquired which is not already an Employer under this Plan and which is otherwise legally eligible may, with the approval of the Company as evidenced by action of the Committee, adopt and become an Employer by executing and delivering to the Committee and the Trustee an adoptive instrument specifying the classification of its Employees who shall be eligible to participate in the Plan and evidencing the terms of the Plan with respect to its eligible Employees. The adoptive instrument may contain such changes and amendments in the terms and provisions of the Plan as adopted by such Employer as may be desired by such Employer and acceptable to the Committee. Any such Affiliate which shall adopt this Plan shall designate the Company as its agent to act for it in all transactions affecting the administration of the Plan and shall designate the Committee to act for such corporation and its Participants in the same manner in which the Committee may act for the Company and its Participants hereunder. The adoptive instrument shall specify the effective date of such adoption of the Plan and shall become, as to such corporation and its Employees, a part of this Plan. Upon an Employer's liquidation, bankruptcy, insolvency, sale, consolidation or merger to or with another organization that is not an Employer hereunder, in which such Employer is not the surviving company, all obligations of that Employer hereunder and under the Trust Agreement shall terminate automatically, and the Trust Fund assets attributable to the Employees of such Employer shall be held or distributed as herein provided unless, with the approval of the Company as evidenced by action of the Committee, the successor to that Employer assumes the duties and responsibilities of such Employer, by adopting this Plan and the Trust Agreement, or by establishment of a separate plan and trust to which the assets of the Trust Fund held on behalf of the Employees of such Employer shall be transferred with the consent and agreement of that Employer. Upon the consolidation or merger of two or more of the Employers under this Plan with each other, the surviving Employer or organization shall automatically succeed to all the rights and duties under the Plan and Trust Agreement of the Employers involved.

10.2 Continuous Service: The following special provisions shall apply to all Employers:

(a) An Employee shall be considered in continuous Service while regularly employed simultaneously or successively by one or more Employers.

(b) The transfer of a Participant from one Employer to another Employer shall not be deemed a termination of Service.

10.3 Amendment of the Plan: Except as otherwise expressly provided in this Section, (i) the Company shall have the right to amend or modify this Plan and the Trust Agreement (with the consent of the Trustee, if required) at any time and from time to time to the extent that it may deem advisable and (ii) the Committee shall have the right to amend or modify this Plan and the Trust Agreement (with the consent of the Trustee, if required) to modify the administrative provisions of the Plan, to change the Investment Funds offered under the Plan and for any changes required by applicable law or by the Internal Revenue Service to maintain the qualified status of the Plan and related Trust at any time and from time to time to the extent that it may deem advisable. Any such amendment or modification shall be set out in an instrument in writing duly authorized by the Board of Directors of the Company or the Committee, as the case may be, and executed by an appropriate officer of the Company or member of the Committee. Upon delivery by the Company of such an instrument amending the Plan to the Trustee, this Plan shall be deemed to have been amended or modified in such manner and to such extent and effective as of the date therein set forth, and thereupon any and all Participants whether or not they shall have become such prior to such amendment or modification shall be bound thereby. No such amendment or modification shall, however, increase the duties or responsibilities of the Trustee without its consent thereto in writing, or have the effect of transferring to or vesting in any Employer any interest or ownership in any properties of the Trust Fund, or of permitting the same to be used for or diverted to purposes other than for the exclusive benefit of the Participants and their Beneficiaries. No such amendment shall decrease the Account of any Participant or shall decrease any Participant's vested interest in his Account. No amendment shall directly or indirectly reduce a Participant's non-forfeitable vested percentage in his benefits under Section 6.1 of this Plan, unless each Participant having not less than three years of Service is permitted to elect to have his non-forfeitable vested percentage in his benefits computed under the provisions of Section 6.1 without regard to the amendment. Such election shall be available during an election period, which shall begin on the date such amendment is adopted, and shall end on the latest of (i) the date 60 days after such amendment is adopted, (ii) the date 60 days after such amendment is effective, or (iii) the date 60 days after such Participant is issued written notice of the amendment by the Committee or the Employer. Notwithstanding anything herein to the contrary, the Plan or the Trust Agreement may be amended in such manner as may be required at any time to make it conform to the requirements of the Code or of any United States statutes with respect to employees' trusts, or of any amendment thereto, or of any regulations or rulings issued pursuant thereto, and no such amendment shall be considered prejudicial to any then existing rights of any Participant or his Beneficiary under the Plan.

10.4 Termination of the Plan: The Plan may be terminated pursuant to the provisions of, and as of any subsequent date specified in, an instrument in writing executed by the Company, and approved and authorized by the Board of Directors of the Company, and which said instrument shall be delivered to the Trustee.

10.5 Distribution of Trust Fund on Termination: In the event of a termination of the Plan by the Company, the assets and properties of the Trust Fund shall be valued and allocated as provided in Sections 5.2 and 5.3, and each Participant shall be fully vested in all amounts attributable to his Employer Matching Account, his ESOP Account and his Prior Plan Accounts, and thereafter, each such Participant shall become entitled to distributions in respect of his Accounts in the Plan in the manner as provided in Section 6.6 herein provided that no Employer or Affiliate then establishes or maintains another defined contribution plan (other than an employee stock ownership plan within the meaning of Code Section 4975(e)(7) or Code Section 409 or a simplified employee pension within the meaning of Code Section 408(k)). In the event the Plan is terminated with respect to all Employers, any Company Stock held in the Suspense Stock Account shall be sold to the extent necessary to pay the outstanding principal balance and any accrued interest on any installment purchase contracts and/or loan obligations of the Trust Fund incurred for the purpose of directly or indirectly funding the purchase of such Stock, and any such installment purchase contracts and/or loan obligations shall be paid in full prior to distribution of the assets of the Trust Fund to Participants; provided, however, that the Board of Directors of the Company may authorize distribution of Trust Fund assets prior to satisfaction of installment purchase contracts and/or loan obligations, but only if under applicable federal law such assets or income attributable thereto cannot be used to repay such installment purchase contracts or loan obligations.

10.6 Effect of Discontinuance of Contributions: If the Company shall discontinue its Contributions to the Trust Fund, or suspend its Contributions to the Trust Fund under such circumstances so as to constitute a discontinuance of Contributions within the purview of the reasoning of Treasury Regulations Section 1.401-6(c), then all amounts theretofore credited to the Accounts of the Participants shall become fully vested, and throughout any such period of discontinuance of Contributions, all other provisions of the Plan shall continue in full force and effect other than the provisions for Contributions by an Employer or Participants and the forfeiture provisions of Section 6.1.

10.7 Merger of Plan with Another Plan: In the case of any merger or consolidation of the Plan with, or transfer in whole or in part of the assets and liabilities of the Trust Fund to another trust fund held under, any other plan of deferred compensation maintained or to be established for the benefit of all or some of the Participants of this Plan, the assets of the Trust Fund applicable to such Participants shall be transferred to the other trust fund only if:

(a) Each Participant would (if either this Plan or the other plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer (if this Plan had then terminated);

(b) Resolutions of the Board of Directors of the Employer under this Plan, and of any new or successor employer of the affected Participants, shall authorize such transfer of assets; and, in the case of the new or successor employer of the affected Participants, its resolutions shall include an assumption of liabilities with respect to such Participants' inclusion in the new employer's plan; and

(c) Such other plan and trust are qualified under Sections 401(a) and 501(a) of the Code.

ARTICLE XI

TOP-HEAVY PLAN REQUIREMENTS

11.1 General Rule: For any Plan Year for which this Plan is a Top-Heavy Plan, as defined in Section 11.8, and despite any other provisions of this Plan to the contrary, this Plan shall be subject to the provisions of this Article XI.

11.2 Vesting Provisions: Each Participant who has completed an "Hour of Service" (as defined in Section 3.6(a) hereof) after the Plan becomes top-heavy and while the Plan is top-heavy and who has completed the Vesting Service specified in the following table shall be vested in his Account under this Plan at least as rapidly as is provided in the following schedule; except that the vesting provision set forth in Section 6.1 shall be used at any time in which it provides for more rapid vesting:

Years of Vesting Service	Vesting Percentage
Less than 2 years	0%
2 but less than 3 years	20%
3 but less than 4 years	40%
4 but less than 5 years	60%
5 but less than 6 years	80%
6 years or more	100%

If an Account becomes vested by reason of the application of the preceding schedule, it may not therefore be forfeited by reason of re-employment after retirement pursuant to a suspension of benefits provision, by reason of withdrawal of any mandatory employee contributions to which employer contributions were keyed, or for any other reason. If the Plan subsequently ceases to be top-heavy, the preceding schedule shall continue to apply with respect to any Participant who had at least three years of service (as defined in Treasury Regulation Section 1.411(a)-8T(b)(3)) as of the close of the last year that the Plan was top-heavy. For all other Participants, the non-forfeitable percentage of their Accounts provided in the preceding schedule prior to the date the Plan ceases to be top-heavy shall not be reduced.

11.3 Minimum Contribution Provisions: Each Participant who (i) is a Non-Key Employee, as defined in Section 11.8 and (ii) is employed on the last day of the Plan Year will be entitled to have contributions and forfeitures (if applicable) allocated to his Account of not less than 3% (the "Minimum Contribution Percentage") of the Participant's Compensation. This minimum allocation percentage shall be provided without taking Pre-Tax Contributions into account. A Non-Key Employee may not fail to receive a Minimum Contribution Percentage because of a failure to receive a specified minimum amount of Compensation or a failure to make mandatory employee or elective contributions. This Minimum Contribution Percentage will be reduced for any Plan Year to the percentage at which contributions (including forfeitures) are made or are required to be made under the Plan for the Plan Year for the Key Employee for whom such percentage is the highest for such Plan Year. For this purpose, the percentage with respect to a Key Employee will be determined by dividing the contributions (including forfeitures) made for such Key Employee by his total compensation (as defined in Section 415 of the Code) not in excess of $160,000 for the Plan Year. Such amount will be adjusted in the same manner as the amount set forth in Section 11.4 below.

