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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

OR

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

For the transition period from ______________ to _______________

Commission file number 1-3187

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

Texas	74-0694415
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1111 Louisiana Houston, Texas	77002
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant: (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

As of August 9, 2002, Reliant Energy, Incorporated had 304,088,026 shares of common stock outstanding, including 5,338,887 ESOP shares not deemed outstanding for financial statement purposes and excluding 166 shares held as treasury stock.

RELIANT ENERGY, INCORPORATED
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2002

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PART I. FINANCIAL INFORMATION
RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

THREE MONTHS ENDED SIX MONTHS ENDED JUNE 30, JUNE 30, ---
------------------------- ---------------------------
2001 2002 2001 2002 ------------- ------------- ---------
---- ------------- (AS RESTATED) (AS RESTATED) REVENUES
....
$ 10,292,636 $ 9,790,443 $ 22,369,297 $ 18,434,186
EXPENSES: Fuel and cost of gas sold
.... 5,022,191
4,886,360 12,703,440 8,447,738 Purchased power
....
3,660,649 3,127,956 6,536,212 6,693,625 Operation and
maintenance ....
624,243 732,568 1,346,563 1,386,600 Taxes other than
income taxes 142,732
164,142 283,036 289,847 Depreciation
....
100,974 235,792 203,087 435,111 Amortization
....
125,358 22,024 219,904 42,395 Other
....
6,019 2 8,324 747 ------------- ------------- -----------
-- ------------- Total
....
9,682,166 9,168,844 21,300,566 17,296,063 ------------- -
------------ ------------ ------------- OPERATING INCOME
.... 610,470
621,599 1,068,731 1,138,123 ------------- ------------- -
------------ ------------- OTHER (EXPENSE) INCOME:
Unrealized (loss) gain on AOL Time Warner investment
.... 330,901 (230,214) 467,983 (447,811)
Unrealized gain (loss) on indexed debt securities
.... (329,185) 218,723 (464,232) 421,956 Income
from equity investments in unconsolidated subsidiaries ..
51,572 5,524 64,177 9,308 Interest expense
.... (150,343)
(205,239) (328,405) (359,295) Distribution on trust
preferred securities .... (13,899)
(13,850) (27,799) (27,749) Minority interest
.... (34,103)
(30,594) (33,813) (47,027) Other, net
....
33,993 18,096 61,409 35,713 ------------- ------------- -
------------ ------------- Total
....
(111,064) (237,554) (260,680) (414,905) ------------- ---
---------- ------------- ------------- INCOME BEFORE
INCOME TAXES, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND
PREFERRED DIVIDENDS ....
499,406 384,045 808,051 723,218 Income Tax Expense
.... 183,045
148,400 290,763 262,221 ------------- ------------- -----
-------- ------------- INCOME BEFORE CUMULATIVE EFFECT OF
ACCOUNTING CHANGE AND 316,361 235,645 517,288
460,997 PREFERRED DIVIDENDS Cumulative Effect of
Accounting Change, net of tax of zero and $33,205
.... (47) --
61,619 -- ------------- ------------- ------------- -----
-------- INCOME BEFORE PREFERRED DIVIDENDS
.... 316,314 235,645 578,907
460,997 Preferred Dividends
.... 98 -- 195 --
------------- ------------- ------------- -------------
NET INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS
.... $ 316,216 $ 235,645 $ 578,712 $
460,997 ============= ============= =============
============= BASIC EARNINGS PER SHARE: Income before
Cumulative Effect of Accounting Change .... $ 1.09
$ 0.79 $ 1.79 $ 1.55 Cumulative Effect of Accounting
Change, net of tax .... -- -- 0.22 -- ----------
--- ------------- ------------- ------------- Net Income
Attributable to Common Stockholders .... $
1.09 $ 0.79 $ 2.01 $ 1.55 ============= =============
============= ============= DILUTED EARNINGS PER SHARE:
Income before Cumulative Effect of Accounting Change

.... $ 1.08 $ 0.79 $ 1.78 $ 1.55 Cumulative Effect of Accounting Change, net of tax .... -- -- 0.21 -- ------------- ------------- ------------- ------------ - Net Income Attributable to Common Stockholders .... $ 1.08 $ 0.79 $ 1.99 $ 1.55 ============= ============= ============= =============

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	DECEMBER 31, 2001	JUNE 30, 2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 153,952	$ 721,069
Restricted cash	167,421	375,773
Investment in AOL Time Warner common stock	826,609	378,798
Accounts receivable, net	1,911,923	2,478,092
Accrued unbilled revenues	240,698	609,184
Fuel stock and petroleum products	307,036	341,100
Materials and supplies	272,637	315,616
Trading and marketing assets	1,611,393	1,367,581
Non-trading derivative assets	399,896	478,568
Margin deposits on energy trading activities	213,727	27,909
Other	161,477	403,730
Total current assets	6,266,769	7,497,420
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	24,102,167	28,802,444
Less accumulated depreciation and amortization	(8,344,269)	(8,600,950)
Property, plant and equipment, net	15,757,898	20,201,494
OTHER ASSETS:		
Goodwill, net	2,631,570	4,124,465
Other intangibles, net	377,732	468,605
Regulatory assets	3,276,800	3,372,391
Trading and marketing assets	446,610	656,440
Non-trading derivative assets	256,402	349,606
Equity investments in unconsolidated subsidiaries	386,841	289,978
Stranded costs indemnification receivable	203,693	227,031
Restricted cash	6,775	66,044
Other	1,098,762	950,196
Total other assets	8,685,185	10,504,756
TOTAL ASSETS	$ 30,709,852	$ 38,203,670

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - (CONTINUED)
(THOUSANDS OF DOLLARS)
(UNAUDITED)

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31, 2001	JUNE 30, 2002
CURRENT LIABILITIES:		
Short-term borrowings	$ 3,435,347	$ 10,251,652
Current portion of long-term debt	660,757	710,274
Indexed debt securities derivative	730,225	308,253
Accounts payable	1,447,289	2,031,903
Taxes accrued	315,353	249,980
Interest accrued	114,721	148,346
Dividends declared	9	376
Trading and marketing liabilities	1,478,335	1,206,805
Non-trading derivative liabilities	472,021	462,780
Margin deposits from customers on energy trading activities	144,700	162,240
Regulatory liabilities	234,706	235,987
Accumulated deferred income taxes, net	359,220	371,953
Other	568,861	502,093
Total current liabilities	9,961,544	16,642,642
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	2,307,052	2,649,646
Unamortized investment tax credits	247,407	238,178
Trading and marketing liabilities	361,786	592,369
Non-trading derivative liabilities	649,036	395,788
Benefit obligations	547,369	592,288
Regulatory liabilities	1,125,176	865,532
Non-derivative stranded costs liability	203,693	227,031
Other	1,069,312	1,068,838
Total other liabilities	6,510,831	6,629,670
LONG-TERM DEBT	5,746,444	5,843,058
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 13)		
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	1,047,366	1,112,234
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	705,744	705,965
STOCKHOLDERS' EQUITY:		
Common stock	3,897,301	3,912,743
Unearned ESOP stock	(131,888)	(103,670)
Retained earnings	3,176,533	3,414,894
Accumulated other comprehensive (loss) income	(204,023)	46,134
Total stockholders' equity	6,737,923	7,270,101
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 30,709,852	$ 38,203,670

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

SIX MONTHS ENDED JUNE 30,	2001	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributable to common stockholders	$ 578,712	$ 460,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	422,991	477,506
Deferred income taxes	55,559	182,109
Investment tax credits	(9,165)	(9,228)
Cumulative effect of accounting change	(61,619)	--
Unrealized (gain) loss on AOL Time Warner investment	(467,983)	447,811
Unrealized loss (gain) on indexed debt securities	464,232	(421,956)
Undistributed earnings of unconsolidated subsidiaries	(30,649)	(7,941)
Curtailment and related enhancements of benefits	100,609	--
REPGB gain on stranded cost contract amendment	--	(109,000)
Minority interest	33,813	47,027
Changes in other assets and liabilities, net of effects of acquisitions:		
Restricted cash	50,000	67,804
Accounts receivable and accrued unbilled revenues, net	374,888	(879,920)
Inventory	(99,554)	(18,387)
Accounts payable	(689,867)	443,915
Fuel cost (under) over recovery	(267,754)	166,176
Net trading and marketing assets and liabilities	(116,103)	23,305
Margin deposits on energy trading activities, net	430,219	203,358
Net non-trading derivative assets and liabilities	7,223	(15,833)
Settlement of hedges of net investment in foreign subsidiaries	--	(143,982)
Settlement payment on stranded cost contracts	--	(100,280)
Prepaid lease obligation	(101,542)	(26,324)
Interest and taxes accrued	252,814	(12,836)
Net regulatory assets and liabilities	(21,337)	(384,131)
Collateral for generating equipment, net	(66,726)	138,324
Other current assets	130,109	(35,877)
Other current liabilities	(192,298)	(221,100)
Other assets	273,837	71,980
Other liabilities	(67,212)	(151,541)
Other, net	97,808	(9,969)
Net cash provided by operating activities	1,081,005	182,007
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(1,037,259)	(806,918)
Business acquisitions, net of cash acquired	--	(2,948,821)
Investments in unconsolidated subsidiaries	(239)	--
Other, net	(9,973)	61,072
Net cash used in investing activities	(1,047,471)	(3,694,667)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt, net	544,632	25,753
(Decrease) increase in short-term borrowing, net	(1,814,158)	4,599,391
Payments of long-term debt	(377,951)	(335,303)
Payment of common stock dividends	(216,170)	(222,538)
Proceeds from issuance of stock	82,223	6,803

Proceeds from subsidiary issuance of stock
.... 1,697,848 -- Decrease in
restricted cash related to securitization financing ....
-- 3,739 Other, net
....
(9,867) 153 ------------ ------------ Net cash (used in)
provided by financing activities .... (93,443)
4,077,998 ------------ ------------ EFFECT OF EXCHANGE RATE
CHANGES ON CASH .... (4,845)
1,779 ------------ ------------ NET (DECREASE) INCREASE IN
CASH AND CASH EQUIVALENTS .... (64,754)
567,117 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD
.... 191,825 153,952 ------------ -----
------- CASH AND CASH EQUIVALENTS AT END OF PERIOD
.... $ 127,071 $ 721,069
============ ============ SUPPLEMENTAL DISCLOSURE OF CASH
FLOW INFORMATION: Cash Payments: Interest (net of amounts
capitalized) .... $ 314,135 $
373,501 Income taxes
....
111,869 60,738

See Notes to the Company's Interim Financial Statements

(1) BACKGROUND AND BASIS OF PRESENTATION

Included in this Quarterly Report on Form 10-Q (Form 10-Q) for Reliant Energy, Incorporated (Reliant Energy), together with its subsidiaries (collectively, the Company), are Reliant Energy's consolidated interim financial statements and notes (Interim Financial Statements) including these companies' wholly owned and majority owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the amended Annual Report on Form 10-K/A of Reliant Energy (Reliant Energy Form 10-K/A) for the year ended December 31, 2001 which was filed with the Securities and Exchange Commission (SEC) on July 5, 2002, and the Quarterly Report on Form 10-Q of Reliant Energy for the quarter ended March 31, 2002 (First Quarter 10-Q).

RESTATEMENT

Also as more fully described and previously reported in Note 1 to the Consolidated Financial Statements included in the Reliant Energy Form 10-K/A (Reliant Energy 10-K/A Notes), which note is incorporated by reference herein, on May 9, 2002, Reliant Resources, Inc. (Reliant Resources), an entity in which Reliant Energy owns approximately 83% of the outstanding common stock, determined that it had engaged in same-day commodity trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price, which the personnel who effected these transactions apparently did so with the sole objective of increasing volumes. Reliant Resources commenced a review to quantify the amount and assess the impact of these trades (round trip trades). The Audit Committees of each of the Boards of Directors of Reliant Resources and Reliant Energy (Audit Committees) also directed an internal investigation by outside legal counsel, with assistance by outside accountants, of the facts and circumstances relating to the round trip trades and related matters.

The Company reports all trading, marketing and risk management services transactions on a gross basis with such transactions being reported in revenues and expenses except primarily for financial gas transactions such as swaps. Therefore, the round trip trades were reflected in both the Company's revenues and expenses. The round trip trades should not have been recognized in revenues or expenses (i.e., they should have been reflected on a net basis). However, since the round trip trades were done at the same volume and substantially the same price, they had no impact on the Company's reported cash flows, operating income or net income.

Based on Reliant Resources' review, Reliant Resources determined that it engaged in such round trip trades in 1999, 2000 and 2001. The results of the Audit Committees' investigations were consistent with the results of Reliant Resources' review. The round trip trades were for 20 million megawatt hours (MWh) and 41 MWh of power for the three and six months ended June 30, 2001, respectively, and 46 billion cubic feet (Bcf) of natural gas for the three and six months ended June 30, 2001, respectively.

These transactions, referred to above, collectively had the effect of increasing revenues, fuel and cost of gas sold expense and purchased power expense by $1.4 billion, $131 million and $1.3 billion, respectively, for the three months ended June 30, 2001 and by $2.6 billion, $131 million and $2.5 billion, respectively, for the six months ended June 30, 2001.

In the course of Reliant Resources' review, Reliant Resources also identified and determined that it should record on a net basis several transactions for energy related services (not involving round trip trades) that totaled $17 million and $19 million for the three and six months ended June 30, 2001, respectively. These transactions were originally recorded on a gross basis.

In addition, during the May 2001 through September 2001 time frame, Reliant Resources entered into four structured transactions involving a series of forward or swap contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003 (four structured transactions). The four structured transactions were intended to increase future cash flow and earnings and to increase certainty associated with future cash flow and earnings, albeit at the expense of 2001 cash flow and earnings. Each series of contracts in a structure

were executed with the same counterparty. The contracts in each structure were offsetting in the aggregate in terms of physical attributes. The transactions that settled during the three and six months ended June 30, 2001 were previously recorded on a gross basis with such transactions being reported in revenues and expenses which resulted in $323 million of revenues, $161 million in fuel and cost of gas sold and $162 million of purchased power expense being recognized in each period. Having further reviewed the transactions, Reliant Resources now believes these transactions should have been accounted for on a net basis.

The consolidated financial statements for the three and six months ended June 30, 2001 have been restated from amounts previously reported to reflect the transactions described above on a net basis. The restatement had no impact on previously reported consolidated cash flows, operating income or net income. A summary of the principal effects of the restatement are as follows for the three and six months ended June 30, 2001: (Note - Those line items for which no change in amounts are shown were not affected by the restatement.)

	THREE MONTHS ENDED JUNE 30, 2001	
	AS RESTATED	AS PREVIOUSLY REPORTED(1)
	(IN MILLIONS)	
Revenues	$ 10,292	$ 12,014
Expenses:		
Fuel and cost of gas sold	5,022	5,328
Purchased power	3,661	5,077
Other expenses	999	999
Total	9,682	11,404
Operating Income	610	610
Other Expense, net	(111)	(111)
Income Tax Expense	(183)	(183)
Net Income Attributable to Common Stockholders	$ 316	$ 316

	SIX MONTHS ENDED JUNE 30, 2001	
	AS RESTATED	AS PREVIOUSLY REPORTED(1)
	(IN MILLIONS)	
Revenues	$ 22,369	$ 25,324
Expenses:		
Fuel and cost of gas sold	12,703	13,010
Purchased power	6,536	9,184
Other expenses	2,061	2,061
Total	21,300	24,255
Operating Income	1,069	1,069
Other Expense, net	(261)	(261)
Income Tax Expense	(291)	(291)
Income Before Cumulative Effect of Accounting Change	517	517
Cumulative Effect of Accounting Change, net of tax	61	61
Net Income Attributable to Common Stockholders	$ 578	$ 578

(1) In the fourth quarter 2001, the Company changed the classification of receipts of business interruption insurance claims from other non-operating income to operating revenues. Receipts of $4 million for both the three and six months ended June 30, 2001 have been reclassified to conform to this presentation. In addition, as previously reported amounts reflect the reclassification of the Company's remaining Latin America operations as a result of the adoption of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). For further discussion of the effect of adoption of SFAS No. 144 on the Company's financial statement, see Note 2.

The restatement did not impact earnings per share or the Statement of

Consolidated Cash Flows for 2001.

In addition to the round trip trades described above, Reliant Resources' review and the Audit Committees' investigation also considered other transactions executed on the same day at the same volume, price and delivery terms and with the same counterparty. These transactions were executed in the normal course of Reliant Resources' trading and marketing activities, were historically reported on a gross basis, and were not material.

Also as more fully described in Note 1 to the Reliant Energy 10-K/A Notes, during the fourth quarter of 2000, two power generation swap contracts with a fair value of $261 million were terminated and replaced with a substantially similar contract providing for physical delivery and designated to hedge electric generation. The termination of the original contracts and execution of the replacement contract represented a substantive modification to the original contract. As a result, upon termination of the original contracts, a contractual liability representing the fair value of the original contracts and a deferred asset of equal amount should have been recorded. As of January 1, 2001, in connection with the adoption of Statement of Financial Accounting Standards (SFAS), "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), the deferred asset should have been recorded as a transition adjustment to other comprehensive income totaling $170 million. The liability and transition adjustment should have been amortized on a straight-line basis over the term of the power generation contract replacing the terminated power generation contracts (through May 2004). Reliant Resources previously did not give accounting recognition to these transactions. As a result, the Company restated its Consolidated Balance Sheets as of December 31, 2000 and 2001 and the Statement of Consolidated Stockholder's Equity and Comprehensive Income for the year ended December 31, 2001 in the Reliant Energy Form 10-K/A. The Company has restated its comprehensive income disclosure for the three and six months ended June 30, 2001 from amounts previously reported, to effect this transaction as described above. The restatement increased comprehensive income by $12 million from a total comprehensive income of $608 million, as previously reported, to $620 million, as restated, for the three months ended June 30, 2001 and decreased comprehensive income by $146 million (including the $170 million transition adjustment discussed above) from a total comprehensive income of $805 million, as previously reported, to $659 million, as restated, for the six months ended June 30, 2001. The restatement had no impact on the Company's reported consolidated cash flows, operating income or net income.

BASIS OF PRESENTATION

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

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

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

Reliant Energy 10-K/A Notes: Note 2(e) (Long-Lived Assets and Intangibles), Note 2(f) (Regulatory Assets and Liabilities), Note 3 (Business Acquisitions), Note 4 (Regulatory Matters), Note 5 (Derivative Financial Instruments), Note 8 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities), Note 14 (Commitments and Contingencies), Note 21 (Bankruptcy of Enron Corp. and its Affiliates) and Note 22 (Subsequent Events).

For information regarding certain legal, tax and regulatory proceedings and environmental matters, see Note 13.

RESTRUCTURING

Reliant Energy is in the process of separating its regulated and unregulated businesses into two publicly traded companies that will be independent of each other: CenterPoint Energy, Inc. (CenterPoint Energy) and Reliant Resources. In December 2000, Reliant Energy transferred a significant

portion of its unregulated businesses to Reliant Resources, which, at the time, was a wholly owned subsidiary of Reliant Energy. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger by which, subject to regulatory approvals, the following will occur (which is referred to herein as the Restructuring):

- CenterPoint Energy will become the holding company for the Reliant Energy group of companies;
- Reliant Energy and its subsidiaries will become subsidiaries of CenterPoint Energy; and
- each share of Reliant Energy common stock will be converted into one share of CenterPoint Energy common stock.

After the Restructuring, the Company plans, subject to further corporate approvals, market and other conditions, to complete the separation of its regulated and unregulated businesses by distributing the shares of common stock of

Reliant Resources that the Company owns to the Company's shareholders (which is referred to herein as the Distribution). The Company currently expects to complete the Restructuring by August 31, 2002 and the Distribution early in the fall of 2002. However, no assurance can be provided that the Distribution will occur as described above or that it will occur within this time period. From the consummation of the Restructuring until the Distribution, the Company expects that CenterPoint Energy will do business under the name Reliant Energy, Incorporated and that CenterPoint Energy's common stock will trade under the symbol "REI".

On July 5, 2002, Reliant Energy received an order from the Securities and Exchange Commission (SEC) approving Reliant Energy's restructuring plan and the Distribution under the Public Utility Holding Company Act of 1935 (1935 Act). On July 31, 2002, Reliant Energy received a private letter ruling from the Internal Revenue Service which confirms that the Distribution will be tax-free to Reliant Energy and its shareholders.

Contemporaneous with the Restructuring, CenterPoint Energy expects to register and become subject, with its subsidiaries, to regulation as a registered holding company system under the 1935 Act. The 1935 Act directs the SEC to regulate, among other things, financings, sales or acquisitions of assets and intra-system transactions.

In connection with the Restructuring, in order to enable CenterPoint Energy ultimately to satisfy the requirements for an exemption from regulation as a registered holding company under the 1935 Act, Reliant Energy is seeking authority to divide the gas distribution businesses conducted by Reliant Energy Resources Corp.'s (RERC Corp.) three unincorporated gas distribution divisions, Reliant Energy Entex, Reliant Energy Arkla and Reliant Energy Minnegasco, among three separate entities. The entity that will hold the Reliant Energy Entex assets will also hold ownership of Reliant Energy Resources' natural gas pipelines and gathering business. Reliant Energy has obtained approval of these transactions from the public service commissions of Minnesota, Louisiana, Mississippi, Oklahoma and Arkansas. Although the Company expects that this business restructuring of RERC Corp. can be completed, the Company can provide no assurance that this will, in fact, occur, or that CenterPoint Energy will ultimately be exempt from registration under the 1935 Act. For further information on the RERC Corp. restructuring, see "Our Business --RERC Corp. Restructuring" in Item 1 of the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

RETAIL ELECTRIC DEREGULATION

During 2001, the Electric Operations business segment reflected the regulated electric utility business, including generation, transmission and distribution, and retail electric sales. As of January 1, 2002, with the opening of the Texas market to full retail electric competition, generation and retail sales were deregulated. Retail electric sales involve the sale of electricity and related services to end users of electricity and were included as part of the bundled regulated electric utility business prior to 2002. Retail electric sales are now reported as the Retail Energy business segment of Reliant Resources. Although the Company's retail sales are now conducted by Reliant Resources, retail customers remained regulated customers of Reliant Energy HL&P through the date of their first meter reading in January 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission and Distribution business segment.