Contributions considered under the first paragraph of this Section 11.3 will include Employer contributions under this Plan and under all other defined contribution plans required to be included in an Aggregation Group (as defined in Section 11.8 below), but will not include Employer contributions under any plan required to be included in such aggregation group if the plan enables a defined benefit plan required to be included in such group to meet the requirements of the Code prohibiting discrimination as to contributions in favor of employees who are officers, shareholders, or the highly compensated or prescribing the minimum participation standards. If the highest rate allocated to a Key Employee for a year in which the Plan is top-heavy is less than 3%, amounts contributed as a result of a salary reduction agreement must be included in determining contributions made on behalf of Key Employees.

Employer Contributions made on behalf of Non-Key Employees that are taken into account to satisfy the Minimum Contribution Percentage shall not be treated as Employer Matching Contributions for purposes of determining the Actual Contribution Percentage under Article IV and must meet the non-discrimination requirements of Section 401(a)(4) without regard to Section 401(m).

Contributions considered under this Section 11.3 will not include any contributions under the Social Security Act or any other federal or state law.

11.4 Limitation on Compensation: Each Participant's Compensation taken into account under this Article XI and under Section 1.11 for purposes of computing benefits under this Plan will not exceed $160,000, as adjusted by the Secretary of the Treasury or his delegate. Such amount will be adjusted automatically for each Plan Year to the amount prescribed by the Secretary of the Treasury or his delegate pursuant to regulations for the calendar year in which such Plan Year commences.

11.5 Limitation on Contributions: Prior to January 1, 2000, in the event that the Company, other Employer or an Affiliate (herein in this Article collectively referred to as a "Considered Company") also maintains a defined benefit plan providing benefits on behalf of Participants in this Plan, one of the two following provisions will apply:

(a) If for the Plan Year this Plan would not be a Top-Heavy Plan if "90%" were substituted for "60%" in Section 11.8, then the percentage of 3% used in Section 11.3 is changed to 4%.

(b) If for the Plan Year this Plan would continue to be a Top-Heavy Plan if "90%" were substituted for "60%," in Section 11.8, then the denominator of both the defined contribution plan fraction and the defined benefit plan fraction will be calculated as set forth in Section 5.5 for the limitation year ending in such Plan Year by substituting "1.0" for "1.25" in each place such figure appears. This subsection (b) will not apply for such Plan Year with respect to any individual for whom there are no (i) Employer contributions, forfeitures or voluntary non-deductible contributions allocated to such individual or (ii) accruals earned under the defined benefit plan. Furthermore, the transitional rule set forth in Section 415(e)(6)(B)(i) of the Code shall be applied by substituting "Forty-One Thousand Five Hundred Dollars ($41,500)" for "Fifty-One Thousand Eight Hundred Seventy-Five Dollars ($51,875)" where it appears therein.

From and after January 1, 2000, the provisions of this Section 11.5 shall no longer apply.

11.6 Coordination with Other Plans: If another defined contribution or defined benefit plan maintained by a Considered Company provides contributions or benefits on behalf of a Participant in this Plan, the other plan will be treated as part of this Plan pursuant to applicable principles prescribed by U.S. Treasury Regulations or applicable IRS rulings (such as Revenue Ruling 81-202 or any successor ruling) to determine whether this Plan satisfies the requirements of Sections 11.2, 11.3 and 11.4 and to avoid inappropriate omissions or inappropriate duplication of minimum contributions. The determination will be made by the Plan Administrator upon the advice of counsel.

In the event a Participant is covered by a defined benefit plan which is top-heavy pursuant to Section 416 of the Code, a comparability analysis (as prescribed by Revenue Ruling 81-202 or any successor ruling) shall be performed in order to establish that the plans are providing benefits at least equal to the defined benefit minimum.

11.7 Distributions to Certain Key Employees: Notwithstanding any other provision of this Plan, the entire interest in this Plan of each Participant who is a Key Employee, by reason of clause (iii) of subparagraph (c) of Section 11.8 in the calendar year in which the Participant attains age 70 1/2, shall commence to be distributed to such Participant not later than the April 1 following such calendar year.

11.8 Determination of Top-Heavy Status: The Plan will be a Top-Heavy Plan for any Plan Year if, as of the Determination Date, the aggregate of the Accounts under the Plan (determined as of the Valuation Date) for Participants (including former Participants) who are Key Employees exceeds 60% of the aggregate of the Accounts of all Participants, excluding former Key Employees, or if this Plan is required to be in an Aggregation Group in any such Plan Year in which such Group is a Top-Heavy Group. In determining Top-Heavy status if an individual has not performed one Hour of Service for any Considered Company at any time during the five-year period ending on the

Determination Date, any accrued benefit for such individual and the aggregate Accounts of such individual shall not be taken into account.

For purposes of this Section, the capitalized words have the following meanings:

(a) "Aggregation Group" means the group of plans, if any, that includes both the group of plans required to be aggregated and the group of plans permitted to be aggregated. The group of plans required to be aggregated (the "required aggregation group") includes:

(i) each plan of a Considered Company in which a Key Employee is a participant; and

(ii) each other plan, including collectively bargained plans, of a Considered Company which enables a plan in which a Key Employee is a participant to meet the requirements of Code Section 401(a)(4) or 410.

The group of plans that are permitted to be aggregated (the "permissive aggregation group") includes the required aggregation group plus one or more plans of a Considered Company that is not part of the required aggregation group and that the Considered Company certifies as a plan within the permissive aggregation group. Such plan or plans may be added to the permissive aggregation group only if, after the addition, the aggregation group as a whole continues to satisfy the requirements of Code Sections 401(a)(4) and 410.

(b) "Determination Date" means for any Plan Year the last day of the immediately preceding Plan Year.

(c) "Key Employee" means any Employee or former Employee under this Plan who, at any time during the Plan Year in question or during any of the four preceding Plan Years, is or was one of the following:

(i) An officer of a Considered Company having an annual compensation greater than 50% of the amount in effect under Code Section 415(b)(1)(A) for any such Plan Year. Whether an individual is an officer shall be determined by the Considered Company on the basis of all the facts and circumstances, such as an individual's authority, duties and term of office, not on the mere fact that the individual has the title of an officer. For any such Plan Year, officers considered to be Key Employees will be no more than the fewer of:

(A) 50 employees; or

(B) 10% of the employees or, if greater than 10%, three employees.

For this purpose, the highest paid officers shall be selected.

(ii) One of the ten employees owning (or considered as owning, within the meaning of the constructive ownership rules of Code Section 416(i)(1)(B)) the largest interests in the Considered Company. An employee who has some ownership interest is considered to be one of the top ten owners unless at least ten other employees own a greater interest than that employee. However, an employee will not be considered a top ten owner for a Plan Year if the employee earns less than the limitation in effect under Code Section 415(c)(1)(A) as in effect for the calendar year in which the Determination Date falls.

(iii) Any person who owns (or is considered as owning, within the meaning of the constructive ownership rules of Code Section 416(i)(1)(B)) more than 5% of the outstanding stock of a Considered Company or stock possessing more than 5% of the combined voting power of all stock of the Considered Company.

(iv) Any person who has an annual compensation from the Considered Company of more than One Hundred Fifty Thousand Dollars ($150,000) and who owns (or is considered as owning, within the meaning of the constructive ownership rules of Code Section 416(i)(1)(B)) more than 1% of the outstanding stock of the Considered Company or stock possessing more than 1% of the outstanding stock of the Considered Company or stock possessing more than 1% of the combined voting power of all stock of the Considered Company. For purposes of this subsection, Annual Compensation includes all items includable as Compensation within the meaning of Section 11.8(k) and further includes the amount otherwise excludable from an employee's gross income by reason of Code Section 125, 402(e)(3) or 402(h)(1)(B).

For purposes of this subsection (c), a Beneficiary of a Key Employee shall be treated as a Key Employee. For purposes of parts (iii) and (iv), each Considered Company is treated separately in determining ownership percentages; but all such Considered Companies shall be considered a single employer in determining the amount of compensation.

(d) "Non-Key Employee" means any employee (and any Beneficiary of an employee) who is not a Key Employee.

(e) "Top-Heavy Group" means the Aggregation Group if, as of the applicable Determination Date, the sum of the present value of the cumulative accrued benefits for Key Employees under all defined benefit plans included in the Aggregation Group plus the aggregate of the accounts of Key Employees under all defined contribution plans included in the Aggregation Group exceeds 60% of the sum of the present value of the cumulative accrued benefits for all employees, excluding former Key Employees as provided in paragraph (i) below, under all such defined benefit plans plus the aggregate accounts for all employees, excluding former Key Employees as provided in paragraph (i) below, under all such defined contribution plans. In determining Top-Heavy status, if an individual has not performed one Hour of Service for any Considered Company at any time during the five-year period ending on the Determination Date, any accrued benefit for such individual and the aggregate accounts of such individual shall not be taken into account. If the Aggregation Group that is a Top-Heavy Group is a required aggregation group, each plan in the group will be a Top-Heavy Plan. If the Aggregation Group that is a Top-Heavy Group is a permissive aggregation group, only those plans that are part of the required aggregation group will be treated as Top-Heavy Plans. If the Aggregation Group is not a Top-Heavy Group, no plan within such group will be a Top-Heavy Plan.

In determining whether this Plan constitutes a Top-Heavy Plan, the Committee (or its agent) will make the following adjustments:

(f) When more than one plan is aggregated, the Committee shall determine separately for each plan as of each plan's Determination Date the present value of the accrued benefits (for this purpose using the actuarial assumptions set forth in the applicable plan) or account balance. The results shall then be aggregated by adding the results of each plan as of the Determination Dates for such plans that fall within the same calendar year.