Beginning in 2002, Reliant Energy is reporting two new business segments for what was the former Electric Operations business segment:

- Electric Transmission and Distribution; and
- Electric Generation.

The previously regulated generation operations in Texas are being reported in the new Electric Generation business segment and will be called Texas Genco after the Restructuring. The transmission and distribution function is now reported separately in the Electric Transmission and Distribution business segment, which also includes all revenues and the effects from generation-related regulatory assets recoverable by the regulated utility, including the Excess Cost Over Market (ECOM) true-up component of stranded costs. For additional information regarding regulatory matters affecting the Company's electric segments, see Note 4 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, and Note 3 below.

(2) NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 "Business Combinations" (SFAS No. 141). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. The Company adopted the provisions of the statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002. The adoption of SFAS No. 141 did not have a material impact on the Company's historical results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144. SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 did not materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in additional future dispositions being reported as discontinued operations than was previously permitted. The Company adopted SFAS No. 144 on January 1, 2002. As a result of the adoption of SFAS No. 144, the Company's remaining Latin America operations have been presented on a gross basis in the consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment will be effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting will be effective for transactions occurring after May 15, 2002. The Company will apply this guidance prospectively.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies Emerging Issues Task Force (EITF) No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. The Company will apply the provisions of SFAS No. 146 to all exit or disposal activities initiated after December 31, 2002.

See Note 4 for a discussion of the Company's adoption of SFAS No. 133, on January 1, 2001 and adoption of subsequent cleared guidance. See Note 6 for a discussion of the Company's adoption of SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142) on January 1, 2002.

In June 2002, the EITF reached a consensus on EITF No. 02-03 that all mark-to-market gains and losses on energy trading contracts should be shown net in the income statement whether or not settled physically. An entity should disclose the gross transaction volumes for those energy-trading contracts that are physically settled. The EITF did not reach a consensus on whether recognition of dealer profit, or unrealized gains and losses at inception of an energy-trading contract, is appropriate in the absence of quoted market prices or current market transactions for contracts with similar terms. The FASB staff indicated that until such time as a consensus is reached, the FASB staff will continue to hold the view that previous EITF consensus do not allow for recognition of dealer profit, unless evidenced by quoted market prices or other current market transactions for energy trading contracts with similar terms and counterparties. During the six months ended June 30, 2002, the Company recorded $46 million of fair value at the contract inception related to trading and marketing activities. The consensus on presenting gains and losses on energy trading contracts net is effective for financial statements issued for periods ending after July 15, 2002. Upon application of the consensus, comparative financial statements for prior periods should be reclassified to conform to the consensus. The Company currently reports all trading, marketing and risk management services transactions on a gross basis with such transactions being reported in revenues and expenses except primarily for financial gas transactions such as swaps. Beginning with the quarter ended September 30, 2002, the Company will report all energy trading and marketing activities on a net basis in the Statements of Consolidated Income pursuant to EITF No. 02-03. Although the Company is in the process of determining the effect of the adoption of EITF No. 02-03 on its Statements of Consolidated Income, the Company expects the adoption will result in a substantial reduction in operating revenues, fuel and cost of gas sold, and purchased power.

(3) REGULATORY MATTERS

(a) Excess Cost Over Market (ECOM) True-Up.

Reliant Energy's Electric Generation business segment auctions entitlements to all of its installed electric generation capacity. In September, October and December 2001, and March and July 2002, it conducted auctions, as required by the Public Utility Commission of Texas (Texas Utility Commission) and its Master Separation Agreement with Reliant Resources.

Excluding reserves for planned and forced outages and certain entitlements which failed to sell during the auctions, the Company's Texas generation business has sold through these auctions entitlements to all of its capacity through 2002 and 12% of its capacity for 2003. In the contractually mandated auctions held so far, Reliant Resources has purchased 45% of the 2002 capacity sold by Reliant Energy and 51% of Reliant Energy's 2003 capacity sold in the auctions. These purchases have been made either through the exercise by Reliant Resources of its contractual rights to purchase 50% of the entitlements auctioned in the contractually mandated auctions or through the submission of bids in the auctions. Capacity entitlements which did not sell during the auctions will be sold on a short-term basis as conditions make such sales profitable to the Company.

The capacity auctions were consummated at market-based prices that are substantially below the historical regulated return on the facilities in the Company's Texas generation business. The Texas electric restructuring law provides for the recovery in a "true-up" proceeding in 2004 (2004 True-Up Proceeding) of any difference between market power prices and the earlier estimates of those market prices by the Texas Utility Commission, using the prices received in the auctions required by the Texas Utility Commission as the measure of market prices. For the three months and six months ended June 30, 2002, respectively, Reliant Energy recorded approximately $170 million and $311 million in revenue related to the recovery of the difference between the market power prices and the Texas Utility Commission's earlier estimates. For additional information regarding the capacity auctions and the related true-up proceeding, please read Note 4(a) to the Reliant Energy 10-K/A Notes.

(b) Generation Asset Impairment Contingency.

The Company evaluates the recoverability of its long-lived assets in accordance with SFAS No. 144. As of June 30, 2002, no impairment had been indicated in its Texas generation assets. The Company anticipates that future events, such as the trading price of the stock after the expected distribution to the Company's shareholders of up to 20% of the outstanding stock of the subsidiary that will conduct the Company's Texas generation operations, a change in the estimated holding period of the Texas generation assets, or a change in market demand for electricity, will require the Company to re-evaluate these assets for impairment between now and 2004. If an impairment is indicated, it could be material and may not be fully recoverable through the 2004 True-Up Proceeding.

The Texas electric restructuring law provides for the Company to recover the regulatory book value of its Texas generating assets to the extent the regulatory book value exceeds the estimated market value. If the Texas generating assets are sold in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset, will occur to the extent the recorded book value of the Texas generating assets exceeds the regulatory book value. As of June 30, 2002, the recorded book value was $629 million in excess of the regulatory book value. This amount declines as the recorded book value is depreciated and increases by the amount of non-environmental capital expenditures. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4(a) to the Reliant Energy 10-K/A Notes.

(c) Regulatory Assets Contingency.

As of June 30, 2002, in contemplation of the 2004 True-up Proceeding, the Company's Electric Transmission and Distribution business segment has recorded a regulatory asset of $2.0 billion representing the estimated future recovery of previously incurred stranded costs, which includes $1.0 billion of previously recorded accelerated depreciation (an amount equal to earnings above a stated overall annual rate of return on invested capital that was used to recover the Company's investment in generation assets) plus redirected depreciation, both reversed in 2001. Offsetting this regulatory asset is the $1.0 billion regulatory liability to refund the excess mitigation to ratepayers. This estimated recovery is based upon current projections of the market value of the Company's Texas generation assets to be covered by the 2004 True-up Proceeding calculations. These projections depend on many assumptions which may not occur, for example, the construction of additional generating units in Texas. The regulatory liability reflects a current refund obligation arising from prior mitigation of stranded costs deemed excessive by the Texas Utility Commission. The Company's Electric Transmission and Distribution business segment began refunding excess mitigation credits with the January 2002 unbundled bills, these credits to be refunded over a seven year period. Because accounting principles generally accepted in the United States of America require the Company to estimate fair market values in advance of the final reconciliation, the financial impacts of the Texas electric restructuring law with respect to the final determination of stranded costs in the 2004 True-Up Proceeding are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events were to occur that made the recovery of some of the remaining generation related regulatory assets no longer probable, the Company would write off the unrecoverable balance of such assets as a charge against earnings.

(d) Fuel Reconciliation Contingency.

Reliant Energy filed its final fuel reconciliation proceeding with the Texas Utility Commission on July 1, 2002. Although previous fuel reconciliation proceedings have generally covered three year periods, this filing covers $8.6 billion in fuel expense and interest incurred between August 1, 1997 and January 30, 2002. Also included in this amount is an under-recovery of $94 million, which was the balance as of July 31, 1997. During this period of time, Reliant Energy collected $8.5 billion in fuel revenues. This results in an undercollection, including interest, of $144 million as of June 30, 2002. Current substantive rules require that the Texas Utility Commission rule on this case by March 1, 2003. A procedural schedule has been set with a hearing scheduled to begin November 19, 2002. Under the Texas electric restructuring law, the final fuel balance found to be reasonable by the Texas Utility Commission will be reflected in the 2004 true-up proceeding.

(e) Arkla Rate Case.

In November 2001, Reliant Energy Arkla filed a rate request in Arkansas seeking rates to yield approximately $47 million in additional annual revenue. On August 9, 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) which will result in an increase in base rates of approximately $32 million annually. In addition, the APSC approved a gas main replacement surcharge which is expected to provide $2 million of additional revenue in 2003 and additional amounts in subsequent years. The settlement provides for a new residential rate design which increases the monthly customer charge. The new rates are expected to be effective September 21, 2002.

(f) Oklahoma Rate Case.

In May 2002, Reliant Energy Arkla filed a rate change request for an increase in rates that would yield approximately $13.7 million annually in Oklahoma. A decision on this request is expected from the Oklahoma Corporation Commission no later than early 2003.

(g) City of Tyler, Texas Hearing on Gas Costs.

By letter to Reliant Energy Entex dated July 31, 2002, the City of Tyler, Texas expressed "serious concerns" regarding amounts that Entex has paid for

gas purchased for resale to residential and small commercial customers in that city under supply agreements in effect since 1992. Entex's gas costs for its Tyler system are recovered from customers pursuant to tariffs approved by the city and filed with both the city and the Railroad Commission of Texas. In the July 31 letter, the city forwarded various computations of what it believes to be excessive costs ranging from approximately $2.8 million to $39.2 million. The City has called a hearing for September 25, 2002 to consider these issues. The Company believes (i) that all gas costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs (ii) that the City has no legal or factual support for the statements made in its letter and (iii) that the city has no authority to require or demand refunds of any amounts Entex has charged its customers in the City of Tyler.

(4) DERIVATIVE FINANCIAL INSTRUMENTS

Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of $61 million and a cumulative after-tax increase in accumulated other comprehensive loss of $422 million. For additional information regarding the adoption of SFAS No. 133 and the Company's accounting policies for derivative financial instruments, see Note 5 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference.

The application of SFAS No. 133 is still evolving as the FASB clears issues submitted for consideration. During the second quarter of 2001, an issue that applies exclusively to the electric industry and allows the normal purchases and normal sales exception for option-type contracts if certain criteria are met was approved by the FASB with an effective date of July 1, 2001. The adoption of this cleared guidance had no impact on the Company's results of operations. Certain criteria of this issue were revised in October and December 2001 and became effective on April 1, 2002. The adoption of the revised guidance did not impact the Company's consolidated financial statements.

During the third quarter of 2001, the FASB cleared an issue related to application of the normal purchases and normal sales exception to contracts that combine forward and purchased option contracts. The effective date of this guidance was April 1, 2002, and the effect of adoption of this guidance did not impact the Company's consolidated financial statements.

Cash Flow Hedges. During the six months ended June 30, 2002, the amount of hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as cash flow hedges was a $12 million gain. During the six months ended June 30, 2001, the amount of hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as cash flow hedges was immaterial. No component of the derivative instruments' gain or loss was excluded from this assessment of effectiveness. During the six months ended June 30, 2002, a $1.1 million deferred loss was recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur. As of June 30, 2002, the Company expects $31 million in accumulated other comprehensive income to be reclassified into net income during the next twelve months.

Interest Rate Swaps. As of June 30, 2002, the Company had outstanding interest rate swaps with an aggregate notional amount of $2.0 billion to fix the interest rate applicable to floating rate short-term debt and floating rate long-term debt. Of these swaps, $0.8 billion relating to short-term debt do not qualify as cash flow hedges under SFAS No. 133, and are marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income. The remaining $1.2 billion in swaps relating to both short-term and long-term debt qualify for hedge accounting under SFAS No. 133 and the periodic settlements are recognized as an adjustment to interest expense in the Statements of Consolidated Income over the term of the swap agreements. The Company has also entered into forward-starting interest rate swaps having an aggregate notional amount of $2.0 billion to hedge the interest rate on future offerings of long-term fixed-rate notes. These swaps qualify as cash flow hedges under SFAS No. 133. On May 9, 2002, the Company liquidated $500 million of the forward starting interest rate swaps that were entered into in January 2002. The liquidation of these swaps resulted in a loss of $3 million, which was recorded in other comprehensive income and will be amortized into interest expense in the same period during which the forecasted interest payment affects earnings. Should the forecasted interest payments no longer be probable, any remaining deferred amount will be recognized immediately as an expense. In the second quarter of 2002, an expense of $1.7 million was recorded as a result of changing the start date on $1.0 billion of forward starting swaps from June 2002 to September 2002. The maximum length of time the Company is hedging its exposure to the payment of variable interest rates is 8 years.

Hedge of Net Investment in Foreign Subsidiaries. The Company has substantially hedged its net investment in its European subsidiaries to reduce the Company's exposure to changes in foreign exchange rates through a combination of Euro-denominated borrowings, foreign currency swaps and foreign currency option contracts. During the six months ended June 30, 2002, the derivative and non-derivative instruments designated as hedging the net investment in the Company's European subsidiaries resulted in a loss of $16 million, which is included in the balance of the cumulative translation adjustment in accumulated other comprehensive income.

Other Derivatives. In December 2000, the Dutch parliament adopted legislation allocating to the Dutch generation sector, including Reliant Energy Power Generation Benelux N.V. (REPGB), financial responsibility for various out-of-market contracts and other liabilities. The legislation became effective in all material respects on January 1, 2001. In particular, the legislation allocated to the Dutch generation sector, including REPGB, financial responsibility to purchase imported electricity and gas under certain long-term power contracts and a gas contract entered into by NEA B.V. (NEA), the regulated entity which formerly purchased and sold energy in the Netherlands.

The Company accounts for the gas supply contract at fair value as a non-trading derivative pursuant to SFAS No. 133. Prior to amending the electricity import contracts in May 2002, the Company also accounted for the electricity import contracts at fair value as non-trading derivatives pursuant to SFAS No. 133. However, subsequent to amending the electricity import contracts, the Company began to account for the electricity contracts as a part of the Company's energy trading activities.

As of December 31, 2001, the Company recorded a liability of $369 million for stranded cost gas and electric commitments in non-trading derivative liabilities. As of June 30, 2002, the Company recorded a liability of $155 million for the REPGB stranded cost gas supply contract in non-trading derivative liabilities. Pursuant to SFAS No.

133, during the three and six months ended June 30, 2002, the Company recognized a $3 million loss and net $16 million gain, respectively, recorded in fuel expense related to changes in the valuation of these non-trading derivative liabilities, excluding the effects of the gain related to amending the two power contracts as discussed in Note 13(e).

For additional information regarding REPGB's obligations under these out-of-market contracts and the related indemnification by former shareholders of these stranded costs during 2001, see Note 14(h) to the Reliant Energy 10-K/A Notes.

During the May 2001 through September 2001 time frame, Reliant Resources entered into two structured transactions which were recorded on the balance sheet in non-trading derivative assets and liabilities involving a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003. The change in fair value of these derivative assets and liabilities must be recorded in the Statement of Income for each reporting period. As of December 31, 2001, the Company has recognized $221 million of non-trading derivative assets and $103 million of non-trading derivative liabilities related to these transactions. During the three and six months ended June 30, 2002, $26 million and $50 million, respectively, of net non-trading derivative assets were settled related to these transactions, and a pre-tax unrealized gain of $1 million and $2 million, respectively, was recognized. As of June 30, 2002, the Company has recognized $163 million of non-trading derivative assets and $93 million of non-trading derivative liabilities related to these transactions.

(5) ACQUISITION OF ORION POWER HOLDINGS, INC.

In February 2002, Reliant Resources acquired all of the outstanding shares of common stock of Orion Power Holdings, Inc. (Orion Power) for $26.80 per share in cash for an aggregate purchase price of $2.9 billion. Reliant Resources funded the Orion Power acquisition with a $2.9 billion credit facility and $41 million of cash on hand. As a result of the acquisition, Reliant Resources' consolidated net debt obligations also increased by the amount of Orion Power's net debt obligations. As of February 19, 2002, Orion Power's debt obligations were $2.4 billion ($2.1 billion net of restricted cash pursuant to debt covenants). Orion Power is an electric power generating company formed in March 1998 to acquire, develop, own and operate power-generating facilities in certain deregulated wholesale markets throughout North America. As of February 19, 2002, Orion Power had 81 power plants with a total generating capacity of 5,644 MW and two development projects with an additional 804 MW of capacity under construction. As of June 30, 2002, both projects under construction had reached commercial operation.

The Company accounted for the acquisition as a purchase with assets and liabilities of Orion Power reflected at their estimated fair values. The Company's fair value adjustments included adjustments in property, plant and equipment, contracts, severance liabilities, debt, unrecognized pension and postretirement benefits liabilities and related deferred taxes. The Company expects to finalize these fair value adjustments no later than February 2003, based on valuations of property, plant and equipment, intangible assets and other assets and obligations.

The Company's results of operations include the results of Orion Power only for the period beginning February 19, 2002. The following table presents selected financial information and unaudited pro forma information for the three months ended June 30, 2001 and six months ended June 30, 2001 and 2002, as if the acquisition had occurred on January 1, 2001 and 2002, as applicable.

	THREE MONTHS ENDED JUNE 30, 2001	
	ACTUAL	PRO FORMA
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	
Revenues	$ 10,292	$ 10,598
Income before cumulative effect of accounting change	316	324
Net income attributable to common stockholders	316	324
Basic earnings per share before cumulative effect of accounting change	$ 1.09	$ 1.12
Basic earnings per share	1.09	1.12
Diluted earnings per share before cumulative effect of accounting change	1.08	1.11
Diluted earnings per share	1.08	1.11

	SIX MONTHS ENDED JUNE 30, 2002		SIX MONTHS ENDED JUNE 30, 2001	
	ACTUAL	PRO FORMA	ACTUAL	PRO FORMA
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)			
Revenues	$ 22,369	$ 22,951	$ 18,434	$ 18,557
Income before cumulative effect of accounting change	517	528	461	413
Net income attributable to common stockholders	578	589	461	413
Basic earnings per share before cumulative effect of accounting change	$ 1.79	$ 1.83	$ 1.55	$ 1.39
Basic earnings per share	2.01	2.04	1.55	1.39
Diluted earnings per share before cumulative effect of accounting change	1.78	1.81	1.55	1.39
Diluted earnings per share	1.99	2.02	1.55	1.39

These unaudited pro forma results, based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the amounts that would have resulted if the acquisition of Orion Power had occurred on January 1, 2001 and 2002, as applicable. Purchase-related adjustments to the results of operations include the effects on depreciation and amortization, interest expense, interest income and income taxes. The unaudited pro forma condensed consolidated financial statements reflect the acquisition of Orion Power in accordance with SFAS No. 141 and SFAS No. 142. For additional information regarding the Company's adoption of SFAS No. 141 and SFAS No. 142, see Notes 2 and 6.

(6) GOODWILL AND INTANGIBLES

In July 2001, the FASB issued SFAS No. 142, which provides that goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead will be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. The Company adopted the provisions of the statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002.

With the adoption of SFAS No. 142, the Company ceased amortization of goodwill as of January 1, 2002. A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization follows:

	THREE MONTHS ENDED JUNE 30,	
	2001	2002
	(IN MILLIONS, EXCEPT PER SHARE)	
Reported net income	$ 316	$ 236
Add: Goodwill amortization, net of tax	21	--
Adjusted net income	$ 337	$ 236
Basic Earnings Per Share:		
Reported net income	$ 1.09	$ 0.79
Add: Goodwill amortization, net of tax	0.07	--
Adjusted basic earnings	$ 1.16	$ 0.79
Diluted Earnings Per Share:		
Reported net income		

$ 1.08 $ 0.79 Add:
Goodwill amortization,
net of tax ...... 0.07 -
- --------- ---------
Adjusted diluted
earnings
.... $
1.15 $ 0.79 =========
=========

	SIX MONTHS ENDED JUNE 30,	
	2001	2002
	(IN MILLIONS, EXCEPT PER SHARE)	
Reported net income	$ 578	$ 461
Add: Goodwill amortization, net of tax	42	--
Adjusted net income	$ 620	$ 461
Basic Earnings Per Share:		
Reported net income	$ 2.01	$ 1.55
Add: Goodwill amortization, net of tax	0.15	--
Adjusted basic earnings	$ 2.16	$ 1.55
Diluted Earnings Per Share:		
Reported net income	$ 1.99	$ 1.55
Add: Goodwill amortization, net of tax	0.14	--
Adjusted diluted earnings	$ 2.13	$ 1.55

The components of the Company's other intangible assets consist of the following:

	DECEMBER 31, 2001		JUNE 30, 2002	
	CARRYING AMOUNT	ACCUMULATED AMORTIZATION	CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	(IN MILLIONS)			
Air Emission Regulatory Allowances	$ 255	$ (78)	$ 268	$ (82)
Water Rights	68	(4)	68	(5)
Other Power Generation Site Permits	77	(3)	77	(5)
Contractual Rights	--	--	91	(7)
Land Use Rights	59	(11)	59	(11)
Other	16	(1)	20	(4)
Total	$ 475	$ (97)	$ 583	$ (114)

The Company recognizes specifically identifiable intangibles, including air emissions regulatory allowances and water and land use rights and permits, when specific rights and contracts are acquired. The Company has no intangible assets with indefinite lives recorded as of June 30, 2002. The Company amortizes air emissions regulatory allowances primarily on a units-of-production basis as utilized. The Company amortizes other acquired intangibles, excluding contractual rights, on a straight-line basis over the lesser of their contractual or estimated useful lives.

In connection with the acquisition of Orion Power, Reliant Resources recorded the fair value of certain fuel and power contracts acquired. Reliant Resources estimated the fair value of the contracts using forward pricing curves over the life of each contract. Those contracts for which net fair value exceeded book value at the date of acquisition were recorded to intangible assets (Contractual Rights) and those contracts for which net fair value was below book value at the date of acquisition (Contractual Obligations) were

recorded to other current and long-term liabilities in the Consolidated Balance Sheet.

Contractual Rights and Contractual Obligations are amortized to fuel expense and revenues, as applicable, on the pattern in which the economic effects are estimated to be realized over the contractual lives. Amortization in future periods will be disclosed as the purchase price allocation is finalized.

Amortization expense for other intangibles, excluding Contractual Rights, for the three months ended June 30, 2001 and 2002 was $7 million and $4 million, respectively. Amortization expense for other intangibles, excluding Contractual Rights, for the six months ended June 30, 2001 and 2002 was $31 million and $9 million, respectively. Reliant Resources amortized $7 million of Contractual Rights and $10 million of Contractual Obligations during both the three and six months ended June 30, 2002. Estimated amortization expense, excluding Contractual Rights, for the remainder of 2002 and the five succeeding fiscal years is as follows (in millions):

2002	$ 8
2003	15
2004	16
2005	16
2006	15
2007	15
Total	$ 85

Changes in the carrying amount of goodwill for the six months ended June 30, 2002, by reportable business segment, are as follows:

	GOODWILL AS OF JANUARY 1, 2002	ACQUIRED DURING THE PERIOD	FOREIGN CURRENCY EXCHANGE IMPACT	OTHER	AS OF JUNE 30, 2002
	(IN MILLIONS)				
Natural Gas Distribution	$ 1,085	$ --	$ --	$ --	$ 1,085
Pipelines and Gathering	601	--	--	--	601
Wholesale Energy	184	1,411	--	1	1,596
European Energy	675	--	81	--	756
Retail Energy	32	--	--	--	32
Other Operations	54	--	--	--	54
Total	$ 2,631	$ 1,411	$ 81	$ 1	$ 4,124

The Company is in the process of determining further effects of adoption of SFAS No. 142 on its consolidated financial statements, including the review of goodwill for impairment. The Company has completed its review pursuant to SFAS No. 142 for its reporting units in the Natural Gas Distribution and Pipelines and Gathering business segments. No impairment was indicated as a result of this assessment. Reliant Resources has not completed their review pursuant to SFAS No. 142 for their reporting units. Reliant Resources has completed, the first step of the goodwill impairment test, used to identify potential impairments, which compares the fair value of a reporting unit with its carrying amount, including goodwill. Based on the first step of the goodwill impairment test, Reliant Resources' European Energy business segment's goodwill is impaired by approximately $250 million. Reliant Resources believes that its final impairment loss will approximate the impairment loss indicated in the first step of the goodwill impairment. Reliant Resources has retained an outside valuation firm to assist in their review and will finalize their review of goodwill of the European Energy business segment during 2002. The impairment loss resulting from the transitional impairment test will be recorded retroactively as a cumulative effect of a change in accounting principle for the quarter ended March 31, 2002. Based on the first step of the goodwill impairment test, no other Reliant Resources' reporting units' goodwill was impaired.

(7) COMPREHENSIVE INCOME

The following table summarizes the components of total comprehensive income:

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Net income attributable to common stockholders	$ 316	$ 236	$ 578	$ 461
Other comprehensive income:				
Foreign currency translation adjustments	5	114	5	102
Additional minimum non-qualified pension liability adjustment	3	--	1	--
Cumulative effect of adoption of SFAS No. 133	--	--	(422)	--
Net deferred gains (losses) from cash flow hedges ...	202	(25)	377	175
Reclassification of deferred loss (gain) from cash flow hedges realized in net income	88	(11)	107	(26)
Unrealized gain (loss) on available-for-sale securities	6	--	13	(1)
Other comprehensive income	304	78	81	250
Comprehensive income	$ 620	$ 314	$ 659	$ 711

Included in "Reclassification of deferred loss (gain) from cash flow hedges realized in net income" above for the six months ended June 30, 2001 and 2002 is $12 million of amortization for both the three months ended March 31, 2001 and 2002 related to the amortization of the transition adjustment arising from the termination and replacement of two power generation swap contracts referred to in Note 1. Included in "Cumulative effect of adoption of SFAS No. 133" above for the six months ended June 30, 2001 is a $170 million transition adjustment referred to in Note 1. Such amounts have not been previously reported in the Company's comprehensive income disclosure for the three months ended March 31, 2001 and 2002.

(8) SHORT-TERM BORROWINGS

Reliant Energy (to become CenterPoint Energy subsequent to the Restructuring), excluding Reliant Resources

Credit Facilities. As of June 30, 2002, Reliant Energy (excluding Reliant Resources) had credit facilities, including facilities of Houston Industries FinanceCo LP (FinanceCo) and RERC Corp., that provided for an aggregate of $5.2 billion in committed credit. As of June 30, 2002, $4.5 billion was outstanding under these facilities including $1.0 billion of commercial paper supported by the facilities, borrowings of $3.5 billion and letters of credit of $2.5 million.

The following table summarizes amounts available under these credit facilities at June 30, 2002 and commitments expiring in 2002 (in millions):

BORROWER	TYPE OF FACILITY	COMMITTED CREDIT	AMOUNT UNUSED AT 6/30/02	TOTAL COMMITMENTS EXPIRING IN 2002
Reliant Energy...	Revolver	$ 400	$ --	$ 400
FinanceCo........	Revolvers	4,300		

398 4,300 RERC
Corp........
Revolver 350 347
-- RERC
Corp........
Receivables 150
2 150 ------- --
----- -------
Total......... $
5,200 $ 747 $
4,850 =======
======= =======

In July 2002, the termination dates of the $400 million Reliant Energy facility and the $4.3 billion of FinanceCo facilities were extended to October 10, 2002. The termination date of each of these facilities may be changed from October 10, 2002 to September 10, 2002 upon direction prior to September 5, 2002 from banks with aggregate commitments of at least 51% of the total amount of the particular facility.

Reliant Energy expects to replace up to $4.7 billion of existing credit facilities of Reliant Energy and FinanceCo which expire on October 10, 2002 with new 364-day facilities. Facilities aggregating $4.7 billion are expected to be sufficient to meet Reliant Energy's short-term liquidity needs. Proceeds from an

expected debt issuance in the capital markets will be used to retire a portion of Reliant Energy's short-term debt, and the amount of credit facilities needed for liquidity purposes may be reduced in the event such proceeds are received. The terms of any new credit facilities are expected to be adversely affected by the leverage of Reliant Energy, the amount of bank capacity utilized by Reliant Energy and its subsidiaries, any delay in the date of Restructuring and Distribution, any reduction or withdrawal of one or more of Reliant Energy's credit ratings, conditions in the bank market and factors affecting Reliant Energy's industry. These same factors are expected to make the syndication of new credit facilities more difficult. If Reliant Energy is unable to replace its existing credit facilities on terms that are acceptable to it, Reliant Energy's financial condition and future results of operations could be materially adversely affected.

Pursuant to the terms of the existing agreements (but subject to certain conditions precedent which Reliant Energy anticipates will be met) the revolving credit agreements aggregating $4.3 billion of FinanceCo will terminate and CenterPoint Energy revolving credit facilities of the same amount and with the same termination dates will become effective on the date of Restructuring. There is a ratings-related condition precedent to the conversion from the existing FinanceCo bank credit facilities to facilities under which CenterPoint Energy will become the obligor. The condition precedent requires that CenterPoint Energy's senior long-term debt be rated at least BBB by Standard & Poors Ratings Group (S&P) and Baa2 by Moody's Investors Service, Inc. (Moody's) at the time of Restructuring. Indicative ratings on such debt are BBB from S&P and Baa2 from Moody's. Reliant Energy believes that it could obtain a waiver of this condition, if necessary. However, if Reliant Energy was unable to obtain such a waiver, the facilities would remain obligations of FinanceCo until the earlier of 90 days after the date of Restructuring or the expiration of the facilities in October 2002, subject to compliance with applicable covenants. See Note 15(d) for a discussion of Reliant Energy's credit ratings.

The $150 million RERC Corp. receivables facility was scheduled to expire on August 14, 2002. RERC Corp. has extended the facility to October 31, 2002, during which time RERC Corp. expects to negotiate a new receivables facility with the financial institution that provides the current facility. The $350 million RERC Corp. revolving credit facility expires March 31, 2003. The borrowing capacity provided by this revolving credit facility is expected to be replaced with one or more credit facilities in 2003.

The revolving credit facilities contain various business and financial covenants requiring Reliant Energy to, among other things, maintain leverage (as defined in the credit facilities) below specified ratios. Reliant Energy is in compliance with the covenants under all of these credit agreements. In order to obtain additional borrowings under the revolving credit facilities, Reliant Energy must generally represent that there has been no material adverse change in its ability to perform its obligations under the agreement. Reliant Energy is currently able to make such representations.

In July 2002, as part of the terms of the extension discussed above, $1.875 billion of FinanceCo's revolving credit agreements was converted to a term loan. Following this conversion, the revolving credit facilities aggregate $3.2 billion and support a commercial paper program. The maximum amount of outstanding commercial paper of Reliant Energy, Finance Co., or RERC Corp. is limited to the amount of that issuer's aggregate revolving credit facilities less any direct loans or letters of credit obtained under its revolvers. Due to an inability to consistently satisfy all short-term borrowing needs by issuing commercial paper, short-term borrowing needs in the second quarter were met with a combination of commercial paper and bank loans. On July 8, 2002, all remaining commercial paper was repaid with proceeds from bank loans. The extent to which commercial paper will be issued in lieu of bank loans will depend on market conditions, the credit ratings of the commercial paper issuers and the terms of Reliant Energy's credit agreements.

Reliant Resources (unregulated businesses)

Credit Facilities. As of June 30, 2002, Reliant Resources had $8.3 billion in committed credit facilities of which $1.2 billion remained unused. Credit facilities aggregating $5.4 billion were unsecured. As of June 30, 2002, letters of credit outstanding under these facilities aggregated $803 million. As of June 30, 2002, borrowings of $6.3 billion were outstanding under these facilities of which $602 million were classified as long-term debt, based upon the availability of committed credit facilities and management's intention to maintain these borrowings in excess of one year.

The following table provides a summary of the amounts owed and amounts available as of June 30, 2002 under Reliant Resources' various credit facilities.

	TOTAL COMMITTED CREDIT	DRAWN AMOUNT	LETTERS OF CREDIT	UNUSED AMOUNT	EXPIRING BY JUNE 30, 2003	EXPIRATION DATE
	(IN MILLIONS)					
RELIANT RESOURCES:						
Orion acquisition term loan.....	$ 2,908	$ 2,908	$ --	$ --	$ 2,908	February 2003
364-day revolver................	800	--	--	800	800	August 2002(1)
Three-year revolver.............	800	400	386	14	--	August 2004
WHOLESALE ENERGY:						
Orion Power and Subsidiaries:						
Orion Power...................	75	43	24	8	75	December 2002
Orion MidWest.................	1,063	1,028	15	20	1,063	October 2002
Orion NY......................	532	502	10	20	532	December 2002
Liberty Project...............	292	270	17	5	6	October 2002 - April 2026
Reliant Energy Channelview LP:						
Equity bridge.................	92	92	--	--	92	November 2002
Construction term loan and working capital facility....	383	340	--	43	2(2)	October 2002 - July 2024
REMA letter of credit facility..	81	--	81	--	--	August 2003
EUROPEAN ENERGY:						
Reliant Energy Capital Europe, Inc...........................	595	595	--	--	595	March 2003
REPGB 364-day revolver..........	248	124	--	124	248	July 2002
REPGB letter of credit facility.	420	--	270	150	--	July 2003
Total............................	$ 8,289	$ 6,302	$ 803	$ 1,184	$ 6,321	

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(1) Reliant Resources has given notice that it intends to exercise its option to convert this facility to a one-year loan with a maturity of August 22, 2003.

(2) Excludes $369 million of facilities expiring in November 2002 as borrowings under such facilities are convertible into a long-term loan.

These facilities include a term loan facility entered into during the fourth quarter of 2001 and amended in January 2002 that provided for $2.9 billion in funding to finance the purchase of Orion Power. Interest rates on the borrowings under this facility are based on London inter-bank offered rate (LIBOR) plus a margin or a base rate. This facility was funded on February 19, 2002 for $2.9 billion. As of June 30, 2002, the weighted average interest rate on outstanding borrowings was 2.79%. This term loan must be repaid within one year from the date on which it was funded. For discussion of the acquisition of Orion Power, see Note 5.

In addition to credit facilities, Reliant Resources had long-term debt totaling $529 million of which $411 million related to bonds issued by Orion Power.

Refinancing Issues. As a result of several recent events, including the United States economic recession, the general common stock price decline of participants in Reliant Resources' industry sector, the general credit rating downgrades of the participants in Reliant Resources' industry sector, and Reliant Resources' credit rating downgrades and Reliant Resources' placement on review for future downgrades, the availability and cost of capital for Reliant Resources' business has been adversely affected. The credit environment may require Reliant Resources' future facilities to include terms that are more restrictive or burdensome or at higher borrowing rates than those of Reliant Resources' current facilities and that may require them to provide collateral as security. In addition, certain financial institutions may limit the amount of additional financings or discontinue providing financings to Reliant Resources. The terms of any new credit facilities may also be adversely affected by any delay in the date of the Distribution. In addition, any future reduction or withdrawal of one or more of Reliant Resources' credit ratings could have a material adverse impact on Reliant Resources' ability to access capital on acceptable terms, including the ability to refinance debt obligations as they mature.

As of June 30, 2002, Reliant Resources had $6.3 billion of committed credit facilities which will expire by June 30, 2003 of which $2.8 billion will expire by December 31, 2002. Reliant Resources expects to extend or replace these facilities. In order to meet Reliant Resources' future needs, it may obtain financings that are secured by certain of Reliant

Resources' assets or the operations of Reliant Resources' subsidiaries. In addition to giving security, other terms, conditions, covenants or restrictions may be imposed as part of these financings that may adversely affect Reliant Resources. Providing collateral to obtain future financings or refinancings may adversely affect Reliant Resources' credit ratings thereby increasing the cost of Reliant Resources' debt. Although Reliant Resources expects to obtain future financings, there can be no assurance that Reliant Resources will be successful.

Reliant Resources' $800 million unsecured 364-day revolving credit facility expires on August 22, 2002. The facility agreement allows Reliant Resources the option to borrow the entire amount and convert it, provided that there is no default on the conversion date, to a one-year term loan with a maturity of August 22, 2003. Reliant Resources has given notice that they intend to exercise this option.

Reliant Resources is currently negotiating with the banks regarding the appropriate terms and conditions for an extension of the maturity of the $2.9 billion Orion acquisition term loan, which is scheduled to mature on February 19, 2003. Reliant Resources expects to complete this extension in the second half of 2002.

Reliant Resources is also in negotiations with the lead arrangers for a refinancing of the facilities at Orion Power, Orion Power MidWest, LP (Orion MidWest) and Orion Power New York, LP (Orion NY), which are discussed below. Reliant Resources anticipates that the new financings will total approximately $1.3 billion and will be completed in September 2002. Similar to the existing Orion MidWest and Orion NY credit agreements, the refinancings for Orion MidWest and Orion NY will likely be secured by the assets of both Orion MidWest and Orion NY.

Reliant Resources' refinancing plan contemplates the simultaneous refinancing of the $2.9 billion term loan, the $800 million 364-day revolving credit facility, the $800 million three-year revolving credit facility, and the Orion NY and Orion MidWest credit agreements.

The Euro 600 million (approximately $595 million) term loan facility at Reliant Energy Capital Europe, Inc. matures on March 1, 2003. Preliminary work has commenced on the refinancing of this term loan facility. Reliant Resources plans to execute such refinancing during the fourth quarter of 2002 or first quarter of 2003.

In May 2002, Reliant Resources established a $300 million commercial paper program which is supported by its existing credit facilities. Due to market conditions and Reliant Resources' current credit ratings, Reliant Resources' has not yet attempted to issue commercial paper. It is unlikely that Reliant Resources will be able to issue commercial paper in the near future.

During July 2002, Reliant Resources, through a subsidiary, established a receivables facility to finance certain of Reliant Resources' Retail Energy business segment's receivables up to $250 million. For further discussion, see Note 15(b).

During July 2002, REPGB renewed its 364-day revolving credit facility through July 2003. The amount of the credit facility was reduced from Euro 250 million (approximately $248 million) to Euro 184 million (approximately $182 million). An option was added that permits REPGB to utilize up to Euro 100 million (approximately $99 million) of the facility for letters of credit. For further discussion, see Note 15(c).

Orion Power's Debt Obligations. As a result of Reliant Resources' acquisition of Orion Power, Reliant Resources' consolidated net debt obligations also increased by the amount of Orion Power's net debt obligations, which are discussed below.

New York Credit Agreement. As of June 30, 2002, Orion Power New York, LP (Orion NY), a wholly owned subsidiary of Orion Power, had a secured credit agreement (New York Credit Agreement), which includes a $502 million acquisition facility and a $30 million revolving working capital facility. As of June 30, 2002, Orion NY had $502 million of acquisition loans outstanding. As of June 30, 2002, there were no revolving loans outstanding. A total of $10 million in letters of credit were also outstanding under the New York Credit Agreement. The loans bear interest at the borrower's option at (a) a base rate or (b) LIBOR plus a margin. The weighted average interest rate on outstanding borrowings as of June 30, 2002, was 3.61%. The credit agreement is secured by substantially all of the assets of Orion NY. The credit agreement expires in December 2002.

MidWest Credit Agreement. As of June 30, 2002, Orion Power MidWest LP (Orion MidWest), a wholly owned subsidiary of Orion Power, had a secured credit agreement (MidWest Credit Agreement), which includes a $988 million acquisition facility and a $75 million revolving working capital facility. As of June 30, 2002, Orion MidWest had $988 million and $40 million of acquisition loans and revolving loans outstanding, respectively. A total of $15 million in letters of credit were also outstanding under the MidWest Credit Agreement. The loans bear

interest at the borrower's option at (a) a base rate or (b) LIBOR plus a margin. The weighted average interest rate on outstanding borrowings as of June 30, 2002, was 3.88%. Borrowings under the MidWest Credit Agreement are secured by substantially all the assets of Orion MidWest. The credit agreement expires in October 2002.

The New York Credit Agreement and the Midwest Credit Agreement (collectively, the Orion Credit Agreements) contain restrictive covenants that restrict the ability of Orion NY or Orion MidWest to, among other things, make dividend distributions unless Orion NY or Orion MidWest satisfy various conditions. As of June 30, 2002, restricted cash under the Orion Credit Agreements totaled $346 million.

In connection with the Orion Power acquisition, the existing interest rate swaps for the Orion Credit Agreements were bifurcated into a debt component and a derivative component. The fair value of the debt component, approximately $31 million for the New York Credit Agreement and $59 million for the MidWest Credit Agreement, was based on Reliant Resources' incremental borrowing rates at the acquisition date for similar types of borrowing arrangements. The value of the debt component will be amortized to interest expense over the life of the interest rate swaps to which they relate. For the period from February 20, 2002 through June 30, 2002, $3 million and $7 million was amortized to interest expense for the New York Credit Agreement and MidWest Credit Agreement, respectively. See Note 4 for information regarding Reliant Resources' derivative financial instruments.

The Orion Credit Agreements contain various business and financial covenants requiring Orion NY or Orion MidWest to, among other things, maintain a debt service coverage ratio of at least 1.5 to 1.0. Because it was anticipated that Orion MidWest would not meet this ratio for the quarter ended June 30, 2002, the MidWest Credit Agreement was amended to provide that Orion MidWest is not required to meet this ratio until the quarter ending September 30, 2002. Orion MidWest may not be able to meet this debt service coverage ratio for the quarter ending September 30, 2002. It is Reliant Resources' current intention to arrange for the repayment, refinancing or amendment of these facilities prior to September 30, 2002. If the MidWest Credit Agreement is not repaid, refinanced or amended prior to that date, and if a waiver is required under this credit facility, Reliant Resources currently believes that it will be able to obtain such a waiver. However, Reliant Resources currently has no assurance that it will be able to obtain such a waiver or amendment from the lender group if required under the MidWest Credit Agreement. If the debt service coverage ratio is not met, and the MidWest Credit Agreement is not repaid, refinanced or amended or no waiver is obtained, the MidWest Credit Agreement would be in default and the lenders could demand payment of all outstanding amounts under the MidWest Credit Agreement.

Liberty Credit Agreement. Liberty Electric Power, LLC (LEP) and Liberty Electric PA, LLC (Liberty), wholly owned subsidiaries of Orion Power, entered into a facility that provides for (a) a construction/term loan in an amount of up to $105 million; (b) an institutional term loan in an amount of up to $165 million; (c) a revolving working capital facility for an amount of up to $5 million; and (d) a debt service reserve letter of credit facility of $17.5 million (Liberty Credit Agreement).

In May 2002, the construction loan was converted to a term loan. As of the conversion date, the term loan had an outstanding principal balance of $270 million, with $105 million having a final maturity in 2012 and the balance in 2026. On the conversion date, Reliant Resources made the required cash equity contribution of $30 million into Liberty, which was used to repay a like amount of equity bridge loans advanced by the lenders. A related $41 million letter of credit furnished by Orion Power as credit support was returned for cancellation. In addition, on the conversion date, a $17.5 million letter of credit was issued in satisfaction of Liberty's obligation to provide a debt service reserve fund. The project financing facility also provides for a $5 million working capital line of credit. The debt service reserve letter of credit facility and the working capital facility expire in May 2007.

Amounts outstanding under the Liberty Credit Agreement bear interest at a floating rate for a portion of the facility, which may be either (a) a base rate or (b) LIBOR plus a margin, except for the institutional term loan which bears interest at a fixed rate. At June 30, 2002, the weighted average interest rate on the outstanding borrowings was 3.12% on the floating rate component and 9.02% on the fixed rate portion. As of June 30, 2002, Liberty had $105 million and $165 million of the floating rate and fixed rate portions of the facility outstanding, respectively. A total of $17.5 million in letters of credit were also outstanding under the Liberty Credit Agreement.

The lenders under the Liberty Credit Agreement have a security interest in substantially all of the assets of Liberty. The Liberty Credit Agreement contains restrictive covenants that restrict Liberty's ability to, among other things, make dividend distributions unless Liberty satisfies various conditions. As of June 30, 2002, restricted cash under the Liberty Credit Agreement totaled $20 million.