(g) In determining the present value of the cumulative accrued benefit or the amount of the account of any employee, such present value or account will include the amount in dollar value of the aggregate distributions made to such employee under the applicable plan during the five-year period ending on the Determination Date unless reflected in the value of the accrued benefit or account balance as of the most recent Valuation Date. The amounts will include distributions to employees representing the entire amount credited to their accounts under the applicable plan.

(h) Further, in making such determination, such present value or such account shall include any rollover contribution (or similar transfer), as follows:

(i) If the rollover contribution (or similar transfer) is initiated by the employee and made to or from a plan maintained by another Considered Company, the plan providing the distribution shall include such distribution in the present value or such account and the plan accepting the distribution shall not include such distribution in the present value or such account unless the plan accepted it before December 31, 1983.

(ii) If the rollover contribution (or similar transfer) is not initiated by the employee or made from a plan maintained by another Considered Company, the plan accepting the distribution shall include such distribution in the present value or such account, whether the plan accepted the distribution before or after December 31, 1983; the plan making the distribution shall not include the distribution in the present value or such account.

(i) In any case where an individual is a Non-Key Employee with respect to an applicable plan but was a Key Employee with respect to such plan for any prior Plan Year, any accrued benefit and any account of such employee will be altogether disregarded. For this purpose, to the extent that a Key Employee is deemed to be a Key Employee if he or she met the definition of Key Employee within any of the four preceding Plan Years, this provision will apply following the end of such period of time.

(j) "Valuation Date" means for purposes for determining the present value of an accrued benefit as of the Determination Date the date determined as of the most recent valuation date which is within a 12-month period ending on the Determination Date. For the first plan year of a plan, the accrued benefit for a current employee shall be determined either (i) as if the individual terminated service as of the Determination Date or (ii) as if the individual terminated service as of the valuation date, but taking into account the estimated accrued benefit as of the Determination Date. The Valuation Date shall be determined in accordance with the principles set forth in Q&A-T-25 of Treasury Regulation Section 1.416-1.

(k) For purposes of this Section, "Compensation" shall have the meaning given to it in Section 5.5(d)(6) of the Plan.

ARTICLE XII

MISCELLANEOUS PROVISIONS

12.1 Terms of Employment: The adoption and maintenance of the provisions of this Plan shall not be deemed to constitute a contract between the Employer and any Employee, or to be a consideration for, or an inducement or condition of, the employment of any person. Nothing herein contained shall be deemed to give to any Employee the right to be retained in the employ of the Employer or to interfere with the right of the Employer to discharge any Employee at any time, nor shall it be deemed to give the Employer the right to require any Employee to remain in its employ, nor shall it interfere with any Employee's right to terminate his employment at any time.

12.2 Controlling Law: This Plan and the Trust shall be construed, regulated and administered under the laws of the State of Texas, subject, however, to such determinations under the Plan as may be governed by ERISA and related provisions of the Code.

12.3 Invalidity of Particular Provisions: In the event any provision of this Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining provisions of this Plan but shall be fully severable, and this Plan shall be construed and enforced as if said illegal or invalid provisions had never been inserted herein.

12.4 Non-Alienability of Rights of Participants: Except as otherwise provided below and with respect to certain judgments and settlements pursuant to Section 401(a)(13) of the Code, no interest, right or claim in or to the part of the Trust Fund attributable to the Account of any Participant, or any distribution of benefits therefrom, shall be assignable, transferable or subject to sale, mortgage, pledge, hypothecation, commutation, anticipation, garnishment, attachment, execution, claim or levy of any kind, voluntary or involuntary (excluding a levy on an Account, other than the Pre-Tax Contribution Account, for taxes filed upon the Plan by the Internal Revenue Service to the extent valid and enforceable under applicable federal law), including without limitation any claim asserted by a spouse or former spouse of any Participant, and the Trustee shall not recognize any attempt to assign, transfer, sell, mortgage, pledge, hypothecate, commute or anticipate the same. The preceding sentence shall also apply to the creation, assignment or recognition of a right to any benefit payable with respect to a Participant pursuant to a domestic relations order, unless such order is determined to be a qualified domestic relations order, as defined in Section 414(p) of the Code. The Committee shall establish a written procedure to be used to determine the qualified status of such orders and to administer distributions under such orders. Further, to the extent provided under the qualified domestic relations order, a former spouse of a Participant shall be treated as a spouse for all purposes of the Plan. If the Committee receives a qualified domestic relations order with respect to a Participant, the amount assigned to the Participant's former spouse may be immediately distributed, to the extent permitted by law, from the vested portion of the Participant's Account.

12.5 Payments in Satisfaction of Claims of Participants: Any distribution to any Participant or his Beneficiary or legal representative, in accordance with the provisions of the Plan, of the interest in the Trust Fund attributable to his Pre-Tax Contribution Account and/or After-Tax Contribution Account, and the vested portion of his Employer Matching Account and ESOP Account, shall be in full satisfaction of all claims under the Plan against the Trust Fund, the Trustee, the Company, and the Employer. The Trustee may require that any distributee execute and deliver to the Trustee a receipt and a full and complete release of the Employer as a condition precedent to any payment or distribution under the Plan.

12.6 Payments Due Minors and Incompetents: If the Committee determines that any person to whom a payment is due hereunder is a minor or is incompetent by reason of physical or mental disability, the Committee shall have power to cause the payments becoming due such person to be made to the guardian of the minor or the guardian of the estate of the incompetent, or to the County Clerk as allowed under law without the Committee or the Trustee being responsible to see to the application of such payment. Payments made pursuant to such power shall operate as a complete discharge of the Committee, the Trustee and the Employer.

12.7 Acceptance of Terms and Conditions of Plan by Participants: Each Participant, through execution of the application required under the terms of the Plan as a condition of participation herein, for himself, his heirs, executors, administrators, legal representatives and assigns, approves and agrees to be bound by the provisions of this Plan and the Trust Agreement and any subsequent amendments thereto and all actions of the Committee and the Trustee hereunder. In consideration of the adoption of this Plan by the Employer and the Contributions of the Employer to the Trust Fund, each Participant agrees by the execution of his application to participate herein to release and hold harmless to the extent permitted by ERISA the Employer, the Committee and the Trustee from any liability for any act whatsoever, past, present, or future, performed in good faith in such respective capacities pursuant to the provisions of this Plan or the Trust Agreement.

12.8 Impossibility of Diversion of Trust Fund: Notwithstanding any provision herein to the contrary, no part of the corpus or the income of the Trust Fund shall ever be used for or diverted to purposes other than for the exclusive benefit of the Participants or their Beneficiaries or for the payment of expenses of the Plan. No part of the Trust Fund shall ever revert to the Employer.

12.9 Transition Period: Notwithstanding any provision of the Plan to the contrary, during the period of transition from the provisions of the Prior Plans to this Plan, commencing March 16, 1999 and ending on or about May 15, 1999 as determined by the Committee in its sole discretion, the following restrictions shall apply: (i) Participants may not change their investment directions with respect to future contributions or existing Account balances; (ii) Participants may be limited in their ability to make changes in the amount of their Pre-Tax and After-Tax Contributions; and (iii) loans, withdrawals and distributions otherwise available under the Plan may be temporarily delayed, all in accordance with such administrative procedures as may be decided by the Committee and communicated to Participants during said transition.

IN WITNESS WHEREOF, the BENEFITS COMMITTEE OF RELIANT ENERGY, INCORPORATED has executed these presents as evidenced by the signatures affixed hereto of its officers hereunto duly authorized, in a number of copies, all of which shall constitute but one and the same instrument, which instrument may be sufficiently evidenced by any such executed copy hereof, this 16th day of December, 1999, effective as of April 1, 1999.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By /s/ LEE W. HOGAN

Lee W. Hogan
Chairman

ATTEST:

/s/ LYNNE HARKEL-RUMFORD

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Lynne Harkel-Rumford
Secretary

RELIANT ENERGY, INCORPORATED SAVINGS PLAN

ATTACHMENT A

Effective April 1, 1999, the following Investment Funds are available for investment of amounts in a Participant Account in accordance with the provisions of Section 8.1 of the Plan:

(a) Reliant Energy Common Stock Fund: Contributions are primarily invested and reinvested in Company Stock.

(b) Capital Appreciation Equity Fund: Contributions are primarily invested and reinvested in a pool of stock mutual funds that have a goal of long-term growth with little emphasis on current income. The mutual funds buy stocks of rapidly growing companies or companies with the potential for above average growth, including stock of small and international companies.

(c) Growth & Income Equity Fund: Contributions are primarily invested and reinvested in a pool of stock mutual funds that have a goal of long-term growth and current income. The mutual funds buy stocks of growing companies and companies that have a history of paying dividends.

(d) International Equity Fund: Contributions are primarily invested and reinvested in a pool of international stock mutual funds that have a goal of long-term growth with little emphasis on current income. These mutual funds buy stocks of growing and established companies that have their principal business activities outside of the United States and which show potential for growth.

(e) Balanced Fund: Contributions are primarily invested and reinvested in both bond mutual funds investing in high-quality bonds and stock mutual funds investing in a wide variety of companies.

(f) Fixed Income Fund: Contributions are primarily invested and reinvested in a fixed income mutual fund. The mutual fund invests in high-quality government and corporate bonds and other fixed income securities.

(g) Money Market Fund: Contributions are primarily invested and reinvested in a money market fund. The fund invests in high-quality government and corporate fixed income securities with maturities of less than one year.

(h) S&P 500 Index Fund: Contributions are primarily invested and reinvested in a stock mutual fund that seeks to track the investment performance of the S&P 500 Composite Index, which emphasizes stocks of large U.S. Companies. The fund follows a simple, cost-effective index-matching strategy.

The Committee reserves the right to add and/or delete Investment Funds, with the exception of the Reliant Energy Common Stock Fund, from time to time and at any time.