Senior Notes. Orion Power has outstanding $400 million aggregate principal amount of 12% senior notes due 2010 (Senior Notes). The Senior Notes are senior unsecured obligations of Orion Power. Orion Power is not required to make any mandatory redemption or sinking fund payments with respect to the Senior Notes. The Senior Notes are not guaranteed by any of Orion Power's subsidiaries. In connection with the Orion Power acquisition, Reliant Resources recorded the Senior Notes at estimated fair value of $479 million. The $79 million premium will be amortized against interest expense over the life of the Senior Notes. For the six months ended June 30, 2002, $2 million was amortized to interest expense for the Senior Notes. The fair value of the Senior Notes is based on Reliant Resources' current incremental borrowing rates for similar types of borrowing arrangements. The Senior Notes indenture contains covenants that include among others, restrictions on the payment of dividends by Orion Power.

Pursuant to certain change of control provisions, Orion Power commenced an offer to repurchase the Senior Notes on March 21, 2002. The offer to repurchase expired on April 18, 2002. There were no acceptances of the offer to repurchase and the entire $400 million aggregate principal amount remains outstanding.

Before May 1, 2003, Orion Power may redeem up to 35% of the Senior Notes issued under the indenture at a redemption price of 112% of the principal amount of the notes redeemed, plus accrued and unpaid interest and special interest, with the net cash proceeds of an equity offering provided that certain provisions under the indenture are met.

Revolving Senior Credit Facility. Orion Power has an unsecured $75 million revolving senior credit facility that matures in December 2002. Amounts outstanding under the facility bear interest at a floating rate. As of June 30, 2002, there were $43 million of borrowings outstanding under this facility, and a total of $24 million in letters of credit were also outstanding. This credit facility contains various covenants that include, among others, restrictions on the payment of dividends by Orion Power. As of June 30, 2002, restricted cash under this revolving senior credit facility totaled $7 million.

The senior credit facility of Orion Power contains various business and financial covenants that require Orion Power to, among other things, maintain a debt service coverage ratio of at least 1.4 to 1.0. Orion Power did not meet the debt service coverage ratio for the three months ended March 31, 2002 and June 30, 2002, as required. While the failure to meet such ratio for two consecutive fiscal quarters is a default under the senior credit facility, the senior credit facility was amended to provide that such failure will not be considered to be an event of default until September 30, 2002. It is Reliant Resources' current intention to arrange for the repayment, refinancing or amendment of this facility prior to September 30, 2002. If this facility is not repaid, refinanced or amended prior to that date, and if a waiver is required under this credit facility, Reliant Resources currently believes that it will be able to obtain such a waiver. However, Reliant Resources currently has no assurance that it will be able to obtain such a waiver or amendment from the lender groups if required under this credit facility. If the debt service coverage ratio is not met, and the senior credit facility is not repaid, refinanced or amended or no waiver is obtained, the senior credit facility would be in default and the lenders could demand payment of all outstanding amounts under the senior credit facility.

Convertible Senior Notes. Orion Power had outstanding $200 million of aggregate principal amount of 4.5% convertible senior notes, due on June 1, 2008 (Convertible Senior Notes). Pursuant to certain change of control provisions, Orion Power commenced an offer to repurchase the Convertible Senior Notes on March 1, 2002, which expired on April 10, 2002. During the second quarter of 2002, Reliant Resources repurchased $189 million in principal amount under the offer to repurchase and $11 million aggregate principal amount of the Convertible Senior Notes remains outstanding.

(9) EARNINGS PER SHARE

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS, EXCEPT SHARE AND PER SHARE AMOUNTS)			
Basic EPS Calculation:				
Income from continuing operations	$ 316	$ 236	$ 517	$ 461
Cumulative effect of accounting change, net of tax	--	--	61	--
Net income attributable to common stockholders	$ 316	$ 236	$ 578	$ 461
Weighted average shares outstanding	289,743,000	297,696,000	288,546,000	296,963,000
Basic EPS:				
Income from continuing operations	$ 1.09	$ 0.79	$ 1.79	$ 1.55
Cumulative effect of accounting change, net of tax	--	--	0.22	--
Net income attributable to common stockholders	$ 1.09	$ 0.79	$ 2.01	$ 1.55
Diluted EPS Calculation:				
Net income attributable to common stockholders	$ 316	$ 236	$ 578	$ 461
Plus: Income impact of assumed conversions:				
Interest on 6 1/4% convertible trust preferred securities	--	--	--	--
Total earnings effect assuming dilution	$ 316	$ 236	$ 578	$ 461
Weighted average shares outstanding	289,743,000	297,696,000	288,546,000	296,963,000
Plus: Incremental shares from assumed conversions (1):				
Stock options	2,373,000	10,000	2,233,000	206,000
Restricted stock	607,000	752,000	607,000	752,000
6 1/4% convertible trust preferred securities	14,000	13,000	14,000	13,000
Weighted average shares assuming dilution	292,737,000	298,471,000	291,400,000	297,934,000
Diluted EPS:				
Income from continuing operations	$ 1.08	$ 0.79	$ 1.78	$ 1.55
Cumulative effect of accounting change, net of tax	--	--	0.21	--
Net income attributable to common stockholders	$ 1.08	$ 0.79	$ 1.99	$ 1.55

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(1) For the three months ended June 30, 2001 and 2002, the computation of diluted EPS excludes 1,860,256 and 5,693,413 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $45.57 to $50.00 per share and $22.19 to $50.00 per share for the second quarter 2001 and 2002, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

For the six months ended June 30, 2001 and 2002, the computation of diluted EPS excludes 1,978,698 and 5,597,490 purchase options, respectively, for shares of common stock that have exercise prices (ranging from $41.69 to $50.00 per share and $22.44 to $50.00 per share for the first six months of 2001 and 2002, respectively) greater than the per share average market price for the period and would thus be anti-dilutive if exercised.

(10) CAPITAL STOCK

Common Stock. Reliant Energy has 700,000,000 authorized shares of common stock. At December 31, 2001, 302,943,709 shares of Reliant Energy common stock were issued and 295,873,820 shares of Reliant Energy common stock were outstanding. At June 30, 2002, 303,590,608 shares of Reliant Energy common stock were issued and 298,033,163 shares of Reliant Energy common stock were outstanding. Outstanding common shares exclude (a) shares pledged to secure a loan to Reliant Energy's Employee Stock Ownership Plan (7,069,889 and 5,557,279 at December 31, 2001 and June 30, 2002, respectively) and (b) treasury shares (-0- and 166 at December 31, 2001 and June 30, 2002, respectively). Reliant Energy declared dividends of $0.375 per share in the second quarter of 2001 and 2002 and $0.75 per share in the first six months of 2001 and 2002.

(11) TRUST PREFERRED SECURITIES

(a) Reliant Energy.

Statutory business trusts created by Reliant Energy have issued trust preferred securities, the terms of which, and the related series of junior subordinated debentures, are described below (in millions):

TRUST	AGGREGATE LIQUIDATION AMOUNT DECEMBER 31, 2001	AGGREGATE LIQUIDATION AMOUNT JUNE 30, 2002	DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
REI Trust I	$ 375	$ 375	7.20%	March 2048	7.20% Junior Subordinated Debentures due 2048
HL&P Capital Trust I	$ 250	$ 250	8.125%	March 2046	8.125% Junior Subordinated Deferrable Interest Debentures Series A
HL&P Capital Trust II	$ 100	$ 100	8.257%	February 2037	8.257% Junior Subordinated Deferrable Interest Debentures Series B

For additional information regarding the $625 million of preferred securities and the $100 million of capital securities, see Note 11 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference. The sole asset of each trust consists of junior subordinated debentures of Reliant Energy having interest rates and maturity dates that correspond to the distribution rates and the mandatory redemption dates for each series of

preferred securities or capital securities, and the principal amounts corresponding to the common and preferred securities or capital securities issued by that trust.

(b) RERC Corp.

A statutory business trust created by RERC Corp. (RERC Trust) has issued convertible trust preferred securities, the terms of which, and the related series of convertible junior subordinated debentures, are described below (in millions):

	AGGREGATE LIQUIDATION AMOUNT		DISTRIBUTION RATE/	MANDATORY REDEMPTION DATE/	
TRUST	DECEMBER 31, 2001	JUNE 30, 2002	INTEREST RATE	MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
RERC Trust	$ 1	$ 1	6.25%	June 2026	6.25% Convertible Junior Subordinated Debentures due 2026

For additional information regarding the convertible preferred securities, see Note 11 to the Reliant Energy 10-K/A Notes. The sole asset of the trust consists of convertible junior subordinated debentures of RERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities, and the principal amount corresponding to the common and convertible preferred securities issued by the trust.

(12) PRICE TO BEAT FUEL FACTOR ADJUSTMENT

The Texas Utility Commission regulations allow Reliant Resources to request an adjustment to the fuel factor in its price to beat for its Houston area residential and small commercial customers based on the percentage change in the price of natural gas, or increases in the price of purchased energy, up to twice a year. Reliant Resources' price to beat fuel factor was initially set by the Texas Utility Commission in December 2001 based on an average forward 12-month natural gas price of $3.11/mmbtu. On May 2, 2002, Reliant Resources filed a request with the Texas Utility Commission to increase the price to beat fuel factor based on a 20% increase in the price of natural gas.

Reliant Resources' requested increase was based on an average forward 12-month natural gas price of $3.73/mmbtu. The requested increase represents a 5.9% increase in the total bill of a residential customer using, on average, 1,000 kWh per month. On June 6, 2002 the administrative law judge recommended to the Texas Utility Commission approval of a 19.9% increase to the price to beat fuel factor based on application of the Texas Utility Commission's price to beat rule. On July 15, 2002, the Texas Utility Commission issued an order delaying Reliant Resources' request as well as the request of each of the other four affiliated retail electric providers requesting adjustments to the price to beat fuel factors and remanded the cases to the administrative law judges requesting additional information in order to validate the Texas Utility Commission's rule. On July 24, 2002, Reliant Resources filed a request in the Travis County District Court that the court declare that the Texas Utility Commission must apply its current rules to Reliant Resources' request and grant the fuel factor adjustment in accordance with the formula in the rule that the Texas Utility Commission had already approved. The other four affiliated retail electric providers also filed similar requests with the Travis County District Court. The Court issued an order on August 9, 2002 agreeing with Reliant Resources that the Texas Utility Commission must follow the existing rules that govern the adjustment of the price to beat fuel factor. Unless the Texas Utility Commission convenes a special meeting, the earliest a new price to beat could go into effect would be after August 23, 2002, the date of the Texas Utility Commission's next normally scheduled meeting.

(13) COMMITMENTS AND CONTINGENCIES

(a) Legal Matters.

Reliant Energy HL&P Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy HL&P's service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. Plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. Because the franchise ordinances at issue affecting Reliant Energy HL&P expressly impose fees only on its own receipts and only from sales of electricity for consumption within a city, the Company regards all of plaintiffs' allegations as spurious and is vigorously contesting the case. The plaintiffs' pleadings asserted that their damages exceeded $250 million. The 269th Judicial District Court for Harris County granted partial summary judgment in favor of Reliant Energy dismissing all claims for franchise fees based on sales tax collections. Other motions for partial summary judgment were denied. A six-week jury trial of the original claimant cities (but not the class of cities) ended on April 4, 2000 (Three Cities case). Although the jury found for Reliant Energy on many issues, they found in favor of the original claimant cities on three issues, and assessed a total of $4 million in actual and $30 million in punitive damages. However, the jury also found in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began.

The trial court in the Three Cities case granted most of Reliant Energy's motions to disregard the jury's findings. The trial court's rulings reduced the judgment to $1.7 million, including interest, plus an award of $13.7 million in legal fees. In addition, the trial court granted Reliant Energy's motion to decertify the class and vacated its prior orders certifying a class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

The Three Cities case has been appealed. The Company believes that the $1.7 million damage award resulted from serious errors of law and that it will be set aside by the Texas appellate courts. In addition, the Company believes that because of an agreement between the parties limiting fees to a percentage of the damages, reversal of the award of $13.7 million in attorneys' fees in the Three Cities case is probable.

The extent to which issues in the Three Cities case may affect the claims of the other cities served by Reliant Energy HL&P cannot be assessed until judgments are final and no longer subject to appeal. However, the trial court's rulings disregarding most of the jury's findings are consistent with Texas Supreme Court opinions over the past decade. The Company estimates the range of possible outcomes for the plaintiffs in the Three Cities case to be between zero and $18 million inclusive of interest and attorneys' fees.

Southern California Class Actions. Reliant Energy, Reliant Energy Services, Inc. (Reliant Energy Services), REPG and several other subsidiaries of Reliant Resources, as well as two former officers and one present officer of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. Three of these lawsuits were filed in the Superior Court of the State of California, San Diego County; two were filed in the Superior Court in San Francisco County; and one was filed in the Superior Court of Los Angeles County. While the plaintiffs allege various violations by the defendants of state antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity, costs of suit and attorneys' fees. Plaintiffs have voluntarily dismissed Reliant Energy from two of the three class actions in which it was named as a defendant.

The cases were initially removed to federal court and were then assigned to Judge Robert H. Whaley, United States District Judge, pursuant to the federal procedures for multi-district litigation. On July 30, 2000, Judge Whaley remanded the cases to state court. Upon remand to state court, the cases were assigned to Superior Court Judge Janis L. Sammartino pursuant to the California state coordination procedures. On March 4, 2002, Judge Sammartino adopted a schedule proposed by the parties that would result in a trial beginning on March 1, 2004. On March 8, 2002, the plaintiffs filed a single, consolidated complaint naming numerous defendants, including Reliant Energy Services and other Reliant Resources' subsidiaries, that restated the allegations described above and alleged that damages against all defendants could be as much as $1 billion. On April 22 and 23, 2002, Reliant Resources and Duke Energy filed cross complaints in the coordinated proceedings seeking, in an alternative pleading, relief against other market participants in California, the surrounding states, Canada and Mexico including Powerex Corp., the Los Angeles Department of Water and Power and the Bonneville Power Administration. Powerex Corp. and Bonneville Power Administration removed the case once again to federal court where it was reassigned to Judge Whaley. On July 10, 2002, a motion to dismiss was filed in coordinated proceedings seeking dismissal of the complaints on the basis of the filed rate doctrine and federal preemption.

On March 11, 2002, the California Attorney General filed a civil lawsuit in San Francisco Superior Court naming Reliant Energy, Reliant Resources, Reliant Energy Services, REPG, and several other subsidiaries of Reliant Resources as defendants. The Attorney General alleges various violations by the defendants of state laws against unfair and unlawful business practices arising out of transactions in the markets for ancillary services run by the California Independent System Operator (Cal ISO). In addition to injunctive relief, the Attorney General seeks restitution and disgorgement of alleged unlawful profits for sales of electricity, and civil penalties. Reliant Resources removed this lawsuit to federal court in April 2002, where it has been assigned to Judge Vaughn Walker in the Northern District of California.

On March 19, 2002, the California Attorney General filed a complaint with the Federal Energy Regulatory Commission (FERC) naming Reliant Energy Services and "all other public utility sellers" in California as defendants. The complaint alleges that sellers with market-based rates have violated their tariffs by not filing with the FERC transaction-specific information about all of their sales and purchases at market-based rates. The California Attorney General argues that, as a result, all past sales should be subject to refund if found to be above just and reasonable levels. On May 31, 2002, the FERC issued an Order that largely denied the compliant and

required only that Reliant Energy Services and other sellers file revised transaction reports regarding prior sales in California spot markets.

On April 15, 2002, the California Attorney General filed a lawsuit in San Francisco County Superior Court against Reliant Energy, Reliant Resources, Reliant Energy Services and several other subsidiaries of Reliant Resources. The complaint is substantially similar to the complaint described above filed by the California Attorney General with the FERC on March 19, 2002. The complaint also alleges that Reliant Resources consistently charged unjust and unreasonable prices for electricity, and that each instance of overcharge violated California law. The lawsuit seeks fines of up to $2,500 for each alleged violation, and "other equitable relief as appropriate." Reliant Resources has removed this case to federal court, where it has been assigned to Judge Vaughn Walker in the Northern District of California.

On April 15, 2002, the California Attorney General and the California Department of Water Resources (CDWR) filed a complaint in the United States District Court for the Northern District of California against Reliant Energy, Reliant Resources and a number of its subsidiaries. In this lawsuit, the Attorney General alleges that Reliant Resources' acquisition of electric generating facilities from Southern California Edison in 1998 violated Section 7 of the Clayton Act, which prohibits mergers or acquisitions that substantially lessen competition. The lawsuit claims that the acquisitions gave Reliant Resources market power which it then exercised to overcharge California consumers for electricity. The lawsuit seeks injunctive relief against alleged unfair competition, divestiture of Reliant Resources' California facilities, disgorgement of alleged illegal profits, damages, and civil penalties for each alleged exercise of market power. This lawsuit also has been assigned to Judge Vaughn Walker. Judge Walker has denied the California Attorney General's motion to remand the two above-mentioned cases to state court and it is anticipated that he will rule in the near future in Reliant Resources' motion to dismiss all three cases.

Northern California Class Actions. In the wake of the filing of the Attorney General cases, there have been seven new class action cases filed in state courts in Northern California. Each of these purports to represent the same class of California ratepayers, assert the same claims as asserted in the Southern California class action cases, and in some instances repeat as well the allegations in the Attorney General cases. All of these cases have been removed to federal court and have been conditionally assigned to Judge Whaley by the Panel on Multi-District Litigation. The plaintiffs in the Southern California class actions have opposed this transfer and it is likely that there will be a hearing before the Panel at its next meeting in September 2002.

Washington/Oregon Class Action. After the filing of the Northern California class actions, a separate class action suit was filed in federal court in Los Angeles on behalf of the Snohomish County Public Utility District and its customers in the State of Washington. A motion has been made to transfer this case to Judge Whaley.

Reliant Resources has not answered any of these cases; however, it has moved to dismiss the cases on the grounds that the claims are barred by federal preemption and by the filed rate doctrine.

On April 11, 2002, the FERC set for hearing a series of complaints filed by Nevada Power Company, which seeks reformation of certain forward power contracts, including contracts with Reliant Energy Services that have since been terminated. Proceedings are ongoing before an administrative law judge who anticipates issuing a decision in December 2002 for consideration by the FERC. PacifiCorp Company filed a similar complaint challenging two ninety-day contracts with Reliant Energy Services, which the FERC also has set for hearing. The FERC has stated that it intends to issue a decision in this case by May 31, 2003.

Pursuant to the terms of the master separation agreement, Reliant Resources has agreed to indemnify Reliant Energy for any damages arising under these lawsuits and may elect to defend these lawsuits at Reliant Resources' own expense. The above-described lawsuits and proceedings regarding California electricity sales are currently the subject of intense, highly-charged media and political attention. Their ultimate outcome cannot be predicted at this time.

Trading and Marketing Activities. Reliant Resources is party to numerous lawsuits and regulatory proceedings relating to its trading and marketing activities, including (i) round trip trades, as more fully described in Note 1, and (ii) structured transactions. In addition, various state and federal governmental agencies have commenced investigations relating to such activities. Their ultimate outcome cannot be predicted at this time. Additional information regarding certain of these matters is set forth below.

In June 2002, the SEC advised Reliant Resources that it had issued a formal order in connection with its investigation of Reliant Resources' financial reporting, internal controls and related matters. Reliant Resources understands that the investigation is focused on its round trip trades and structured transactions. These matters were previously the subject of an informal inquiry by the SEC. The SEC's formal order is also addressed to Reliant Energy. Reliant Resources and Reliant Energy are cooperating with the SEC staff.

As part of the Commodity Futures Trading Commission's (CFTC) industry-wide investigation of so-called round trip trading, the CFTC has subpoenaed documents and requested information relating to Reliant Resources' natural gas and power trading activities, including round trip trades, occurring since January 1, 1999. Reliant Resources is cooperating with the CFTC staff.

On August 13, 2002, the FERC staff issued its Initial Report on Fact Finding Investigation of Potential Manipulation of Electric and Gas Prices (Initial Report). While Reliant Resources is still in the process of reviewing the Initial Report, certain findings, conclusions and observations in the staff report if adopted or otherwise acted on by the FERC, could have a material adverse effect on Reliant Resources. For example, in the Initial Report the FERC staff recommends that the mitigated market clearing prices for purposes of determining refunds in the pending refund proceeding described in Note 13(c) should be based, not on published indices but rather should be calculated using producing basin spot prices plus regulated transportation costs. The use of such a calculation for determining gas prices for refund purposes will likely have an adverse impact on Reliant Resources' potential refund obligations. Other findings, conclusions and observations in the report may likewise have a material adverse effect on Reliant Resources if adopted or otherwise acted on.

In the Initial Report, the FERC indicated that it is continuing to receive and review data, including information relevant to the subjects covered in the report. In this regard, Reliant Resources has provided information to FERC about its trading activities in the Western United States during 2000 and 2001. Included among the data requests Reliant Resources has received from the FERC are requests asking for information regarding all power trading activity, natural gas trading for specific periods or locations, Enron-like trading practices, round trip trades and compliance with supplemental dispatch requests. Reliant Resources expects to receive additional data requests regarding its plant operations and gas and power trading in the West. Reliant Resources is cooperating and will continue to cooperate with the FERC. The ultimate outcome of the investigation cannot be predicted at this time.

Reliant Resources has received subpoenas from the United States Attorney for the Southern District of New York requesting documents pertaining to the round trip trades, and anticipates investigations of energy trading activities by Reliant Resources and numerous other companies that parallel those of the SEC, the CFTC and the FERC. Reliant Resources is cooperating with the office of the United States Attorney.

In connection with the Texas Utility Commission's industry-wide investigation into potential manipulation of the ERCOT market on and after July 31, 2001, Reliant Energy and Reliant Resources have provided information to the Texas Utility Commission concerning their scheduling and trading activities.

In May, June and July 2002, eleven class action lawsuits were filed on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy. Reliant Resources and several of its executive officers are named as defendants. Reliant Energy is also named as a defendant in three of the lawsuits. Two of the lawsuits also name as defendants the underwriters of the IPO. One of those two lawsuits also names Reliant Resources' and Reliant Energy's independent auditors as a defendant. The dates of filing of these lawsuits are as follows: two lawsuits on May 15, 2002; two lawsuits on May 16, 2002; one lawsuit on May 17, 2002; one lawsuit on May 20, 2002; one lawsuit on May 21, 2002; one lawsuit on May 23, 2002; one lawsuit on June 19, 2002; one lawsuit on June 20, 2002; and one lawsuit on July 1, 2002. Ten of the lawsuits were filed in the United States District Court, Southern District of Texas, Houston Division. One lawsuit was filed in the United States District Court, Eastern District of Texas, Texarkana Division.

The complaints allege that the defendants overstated the revenues of the Company by including transactions involving the purchase and sale of commodities with the same counterparty at the same price and that the Company improperly accounted for certain other transactions, among other things. The complaints seek monetary damages and, in one of the lawsuits rescission, on behalf of a supposed class. In eight of the lawsuits, the supposed class is composed of persons who purchased or otherwise acquired Reliant Resources and/or Reliant Energy securities during specified class periods. The three lawsuits that include Reliant Energy as a named defendant were also filed on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy during specified class periods.

Additionally, in May and June 2002, four class action lawsuits were filed

on behalf of purchasers of securities of Reliant Energy. Reliant Energy and several of its executive officers are named as defendants. The dates of filing of the four lawsuits are as follows: one on May 16, 2002; one on May 21, 2002; one on June 13, 2002; and one on June 17, 2002. The lawsuits were filed in the United States District Court, Southern District of Texas, Houston Division. The complaints allege that the defendants violated federal securities laws by issuing false and misleading statements to the public. The plaintiffs allege that the defendants made false and misleading statements as part of an alleged scheme to artificially inflate trading volumes and revenues by including transactions involving the purchase and sale of commodities with the same counterparty at the same price, to spin-off Reliant Resources to avoid exposure to Reliant Resources' liabilities and to cause the price of Reliant Resources' stock to rise artificially, among other things. The complaints seek monetary damages on behalf of persons who purchased Reliant Energy securities during specified class periods.

In May 2002, three class action lawsuits were filed on behalf of participants in various employee benefits plans sponsored by Reliant Energy. Reliant Energy and its directors are named as defendants in all of the lawsuits. Reliant Resources is named as a defendant in two of the lawsuits. The lawsuits were filed on May 29, 2002, May 30, 2002, and May 31, 2002. All of the lawsuits were filed in the United States District Court, Southern District of

Texas, Houston Division. By order dated June 20, 2002, the Court granted the motion for voluntary dismissal filed by the plaintiffs in one of the cases and dismissed that case without prejudice.

The two remaining complaints allege that the defendants breached their fiduciary duties to various employee benefits plans sponsored by Reliant Energy, in violation of the Employee Retirement Income Security Act. The plaintiffs allege that the defendants permitted the plans to purchase or hold securities issued by Reliant Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaints seek monetary damages for losses suffered by a putative class of plan participants whose accounts held Reliant Energy or Reliant Resources securities, as well as equitable relief in the form of restitution.

In May 2002, a derivative action was filed against the directors and independent auditors of Reliant Resources. The lawsuit was filed on May 17, 2002, in the 269th Judicial District, Harris County, Texas. The petition alleges that the defendants breached their fiduciary duties to Reliant Resources. The shareholder plaintiff alleges that the defendants caused Reliant Resources to conduct its business in an imprudent and unlawful manner, including allegedly failing to implement and maintain an adequate internal accounting control system, engaging in transactions involving the purchase and sale of commodities with the same counterparty at the same price, and disseminating materially misleading and inaccurate information regarding Reliant Resources' revenue and trading volume. The petition seeks monetary damages on behalf of Reliant Resources.

Natural Gas Measurement Lawsuits. In 1997, a suit was filed under the Federal False Claim Act against RERC Corp. and certain of its subsidiaries alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case was consolidated, together with the other similar False Claim Act cases filed and transferred to the District of Wyoming. Motions to dismiss were denied. The defendants intend to vigorously contest this case.

In addition, RERC Corp., Reliant Energy Gas Transmission Company (REGT), Reliant Energy Field Services, Inc. (REFS) and Mississippi River Transmission Corporation (MRT) have been named as defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants, including certain Reliant Energy entities, for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Plaintiffs initially sued Reliant Energy Services, but that company was dismissed without prejudice on June 8, 2001. Other Reliant Energy entities that were misnamed or duplicative have also been dismissed. MRT and REFS have filed motions to dismiss for lack of personal jurisdiction and are currently responding to discovery on personal jurisdiction. All four Reliant Energy defendants have joined in a motion to dismiss.

The defendants plan to raise significant affirmative defenses based on the terms of the applicable contracts, as well as on the broad waivers and releases in take or pay settlements that were granted by the producer-sellers of natural gas who are putative class members.

(b) Environmental Matters.

Clean Air Standards. Based on current limitations of the Texas Natural Resource Conservation Commission regarding emission of oxides of nitrogen (NOx) in the Houston area, the Company anticipates investing up to $776 million for emission control equipment through 2006, including $472 million expended since 1999 through June 30, 2002, and potentially up to an additional $88 million by 2007.

The Texas electric restructuring law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements. Incurred costs include costs for which contractual obligations have been made. The Texas Utility Commission had determined that the Company's emission control plan is the most effective control option and that up to $699 million is eligible for cost recovery. In addition, the Company is

required to provide $16.2 million in funding for certain NOx reduction projects associated with East Texas pipeline companies. These funds are also eligible for cost recovery.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against REGT, Reliant Energy Pipeline Services, Inc., RERC Corp., Reliant Energy Services, other Reliant Energy entities and third parties (Docket No. 460, 916-Div. "B"), in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented five times. As of July 29, 2002, there were 649 plaintiffs, a majority of whom are Louisiana residents. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts. Additionally on April 4, 2002, two plaintiffs filed a separate suit with identical allegations against the same parties (Docket No. 465, 944-Div. "B") in the same court.

The suits allege that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer which lies beneath property owned or leased by certain of the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility." This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution. This site was originally leased and operated by predecessors of REGT in the late 1940s and was operated until Arkansas Louisiana Gas Company ceased operations of the plant in the late 1970s.

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of June 30, 2002, the Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

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

At June 30, 2002, RERC Corp. had accrued $23 million for remediation of the Minnesota sites. At June 30, 2002, the estimated range of possible remediation costs was $11 million to $49 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used.

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

Other Minnesota Matters. At June 30, 2002, RERC had recorded accruals of $5 million for other environmental matters in Minnesota for which remediation may be required. At June 30, 2002, the estimated range of possible remediation costs was $4 million to $8 million.

Mercury Contamination. The Company's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by the Company at some sites in the past, and the Company has conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by the Company and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, the Company believes that the costs of any remediation of these sites will not be material to the Company's financial position, results of operations or cash flows.

REMA Ash Disposal Site Closures and Site Contaminations. Under the agreement to acquire Reliant Energy Mid-Atlantic Power Holdings, LLC (REMA) (see Note 3(a) to the Reliant Energy 10-K/A Notes), the Company became responsible for liabilities associated with ash disposal site closures and site contamination at the acquired facilities in Pennsylvania and New Jersey prior to a plant closing, except for the first $6 million of remediation costs at the Seward Generating Station. A prior owner retained liabilities associated with the disposal of hazardous substances to off-site locations prior to November 24, 1999. As of June 30, 2002, REMA had liabilities associated with six future ash disposal site closures and six current site investigations and environmental remediations. The Company has recorded its estimate of these environmental liabilities in the amount of $33 million as of June 30, 2002. The Company expects approximately $14 million will be paid over the next five years.

REPGB Asbestos Abatement and Environmental Remediation. Prior to the Company's acquisition of REPGB (see Note 3(b) to the Reliant Energy 10-K/A Notes), REPGB had a $23 million obligation primarily related to asbestos abatement, as required by Dutch law, and soil remediation at six sites. During 2000, the Company initiated a review of potential environmental matters associated with REPGB's properties. REPGB began remediation in 2000 of the properties identified to have exposed asbestos and soil contamination, as required by Dutch law and the terms of some leasehold agreements with municipalities in which the contaminated properties are located. All remediation efforts are to be fully completed by 2005. As of June 30, 2002, the recorded undiscounted liability for this asbestos abatement and soil remediation was $20 million.

Orion Power Environmental Contingencies. In connection with Orion Power's acquisition of 70 hydroelectric plants in northern and central New York and four gas- or oil-fired plants in New York City, Orion Power assumed the liability for the cost of environmental remediation at several properties. Orion Power developed remediation plans for each of these properties and entered into Consent Orders with the New York State Department of Environmental Conservation at two New York City sites and one hydro site for releases of petroleum and other substances by the prior owners. The liability assumed and recorded by the Company for all New York assets was approximately $10 million which is expected to be paid out through 2006.

In connection with the acquisition of MidWest assets by Orion Power, Orion Power became responsible for the liability associated with the closure of three ash disposal sites in Pennsylvania. The liability assumed and recorded by the Company for these disposal sites was approximately $12 million, with $1 million to be paid over the next five years.

Other. From time to time the Company has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, the Company has been named as a defendant in litigation related to such sites and in recent years has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims 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.

(c) Other Legal and Environmental Matters.

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

(d) California Wholesale Market Uncertainty.

Receivables. During portions of 2000 and 2001, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreased net electric imports and limitations on supply as a result of maintenance and other outages. The resulting supply and demand imbalance disproportionately impacted California utilities that relied too heavily on short-term power markets to meet their load requirements. Although wholesale prices increased, California's deregulation legislation kept retail rates frozen at 10% below 1996 levels for two of California's public utilities, Pacific Gas and Electric (PG&E) and Southern California Edison Company (SCE), until rates were raised by the California Public Utilities Commission (CPUC) early in 2001.

Due to the disparity between wholesale and retail rates, the credit ratings of PG&E and SCE fell below investment grade. Additionally, PG&E filed for protection under the bankruptcy laws on April 6, 2001. As a result, PG&E and SCE are no longer considered creditworthy, and since January 17, 2001, have not directly purchased power from third-party suppliers through the Cal ISO to serve that portion of load that cannot be met from their own supply sources (net short load). Pursuant to emergency legislation enacted by the California Legislature, the CDWR has negotiated and purchased power through short- and long-term contracts and through real-time markets operated by the Cal ISO to serve the net short load requirements of PG&E and SCE. In December 2001, the CDWR began making payments to the Cal ISO for real-time transactions. On May 15, 2002, the FERC issued an order stating that sellers, including the Company, should receive interest payments on past due amounts owed by the Cal ISO and CDWR. The CDWR has now made payment through the Cal ISO for its real-time energy deliveries subsequent to January 17, 2001, although the Cal ISO's application of CDWR's payment for the month of January 2001, including the allocation of interest, which is subject of motions that the Company has filed with the FERC objecting to the Cal ISO's failure to allocate January payments and interest solely to post-January 17, 2001 transactions. In addition, Reliant Resources is prosecuting a lawsuit in California to recover the market value of forward contracts seized by California Governor Gray Davis in violation of the Federal Power Act. Governor Davis' actions prevented the liquidation of the contracts by the California Power Exchange (Cal PX) to satisfy the outstanding obligations of SCE and PG&E to wholesale suppliers, including Reliant Resources. The timing and ultimate resolution of this claim is uncertain at this time.

On September 20, 2001, PG&E filed a Plan of Reorganization and an accompanying disclosure statement with the bankruptcy court. Under this plan, PG&E would pay all allowed creditor claims in full, through a combination of cash and long-term notes. Components of the plan will require the approval of the FERC, the SEC and the Nuclear Energy Regulatory Commission, in addition to the bankruptcy court. PG&E has stated it seeks to have this plan confirmed by December 31, 2002. On April 24, 2002, the bankruptcy judge approved PG&E's disclosure statement. A number of parties are contesting PG&E's reorganization plan, including a number of California parties and agencies. The bankruptcy judge in the PG&E case has ordered that the CPUC may file a competing plan. The ability of PG&E to have its reorganization plan confirmed, including the provision providing for the payment in full of unsecured creditors, is uncertain at this time. The CPUC has filed a competing plan and disclosure statement. The CPUC's plan provides for payment of allowed creditor claims in full in cash. The CPUC disclosure statement was approved on May 15, 2002. The timing and probability of confirmation of either plan, including the provision for payment in full of all unsecured creditors, is uncertain at this time. Reliant Resources signed a stipulation with PG&E whereby it has agreed to vote for PG&E's reorganization plan and PG&E has agreed to pay amounts it indirectly owed to Reliant Resources subject to refunds ordered by the FERC. The stipulation does not preclude Reliant Resources from approving other reorganization plans, including the CPUC plan.

On October 5, 2001, a federal district court in California entered a stipulated judgment approving a settlement between SCE and the CPUC in an action brought by SCE regarding the recovery of its wholesale power costs under the filed rate doctrine. Under the stipulated judgment, a rate increase approved earlier in 2001 will remain in place until the earlier of SCE recovering $3.3

billion or December 31, 2002. After that date, the CPUC will review the

sufficiency of retail rates through December 31, 2005. A consumer organization has appealed the judgment to the Ninth Circuit Court of Appeals, and no hearing has been held to date. Under the stipulated judgment, any settlement with SCE's creditors that is entered into after March 1, 2002 must be approved by the CPUC. The Company has appealed this provision of the judgment. On March 1, 2002, SCE made a payment to the Cal PX that included amounts it owed Reliant Resources. Reliant Resources has made a filing with FERC seeking an order providing for the disbursement of the funds owed to the suppliers. The FERC and the bankruptcy court governing the Cal PX bankruptcy proceedings are considering how to dispense this money and it remains uncertain when those funds will be paid over to Reliant Resources.

As of December 31, 2001 and June 30, 2002, Reliant Resources was owed a total of $302 million and $239 million (net of refund provision), respectively, by the Cal ISO, the Cal PX, the CDWR, and California Energy Resources Scheduling for energy sales in the California wholesale market during the fourth quarter of 2000 through June 30, 2002. From June 30, 2002 through August 9, 2002, Reliant Resources has collected $1 million of these receivable balances. As of December 31, 2001, Reliant Resources had a pre-tax credit provision of $68 million against receivable balances related to energy sales in the California market. For the six months ended June 30, 2002, $38 million of a previously accrued credit provision for energy sales in California was reversed. The reversal resulted from collections of outstanding receivables during the period coupled with a determination that credit risk had been reduced on the remaining outstanding receivables as a result of payments in 2002 to the Cal PX and the reversal of $5 million of credit provision due to the write-off of receivables as a result of a May 15, 2002 FERC order discussed below. As of June 30, 2002, Reliant Resources had a remaining pre-tax credit provision of $30 million against these receivable balances. Management will continue to assess the collectability of these receivables based on further developments affecting the California electricity market and the market participants described herein.

FERC Market Mitigation. In response to the filing of a number of complaints challenging the level of wholesale prices, the FERC initiated a staff investigation and issued a number of orders implementing a series of wholesale market reforms. In these orders, the FERC also instituted a refund proceeding, described below, as a result of which Reliant Resources may face an as yet undetermined amount of refund liability. See "- FERC Refunds" below. Prior to adopting a methodology for calculating refunds in the refund proceeding, the FERC has identified, for the period January 1, 2001 through June 19, 2001, approximately $20 million of the $149 million charged by Reliant Resources for sales in California to the Cal ISO and the Cal PX as being subject to possible refunds. During the six months ended June 30, 2001, Reliant Resources accrued refunds of $15 million.

On April 26, 2001, the FERC issued an order replacing previous price review procedures and establishing a market monitoring and mitigation plan, effective May 29, 2001, for the California markets. The plan establishes a cap on prices during periods when power reserves fall below 7% in the Cal ISO (reserve deficiency periods). The Cal ISO was instructed to use data submitted confidentially by gas-fired generators in California and daily indices of natural gas to establish the proxy market-clearing price in real-time based on the marginal cost of the highest-cost generator called to run. The plan also requires generators in California to offer all their available capacity for sale in the real-time market, and conditions sellers' market-based rate authority such that prices charged by sellers engaging in certain bidding practices will be subject to increased scrutiny by the FERC, such sellers could face potential refunds and even revocation of their market-based rate authority. On June 19, 2001, the FERC issued an order modifying the market monitoring and mitigation plan adopted, effective on June 20, 2001 and extending until September 30, 2002, to apply price controls to all hours, instead of just hours of low operating reserve, and to extend the mitigation measures to other Western states in addition to California, including Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. The FERC set July 2, 2001 as the refund effective date for sales subject to the price mitigation plan throughout the West region. This means that transactions after that date may be subject to refund if they exceed the proxy market clearing price calculated under the June 19 order, during periods of reserve deficiency. In non-reserve deficiency hours in California, the maximum price in California and the other Western states will be capped at 85% of the highest Cal ISO hourly market clearing price established during the most recent reserve deficiency period. Effective July 11, 2002, the FERC modified the proxy market clearing price to establish a fixed price cap of $91.87/MWh. Sellers other than marketers will be allowed to bid higher than the capped price, but such bids are subject to justification and potential refund. Justification of higher prices is limited to demonstrating higher actual gas costs than the gas price index used in the proxy price calculation together with showing that conditions in natural gas markets changed significantly.

On December 19, 2001, the FERC issued additional orders on price mitigation in California and the West region. These orders largely maintained existing mitigation mechanisms, including the June 19, 2001 order's requirement that generators must offer all available capacity for sale in the real-time market. As a result of this requirement, Reliant Resources' opportunity to sell ancillary services in the West region is reduced. During 2001, Reliant Resources recorded $42 million in revenues related to ancillary services in the West region.

On May 15, 2002, the FERC issued several orders clarifying and modifying its mitigation measures. These orders removed the possibility that the Cal ISO would retroactively adjust mitigated market clearing prices for 2001 and provided the Cal ISO with further instructions for payment of minimum load costs owed to sellers complying with the must offer obligation.

On July 17, 2002, FERC issued an order directing short-term and longer-term redesign of the California wholesale electricity market. These new principles will replace the market mitigation measures discussed above. Effective October 1, 2002, the July 17 order imposes a $250/MWh bid cap in place of existing price controls, and implements automatic mitigation procedures that may be applied if a bid is in excess of $91.87/MWh, results in a 200% or $100/MWh increase above an as yet undetermined unit-specific reference level, and results in a 200% or $50/MWh increase in the market clearing price. A variation of this formula will be used to cap bids in congested areas. The order also approves new penalties for generators that operate outside of Cal ISO instructed quantities, and extends the requirement that generators offer all available supply into the California market, effective October 1, 2002. In addition, the July 17 order instructs that the Cal ISO develop a day-ahead market for implementation January 1, 2003, and that the Cal ISO and California market participants work to develop a capacity procurement system for implementation as soon as possible. Other long-term aspects of the redesign of the Cal ISO market remain open for consideration by FERC.

In a separate order issued July 17, 2002, FERC ordered that the current Cal ISO Board of Governors be disbanded and replaced with an independent Board by January 1, 2003. There are some indications that the Cal ISO Board will seek to stay the FERC's order or otherwise resist this instruction from FERC.

As noted above, the mitigation plan allows sellers, such as the Company, to justify prices above the proxy price. However, previous efforts by Reliant Resources to justify prices above the proxy price have been rejected by the FERC and there is no certainty that the FERC will allow for the recovery of costs above the proxy price.

FERC Refunds. The FERC issued an order on July 25, 2001 adopting a refund methodology and initiating a hearing schedule to determine (a) revised mitigated prices for each hour from October 2, 2000 through June 20, 2001; (b) the amount owed in refunds by each supplier according to the methodology (these amounts may be in addition to or in place of the refund amounts previously determined by the FERC); and (c) the amount currently owed to each supplier. The amounts of any refunds will be determined by the FERC after the conclusion of the hearing process which is scheduled to conclude in August 2002. On December 19, 2001, the FERC issued an order modifying the methodology to be used to determine refund amounts. The schedule currently anticipates that the Administrative Law Judge will make his refund amount recommendations to the FERC in October 2002. However, Reliant Resources does not know when the FERC will issue its final decision. Based on the FERC's May 15, 2002 order, Reliant Resources estimates its refund obligation to be $49 million to $79 million for energy sales in the West region. During the second quarter of 2002, Reliant Resources recorded an additional reserve for refunds of $34 million related to energy sales in the West region based on the May 15, 2002 order. As discussed above, $15 million was recognized in the second quarter of 2001. As of June 30, 2002, Reliant Resources' total reserve for refunds related to energy sales in the West region is $49 million. Refunds will likely be offset against unpaid amounts owed to Reliant Resources for its prior sales.

On November 20, 2001, the FERC instituted an investigation under Section 206 of the Federal Power Act regarding the tariffs of all sellers with market-based rates authority, including Reliant Resources. In this proceeding, the FERC proposes to condition the market-based rate authority of all sellers on their not engaging in anti-competitive behavior. Such condition would depend upon a further order from FERC establishing a refund effective date. This condition would allow the FERC, if it determines that a seller has engaged in anti-competitive behavior subsequent to the start of the refund effective period, to order refunds back to the date of such behavior. The FERC invited comments regarding this proposal, and Reliant Resources has filed comments in opposition to the proposal. On March 11, 2002, the FERC's Staff held a conference with market participants to discuss the comments FERC has received, and possible modification of the proposed conditions to address concerns raised in the comments while

protecting consumers against anticompetitive behavior. The timing of further action by FERC is uncertain, although the FERC has publicly indicated that it is considering modifications that would limit the scope and application of its original proposal. If the FERC does not modify or reject its proposed approach for dealing with anti-competitive behavior, the implementation of the refund obligation could effect Reliant Resources' future earnings.