IN WITNESS WHEREOF, the BENEFITS COMMITTEE OF RELIANT ENERGY, INCORPORATED has executed this Attachment A as evidenced by the signatures affixed hereto of its officers hereunto duly authorized, in a number of copies, all of which shall constitute but one and the same instrument, which instrument may be sufficiently evidenced by any such executed copy hereof, this 16th day of December, 1999, effective as of April 1, 1999.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By /s/ LEE W. HOGAN

Lee W. Hogan
Chairman

ATTEST:

/s/ LYNNE HARKEL-RUMFORD

Lynne Harkel-Rumford
Secretary

EXHIBIT 10(cc)(2)

HI Benefits Committee

HOUSTON INDUSTRIES INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective July 1, 1995)

Sixth Amendment

The Benefits Committee of Houston Industries Incorporated, having reserved the right under Section 10.3 of the Houston Industries Incorporated Savings Plan, as amended and restated effective July 1, 1995, and thereafter amended (the "Plan"), to amend the Plan, does hereby amend the Plan as follows:

1. Effective as of April 1, 1999, or such later date as prescribed by paragraph 2 hereof, Section 8.2 of the Plan is hereby amended in its entirety as follows:

"8.2 Diversification Election:

(a) Each Participant who has (i) completed at least ten years of participation in the Plan and the Prior Plan and (ii) attained age 55 (hereinafter, a "Qualified Participant") may elect within 90 days after the close of each Plan Year in the initial election period (as defined herein), to direct the investment of up to 25% of the sum of the balances in such Participant's ESOP Account and Employer Matching Account (to the extent such portion exceeds the amount to which a prior election to diversify under this Section 8.2(a) applies) into any or all Investment Funds with the exception of the HI Common Stock Fund, and such election shall be effective as of the last Valuation Date in March. In each Plan Year after the initial election period, the percentage shall be 50% instead of 25%. The initial election period means the five Plan Year period beginning with the first Plan Year in which the Participant first became a Qualified Participant.

(b) Each Participant may elect, once each calendar year in the manner and subject to such rules, procedures and overriding Plan limits as specified by the Committee, to direct the investment of up to 50% of the sum of the balances in the Participant's ESOP Account and Employer Matching Account which are attributable to Employer Contributions made with respect to periods on or after April 1, 1999 into any or all Investment Funds with the exception of the HI Common Stock Fund; provided, however, that at least 50% of the aggregate sum of the balances in the ESOP Accounts and Employer Matching Accounts of all Participants must be invested in Company Stock. Such election shall be effective as soon as reasonably practicable following receipt of the election to diversify, but in no event shall the election be effective earlier than the close of business on the Valuation Date on which the election is received. Any amounts so diversified and reinvested may subsequently be directed by the Participant in the same manner as amounts in the Participant's After-Tax and Pre-Tax Contribution Accounts as described in Section 8.1, except that none of the amounts so diversified may be invested in the HI Common Stock Fund."

2. This Amendment shall not become effective unless and until (i) the Internal Revenue Service issues a favorable determination letter indicating that the Amendment will not adversely affect the Plan's qualification under Section 401(a) of the Internal Revenue Code of 1986 (the "Code") or the Plan's classification as an "Employee Stock Ownership Plan," as defined in Section 4975(e)(7) of the Code, and (ii) the Benefits Committee (by formal written resolution) elects to implement the terms of the Amendment on or after April 1, 1999.

IN WITNESS WHEREOF, the Company has caused these presents to be executed by its duly authorized officer in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 29th day of April, 1999, but effective as of the date specified herein.

BENEFITS COMMITTEE OF
HOUSTON INDUSTRIES INCORPORATED

By LEE W. HOGAN

Lee W. Hogan, Chairman

ATTEST:

ELIZABETH P. WEYLANDT
- --------------------------------
Elizabeth P. Weylandt, Secretary

EXHIBIT 10(cc)(3)

HI Benefits Committee

HOUSTON INDUSTRIES INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective July 1, 1995)

Seventh Amendment

The Benefits Committee of Houston Industries Incorporated, having reserved the right under Section 10.3 of the Houston Industries Incorporated Savings Plan, as amended and restated effective July 1, 1995, and thereafter amended (the "Plan"), to amend the Plan, does hereby amend the Plan, effective as of the dates specified below, as follows:

1. Section 1.11 of the Plan is hereby amended, effective as of January 1, 1997, by deleting the fourth and fifth sentences thereof.

2. Section 3.7 of the Plan is hereby amended, effective as of December 12, 1994, by adding the following to the end of the first paragraph thereof:

"Notwithstanding any provisions of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Code."

3. Section 3.10 of the Plan is hereby amended, effective as of October 1, 1997, by adding the following new Subsection (c) to the end thereof:

"(c) In addition and with respect to only those Participants who previously had an account established under the STP Savings Plan (as defined in Section 8.4) as of October 1, 1997, prior to their employment after such date by an Employer covered by this Plan, the period of employment of such Participant by STP shall be deemed to be employment by an Affiliate hereunder for purposes of eligibility and vesting and shall be calculated as provided in Section 3.10(a) above."

4. The second paragraph of Section 4.1 of the Plan is hereby amended, effective as of January 1, 1999, to read as follows:

"The Employer shall also make an Employer Matching Contribution (subject to adjustments for forfeitures and limitations on annual additions as elsewhere specified in the Plan) in the amount, if any, necessary to result in a total allocation under Article V to each Participant's Prior Plan and ESOP Accounts of not less than 75% of the total of his Pre-Tax Basic Contribution and After-Tax Basic Contribution for the Plan Year in the case of HII Participants. Further, the Employer shall make an additional ESOP Contribution and/or Employer Matching Contribution, if necessary, to make the allocation required under Section 5.3(d)(ii) with respect to dividends used to repay an Exempt Loan. In addition, in its discretion, the Employer may make an additional Employer Matching Contribution in an amount determined by the Board of Directors of the Employer and communicated to the Participants within 90 days following the close of the applicable Plan Year.

5. The fourth sentence of Section 4.2 of the Plan is hereby amended, effective as of January 1, 1998, to read as follows:

"A Participant's Pre-Tax Contributions under this Plan and all other plans, contracts or arrangements of the Employer shall not exceed a maximum contribution of $10,000 (as adjusted by the Secretary of the Treasury) for each calendar year."

6. The definition of "Highly Compensated Employee" in Section 4.5(b) of the Plan is hereby amended, effective as of January 1, 1997, by inserting the following as new paragraphs following the fourth paragraph thereto:

"Effective January 1, 1997, 'Highly Compensated Employee' shall mean any Employee and any employee of an Affiliate who is a highly compensated employee under Section 414(q) of the Code, including any Employee and any employee of an Affiliate who:

(i) was a 5% owner during the current Plan year or prior Plan Year; or

(ii) received Compensation during the Plan Year (as defined in Section 5.5(d)(6) in excess of $80,000 or such other dollar amount as may be prescribed by the Secretary of the Treasury or his delegate and, if elected by the Employer, was in the 'top-paid group' (the top 20% of payroll) for the Plan Year, excluding Employees described in Code Section 414(p)(8).

In determining an Employee's status as a Highly Compensated Employee within the meaning of Section 414(q), the entities set forth in Treasury Regulation Section 1.414(q)-1T Q&A-6(a)(1) through (4) must be taken into account as a single employer.

A former Employee shall be treated as a Highly Compensated Employee if (1) such former Employee was a Highly Compensated Employee when he separated from Service, or (2) such former Employee was a Highly Compensated Employee in Service at any time after attaining age 55."

7. The sixth paragraph of Section 4.5 of the Plan is hereby deleted, effective as of January 1, 1997.

8. Section 4.8 of the Plan is hereby amended in its entirety, effective as of January 1, 1997, to read as follows:

"4.8 Excess Pre-Tax Contributions: As soon as possible following the end of the Plan Year, the Committee shall determine whether either of the tests contained in Section 4.5 were satisfied as of the end of the Plan Year, and any excess Pre-Tax Contributions, plus any income and minus any loss attributable thereto, of those Participants who are among the Highly Compensated Employees shall be distributed to such Participants in the manner provided below based on the amount of Pre-Tax Contributions. In addition, the Employer Contribution made with respect to such excess Pre-Tax Contributions shall be forfeited and applied to reduce future Employer Contributions otherwise required under Section 4.1. Such income shall include the allocable gain or loss for the Plan Year only.

The amount of any excess Pre-Tax Contributions to be distributed to a Participant shall be reduced by Excess Deferrals previously distributed to him pursuant to Section 4.2 for the taxable year ending in the same Plan Year. All excess Pre-Tax Contributions shall be returned to the Participants no later than the last day of the following Plan Year. The excess Pre-Tax Contributions, if any, of each Participant who is among the Highly Compensated Employees shall be determined by computing the maximum Actual Deferral Percentage which each such Participant may defer under (a) or (b) of Section 4.5 and then reducing the Actual Deferral Percentage of some or all of such Participants through the distribution of such excess Pre-Tax Contributions, on the basis of the amount of Pre-Tax Contributions of such Participants, as necessary to reduce the overall Actual Deferral Percentage for eligible Participants who are among the Highly Compensated Employees to a level which satisfies either (a) or (b) of Section 4.5, according to the following procedures:

(a) the Pre-Tax Contributions of the Highly Compensated Employee or Employees with the highest dollar amount of Pre-Tax Contributions shall be reduced to equal the dollar amount of the Pre-Tax Contributions of the Highly Compensated Employee or Employees with the next highest dollar amount of Pre-Tax Contributions;

(b) the reduction amount determined in clause (a) shall be distributed to the Highly Compensated Employee or Employees who had the highest dollar amount of Pre-Tax Contributions prior to such reduction; and

(c) the procedures in clause (a) and (b) shall be repeated until the total excess Pre-Tax Contributions are distributed and compliance is achieved with (a) or (b) of Section 4.5.