On February 13, 2002, the FERC issued an order initiating a staff investigation into potential manipulation of electric and natural gas prices in the West region for the period January 1, 2000 forward. While this order does not propose any action against Reliant Resources, if the investigation results in findings that markets were dysfunctional during this period, those findings may be used in support of existing or future claims by the FERC or others that prices for sales in the West region after January 1, 2000 should be altered. As part of the investigation and in response to the disclosure of documents describing certain electricity trading strategies used by Enron Power Marketing, the FERC issued several requests for admissions and associated data to all sellers of wholesale electricity and ancillary services in the Cal ISO and Cal PX markets during the years 2000 through 2001, including Reliant Resources. The May 8, 2002 data request sought information concerning whether Reliant Resources and approximately 150 other sellers used the same or similar trading strategies and practices as described in the Enron documents. The May 21 data request sought information concerning whether Reliant Resources and approximately 150 other sellers engaged in "wash" or "round trip" sales of energy in the west. A May 22 data request sought the same information from sellers of wholesale natural gas regarding natural gas trades. The FERC has not yet publicly stated whether it may assert that any of these strategies and practices was impermissible under market rules in effect during the period in question. After reviewing records and conducting internal interviews, Reliant Resources responded to the data requests regarding the trading strategies and practices as described in the Enron documents. Reliant Resources also responded to FERC's data requests regarding round trip electricity and natural gas trades, including the identification of a round trip electricity trade responsive to the FERC's data request. Reliant Resources has provided similar information to the California Senate Select Committee for its investigation of price manipulation of the wholesale energy market.

The above-described lawsuits and proceedings regarding California electricity sales are currently the subject of intense, highly-charged media and political attention. Their ultimate outcome cannot be predicted at this time.

Other Investigations. In addition to the FERC investigation discussed above, several state and other federal regulatory investigations and complaints have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action. In California, the California State Senate and the California Office of the Attorney General have separate ongoing investigations into the high prices and their causes. Although these investigations have not been completed and no findings have been made in connection with either of them, the California Attorney General has filed a civil lawsuit in San Francisco Superior Court alleging that the Company has violated state laws against unfair and unlawful business practices and a complaint with the FERC alleging the Company violated the terms of its tariff with the FERC (see Note 13(a)). Adverse findings or rulings could result in punitive legislation, sanctions, fines or even criminal charges against Reliant Resources or its employees. Reliant Resources is cooperating with both investigations and has produced a substantial amount of information requested in subpoenas issued by each body. The Washington and Oregon attorneys general have also begun similar investigations.

Legislative Efforts. Since the inception of the California energy crisis, various pieces of legislation, including tax proposals, have been introduced in the U.S. Congress and the California Legislature addressing several issues related to the increase in wholesale power prices in 2000 and 2001. For example, a bill was introduced in the California legislature that would have created a "windfall profits" tax on wholesale electricity sales and would subject exempt wholesale generators, such as Reliant Resources' subsidiaries that own generation facilities in California, to regulation by the CPUC as "public utilities." To date, only a few energy-related bills have passed, such as the recently enacted plant inspection law, which would empower the CPUC to monitor activities of Reliant Resources' generating plants. Reliant Resources believes this bill is vulnerable to challenge based on the preemptive effect of the Federal Power Act. Reliant Resources does not believe that this or other legislation that has been enacted to date will have a material adverse effect on Reliant Resources. However, it is possible that legislation could be enacted on either the state or federal level that could have a material adverse effect on Reliant Resources' financial condition, results of operations and cash flows.

(e) Dutch Stranded Costs.

Background. In January 2001, the Dutch Electricity Production Sector Transitional Arrangements Act (Transition Act) became effective. Among other things, the Transition Act allocated to REPGB and the three other large-scale Dutch generation companies, a share of the assets, liabilities and stranded cost commitments of NEA. Prior to the enactment of the Transition Act, NEA acted as the national electricity pooling and coordinating body for the generation output of REPGB and the three other large-scale national Dutch generation companies. REPGB and the three other large-scale Dutch generation companies are shareholders of NEA.

The Transition Act and related agreements specify that REPGB has a 22.5% share of NEA's assets, liabilities and stranded cost commitments. NEA's stranded cost commitments consisted primarily of various uneconomical or stranded cost investments and commitments, including a gas supply contract, three power contracts entered into prior to the liberalization of the Dutch wholesale electricity market and a contract relating to the construction of an interconnection cable between Norway and the Netherlands subject to a long-term power exchange agreement (PEA) (the "NorNed Project"). REPGB's stranded cost obligations also include uneconomical district heating contracts which were previously administrated by NEA prior to deregulation of the Dutch power market.

In January 2001, NEA assigned to REPGB a 22.5% interest in the stranded cost contracts, including the gas supply contract, which expires in 2016, and provides for gas imports aggregating 2.283 billion cubic meters per year. During December 2001, one of the stranded power contracts was settled. In May 2002, NEA amended the two remaining long-term power contracts in order to bring them to market-conforming terms and, in connection with these amendments, assigned the contracts to NEA's shareholders. The district heating obligations related to three water heating supply contracts entered into with various municipalities expiring from 2008 through 2015. Under the district heating contracts, the municipal districts are required to take annually a combined minimum of 5,549 terajoules (TJ) increasing annually to 7,955 TJ over the life of the contracts.

The Transition Act provided that, subject to the approval of the European Commission, the Dutch government will provide financial compensation to the Dutch generation companies, including REPGB, for liabilities associated with long-term district heating contracts. In July 2001, the European Commission ruled that under certain conditions the Dutch government can provide financial compensation to the generation companies for the district heating contracts. To the extent that this compensation is not ultimately provided to the generation companies by the Dutch government, REPGB is entitled to claim compensation directly from the former shareholders as further discussed below.

Settlement of Stranded Cost Indemnification Agreement. Until December 2001, the former shareholders were obligated to indemnify REPGB for up to NLG 1.9 billion of its share of NEA's stranded cost liabilities. In December 2001, REPGB and its former shareholders agreed to settle the indemnity obligations of the former shareholders in so far as they related to NEA's stranded cost gas supply and power contracts and other obligations of NEA (excluding district heating).

Under the settlement agreement, the former shareholders paid REPGB NLG 500 million ($202 million) in the first quarter of 2002. REPGB deposited the settlement payment into an escrow account, withdrawals from which are at the discretion of REPGB for use in discharging stranded cost obligations related to the gas and electric import contracts. As of June 30, 2002, the escrow funds equaled $65 million, of which $2 million and $63 million were recorded in restricted cash and long-term assets, respectively. Any remaining funds as of January 1, 2004 will be distributed to REPGB.

Under the settlement agreement, the former shareholders continue to be under an obligation to indemnify REPGB for certain district heating contracts. Under the terms of the indemnity, REPGB can elect between two forms of indemnification within 21 days after the date that the Ministry of Economic Affairs of the Netherlands publishes regulations for compensation of stranded costs associated with district heating projects. If the compensation to be paid by the Netherlands under these rules is at least as much as the compensation to be paid under the original indemnification agreement, REPGB can elect to receive a one-time payment of NLG 60 million ($24 million). In addition, unless the decree implementing the new compensation rules provides for compensation for the lifetime of the district heating projects, REPGB can receive an additional cash payment of NLG 15 million ($6 million). If the compensation rules do not provide for compensation at least equal to that provided under the original indemnification agreement, REPGB can claim indemnification for stranded cost losses up to a maximum of NLG 700 million ($282 million) less the amount of compensation provided by the new compensation rules and certain proceeds received from arbitrations. If no new compensation rules have taken effect on or prior to December 31, 2003, REPGB is entitled, but not obligated, to elect to receive indemnification under the formula described above. As of August 9, 2002,

the Ministry of Economic Affairs had not published its compensation rules. Based on current assumptions, it is not anticipated that such rules will be published until, at the earliest, the fourth quarter of 2002.

Prior to the settlement agreement, pursuant to the purchase agreement of REPGB, as amended, REPGB was entitled to a NLG 125 million (approximately $51 million) dividend from NEA with any remainder owing to the former shareholders. Under the settlement agreement, the former shareholders waived all rights to distributions of NEA.

As a result of this settlement, the Company recognized in the fourth quarter of 2001 a net gain of $37 million for the difference between the sum of (a) the cash settlement payment of $202 million and the additional rights to claim distributions of the NEA investment recognized of $248 million and (b) the amount recorded as stranded cost indemnity receivable related to the stranded cost gas and electric commitments of $369 million and claims receivable related to stranded costs incurred in 2001 of $44 million, both previously recorded in the Company's Consolidated Balance Sheet.

Amendments to Stranded Cost Electricity Import Contracts. In May 2002, NEA and its four shareholders (including REPGB) entered into agreements amending the terms of the two remaining power supply agreements (Settlement Agreements). These two contracts provide for the following capacities and terms: (a) 300 MW through 2003, and (b) 600 MW through March 2002, increasing to 750 MW through March 2009.

Under the terms of the Settlement Agreements, NEA paid the counterparties a net aggregate payment of Euro 485 million, approximately $446 million (the Settlement Payment) (of which REPGB's proportionate share as a NEA shareholder was Euro 109 million, approximately $100 million). In July 2002, REPGB paid its share of the Settlement Payment with funds from the stranded cost indemnity escrow account, as discussed above. In exchange for its portion of the Settlement Payment, the counterparties to the power contracts replaced the existing terms with a market-based electricity price index for comparable electricity products in addition to other changes.

As a result of the Settlement Agreements, in the second quarter of 2002, the Company recognized a pre-tax net gain of $109 million for the difference between (a) the fair values of the original power contracts ($203 million net liability previously recorded in non-trading derivative liabilities) and the fair values of the amended power contracts ($6 million net asset recorded in trading and marketing assets) and (b) the Settlement Payment of $100 million, as described above. The pre-tax net gain of $109 million was recorded as a reduction of purchased power expense in the Statement of Consolidated Income in the second quarter of 2002. In the future, these two power trading contracts will be marked-to-market as a part of the Company's energy trading activities.

Separately, in May 2002, following the execution of the Settlement Agreements, NEA declared a Euro 625 million, approximately $619 million, cash dividend to its shareholders, which was paid on July 1, 2002. REPGB's share of the dividend was Euro 141 million, approximately $139 million. As of June 30, 2002, the dividend receivable from NEA was recorded in other current assets in the Company's Consolidated Balance Sheet.

Remaining Liability for Original Stranded Costs. In January 2001, the Company recognized an out-of-market, net stranded cost liability for its gas and electric import contracts and district heating commitments. At such time, the Company recorded a corresponding asset of equal amount for the indemnification of this obligation from REPGB's former shareholders and the Dutch government, as applicable. As of December 31, 2001, the Company has recorded a liability of $369 million for its stranded cost gas and electric commitments in non-trading derivative liabilities and a liability of $206 million for its district heating commitments in current and non-current other liabilities. As of June 30, 2002, the Company has recorded a liability of $155 million for its stranded cost gas contract in non-trading derivative liabilities, an asset of $7 million for its amended power contracts in trading and marketing assets, and a liability of $229 million for its district heating commitments in current and non-current other

liabilities. As of December 31, 2001 and June 30, 2002, the Company has recorded an indemnification receivable for the district heating stranded cost liability of $206 million and $229 million, respectively.

Pursuant to SFAS No. 133, the Company marks-to-market the stranded cost gas contract (see Note 4). Prior to the amendments to the remaining power contracts, pursuant to SFAS No. 133, the power contracts were marked-to-market. Subsequent to amending the remaining power contracts, the power contracts are marked-to-market as a part of the Company's energy trading activities. Pursuant to SFAS No. 133, during the three and six months ended June 30, 2002, the Company recognized a $3 million loss and net $16 million gain, respectively, recorded in fuel expense related to changes in the valuation of the stranded cost contracts, excluding the effects of the gain related to amending the two power contracts discussed above.

NorNed Project. NEA entered into commitments with certain Norwegian counterparties (the Norwegian Counterparties) for the construction of a grid interconnector cable between the Netherlands and Norway, subject to the operation of a bi-directional, long-term (25 years in duration) PEA. The PEA contemplates, among other terms, exclusive use and cost free access to the cable by NEA and the Norwegian counterparties. The PEA is subject to, among other things, clearance by the European Commission and the Dutch regulatory authorities of the terms and conditions of the PEA. In 2001, NEA and the Norwegian counterparties filed a notification request regarding the PEA with the European Commission. It is not expected that the European Commission will respond to the notification request until the third quarter of 2003. Under the Transition Act, NEA is entitled to recover the cable construction costs from TenneT, the Netherlands grid operator. However, at this early stage it is not entirely clear how NEA will receive the transport tariff funds intended to recover the construction costs of the cable, and whether the ultimate transport tariff rate approved by the Dutch power regulation (Dte) will be sufficient to cover the ultimate construction costs. However, assuming that the Transition Act is fully implemented with respect to this matter, REPGB believes that NEA will ultimately recover the full cost of the cable.

For additional information regarding the indemnification and settlement of stranded costs, see Note 14(h) to the Reliant Energy 10-K/A Notes.

Investment in NEA. During the second quarter of 2001, the Company recorded a $51 million pre-tax gain (NLG 125 million) recorded as equity income for the preacquisition gain contingency related to the acquisition of REPGB for the value of its equity investment in NEA. This gain was based on the Company's evaluation of NEA's financial position and fair value. The fair value of the Company's investment in NEA is dependent upon the ultimate resolution of its existing contingencies and proceeds received from liquidating its remaining net assets. Prior to the settlement agreement discussed above, pursuant to the purchase agreement of REPGB, as amended, REPGB was entitled to a NLG 125 million dividend from NEA with any remainder owing to the former shareholders.

(f) Construction Agency Agreements and Equipment Financing Structure.

In 2001, Reliant Resources, through several of its subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power generation projects. The special purpose entities are not consolidated by the Company. As a result of the decision to cancel one of the projects, the commitments were reallocated in June 2002 so that the special purpose entities now have an aggregate financing commitment from equity and debt participants (Investors) of $1.9 billion of which the last $515 million is currently available only if cash collaterized. The availability of the commitment is subject to satisfaction of various conditions, including the obligation to provide cash collateral for the loans and letters of credit outstanding on November 29, 2004. Reliant Resources, through several of its subsidiaries, acts as construction agent for the special purpose entities and is responsible for completing construction of these projects by December 31, 2004, but Reliant Resources has generally limited its risk during construction to an amount not in excess of 89.9% of costs incurred to date, except in certain events. Upon completion of an individual project and exercise of the lease option, Reliant Resources' subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If Reliant Resources does not exercise its option to lease any project upon its completion, Reliant Resources must purchase the project or remarket the project on behalf of the special purpose entities. Reliant Resources' ability to exercise the lease option is subject to certain conditions. Reliant Resources must guarantee that the Investors will receive an amount at least equal to 89.9% of their investment in the case of a remarketing sale at the end of construction. At the end of an individual project's initial operating lease term (approximately five years from construction completion), Reliant Resources' subsidiary lessees have the option to extend the lease with the

approval of Investors, purchase the project at a fixed amount equal to the original construction cost, or act as a remarketing agent and sell the project to an independent third party. If the lessees elect the remarketing option, they may be required to make a payment of an amount not to exceed 85% of the project cost, if the proceeds from remarketing are not sufficient to repay the Investors. Reliant Resources has guaranteed the performance and payment of its subsidiaries' obligations during the construction periods and, if the lease option is exercised, each lessee's obligations during the lease period. At any time during the construction period or during the lease, Reliant Resources may purchase a facility by paying an amount approximately equal to the outstanding balance plus costs. As of June 30, 2002, the special purpose entities had property, plant and equipment of $1.0 billion, net other assets of $90 million and debt obligations of $1.1 billion. As of June 30, 2002, the special purpose entities had equity from unaffiliated third parties of $40 million.

Reliant Resources, through its subsidiary, REPG, has entered into an agreement with a bank whereby the bank, as owner, entered or will enter into contracts for the purchase and construction of power generation equipment and REPG, or its subagent, acts as the bank's agent in connection with administering the contracts for such equipment. Under the agreement, the bank has agreed to provide up to a maximum aggregate amount of $650 million. REPG and its subagents must cash collateralize their obligation to administer the contracts. This cash collateral is approximately equivalent to the total payments by the bank for the equipment, interest and other fees. As of June 30, 2002, the bank had assumed contracts for the purchase of three turbines, and two heat recovery steam generators with an aggregate cost of $121 million. REPG, or its designee, has the option at any time to purchase, or, at equipment completion, subject to certain conditions, including the agreement of the bank to extend financing, to lease the equipment, or to assist in the remarketing of the equipment under terms specified in the agreement. All costs, including the purchase commitment on the turbines, are the responsibility of the bank. The cash collateral is deposited by REPG or the subagent into a collateral account with the bank and earns interest at LIBOR less 0.15%. Under certain circumstances, the collateral deposit or a portion of it, will be returned to REPG or its designee. Otherwise, it will be retained by the bank. At December 31, 2001 and June 30, 2002, REPG and/or its subagent had deposits of $230 million and $92 million, respectively, in the collateral account. In May 2002, REPG was assigned and exercised a purchase option for a contract for an air cooled condenser totaling $20 million under which payments and interest during construction totaling $8 million had been made. REPG used $8 million of its collateral deposits to complete the purchase. After the purchase, REPG canceled the contract and paid a cancellation payment of $1.7 million to the manufacturer. In January 2002, the bank sold to the parties to the construction agency agreements discussed above, equipment contracts with a total contractual obligation of $258 million, under which payments and interest during construction totaled $142 million. Accordingly, $142 million of collateral deposits were returned to Reliant Resources. While the remaining equipment is not designated for current planned power generation construction projects, Reliant Resources believes the equipment will be used in future projects. Therefore, Reliant Resources anticipates that it will purchase the equipment, but can also assist in the remarketing of the equipment or negotiate to cancel the related contracts.

(g) REMA Sale/Leaseback Transactions.

In August 2000, subsidiaries of Reliant Resources entered into separate sale/leaseback transactions with each of the three owner-lessors for the Company's respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, which Reliant Resources acquired in the REMA acquisition. The lease documents contain some restrictive covenants that restrict REMA's ability to, among other things, make dividend distributions unless REMA satisfies various conditions. As of June 30, 2002, these various conditions were satisfied by REMA. As of December 31, 2001, REMA had $167 million of restricted funds that were available for REMA's working capital needs and to make future lease payments. For additional discussion of these lease transactions, please read Notes 3(a) and 14(b) to the Reliant Energy 10-K/A Notes.

(h) Nuclear Insurance.

The Company has a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), which consists of two 1,250 MW nuclear generating units and bears a corresponding 30.8% share of capital and operating costs associated with the project. 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 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.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $9.3 billion as of June 30, 2002. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. 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 under which the owners of the South Texas Project are subject to maximum retrospective assessments in the aggregate per incident of up to $88 million per reactor. The owners are jointly and severally liable at a rate not to exceed $10 million per incident per year.

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.

(i) Nuclear Decommissioning.

The Company contributed $14.8 million in 2001 to trusts established to fund its share of the decommissioning costs for the South Texas Project. Pursuant to an October 3, 2001 Order from the Texas Utility Commission, beginning in 2002, the Company will contribute $2.9 million per year to these trusts. There are various investment restrictions imposed upon the Company by the Texas Utility Commission and the Nuclear Regulatory Commission (NRC) relating to the Company's nuclear decommissioning trusts. Additionally, the Company's board of directors has appointed the Nuclear Decommissioning Trust Investment Committee to establish the investment policy of the trusts and oversee the investment of the trusts' assets. The securities held by the trusts for decommissioning costs had an estimated fair value of $169 million as of June 30, 2002, of which approximately 45% were fixed-rate debt securities and the remaining 55% were equity securities. For a discussion of the accounting treatment for the securities held in the Company's nuclear decommissioning trusts, see Note 2(l) to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference. In July 1999, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $363 million. While the current funding levels 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 Texas electric restructuring law, 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 charge to transmission and distribution customers.

Pursuant to the terms of the master separation agreement between the Company and Reliant Resources and the applicable NRC regulations, the responsibility for the decommissioning trusts will transfer to Texas Genco at the time of the Restructuring. The Electric Transmission and Distribution business segment will continue to collect charges relating to decommissioning funding from customers and to transmit the amounts collected to Texas Genco for deposit into the decommissioning trusts.

(14) REPORTABLE BUSINESS SEGMENTS

The Company's determination of reportable business segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. The Company has identified the following reportable business segments: Electric Transmission and Distribution, Electric Generation, Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy, European Energy, Retail Energy and Other Operations. Effective with the deregulation of the Texas electric industry beginning January 1, 2002, the basis of business segment reporting has changed for the Company's electric operations. Although the Company's retail sales are now conducted by Reliant Resources, retail customers remained regulated customers of Reliant Energy HL&P through the date of their first meter reading in January 2002. Sales of electricity in 2002 prior to such meter reading are reflected in the Electric Transmission and Distribution business segment. The Texas generation operations of Reliant Energy's former integrated utility, Reliant Energy HL&P, are now a separate reportable business segment, whereas they previously had been part of the Electric Operations business segment. The remaining transmission and distribution function is now reported separately in the Electric Transmission and Distribution business segment, which also

includes all impacts from generation-related regulatory assets recoverable by the regulated utility, including the ECOM true-up component of stranded costs. In 2001, Latin America was a separate business segment, but is now reported in the Other Operations business segment beginning in 2002. Reportable business segments from 2001 have been restated to conform to the 2002 presentation. Note that estimates have been used to separate historical, pre-January 1, 2002, Electric Generation business segment data from the Electric Transmission and Distribution segment (see notes to the following tables). For descriptions of these reportable business segments, see Note 1 to the Reliant Energy 10-K/A Notes.

Beginning in the first quarter of 2002, the Company began to evaluate business segment performance on an earnings (loss) before interest expense, minority interest and income taxes (EBIT) basis. Prior to 2002, the Company evaluated performance based upon operating income. EBIT, as defined, is shown because it is a widely accepted measure of financial performance used by analysts and investors to analyze and compare companies on the basis of operating performance. EBIT is not defined under accounting principles generally accepted in the United States of America (GAAP), and should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with GAAP and is not indicative of operating income from operations as determined under GAAP. Additionally, the Company's computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion.