If these distributions are made, the Actual Deferral Percentage is treated as meeting the nondiscrimination test of Section 401(k)(3) of the Code regardless of whether the Actual Deferral Percentage, if recalculated after distributions, would satisfy Section 401(k)(3) of the Code. The above procedures are used for purposes of recharacterizing excess Pre-Tax Contributions under Section 401(k)(8)(A)(ii) of the Code. For purposes of Section 401(m)(9) of the Code, if a corrective distribution of excess Pre-Tax Contributions has been made, or a recharacterization has occurred, the Actual Deferral Percentage for Highly Compensated Employees is deemed to be the largest amount permitted under Section 401(k)(3) of the Code.

The income or loss attributable to the Participant's excess Pre-Tax Contributions for the Plan Year shall be determined by multiplying the income or loss attributable to the Participant's Pre-Tax Contribution Account balance for the Plan Year by a fraction, the numerator of which is the excess Pre-Tax Contribution and the denominator of which is the Participant's total Pre-Tax Contribution Account balance. Excess Pre-Tax Contributions shall be treated as Annual Additions under Section 5.5 of the Plan."

9. Section 4.9 of the Plan is hereby deleted and the following Sections renumbered accordingly, effective as of January 1, 1997, along with all current references in the Plan affected by such deletion.

10. The second paragraph of Section 4.11 (prior to renumbering) of the Plan is hereby deleted, effective as of January 1, 1997.

11. Section 4.12 (prior to renumbering) of the Plan is hereby amended in its entirety, effective as of January 1, 1997, to read as follows:

"4.12 Treatment of Excess Aggregate Contributions or ESOP Contributions: If neither of the tests described above in Section 4.11 are satisfied with respect to either Aggregate Contributions or ESOP Contributions, the excess Aggregate Contributions or ESOP Contributions (as applicable), plus any income and minus any loss attributable thereto, shall be forfeited or, if not forfeitable, shall be distributed no later than the last day of the Plan Year following the Plan Year in which such excess Aggregate Contributions or ESOP Contributions (as applicable) were made. Such income shall include the allocable gain or loss for the Plan Year only. The income or loss attributable to the Participant's excess Aggregate Contributions or ESOP Contributions (as applicable) for the Plan Year shall be determined by multiplying the income or loss attributable to the Participant's Account for the Plan Year by a fraction, the numerator of which is the excess Aggregate Contribution or ESOP Contributions (as applicable), and the denominator of which is the Participant's total Account balance. Excess Aggregate Contributions or ESOP Contributions shall be treated as Annual Additions under Section 5.5 of the Plan.

The excess Aggregate Contributions or ESOP Contributions (as applicable), if any, of each Participant who is among the Highly Compensated Employees shall be determined by computing the maximum Contribution Percentage under (a) or (b) of Section 4.11 and then reducing the Contribution Percentage of some or all of such Participants whose Contribution Percentage exceeds the maximum through the distribution or forfeiture of the excess Aggregate Contributions or ESOP Contributions (as applicable), on the basis of the amount of such excess contributions attributable to such Participants, as necessary to reduce the overall Contribution Percentage for eligible Participants who are among the Highly Compensated Employees to a level which satisfies either (a) or (b) of Section 4.11, according to the following procedures:

(a) the Aggregate Contributions or ESOP Contributions (as applicable) of the Highly Compensated Employee or Employees with the highest dollar amount of such contributions shall be reduced to equal the dollar amount of the Aggregate Contributions or ESOP Contributions (as applicable) of the Highly Compensated Employee or Employees with the next highest dollar amount of such contributions;

(b) the reduction amount determined in clause (a) shall be forfeited by or, if not forfeitable, distributed to the Highly Compensated Employee or Employees who had the highest dollar amount of Aggregate Contributions or ESOP Contributions (as applicable) prior to such reduction; and

(c) the procedures in clause (a) and (b) shall be repeated until the total excess Aggregate Contributions or ESOP Contributions (as applicable) are forfeited and/or distributed and compliance is achieved with (a) or (b) of Section 4.11.

If these forfeitures and/or distributions are made, the Contribution Percentage is treated as meeting the nondiscrimination test of Section 401(m)(2) of the Code regardless of whether the Contribution Percentage, if recalculated after such forfeitures and/or distributions would satisfy Section 401(m)(2) of the Code. For purposes of Section 401(m)(9) of the Code, if a corrective distribution of excess Aggregate Contributions or ESOP Contributions (as applicable) has been made, the Contribution Percentage for Highly Compensated Employees is deemed to be the largest amount under Section 401(m)(2) of the Code.

For each Participant who is a Highly Compensated Employee, the amount of excess Aggregate Contributions or ESOP Contributions (as applicable) is equal to the total Employer Contributions and After-Tax Contributions on behalf of the Participant (determined prior to the application of this paragraph) minus the amount determined by multiplying the Participant's actual contribution ratio (determined after application of this paragraph) by his Compensation used in determining such ratio. The individual ratios and Contribution Percentages shall be calculated to the nearest 1/100 of 1% of the Employee's Compensation, as such term is used in paragraph (b) of Section 4.11."

12. Section 4.13 (prior to renumbering) of the Plan is hereby deleted, effective as of January 1, 1997.

13. Section 5.5(c) of the Plan is hereby amended, effective as of January 1, 2000, by adding the following to the end thereof:

"5. Termination of Section 5.5(c)

From and after January 1, 2000, the provisions of this Section 5.5(c) shall no longer apply."

14. Clause (A) of Section 5.5(d)(5) of the Plan is hereby amended, effective as of January 1, 1995, to read as follows:

"A. $30,000, as adjusted by the Secretary of the Treasury or his delegate; or"

15. The last sentence of the last paragraph of Section 5.5(d)(6) of the Plan is hereby amended, effective as of January 1, 1998, to read as follows:

"Notwithstanding anything to the contrary in this definition, Compensation shall include any and all items which may be included in Compensation under Code Section 415(c)(3), including effective January 1, 1998, (i) any elective deferral (as defined in Code Section 402(g)(3) and (ii) any amount which is contributed or deferred by the Employer at the election of the Employee and which is not includible in the gross income of the Employee by reason of Code Section 125 or 457."

16. The first paragraph of Section 6.1 of the Plan is hereby amended, effective January 1, 1999, to read as follows:

"6.1 Termination of Service: In the event of a termination of Service on or after the Effective Date but prior to January 1, 1999, the provisions of Section 6.1 of the Plan as in effect immediately prior to this Amendment shall govern. In the event of a termination of Service on or after January 1, 1999, any Participant for any reason other than disability, Retirement on or after Retirement Date or death, a Participant shall, subject to the further provisions of the Plan, be entitled to receive 100% of the values in his Pre-Tax Contribution Account and After-Tax Contribution Account, plus a portion of his Employer Matching Account and ESOP Account determined by reference to his number of years of Vesting Service and the following table:

Years of Vesting Service	Vesting Percentage
Less than 2	0%
2 but less than 3	25%
3 but less than 4	50%
4 but less than 5	75%
5 and more	100%"

17. The first paragraph of Section 6.6 of the Plan is hereby amended, effective as of January 1, 1998, by replacing any reference to "$3,500" with "$5,000."

18. Section 6.6(b) of the Plan is hereby amended in its entirety, effective as of January 1, 1999, to read as follows:

"(b) As a distribution in kind of the shares held for his Account in the HI Common Stock Fund and the ESOP Fund. If Company Stock acquired with the proceeds of an Exempt Loan and available for distribution consists of more than one class, a Participant shall receive substantially the same proportion of each such class to the extent the distribution is a distribution from the ESOP Fund. A Participant may elect to receive any percentage, up to 100%, of the vested portion of his Accounts in the HI Common Stock Fund and the ESOP Fund in whole shares of Company Stock, and the remaining HI Common Stock Fund balance, ESOP Fund balance and other Investment Fund balances in cash. If a Participant elects to receive the entire vested portion of his Accounts in the HI Common Stock Fund and the ESOP Fund in whole shares of Company Stock, such Participant shall be entitled to receive a number of whole shares of Company Stock plus the cash value of any partial shares of Company Stock necessary to equal the sum of (i) the value in the HI Common Stock Fund held in his Pre-Tax Contribution Account and/or his After-Tax Contribution Account as of the Valuation Date specified in Section 6.8, and (ii) the vested portion of the value in the HI Common Stock Fund held in his Employer Matching Account and the vested portion of the value in the ESOP Fund held in his ESOP Account as of such Valuation Date. If a Participant elects to receive a percentage which is less than 100% of the vested portion of his Accounts in the HI Common Stock Fund and the ESOP Fund in whole shares of Company Stock, then the result obtained from the preceding formula shall be multiplied by such percentage to obtain the number of whole shares of Company Stock and cash for partial shares of Company Stock to be distributed to such Participant."

19. The third paragraph of Section 6.9 of the Plan is hereby amended, effective as of January 1, 1999, by replacing any reference to "suspense" with "separate."

20. Section 6.10 of the Plan is hereby amended in its entirety, effective as of January 1, 1999, to read as follows:

"6.10 Required Minimum Distributions: Notwithstanding any provision of this Plan to the contrary, prior to January 1, 1999, for a Participant attaining age 70 1/2 prior to January 1, 1999, any benefits to which a Participant is entitled shall commence not later than the April 1 following the calendar year in which the Participant attains age 70 1/2, whether or not such Participant's employment had terminated in such year. Effective January 1, 1999, for a Participant attaining age 70 1/2 after December 31, 1998, any benefits to which a Participant is entitled shall commence not later than the April 1 following the latter of (i) the calendar year in which the

Participant attains age 70 1/2 or (ii) the calendar year in which the Participant's employment terminates (provided, however, that clause (ii) of this sentence shall not apply in the case of a Participant who is a "five-percent owner" (as such term is defined in Section 416 of the Code) with respect to the Plan Year ending in the calendar year in which such Participant attains age 70 1/2). If a Participant is receiving distributions from his Accounts on January 1, 1999 pursuant to this Section 6.10 as in effect prior to January 1, 1999, but would not be required to receive distributions under this Section 6.10 as in effect on January 1, 1999, then the Participant may elect to cease distributions from his Accounts until the April 1 following the end of the calendar year in which such Participant terminates employment. Distributions under this Section 6.10 shall be at least equal to the required minimum distributions under Section 401(a)(9) of the Code; provided, however, that any installment distributions pursuant to this Section 6.10 for Participants who have not terminated employment shall be made over a period not to exceed ten (10) years."

21. The last sentence of Section 7.3 of the Plan is hereby amended, effective as of January 1, 1999, to read as follows:

"Except as provided in Section 7.4 and under Article VI, no withdrawals shall be permitted from a Participant's Pre-Tax Contribution Account, Employer Matching Account or ESOP Account."

22. The last sentence of Section 7.4(b) of the Plan is hereby amended, effective as of January 1, 1999, to read as follows:

"A Borrower may repay an outstanding loan in full at any time."

23. The first sentence of Section 12.4 of the Plan is hereby amended, effective as of August 5, 1997, to read as follows:

"Except as otherwise provided below and with respect to certain judgments and settlements pursuant to Section 401(a)(13) of the Code, no interest, right or claim in or to the part of the Trust Fund attributable to the Pre-Tax Contribution Account, the After-Tax Contribution Account, the Employer Matching Account or the ESOP Account of any Participant, or any distribution of benefits therefrom, shall be assignable, transferable or subject to sale, mortgage, pledge, hypothecation, commutation, anticipation, garnishment, attachment, execution, claim or levy of any kind, voluntary or involuntary (excluding a levy on an Account other than a Pre-Tax Contribution Account for taxes filed upon the Plan by the Internal Revenue Service), including without limitation any claim asserted by a spouse or former spouse of any Participant, and the Trustee shall not recognize any attempt to assign, transfer, sell, mortgage, pledge, hypothecate, commute or anticipate the same."

IN WITNESS WHEREOF, the Benefits Committee of Houston Industries Incorporated has caused these presents to be executed by its duly authorized Chairman in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 29th day of April, 1999, but effective as of the dates specified herein.

BENEFITS COMMITTEE OF
HOUSTON INDUSTRIES INCORPORATED

By /s/ LEE W. HOGAN

Lee W. Hogan, Chairman

ATTEST:

/s/ ELIZABETH P. WEYLANDT
- --
Elizabeth P. Weylandt, Secretary

EXHIBIT 10(dd)

RELIANT ENERGY, INCORPORATED
BUSINESS UNIT PERFORMANCE SHARE PLAN

INTRODUCTION

ARTICLE I

PURPOSE

The purpose of this Reliant Energy, Incorporated Business Unit Performance Share Plan (the "Plan") is to strengthen the alignment of financial interests of selected employees in various Strategic Business Units ("SBUs") of Reliant Energy, Incorporated (the "Company") and its Subsidiaries with those of the Company's shareholders through the increased ownership of shares of the Company's Common Stock by such employees. The Plan (i) enhances the Company's ability to maintain a competitive position in attracting and retaining qualified personnel, (ii) provides a means of rewarding the outstanding performance of such employees, and (iii) enhances the interest of such employees in the Company's continued success and progress by enabling them to obtain a proprietary interest in the Company. The Plan provides for awards of performance shares tied to, among other factors, the performance of particular SBUs of the Company.

ARTICLE II

DEFINITIONS

For purposes of the Plan, the following terms shall have the meanings below stated, subject to the provisions of Section 8.1.

"BOARD" means the Board of Directors of the Company.

"CAUSE" means Executive's (a) gross negligence in the performance of Executive's duties, (b) intentional and continued failure to perform Executive's duties, (c) intentional engagement in conduct which is materially injurious to the Company or its Subsidiaries (monetarily or otherwise) or (d) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of Executive will be deemed "intentional" only if done or omitted to be done by Executive not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company, and no act or failure to act on the part of Executive will be deemed "intentional" if it was due primarily to an error in judgment or negligence.

A "CHANGE IN CONTROL" or "CIC" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the Board; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on September 1, 1997 or (y) who becomes a director subsequent to such date and whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the Board;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

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

"COMMITTEE" means the Special Stock Award Committee of the Board of Directors of the Company.

"COMMON STOCK" means, subject to the provisions of Section 10.3, the presently authorized common stock, without par value, of the Company.

"COMPANY" means Reliant Energy, Incorporated, a Texas corporation.

"DISABILITY" means a physical or mental impairment of sufficient severity such that an Employee is both eligible for and in receipt of benefits under the long-term disability provisions of the Company's benefit plans.

"EMPLOYEE" means an employee of the Company or a Subsidiary.

"EMPLOYER" means the Company or Subsidiary that employs the Employee.

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

"FAIR MARKET VALUE" means the average of high and low sales price of a share of Common Stock on the New York Stock Exchange--Composite Transactions reporting system, as reported in The Wall Street Journal on the date as of which such value is being determined or, if no sales occurred on such day, then on the next preceding day on which there were such sales.

"PARTICIPANT" means a person selected to participate in this Plan pursuant to the terms hereof.

"PERFORMANCE CYCLE" means the period of time established by the Committee of not less than one (1) year nor more than six (6) years used when measuring the degree to which the Performance Objectives relating to an award of Performance Shares have been met.

"PERFORMANCE OBJECTIVES" means the criteria established by the Committee for each Performance Cycle as the basis for determining the number of shares of Common Stock which shall be vested with respect to each award of Performance Shares.

"PERFORMANCE SHARES" means shares of Common Stock or units denominated in shares of Common Stock granted by the Company to a Participant pursuant to Section 5.1 subject to restrictions based on the achievement of Performance Goals.

"PLAN" means the Reliant Energy, Incorporated Business Unit Performance Sharing Plan, as set forth herein and as from time to time amended.

"STRATEGIC BUSINESS UNIT" or "SBU" means a unit or division of the Company or a Subsidiary, or a functional unit of the Company, a Subsidiary, or a group of Subsidiaries, designated as a Strategic Business Unit.

"SUBSIDIARY" means a subsidiary corporation of the Company as defined in Section 424(f) of the Code.

ARTICLE III

RESERVATION OF SHARES

The aggregate number of shares of Common Stock which may be issued under this Plan shall not exceed Five Million (5,000,000) shares, subject to adjustment as hereinafter provided. All or any part of such Five Million shares may be issued pursuant to awards of Performance Shares. The shares of Common Stock which may be granted pursuant to awards of Performance Shares will consist of either authorized but unissued shares of Common Stock or shares of Common Stock which have been issued and which shall have been heretofore or hereafter reacquired by the Company as treasury shares. The total number of shares authorized under this Plan shall be subject to increase or decrease in order to give effect to the adjustment provision of Section 10.3 and to give effect to any amendment adopted as provided in Section 9.1. The foregoing limitation on the number of shares of Common Stock issuable under the Plan is a limitation on the aggregate number of shares of Common Stock issued, net of any shares of Common Stock subject to a Stock Award implemented by delivery of certificates that are returned to the Company as provided in Article V, but subject to such other rules and procedures concerning the counting of shares against the Plan maximum as the Committee may deem appropriate.

ARTICLE IV

PARTICIPATION IN THE PLAN

4.1 ELIGIBILITY TO RECEIVE PERFORMANCE SHARES. Subject to the restriction in the next following sentence, Performance Shares under this Plan may be granted only to persons selected by the Committee who are Employees of the Company or a Subsidiary on the date the award of Performance Shares is granted. In no event shall an Employee who is an officer of the Company on the date the grant otherwise would have been made be eligible for the grant of an award hereunder.

4.2 PARTICIPATION NOT GUARANTEE OF EMPLOYMENT. Nothing in this Plan or in the instrument evidencing the grant of a Performance Shares shall in any manner be construed to limit in any way the right of the Company or a Subsidiary to terminate a Participant's employment at any time, without regard to the effect of such termination on any rights such Participant would otherwise have under this Plan, or give any right to such Participant to remain employed by the Company or a Subsidiary in any particular position or at any particular rate of compensation.

ARTICLE V

PERFORMANCE SHARES

5.1 GRANT OF PERFORMANCE SHARES.

(a) SELECTION OF PARTICIPANTS. Subject to the terms of this Plan, the Committee shall select the persons to whom Performance Shares shall be awarded. Awards of Performance Shares shall generally be made at the beginning of a Performance Cycle, but may, in the Committee's discretion, be made from time to time during the term of a Performance Cycle.

(b) AWARD OF SHARES. The Committee shall determine the number of shares of Common Stock covered by each award of Performance Shares awarded to a Participant, as well as all other terms and conditions of each award of Performance Shares. On or about the close of, and, if appropriate and in accordance with Section 6.3 or 6.4, during the term of, the Performance Cycle, the Committee shall determine whether restrictions set forth in Article VI hereof shall lapse with respect to a portion or all of the shares awarded under an award of Performance Shares.

The Committee may implement the grant of Performance Shares by (i) credit to a bookkeeping account maintained by the Company evidencing the accrual to a Participant of unsecured and unfunded rights to receive, subject to the terms of the award of Performance Shares, shares of Common Stock or (ii) delivery of certificates for shares of Common Stock to the Participant, who must execute appropriate stock powers in blank and return the certificates and stock powers to the Company to be held in escrow for future delivery in accordance with the terms of the award of Performance Shares.

(c) FORM OF INSTRUMENT. Each award of Performance Shares shall be made pursuant to an instrument prescribed in form by the Committee. Such instrument shall specify the number of shares covered thereby, the relevant Performance Goals and Performance Cycle, and the restrictions, if any, which, if not achieved, may cause all or part of the shares to be forfeited.