Financial data for the reportable business segments are as follows:

	FOR THE THREE MONTHS ENDED JUNE 30, 2001		
	NET REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	EBIT
	(IN MILLIONS)		
Electric Transmission and Distribution (2)	$ 1,523	$ --	$ 271
Electric Generation (2)	--	957	83
Natural Gas Distribution	856	32	(41)
Pipelines and Gathering	50	46	34
Wholesale Energy	7,534	126	298
European Energy	276	--	62
Retail Energy (3)	25	11	(2)
Other Operations	28	1	(24)
Eliminations/Other	--	(1,173)	17
Consolidated	$ 10,292	$ --	$ 698

	FOR THE THREE MONTHS ENDED JUNE 30, 2002		
	NET REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	EBIT
	(IN MILLIONS)		
Electric Transmission and Distribution (1)	$ 352	$ 186	$ 277
Electric Generation (2)	100	314	(26)
Natural Gas Distribution	779	18	14
Pipelines and Gathering	61	41	41
Wholesale Energy	6,430	65	31
European Energy	641	--	105
Retail Energy (3)	1,420	5	205
Other Operations	7	--	(15)
Eliminations/Other	--	(629)	2
Consolidated	$ 9,790	$ --	$ 634

	FOR THE SIX MONTHS ENDED JUNE 30, 2001			AS OF DECEMBER 31, 2001
	NET REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	EBIT	TOTAL ASSETS
	(IN MILLIONS)			
Electric Transmission and Distribution (2)	$ 2,913	$ --	$ 441	$ 7,689
Electric Generation (2)	--	1,933	112	4,323
Natural Gas Distribution	3,125	86	96	3,732
Pipelines and Gathering	125	101	73	2,361
Wholesale Energy	15,585	435	527	8,290
European Energy	524	--	83	3,380
Retail Energy (3)	39	24	(5)	391
Other Operations	58	1	(155)	1,485
Eliminations/Other	--	(2,580)	26	(941)
Consolidated	$ 22,369	$ --	$ 1,198	$ 30,710

	FOR THE SIX MONTHS ENDED JUNE 30, 2002			AS OF JUNE 30, 2002
	NET REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	EBIT	TOTAL ASSETS
	(IN MILLIONS)			
Electric Transmission and Distribution (1)	$ 755	$ 366	$ 536	$ 8,278
Electric Generation (2)	195	544	(78)	4,631
Natural Gas Distribution	1,957	20	124	3,476
Pipelines and Gathering	112	82	79	2,371
Wholesale Energy	11,837	172	145	14,195
European Energy	1,176	--	123	3,561
Retail Energy (3)	2,392	12	254	1,754
Other Operations	10	--	(28)	1,879
Eliminations/Other	--	(1,196)	2	(1,941)
Consolidated	$ 18,434	$ --	$ 1,157	$ 38,204

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(1) Retail customers remained regulated customers of Reliant Energy HL&P, an unincorporated division of the Company, through the date of their first meter reading in January 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission and Distribution business segment.

(2) For 2001, revenues were derived based on an allowed regulatory rate of return on invested capital with Reliant Energy HL&P being the sole customer of the Electric Generation business segment. Expenses, such as fuel and cost of gas sold, operations and maintenance and depreciation and amortization, and assets, such as property, plant and equipment and inventory, were specifically identified by function and reported accordingly. Various allocations were used to disaggregate other common expenses, assets and liabilities between the Electric Generation and the Electric Transmission and Distribution business segments. Interest expense was calculated based upon an allocation methodology that charged the Electric Generation business segment with financing and equity costs from Reliant Energy in proportion to its share of total net assets prior to the effects of deregulation. For 2002, the Electric Generation business segment's operations reflect market prices for power established by capacity auctions.

(3) Reliant Resources' Retail Energy business segment became a provider of retail electricity in Texas when that market began opening to retail competition in late 2001 and fully opened to retail competition in January 2002. As a retail electric provider, Reliant Resources' Retail Energy business segment generally procures or buys electricity from wholesale generators at unregulated rates, sells electricity at generally unregulated rates to retail customers and pays the local transmission and distribution regulated utilities a

regulated tariff rate for delivering electricity. In January 2002, Reliant Resources' Retail Energy business segment began to provide retail electric services to all of the approximately 1.7 million customers of Reliant Energy HL&P's electric utility located in its service area who did not take action to select another retail electric provider.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating income	$ 610	$ 621	$ 1,069	$ 1,138
Unrealized gain (loss) on AOL Time Warner investment	331	(230)	468	(448)
Unrealized (loss) gain on indexed debt securities	(329)	219	(464)	422
Income from equity investment of unconsolidated subsidiaries	52	5	64	9
Other income, net	34	19	61	36
EBIT	698	634	1,198	1,157
Interest expense	(150)	(205)	(328)	(359)
Distribution on trust preferred securities	(14)	(14)	(28)	(28)
Minority interest	(35)	(31)	(34)	(47)
Income before income taxes and cumulative effect of accounting change	499	384	808	723
Income tax expense	(183)	(148)	(291)	(262)
Cumulative effect of accounting change	--	--	61	--
Net income attributable to common stockholders	$ 316	$ 236	$ 578	$ 461

(15) SUBSEQUENT EVENTS

(a) Exchange of Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS).

From July 1, 2002 through August 9, 2002, holders of approximately 12% of the ZENS outstanding exercised their right to exchange their ZENS for cash, resulting in aggregate cash payments by Reliant Energy of $33 million. Holders of ZENS submitted for exchange are entitled to receive a cash payment equal to 95% of the market value of the reference shares of AOL Time Warner common stock. There are 1.5 reference shares of AOL Time Warner common stock for each of the 17.2 million ZENS units originally issued. The exchange market value is calculated using the average closing price per share of AOL Time Warner common stock on the New York Stock Exchange on one or more trading days following the notice date. Payment must be made no later than ten trading days following the notice date. The Company recorded a gain of $9 million related to the liquidation of the AOL Time Warner common stock.

A subsidiary of Reliant Energy owns the reference shares of AOL Time Warner common stock and has elected to liquidate such holdings in an amount sufficient to make the cash payments. In connection with exchanges through August 9, 2002, Reliant Energy received net proceeds of $31 million from the liquidation of 3.1 million shares of AOL Time Warner common stock at an average price of $10 per share.

(b) Sale of Receivables.

In July 2002, Reliant Resources entered into an arrangement (Receivables Facility) with a financial institution to sell an undivided interest in accounts receivable from residential and small commercial retail electric customers under which, on an ongoing basis, a maximum of $250 million can be sold from a designated pool. The term of the Receivables Facility is one year and may be renewed at Reliant Resources' option and the option of the financial institutions participating in the Receivables Facility. Reliant Resources received net proceeds in an initial amount of $230 million. The amount of funding available to Reliant Resources under the Receivables Facility will fluctuate based on the amount of receivables available. The Receivables Facility may be increased to an amount greater than $250 million on a seasonal basis,

subject to the availability of receivables and approval by the participating financial institutions. Pursuant to the Receivables Facility, Reliant Resources formed a qualified special purpose entity

(QSPE), a bankruptcy remote subsidiary. The QSPE was formed for the sole purpose of buying and selling receivables generated by Reliant Resources. Reliant Resources, irrevocably and without recourse, will transfer receivables to the QSPE. The QSPE, in turn, will sell an undivided interest in these receivables to the participating financial institutions. Reliant Resources is not ultimately liable for any failure of payment of the obligors on the receivables. Reliant Resources has, however, guaranteed the obligations of the sellers and the servicer of the receivables under the related documents.

The two-step transaction is accounted for as a sale of receivables under the provisions of SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS No. 140), and, as a result, the related receivables will be excluded from the Consolidated Balance Sheet. Costs associated with the sale of receivables, primarily the discount and loss on sale, will be included in other expense in the Statement of Consolidated Income.

(c) Refinancing of Certain REPGB Debt.

During July 2002, REPGB renewed its 364-day revolving credit facility for another year. The term of this facility is now scheduled to expire in July 2003. The amount of the credit facility was reduced from Euro 250 million (approximately $248 million) to Euro 184 million (approximately $182 million). An option was added that permits REPGB to utilize up to Euro 100 million of the facility for letters of credit. The revolving credit facility bears interest at the rate of EURIBOR plus a margin, depending on REPGB's credit rating. As of August 9, 2002, the facility bears interest at an annual rate of 4.77%. The credit facility contains certain covenants and negative pledges that must be met by REPGB to borrow funds or obtain letters of credit, that require REPGB to, among other things, maintain a ratio of net balance sheet debt to the sum of net balance sheet debt and total equity of 0.60 to 1.00. These covenants are not anticipated to materially restrict Reliant Resources from borrowing funds or obtaining letters of credit, as applicable, under this facility.

(d) Credit Ratings.

Reliant Energy (to become CenterPoint Energy subsequent to the Restructuring)

On July 31, 2002, Moody's downgraded the senior unsecured long-term debt ratings of Reliant Energy and Reliant Energy FinanceCo II LP to Baa2 from Baa1 and left the securities on review for a potential downgrade. Moody's placed the long-term and short-term ratings of Reliant Energy and RERC Corp. on review for potential downgrade.

On July 31, 2002, S&P affirmed the corporate credit rating of Reliant Energy as BBB+ in anticipation that it will spin off its ownership interest of Reliant Resources by late September 2002.

Consistent with the expected ratings announced February 8, 2001, Fitch downgraded the long-term ratings of Reliant Energy and RERC Corp. on July 18, 2002. The senior unsecured long-term debt ratings of Reliant Energy and RERC Corp. are now BBB- and BBB, respectively. A negative outlook was also announced.

Reliant Energy cannot assure that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered again. Reliant Energy notes that these credit ratings are not recommendations to buy, sell or hold its securities and may be revised or withdrawn at any time by such rating agency. Each rating should be evaluated independently of any other rating. Any future incremental reduction or withdrawal of one or more of Reliant Energy's credit ratings could have a material adverse impact on its ability to access capital on acceptable terms, including its ability to refinance debt obligations as they mature.

Should Reliant Energy's credit ratings fall below investment grade, Reliant Energy expects that any credit support required of it by its commercial and industrial trading counterparties would not be material.

Reliant Resources (unregulated businesses)

Credit ratings impact Reliant Resources' ability to obtain short- and long-term financing, the cost of such financing and the execution of its commercial strategies. As of August 9, 2002, Reliant Resources' credit ratings for its senior unsecured debt were as follows:

DATE
ASSIGNED
RATING
AGENCY
RATING - --

-- ------
July 31,

2002 Moody's (1) Ba3, review for potential downgrade August 7, 2002 Fitch (2) BBB-, rating watch negative July 31, 2002 Standard & Poor's (3) BBB-, credit watch with negative implications

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(1) On July 31, 2002, Moody's downgraded the issuer rating and bank loan ratings assigned to Reliant Resources to Ba3 from Baa3 and assigned a senior implied rating of Ba3. Moody's stated in its press release that Reliant Resources' downgrade reflects Moody's view that Reliant Resources' cash flow from operations is unpredictable relative to Reliant Resources' debt load and Reliant Resources' financial flexibility is limited. Going forward, the review for downgrade will focus on: 1) the

timing for stabilization of cash flow in Reliant Resources' Wholesale Energy business segment; 2) Reliant Resources' ability to refinance its bank debt and the terms of such refinancings; 3) the resolution of various government investigations into trading improprieties, including round trip trades; and 4) Reliant Resources' ability to execute its business plan including the implementation of cost cutting measures.

(2) On August 7, 2002, Fitch downgraded Reliant Resources' senior unsecured debt rating to BBB- from BBB. The ratings remain on rating watch negative. The rating action reflects Reliant Resources' reduced financial flexibility and the substantial debt refinancing burden Reliant Resources faces over the next several months.

(3) On July 31, 2002, S&P lowered Reliant Resources' corporate credit ratings and those of its rated subsidiaries to BBB- from BBB. The ratings remain on credit watch with negative implications. S&P stated in its press release that the ratings action reflects Reliant Resources' downgrade by another rating agency to non-investment grade, and the increased collateral calls that will be triggered by this action.

Reliant Resources cannot assure that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered again. Reliant Resources notes that these credit ratings are not recommendations to buy, sell or hold its securities and may be revised or withdrawn at any time by such rating agency. Each rating should be evaluated independently of any other rating. Any future incremental reduction or withdrawal of one or more of Reliant Resources' credit ratings could have an additional material adverse impact on its ability to access capital on acceptable terms, including its ability to refinance debt obligations as they mature. Reliant Resources' financial and operational flexibility is likely to be reduced as a result of more restrictive covenants, the requirement for security and other terms that are typically imposed on split-rated or sub-investment grade borrowers.

Reliant Resources has commercial arrangements that have been adversely impacted by its recent downgrade to sub-investment grade by Moody's. Reliant Resources also has numerous commercial arrangements that would be further adversely impacted in the event of any downgrades to sub-investment grade by Fitch or Standard & Poor's. These commercial arrangements primarily include: (a) commercial contracts and/or guarantees related to Reliant Resources' wholesale and retail trading, marketing, risk management and hedging activities; (b) certain Texas Utility Commission requirements related to the credit strength of retail electric providers in the State of Texas; and (c) surety bonds and contractual obligations related to the development and construction or refurbishment of power plants and related facilities.

In most cases, the consequences of ratings downgrades are limited to the requirement by Reliant Resources' counterparties that Reliant Resources provides credit support to the counterparties in the form of a pledge of cash collateral, a letter of credit or other similar credit support. In some instances, if Reliant Resources' credit ratings decline below certain credit rating thresholds, its trading partners and other commercial counterparties may refuse to trade with Reliant Resources or trade only on terms less favorable to them. In addition, certain of Reliant Resources' retail electricity contracts with large commercial, industrial and institutional customers of the Retail Energy business segment provide the customers the ability to terminate their contract early if Reliant Resources' unsecured debt ratings fall below investment grade or if its investment grade ratings are withdrawn entirely by a rating agency.

Reliant Resources is working with its various commercial counterparties so as to minimize their possible demands for credit support and in order to minimize the disruption to Reliant Resources' normal commercial activities. In addition, Reliant Resources has been working with many counterparties to reduce the magnitude of the collateral they must post in support of its obligations to such counterparties.

As of August 9, 2002, Reliant Resources has posted cash collateral and letters of credit in support of various obligations in the amount of $263 million and $350 million, respectively. These relate primarily to commercial activities in Reliant Resources' Wholesale and Retail businesses. Reliant Resources expects these collateral requirements to grow, and, in the event that S&P were to reduce the credit rating of Reliant Resources to below investment grade, Reliant Resources estimates that they would post additional credit support (cash and letters of credit) of up to approximately $570 million over time, excluding the effects of commodity price volatility. As of August 9, 2002, Reliant Resources had $1.2 billion in unrestricted available cash and short-term investments and $188 million available under committed corporate credit facilities. These amounts are available to meet the possible future requirements for credit support related to Reliant Resources' credit ratings.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF RELIANT ENERGY AND SUBSIDIARIES

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

OVERVIEW

We currently engage directly in electric generation, transmission and distribution in a 5,000-square mile area of the Texas Gulf Coast that includes Houston. Our wholly owned subsidiary, Reliant Energy Resources Corp. (RERC Corp.), owns distribution systems that together form one of the United States' largest natural gas distribution operations in terms of customers served, as well as two interstate natural gas pipelines. We also own approximately 83% of the outstanding stock of Reliant Resources, Inc. (Reliant Resources), which owns and operates electric generation plants and engages in various unregulated energy service and trading businesses.

We are in the process of separating our regulated and unregulated businesses into two publicly traded companies that will be independent of each other: CenterPoint Energy, Inc. (CenterPoint Energy) and Reliant Resources. CenterPoint Energy will be a holding company created as part of a corporate restructuring of our businesses in compliance with the Texas electric restructuring law. See "-The Restructuring" below. Following the restructuring, CenterPoint Energy's wholly owned operating subsidiaries will own and operate our electric generation plants in Texas, our electric transmission and distribution facilities, and our natural gas distribution facilities and natural gas pipelines. CenterPoint Energy's wholly owned subsidiaries will include:

- CenterPoint Energy Houston Electric, LLC, which will engage in our electric transmission and distribution business in the Texas Gulf Coast area;

- Texas Genco, LP, which will own and operate our Texas generating plants; and

- CenterPoint Energy Resources Corp. (currently RERC Corp.).

Our 83%-ownership interest in Reliant Resources is expected to be distributed to CenterPoint Energy's shareholders shortly after the holding company restructuring. Reliant Resources will continue to engage in:

- domestic unregulated power generation and energy trading and marketing operations;

- retail electric, telecommunications and internet services businesses (including the Texas retail electric business in which we engaged directly as an integrated electric utility prior to January 1, 2002); and

- European power generation and energy trading and marketing operations.

In this section we discuss our results of operations on a consolidated basis and individually for each of our business segments. We also discuss our liquidity, capital resources and critical accounting policies. Our financial reporting business segments include the following which will be continued at CenterPoint Energy:

- Electric Transmission and Distribution,

- Electric Generation,

- Natural Gas Distribution,

- Pipelines and Gathering, and

- Other Operations;

and the following which will be continued at Reliant Resources:

- Wholesale Energy,

- European Energy, and

- Retail Energy.

Effective with the full deregulation of sales of electric energy to retail customers in Texas beginning January 1, 2002, power generators and retail electric providers in Texas ceased to be subject to traditional cost-based regulation. Since that date, we have sold generation capacity, energy and ancillary services related to these functions at prices determined by the

market. Our transmission and distribution services remain subject to rate regulation.

Beginning January 1, 2002, the basis of business segment reporting has changed for our Texas electric operations. Although our retail sales are now conducted by Reliant Resources, retail customers remained regulated customers of our former integrated electric utility, Reliant Energy HL&P, through the date of their first meter reading in 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission and Distribution business segment. The Texas generation operations of Reliant Energy HL&P are now a separate reportable business segment, Electric Generation, whereas they previously had been part of the Electric Operations business segment. The remaining transmission and distribution function is now reported separately in the Electric Transmission and Distribution business segment. In 2001, Latin America was a separate business segment, but is now reported in the Other Operations business segment beginning in 2002. Reportable business segments from 2001 have been restated to conform to the 2002 presentation. For business segment reporting information, please read Notes 1 and 14 to our Interim Financial Statements, which notes are incorporated by reference herein.

The Restructuring

In December 2000, we transferred a significant portion of our unregulated businesses to Reliant Resources, which, at the time, was a wholly owned subsidiary. Reliant Resources conducted an initial public offering of approximately 20% of its common stock in May 2001. In December 2001, our shareholders approved an agreement and plan of merger by which, subject to regulatory approvals, the following will occur (which we refer to herein as the Restructuring):

- CenterPoint Energy will become the holding company for the Reliant Energy group of companies;

- Reliant Energy and its subsidiaries will become subsidiaries of CenterPoint Energy; and

- each share of Reliant Energy common stock will be converted into one share of CenterPoint Energy common stock.

After the Restructuring, we plan, subject to further corporate approvals, market and other conditions, to complete the separation of our regulated and unregulated businesses by distributing the shares of common stock of Reliant Resources that we own to our shareholders (which we refer to herein as the Distribution). We currently expect to complete the Restructuring by August 31, 2002 and the Distribution early in the fall of 2002. However, no assurance can be provided that the Distribution will occur as described above or that it will occur within this time period. From the consummation of the Restructuring until the Distribution, CenterPoint Energy expects that it will do business under the name Reliant Energy, Incorporated and that CenterPoint Energy's common stock will trade under the symbol "REI".

On July 5, 2002, we received an order from the Securities and Exchange Commission (SEC) approving our restructuring plan and the Distribution under the Public Utility Holding Company Act of 1935 (1935 Act). On July 31, 2002, we received a private letter ruling from the Internal Revenue Service which confirms that the Distribution will be tax-free to Reliant Energy and its shareholders.

Contemporaneous with the Restructuring, CenterPoint Energy expects to register and become subject, with its subsidiaries, to regulation as a registered holding company system under the 1935 Act. The 1935 Act directs the SEC to regulate, among other things, financings, sales or acquisitions of assets and intra-system transactions.

In connection with the Restructuring, in order to enable CenterPoint Energy ultimately to satisfy the requirements for an exemption from regulation as a registered holding company under the 1935 Act, we are seeking authority to divide the gas distribution businesses conducted by RERC Corp.'s three unincorporated gas distribution divisions, Reliant Energy Entex, Reliant Energy Arkla and Reliant Energy Minnegasco, among three separate entities. The entity that will hold the Reliant Energy Entex assets will also hold ownership of Reliant Energy Resources' natural gas pipelines and gathering business. We have obtained approval of these transactions from the public service commissions of Minnesota, Louisiana, Mississippi, Oklahoma and Arkansas. Although we expect this business restructuring of RERC Corp. can be completed, we can provide no assurance that this will, in fact, occur, or that CenterPoint Energy will ultimately be exempt from registration under the 1935 Act. For further information on the RERC Corp. restructuring, see "Our Business --RERC Corp. Restructuring" in Item 1 of the Reliant Energy Form 10-K/A, which is incorporated by reference herein.

EFFECTS OF RESTATEMENT ON THE INTERIM FINANCIAL STATEMENTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001

As more fully described and previously reported in Note 1 to the Reliant Energy 10-K/A Notes, which note is incorporated by reference herein, on May 9, 2002, Reliant Resources, an entity in which Reliant Energy owns approximately 83% of the outstanding common stock, determined that it had engaged in same-day commodity trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price, which the personnel who effected these transactions apparently did so with the sole objective of increasing volumes. Reliant Resources commenced a review to quantify the amount and assess the impact of these trades (round trip trades). The Audit Committees of each of the Boards of Directors of Reliant Resources and Reliant Energy (Audit Committees) also directed an internal investigation by outside legal counsel, with assistance by outside accountants, of the facts and circumstances relating to the round trip trades and related matters.

We report all trading, marketing and risk management services transactions on a gross basis with such transactions being reported in revenues and expenses except primarily for financial gas transactions such as swaps. Therefore, the round trip trades were reflected in both our revenues and expenses. The round trip trades should not have been recognized in revenues or expenses (i.e., they should have been reflected on a net basis). However, since the round trip trades were done at the same volume and substantially the same price, they had no impact on our reported cash flows, operating income or net income.

Based on Reliant Resources' review, Reliant Resources determined that it engaged in such round trip trades in 1999, 2000 and 2001. The results of the Audit Committees' investigations were consistent with the results of Reliant Resources' review. The round trip trades were for 20 million megawatt hours (MWh) and 41 MWh of power for the three and six months ended June 30, 2001, respectively, and 46 billion cubic feet (Bcf) of natural gas for the three and six months ended June 30, 2001.