5.2 PERFORMANCE OBJECTIVES. Each award of Performance Shares shall be subject to the achievement of Performance Objectives by the Company, a Subsidiary, a combination of Subsidiaries, a particular SBU, a combination of SBUs, or any combination of the foregoing during the Performance Cycle with respect to which the award of Performance Shares is made. The Committee shall generally establish Performance Objectives prior to the beginning of each Performance Cycle, but may, in the Committee's discretion, establish Performance Objectives during the term of a Performance Cycle. The Committee may also subject an award of Performance Shares to such other restrictions as the Committee, in its discretion, deems appropriate. Once established, Performance Objectives may be changed, adjusted or amended during the term of a Performance Cycle only upon authorization by the Committee. The degree to which the Performance Objectives are achieved shall serve as the basis for the Committee's determination of the portion of a Participant's award of Performance Shares which shall become vested by reason of the lapse of restrictions set forth in Article VI. The Committee may waive the attainment of Performance

Objectives (in whole or in part) during or after the close of a Performance Cycle if the Committee deems it appropriate in light of a change of circumstances.

5.3 RIGHTS WITH RESPECT TO SHARES.

(a) AWARD BY BOOKKEEPING ENTRY. No Participant who is granted an award of Performance Shares implemented by credit to a Company bookkeeping account shall have any rights as a stockholder by virtue of such grant until shares are actually issued or delivered to the Participant. The Committee may establish and express in the instrument evidencing the award of Performance Shares the terms and conditions under which the Participant granted such Performance Shares shall be entitled to receive an amount equivalent to any dividend payable with respect to the number of shares which, as of the record date for which dividends are payable, have been credited but not delivered to the Participant. At the Committee's discretion, any such dividend equivalents (i) may be paid at such time or times during the period when the shares are as yet undelivered pursuant to the terms of the award of Performance Shares, (ii) may be paid at the time the shares to which the dividend equivalents apply are delivered, or (iii) may be reflected by the credit of additional full or fractional shares to three decimal places in an amount equal to the amount of such dividend equivalents divided by the Fair Market Value of a full share on the date of payment of the dividend on which the dividend equivalent is based, all as shall be expressed in the written instrument evidencing the award of Performance Shares. Any arrangements for the payment or credit of dividend equivalents shall be terminated if, and to the extent that, under the terms and conditions so established, the right to receive shares pursuant to the terms of the award of Performance Shares shall terminate or lapse.

(b) AWARD BY STOCK CERTIFICATE. Each Participant to whom an award of Performance Shares consisting of shares represented by a stock certificate has been made shall have absolute ownership of such shares including the right to vote the same and to receive dividends thereon, subject, however, to the terms, conditions and restrictions, if any, described in this Plan and in the instrument evidencing the grant of the Performance Shares.

Notwithstanding the foregoing, shares of Common Stock transferred pursuant to an award of Performance Shares shall be held in escrow pursuant to an agreement satisfactory to the Committee until such time as the Committee shall have determined whether the restrictions set forth in Article VI shall have lapsed. Each such escrow agreement shall provide, without limitation, that the shares of Common Stock subject to such agreement are subject to the restrictions set forth in Article VI.

ARTICLE VI

RESTRICTIONS

6.1 RESTRICTIONS. Each award of Performance Shares granted under this Plan shall contain the following terms, conditions and restrictions and such additional terms, conditions and restrictions as may be determined by the Committee.

Until the restrictions set forth in this Section 6.1 shall lapse pursuant to this Article VI, shares of Common Stock awarded to a Participant pursuant to each award of Performance Shares:

(a) shall not be sold, assigned, transferred, pledged, hypothecated or otherwise disposed of; and

(b) shall be returned to the Company, and all rights of the Participant to such shares shall terminate without any payment of consideration by the Company, if the Participant's continuous employment with the Company or any of its Subsidiaries shall terminate for any reason, except as provided in Section 6.2, 6.3 or 6.4.

6.2 LAPSE OF RESTRICTIONS DUE TO ACHIEVEMENT OF PERFORMANCE OBJECTIVES. On or about the close of each Performance Cycle, the Committee shall determine whether, and if not, to what extent the Company and/or the relevant SBUs have achieved the Performance Objectives established for such Performance Cycle. The Committee shall notify each Participant who has received an award of Performance Shares of the Committee's determination of the extent to which the Performance Objectives established for the Performance Cycle have been achieved and the number of shares, if any, of Common Stock with respect to which the restrictions of Section 6.1 have lapsed. Any lapse of restrictions shall occur on the date the Committee notifies the Participant in writing.

6.3 LAPSE OF RESTRICTIONS DUE TO CERTAIN TERMINATIONS OF EMPLOYMENT. Unless otherwise provided by the Committee with respect to a particular award of Performance Shares, if a Participant who has been in the continuous employment of any Employer since the date on which Performance Shares were granted to such Participant shall, while in such employment and prior to the close of the Performance Cycle with respect to which such Performance Shares were granted, terminate employment by reason of death, Disability or retirement on or after attainment of age fifty-five (55), or if the Participant's employment is terminated without Cause, then:

(a) if such event occurs during the first year of the Performance Cycle, all shares included in the award of Performance Shares shall be canceled; and

(b) if such event occurs after such first year of the Performance Cycle, then (1) the Committee will take such action as it deems necessary or appropriate to determine the degree to which the applicable Performance Objectives are expected to be achieved through the end of the Performance Cycle in which such event occurs and determine the number (if any) of shares which such Participant would otherwise have been entitled to based on the attainment of such achievement level and (2) the restrictions set forth in Section 6.1 shall lapse with respect to a number of shares equal to the product of (A) the number of such shares determined under clause (1) immediately above times (B) a fraction, the numerator of which is the number of days elapsed in the Performance Cycle as of the date of such event and the denominator of which is the total number of days in the Performance Cycle.

Any lapse of restrictions pursuant to this Section 6.3(b) shall occur on the later of the end of the Performance Cycle and the date the Committee notifies the Participant in writing.

6.4 TREATMENT UPON CHANGE IN CONTROL. Unless otherwise provided by the Committee with respect to a particular award of Performance Shares, notwithstanding any provision of Section 6.1 or any other provision of this Plan, forthwith upon the occurrence of any Change in Control of the Company, the Company shall pay cash to each Participant to whom an award of Performance Shares has been made (and with respect to which the restrictions have not previously lapsed) in an amount equal to the number of shares of Common Stock granted under this Plan pursuant to outstanding awards of Performance Shares times the Fair Market Value on the date of the Change in Control.

ARTICLE VII

TAX PAYMENTS

A Participant who has received shares of Common Stock pursuant to an award of Performance Shares may also, at the discretion of the Committee, receive from the Company a cash payment in an amount determined by the Committee, if any, not to exceed that amount sufficient to pay such Participant's tax liability with respect to (i) such shares and (ii) such cash payment.

ARTICLE VIII

ADMINISTRATION OF THE PLAN

8.1 THE COMMITTEE. This Plan shall be administered solely by the Committee. The Committee shall have full and final authority to interpret this Plan and the instruments evidencing Performance Shares granted hereunder, to prescribe, amend and rescind rules and regulations, if any, relating to this Plan and to make all determinations necessary or advisable for the administration of this Plan. The Committee's determination in all matters referred to herein shall be conclusive and binding for all purposes and upon all persons including, but without limitation, the Company, all Subsidiaries, the shareholders of the Company, the Committee and each of the members thereof, as well as Participants and Employees and their respective successors in interest.

8.2 LIABILITY OF COMMITTEE. No member of the Committee shall be liable for anything done or omitted to be done by such member or by any other member of the Committee or by any person to whom authority is delegated as provided in the last sentence of Section 8.1 in connection with this Plan, except for the willful misconduct of such member or as expressly required by law. The Committee shall have power to engage outside consultants, auditors or other professionals to assist in the fulfillment of the Committee's duties under this Plan at the Company's expense.

8.3 DETERMINATION OF THE COMMITTEE. In making its determinations concerning the individuals who will become Participants, as well as the number of shares to be awarded to each

Participant, the Committee shall take into account such factors as the Committee may deem relevant. The Committee shall also determine the form of instrument granting the Performance Shares to be issued under this Plan and the terms and conditions to be included therein, provided such terms and conditions are not inconsistent with the terms of this Plan. The Committee may, in its sole discretion, waive any provisions of any award of Performance Shares, provided such waiver is not inconsistent with the terms of this Plan as then in effect.

ARTICLE IX

AMENDMENT AND TERMINATION OF PLAN

9.1 AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION. The Board may amend, modify, suspend or terminate the Plan at any time except that no amendment or alteration that would impair the rights of any Participant under any outstanding award of Performance Shares shall be made without such Participant's consent.

9.2 TERMINATION. The Board may at any time terminate this Plan as of any date specified in a resolution adopted by the Board. No Performance Shares may be granted after this Plan has terminated. After this Plan has terminated, the function of the Committee with respect to this Plan will be limited to determinations, interpretations and other matters provided herein with respect to Performance Shares previously granted.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.1 RESTRICTIONS UPON GRANT OF PERFORMANCE SHARES. The listing upon the New York Stock Exchange or the registration or qualification under any federal or state law of any shares of Common Stock to be granted pursuant to this Plan (whether to permit the grant of Performance Shares or the resale or other disposition of any such shares of Common Stock by or on behalf of the Participants receiving such shares) may be necessary or desirable and, in any event, if the Committee in its sole discretion so determines, delivery of the certificates for such shares of Common Stock shall not be made until such listing, registration or qualification shall have been completed. In such connection, the Company agrees that it will use its best efforts to effect any such listing, registration or qualification, provided, however, that the Company shall not be required to use its best efforts to effect such registration under the Securities Act of 1933, as amended, other than on Form S-8, as presently in effect, or other such forms as may be in effect from time to time calling for information comparable to that presently required to be furnished under Form S-8.

10.2 RESTRICTIONS UPON RESALE OF UNREGISTERED STOCK. If the shares of Common Stock that have been transferred to a Participant pursuant to the terms of this Plan are not registered under the Securities Act of 1933, as amended, pursuant to an effective registration statement, such Participant, if the Committee deems it advisable, may be required to represent and agree in writing (i) that any shares of Common Stock acquired by such Participant pursuant to this Plan will not be sold except pursuant to Rule 144 under the Securities Act of 1933 (the "1933 Act"), pursuant to an effective registration statement under the 1933 Act, or pursuant to an exemption from registration under said Act and (ii) that such Participant is acquiring such shares of Common Stock for such Participant's own account and not with a view to the distribution thereof.

10.3 ADJUSTMENTS.

(a) The existence of outstanding Performance Shares shall not affect in any manner the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or combination of outstanding shares of Common Stock or declaration of a dividend on the Common Stock payable in shares of Common Stock, the Committee may adjust proportionally the number of shares of Common Stock reserved under this Plan and covered by outstanding awards of Performance Shares denominated in Common Stock or units of Common Stock and may also adjust, if it deems appropriate, any price criteria or other determination in respect of such Performance Shares. In the event of any consolidation or merger of the Company with another corporation or entity or the adoption by the Company of a plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock) or any reclassification of this Common Stock, the Committee may make such adjustments or other provisions as it may deem equitable, including adjustments to avoid fractional shares, to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, or liquidating distribution, the Committee shall be authorized to issue or assume Performance Shares, regardless of whether in a transaction to which Section 424(a) of the Code applies, by means of substitution of new Performance Shares for previously issued Performance Shares or an assumption of previously issued Performance Shares, or to make provision for the acceleration of the lapse of restrictions with respect to Performance Shares and the termination of unexercised rights with respect to Performance Shares in connection with such transaction.

10.4 RESTRICTIVE LEGENDS.

(a) Certificates for shares of Common Stock delivered pursuant to an award of Performance Shares shall bear an appropriate legend conforming to the requirements of applicable law referring to the terms, conditions and restrictions described in this Plan and in the instruments evidencing the grant of the Performance Shares. Any attempt to dispose of any such shares of Common Stock in contravention of the terms, conditions and restrictions described in this Plan or in the instruments evidencing the grant of the Performance Shares shall be ineffective. The Company may also place appropriate "stop transfer" instructions in the stock transfer books of the Company with respect to shares of Common Stock covered by an award of Performance Shares.

(b) Any shares of Common Stock received by a Participant as a stock dividend on, or as a result of stock splits, combinations, exchanges of shares, reorganizations, mergers, consolidations or otherwise with respect to, shares of Common Stock received pursuant to an award of Performance Shares shall have the same status and bear the same legend as the shares received pursuant to the award of Performance Shares.

10.5 WITHHOLDING OF TAXES: The Committee shall deduct applicable taxes (without regard to any alternative rule permitting the use of a flat percentage rate in computing such applicable income tax withholding amounts) with respect to any Performance Shares, and withhold, at the time of delivery or other appropriate time, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes required by law, such withholding to be administered on a uniform basis (not involving any election by any Participant). If shares of Common Stock are used to satisfy tax withholding, such shares shall be valued based on the Fair Market Value when the tax withholding is required to be made.

10.6 POOLING OF INTERESTS: In the event that the Company is party to a transaction which is otherwise intended to qualify for "pooling of interests" accounting treatment then (a) the provisions of the Plan shall, to the extent practicable, be interpreted so as to permit such accounting treatment, and (b) to the extent that the application of clause (a) of this sentence does not preserve the availability of such accounting treatment, then, to the extent that any of the provisions of the Plan or the terms or provisions of any outstanding award or the manner or timing of the adoption of the Plan or the making of any award thereunder disqualifies the transaction as a "pooling" transaction, the Board may amend any provisions of the Plan, amend the provisions of any outstanding award and/or declare any of the provisions of the Plan or the entire Plan as well as any outstanding awards null and void if and to the extent necessary (including declaring such provision or provisions to be null and void as of the date hereof) so that such transaction may be accounted for as a "pooling of interests." All determinations with respect to this paragraph shall be made by the Board, based upon the advice of the accounting firm whose opinion with respect to "pooling of interests" is required as a condition to the consummation of such transaction.

10.7 EFFECTIVE DATE OF PLAN: This Plan shall be effective as of January 6, 1999.

RELIANT ENERGY, INCORPORATED

By /s/ LEE W. HOGAN

Name: Lee W. Hogan

Title: Vice Chairman

ATTEST:

[ILLEGIBLE]
- ----------------------------
Assistant Corporate Secretary

Exhibit 12

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,				
	1999	1998	1997	1996	1995
Income from continuing operations	$1,665,731	$(141,092)	$421,110	$404,944	$397,400
Income taxes for continuing operations	899,117	(30,432)	206,374	200,165	199,555
Capitalized interest	(18,942)	(13,868)	(10,593)	(2,598)	(4,692)
	2,545,906	(185,392)	616,891	602,511	592,263
Fixed charges, as defined:					
Interest	511,474	509,601	395,085	307,382	296,385
Capitalized interest	18,942	13,868	10,593	2,598	4,692
Distribution on trust preferred securities	51,220	29,201	26,230		
Preference security dividend requirements of subsidiary			3,360	33,619	44,933
Interest component of rentals charged to operating expense	12,949	9,966	5,692	942	3,102
Total fixed charges	594,585	562,636	440,960	344,541	349,112
Earnings, as defined	$3,140,491	$377,244	$1,057,851	$947,052	$941,375
Ratio of earnings to fixed charges	5.28		2.40	2.75	2.70

In 1998 earnings were inadequate to cover fixed charges by approximately $185 million. This deficiency results from the $1.2 billion non-cash, unrealized accounting loss recorded for the ACES. Excluding the effect of the non-cash, unrealized accounting loss of $764 million, the ratio of earnings from continuing operations to fixed charges would have been 2.76.

Exhibit 12

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

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,				
	1999	1998	1997	1996	1995
Income from continuing operations	$100,201	$ 93,824	$ 66,722	$ 95,138	$ 65,529
Income taxes for continuing operations	88,771	111,830	55,781	66,352	55,379
	188,972	205,654	122,503	161,490	120,908
Fixed charges, as defined:					
Interest expense	119,492	111,337	126,150	132,557	157,959
Distribution on trust preferred securities	357	632	6,596	5,842	
Interest component of rentals charged to operating expense	10,975	8,485	7,988	10,083	16,215
Total fixed charges	130,824	120,454	140,734	148,482	174,174
Earnings, as defined	$319,796	$326,108	$263,237	$309,972	$295,082
Ratio of earnings to fixed charges	2.44	2.71	1.87	2.09	1.69

EXHIBIT 21

SIGNIFICANT SUBSIDIARIES OF RELIANT ENERGY, INCORPORATED

The following subsidiaries are deemed "significant subsidiaries" pursuant to Item 601(b) (21) of Regulation S-K:

Reliant Energy Resources Corp., a Delaware corporation and a direct wholly owned subsidiary of Reliant Energy, Incorporated.

Reliant Energy Power Generation, Inc., a Delaware corporation and a direct wholly owned subsidiary of Reliant Energy, Incorporated.

Reliant Energy Wholesale (Europe) Holdings BV, a Dutch corporation and an indirect wholly owned subsidiary of Reliant Energy, Incorporated.

Reliant Energy Capital (Europe), Inc., a Delaware corporation and an indirect wholly owned subsidiary of Reliant Energy, Incorporated.

Reliant Energy Europe, Inc., a Delaware corporation and an indirect wholly owned subsidiary of Reliant Energy, Incorporated.

Reliant Energy Wholesale (Europe) CV, a Dutch corporation and an indirect wholly owned subsidiary of Reliant Energy, Incorporated.

N.V. UNA, a Dutch corporation and an indirect wholly owned subsidiary of Reliant Energy, Incorporated.

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(1) Pursuant to Item 601(b) (21) of Regulation S-K,registrant has omitted the names of subsidiaries, which considered in the aggregate as a single subsidiary, would not constitute a "significant subsidiary" (as defined under Rule 1-02(w) of Regulation S-X) as of December 31, 1999.

(2) Reliant Energy Resources Corp. also conducts business under the names of its three unincorporated divisions: Reliant Energy Arkla, Reliant Energy Entex and Reliant Energy Minnegasco.

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Reliant Energy, Incorporated's (i) Registration Statement on Form S-4 No. 333-11329; (ii) Registration Statement on Form S-3 Nos. 33-46368, 33-54228, 333-20069, 333-32353, 333-33301, 333-33303, 333-58433, 333-70665, 333-81119 and 333-86403; (iii) Post-Effective Amendment No. 1 to Registration Statement No. 33-51417 on Form S-3; (iv) Registration Statements on Form S-8 Nos. 333-32413, 333-32585, and 333-49333; and (v) Post-Effective Amendments Nos. 1, 2 and 3 to Registration Statement No. 333-11329-99 on Form S-8 of our report dated March 1, 2000 (relating to the consolidated financial statements of Reliant Energy, Incorporated (the "Company")) appearing in this Combined Annual Report on Form 10-K of the Company and Reliant Energy Resources Corp. for the year ended December 31, 1999.

Deloitte & Touche LLP

Houston, Texas
March 15, 2000

OPUR1

This schedule contains summary financial information extracted from the Company's financial statements and is qualified in its entirety by reference to such financial statements.

0000048732
RELIANT ENERGY INCORPORATED
1,000

12-MOS
DEC-31-1999
DEC-31-1999
PER-BOOK
9,127,346
5,162,259
6,253,269
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26,220,936
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1,652,547
2,893,061
511,474
1,482,470
389
1,482,081
426,981
339,958
1,161,665
5.20
5.18

OPUR1

This schedule contains summary financial information extracted from Resources' financial statements and is qualified in its entirety by reference to such financial statements.

0001042773
RELIANT ENERGY RESOURCES CORPORATION
1,000

12-MOS
DEC-31-1999
DEC-31-1999
PER-BOOK
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223,451
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2,571,658
7,212,797
10,543,545
88,771
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10,245,862
297,683
10,781
308,464
119,492
100,201
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100,201
0
95,392
135,065
0
0