These transactions, referred to above, collectively had the effect of increasing revenues, fuel and cost of gas sold expense and purchased power expense by $1.4 billion, $131 million and $1.3 billion, respectively, for the three months ended June 30, 2001 and by $2.6 billion, $131 million and $2.5 billion, respectively, for the six months ended June 30, 2001.

In the course of Reliant Resources' review, Reliant Resources also identified and determined that they should record on a net basis several transactions for energy related services (not involving round trip trades) that totaled $17 million and $19 million for the three and six months ended June 30, 2001, respectively. These transactions were originally recorded on a gross basis.

In addition, during the May 2001 through September 2001 time frame, Reliant Resources entered into four structured transactions involving a series of forward or swap contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003 (four structured transactions). The four structured transactions were intended to increase future cash flow and earnings and to increase certainty associated with future cash flow and earnings, albeit at the expense of 2001 cash flow and earnings. Each series of contracts in a structure were executed with the same counterparty. The contracts in each structure were offsetting in the aggregate in terms of physical attributes. The transactions that settled during the three and six months ended June 30, 2001 were previously recorded on a gross basis with such transactions being reported in revenues and expenses which resulted in $323 million of revenues, $161 million in fuel and cost of gas sold and $162 million of purchased power expense being recognized in each period. Having further reviewed the transactions, Reliant Resources now believes these transactions should have been accounted for on a net basis.

The consolidated financial statements for the three and six months ended June 30, 2001 have been restated from amounts previously reported to reflect the transactions discussed above on a net basis. The restatement had no impact on previously reported consolidated cash flows, operating income or net income. A summary of the principal effects of the restatement on our interim financial statements are set forth in Note 1 to our Interim Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Revenues	$ 10,292	$ 9,790	$ 22,369	$ 18,434
Operating Expenses	(9,682)	(9,169)	(21,300)	(17,296)
Operating Income	610	621	1,069	1,138
Unrealized Gain (Loss) on AOL Time Warner Investment	331	(230)	468	(448)
Unrealized (Loss) Gain on Indexed Debt Securities	(329)	219	(464)	422
Income from Equity Investments in Unconsolidated Subsidiaries	52	5	64	9
Other Income, net	34	19	61	36
Earnings Before Interest and Taxes	698	634	1,198	1,157
Interest Expense	(150)	(205)	(328)	(359)
Distribution on Trust Preferred Securities	(14)	(14)	(28)	(28)
Minority Interest	(35)	(31)	(34)	(47)
Income Before Income Taxes and Cumulative Effect of Accounting Change	499	384	808	723
Income Tax Expense	(183)	(148)	(291)	(262)
Cumulative Effect of Accounting Change, net of tax	--	--	61	--
Net Income Attributable to Common Stockholders	$ 316	$ 236	$ 578	$ 461
Basic Earnings Per Share	$ 1.09	$ 0.79	$ 2.01	$ 1.55
Diluted Earnings Per Share	$ 1.08	$ 0.79	$ 1.99	$ 1.55

Three months ended June 30, 2001 compared to three months ended June 30, 2002

Net Income. We reported consolidated net income of $236 million ($0.79 per diluted share) for the three months ended June 30, 2002 compared to $316 million ($1.08 per diluted share) for the three months ended June 30, 2001. The 2001 results reflect a $33 million after-tax gain recorded in equity income related to a preacquisition contingency for the value of SEP, the coordinating body for the Dutch electricity generating sector, offset by related minority interest of $6 million. Effective January 1, 2002, we discontinued amortizing goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). During the second quarter of 2001, we recognized $21 million of goodwill amortization expense. The decrease in net income attributable to common stockholders for the second quarter of 2002 as compared to the second quarter of 2001 was primarily due to the following:

- a $267 million decrease in earnings before interest and taxes (EBIT) from Reliant Resources' Wholesale Energy business segment;
- a $104 million decrease in EBIT from our Electric business segments, reflecting the movement of a portion of this business to Reliant Resources' Retail Energy business segment;
- a $13 million negative impact related to our investment in AOL Time Warner securities and related indexed debt securities; and
- a $55 million increase in interest expense.

The above items were partially offset by:

- a $207 million increase in EBIT from Reliant Resources' Retail Energy business segment;

- a $55 million increase in EBIT from our Natural Gas Distribution business segment; and

- a $43 million increase in EBIT from Reliant Resources' European Energy business segment.

Earnings Before Interest and Income Taxes. For an explanation of changes in EBIT, please read the discussion below under "- Earnings Before Interest and Income Taxes by Business Segment."

Interest Expense. We incurred interest expense of $205 million during the three months ended June 30, 2002 compared to $150 million in the same period of 2001. The increase in interest expense of $55 million resulted primarily from increased borrowing levels due to the acquisition of Orion Power Holdings, Inc. (Orion Power) on February 19, 2002 as discussed in Note 5 to our Interim Financial Statements, which note is incorporated by reference herein.

Income Tax Expense. During the three months ended June 30, 2001 and 2002, our effective tax rate was 36.7% and 38.6%, respectively. The increase in the effective tax rate for the second quarter of 2002 compared to the second quarter of 2001 was primarily due to higher taxes on Reliant Energy Power Generation Benelux N.V.'s (REPGB) earnings offset by the discontinuance of goodwill amortization in accordance with SFAS No. 142. In 2001, the earnings of REPGB were subject to a zero percent Dutch corporate income tax rate as a result of a tax holiday for the Dutch electricity industry. In 2002, REPGB's earnings in the Netherlands are subject to the standard Dutch corporate income tax rate, which is currently 34.5%.

Six months ended June 30, 2001 compared to six months ended June 30, 2002

Net Income. We reported consolidated net income of $461 million ($1.55 per diluted share) for the six months ended June 30, 2002 compared to $578 million ($1.99 per diluted share) for the six months ended June 30, 2001. The 2001 results reflect a $61 million after-tax non-cash gain from the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). For additional discussion of the adoption of SFAS No. 133, please read Note 5 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference. Effective January 1, 2002, we discontinued amortizing goodwill in accordance with SFAS No. 142. During the first six months of 2001, we recognized $42 million of goodwill amortization expense. The decrease in net income attributable to common stockholders for the six months ended June 30, 2002 as compared to the same period in 2001 was primarily due to the following:

- a $382 million decrease in EBIT from Reliant Resources' Wholesale Energy business segment;

- a $95 million decrease in EBIT from our Electric business segments, reflecting the movement of a portion of this business to Reliant Resources' Retail Energy business segment;

- a $30 million negative impact related to our investment in AOL Time Warner securities and related indexed debt securities;

- a $13 million increase in minority interest expense primarily related to minority interest in Reliant Resources as a result of the initial public offering of Reliant Resources' common stock in May 2001;

- a $61 million after-tax non-cash gain in the first six months of 2001 from the adoption of SFAS No. 133; and

- a $31 million increase in interest expense.

The above items were partially offset by:

- a $101 million pre-tax ($65 million after-tax), non-cash charge incurred in the first quarter of 2001 relating to the redesign of some of our benefit plans in anticipation of our separation from Reliant Resources;

- a $259 million increase in EBIT from Reliant Resources' Retail Energy business segment;

- a $28 million increase in EBIT from our Natural Gas Distribution business segment; and

- a $40 million increase in EBIT from Reliant Resources' European Energy business segment.

Earnings Before Interest and Income Taxes. For an explanation of changes in EBIT, please read the discussion below under "- Earnings Before Interest and Income Taxes by Business Segment."

Interest Expense. We incurred interest expense of $359 million during the six months ended June 30, 2002 compared to $328 million in the same period of 2001. The increase in interest expense of $31 million resulted primarily from increased borrowing levels due to the acquisition of Orion Power on February 19, 2002 as discussed in Note 5 to our Interim Financial Statements.

Income Tax Expense. During the six months ended June 30, 2001 and 2002, our effective tax rate was 36.0% and 36.3%, respectively. The increase in the effective tax rate for the first six months of 2002 compared to the first six months of 2001 was primarily due to higher taxes on REPGB's earnings offset by the discontinuance of goodwill amortization in accordance with SFAS No. 142. In 2001, the earnings of REPGB were subject to a zero percent Dutch corporate income tax rate as a result of a tax holiday for the Dutch electricity industry. In 2002, REPGB's earnings in the Netherlands are subject to the standard Dutch corporate income tax rate, which is currently 34.5%.

As discussed in Note 14(h) to the Reliant Energy 10-K/A Notes and Note 13(e) to our Interim Financial Statements, which notes are incorporated by reference herein, the Dutch parliament has adopted legislation allocating to the Dutch generation sector, including REPGB, financial responsibility for certain stranded costs and other liabilities incurred by NEA prior to the deregulation of the Dutch wholesale market. These obligations include NEA's obligations under an out-of-market gas supply contract and three out-of-market electricity contracts. REPGB's allocated share of these liabilities is 22.5%. As a result, Reliant Resources recorded a net stranded cost liability of $369 million and a related deferred tax asset of $127 million at December 31, 2001 for their statutorily allocated share of these gas supply and electricity contracts. Prior to the second quarter of 2002, Reliant Resources believed that the costs incurred by REPGB subsequent to the tax holiday ending in 2001 related to these contracts would be deductible for Dutch tax purposes. However, due to uncertainties related to the deductibility of these costs, Reliant Resources recorded an offsetting liability in other liabilities in the consolidated financial statements of $127 million as of December 31, 2001. Reliant Resources now believes, based upon discussions with the Dutch tax authorities, obtaining a tax deduction for these costs will require litigation in the Netherlands, and accordingly, has reversed both the deferred tax assets and related liability in the second quarter of 2002.

EARNINGS BEFORE INTEREST AND INCOME TAXES BY BUSINESS SEGMENT

The following table presents EBIT for each of our business segments for the three and six months ended June 30, 2001 and 2002. EBIT represents earnings (loss) before interest expense, minority interest and income taxes. EBIT, as defined, is shown because it is a widely accepted measure of financial performance used by analysts and investors to analyze and compare companies on the basis of operating performance. It is not defined under generally accepted accounting principles, and should not be considered in isolation or as a substitute for a measure of performance prepared in accordance with accounting principles generally accepted in the United States (GAAP) and is not indicative of operating income from operations as determined under GAAP. Additionally, our computation of EBIT may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate it in the same fashion. For a reconciliation of our business segments' operating income (loss) to EBIT and EBIT to net income, please read Note 14 to our Interim Financial Statements.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Electric Transmission and Distribution	$ 271	$ 277	$ 441	$ 536
Electric Generation	83	(26)	112	(78)
Natural Gas Distribution	(41)	14	96	124
Pipelines and Gathering	34	41	73	79
Wholesale Energy	298	31	527	145
European Energy	62	105	83	123
Retail Energy	(2)	205	(5)	254
Other Operations	(24)	(15)	(155)	(28)
Eliminations/Other	17	2	26	2
Total Consolidated EBIT	$ 698	$ 634	$ 1,198	$ 1,157

ELECTRIC BUSINESS SEGMENTS

For information regarding factors that may affect the future results of operations of our Electric business segments, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Electric Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following tables provide summary data, including EBIT, of our Electric business segments for the three months and six months ended June 30, 2001 and 2002:

	THREE MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2001
	(IN MILLIONS)	
Operating Revenues:		
Electric Revenues	$ 1,523	$ 2,913
Total Operating Revenues	1,523	2,913
Operating Expenses:		
Fuel and Purchased Power	721	1,507
Operation and Maintenance	224	472
Depreciation and Amortization	129	208
Other Operating Expenses	107	198
Total Operating Expenses	1,181	2,385
Operating Income	342	528
Other Income, net	12	25
Earnings Before Interest and Income Taxes	$ 354	$ 553
Electric Sales Including Unbilled (GWh(1)):		
Residential	5,785	9,736
Commercial	4,540	8,509
Industrial	8,507	15,945
Other	381	677
Total Sales Including Unbilled	19,213	34,867

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(1) Gigawatt hours

THREE MONTHS ENDED JUNE 30, 2002

	ELECTRIC TRANSMISSION & DISTRIBUTION	ELECTRIC GENERATION	ELIMINATIONS	TOTAL
	(IN MILLIONS)			
Operating Revenues:				
Electric Revenues	$ 368	$ 414	$ 4	$ 786
ECOM True-Up	170	-	--	170
Total Operating Revenues	538	414	4	956
Operating Expenses:				
Fuel and Purchased Power	5	299	4	308
Operation and Maintenance	130	79	--	209
Depreciation and Amortization	66	39	--	105
Other Operating Expenses	63	26	--	89
Total Operating Expenses	264	443	4	711
Operating Income (Loss)	274	(29)	--	245
Other Income, net	3	3	--	6
Earnings (Loss) Before Interest and Income Taxes	$ 277	$ (26)	$ --	$ 251
Throughput Data Including Unbilled (GWh):				
Residential	6,296			
Commercial	4,789			
Industrial	6,432			
Other	37			
Total Throughput Including Unbilled	17,554			
Physical Electric Generation Power Sales (in GWh)		14,670		

SIX MONTHS ENDED JUNE 30, 2002	ELECTRIC TRANSMISSION & DISTRIBUTION	ELECTRIC GENERATION	ELIMINATIONS	TOTAL
	(IN MILLIONS)			
Operating Revenues:				
Electric Revenues	$ 810	$ 739	$ (56)	$ 1,493
ECOM True-Up	311	--	--	311
Total Operating Revenues	1,121	739	(56)	1,804
Operating Expenses:				
Fuel and Purchased Power	81	528	(56)	553
Operation and Maintenance	270	174	--	444
Depreciation and Amortization	130	79	--	209
Other Operating Expenses	112	39	--	151
Total Operating Expenses	593	820	(56)	1,357
Operating Income (Loss)	528	(81)	--	447
Other Income, net	8	3	--	11
Earnings (Loss) Before Interest and Income Taxes	$ 536	$ (78)	$ --	$ 458
Throughput Data Including Unbilled (GWh):				
Residential	10,769			
Commercial	8,764			
Industrial	12,770			
Other	79			
Total Throughput Including Unbilled	32,382			
Physical Electric Generation Power Sales (in GWh)		26,473		

During 2001, our Electric Operations business segment reflected the regulated electric utility business, including generation, transmission and distribution, and retail electric sales. As of January 1, 2002, with the opening of the Texas market to full retail electric competition, generation and retail sales are no longer subject to cost of service regulation. Retail electric sales involve the sale of electricity and related services to end users of electricity and were included as part of the bundled regulated service prior to 2002. Retail electric sales are now reported as the Retail Energy business segment of Reliant Resources.

Beginning in 2002, we are reporting two new business segments for what was the former Electric Operations business segment:

- Electric Transmission and Distribution; and

- Electric Generation.

The previously regulated generation operations in Texas are being reported in the new Electric Generation business segment. The Electric Transmission and Distribution business segment will report results from two sources. This business segment includes the regulated electric transmission and distribution operations as well as impacts of generation-related stranded costs recoverable by the regulated utility.

As a result of the implementation of deregulation and the corresponding new business segments, the regulated transmission and distribution utility recovers the cost of its service through an energy delivery charge, and not as a component of the prior bundled rate. Accordingly, there are no meaningful comparisons for these business segments against prior periods. The design of the new energy delivery rate, which is based on an 11.25% return on equity, differs from the prior bundled energy rate. The winter/summer rate differential for residential customers has been eliminated and large commercial and industrial rates no longer have an energy-based component, but are demand driven. This new rate design will tend to lessen some of the pronounced seasonal variation of revenues which has been experienced in prior periods. For estimates of

historical Electric Generation revenues, please read Note 14 to our Interim Financial Statements.

Although our retail sales are now conducted by Reliant Resources, retail customers remained regulated customers of Reliant Energy HL&P through the date of their first meter reading in 2002. Operations during this transition period, reflected in the Electric Transmission and Distribution business segment, produced a $7 million loss before interest and taxes for the three months ended June 30, 2002 and EBIT of $7 million for the six months ended June 30, 2002. We expect to incur additional transition expenses during the remainder of the year and a substantial portion of the earnings from retail sales in January 2002 are expected to be offset.

The new Electric Generation business segment is comprised of over 14,000 Megawatts of electric generation located entirely in the state of Texas, and will be called Texas Genco after the Restructuring. This business segment reported a loss before interest and taxes of $26 million and $78 million for the three months and six months ended June 30, 2002, respectively, primarily due to low natural gas prices and ample generating capacity in Texas, which created a weak price environment when the capacity auctions described below were conducted in late 2001 and early 2002.

The new Electric Transmission and Distribution business segment reported EBIT of $277 million for the three months ended June 30, 2002, consisting of EBIT of $114 million for the regulated electric transmission and distribution business, loss before interest and taxes of $7 million from sales during the transition period as discussed above and EBIT of $170 million associated with certain generation-related regulatory assets (ECOM, or Excess Cost Over Market, true-up) recorded pursuant to the Texas electric restructuring law as explained below. The Electric Transmission and Distribution business segment reported EBIT of $536 million for the six months ended June 30, 2002, consisting of EBIT of $218 million for the regulated electric transmission and distribution business, EBIT of $7 million from sales during the transition period as discussed above and EBIT of $311 million associated with the ECOM true-up.

Under the Texas electric restructuring law, each power generator that is unbundled from an integrated electric utility in Texas has an obligation to conduct state-mandated capacity auctions of 15 percent of its capacity. In addition, under a master separation agreement between Reliant Energy and Reliant Resources, Texas Genco is contractually obligated to auction all capacity in excess of the state-mandated capacity auctions. The auctions conducted periodically between September 2001 and March 2002 were consummated at prices below those used in the ECOM model by the Public Utility Commission of Texas (Texas Utility Commission). Under the Texas electric restructuring law, a regulated utility may recover any difference between market prices received through the state-mandated auctions and the Texas Utility Commission's earlier estimates of those market prices. This difference, recorded as a regulatory asset, produced $170 million of EBIT in the second quarter of 2002 and $311 million of EBIT in the first six months of 2002.

In the Electric Transmission and Distribution business segment, throughput declined 9 percent and 7 percent, respectively, for the three months and six months ended June 30, 2002 as compared to the prior periods in 2001. The decrease was primarily due to reduced energy delivery in the industrial sector resulting from self-generation by several major customers, partially offset by increased residential usage due to warmer weather and increased demand from non-weather related factors such as price elasticity. Additionally, despite a slowing economy, total metered customers grew by 32,000 since June of 2001, which approximates a 2% annual growth rate.

Operation and maintenance expenses decreased by $15 million and $28 million for the quarter and six months ended June 30, 2002, respectively, compared to the same periods in 2001. The decrease was primarily due to the elimination of factoring expense as a result of the termination of an agreement under which the former Electric Operations business segment had sold its customer accounts receivable and fewer plant outages in 2002, partially offset by higher benefits expense.

Depreciation and amortization expense in the second quarter of 2002 decreased $24 million compared to the same period in 2001. The decrease was primarily due to decreased amortization of the impairment loss recorded in June 1999, which was fully amortized in December 2001, offset by the discontinuance of redirection of depreciation expense related to Electric Transmission and Distribution assets. Depreciation and amortization expense was $209 million and $208 million for the six months ended June 30, 2002 and 2001, respectively.

Other operating expense in the second quarter of 2002 decreased $18 million compared to the same period in 2001. The decrease was primarily due to lower gross receipts taxes which became the responsibility of the retail electric provider upon deregulation. Other operating expense decreased $47 million in the six months ended June

30, 2002, compared to the same period in 2001, primarily due to lower franchise fees and lower property and gross receipts taxes.

NATURAL GAS DISTRIBUTION

Our Natural Gas Distribution business segment's operations consist of intrastate natural gas sales to, and natural gas transportation for residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas and some non-rate regulated retail marketing of natural gas.

For information regarding factors that may affect the future results of operations of our Natural Gas Distribution business segment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of RERC's Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of our Natural Gas Distribution business segment for the three months and six months ended June 30, 2001 and 2002:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 888	$ 797	$ 3,211	$ 1,977
Operating Expenses:				
Natural Gas	725	603	2,702	1,488
Operation and Maintenance	148	125	281	256
Depreciation and Amortization	37	32	73	62
Other Operating Expenses	25	25	67	53
Total Operating Expenses	935	785	3,123	1,859
Operating (Loss) Income	(47)	12	88	118
Other Income, net	6	2	8	6
Earnings (Loss) Before Interest and Income Taxes	$ (41)	$ 14	$ 96	$ 124
Throughput Data (in Bcf (1)):				
Residential and Commercial Sales	37	49	189	181
Industrial Sales	12	13	23	24
Transportation	11	13	26	28
Retail	107	96	239	217
Total Throughput	167	171	477	450

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(1) Billion cubic feet.

Our Natural Gas Distribution business segment's EBIT increased $55 million and $28 million for the three months and six months ended June 30, 2002, respectively, as compared to the same periods in 2001. These increases were primarily due to a significant improvement in bad debt expense in the second quarter of 2002 as a result of improved collections and lower gas prices in 2002 and changes in estimates of unbilled revenues and deferred gas costs, which negatively impacted the second quarter of 2001. For the six months ended June 30, 2002, the above increases were partially offset by decreased earnings due to significantly milder weather and the resulting decreased usage in 2002 as compared to 2001. Depreciation and amortization expense decreased approximately $5 million and $11 million for the three months and six months ended June 30, 2002, respectively, primarily as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 6 to our Interim Financial Statements, which note is incorporated by reference herein. Goodwill amortization was $8 million and $15 million for the three

months and six months ended June 30, 2001, respectively. Other operating expenses remained flat in the second quarter but decreased $14 million for the six months ended June 30, 2002 as compared to the same period in 2001, due primarily to reduced franchise fees as a result of decreased revenues.

PIPELINES AND GATHERING

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

For information regarding factors that may affect the future results of operations of our Pipelines and Gathering business segment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of RERC's Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of our Pipelines and Gathering business segment for the three months and six months ended June 30, 2001 and 2002:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 96	$ 102	$ 226	$ 194
Operating Expenses:				
Natural Gas	12	10	57	17
Operation and Maintenance	31	38	59	72
Depreciation and Amortization	15	10	29	20
Other Operating Expenses	4	5	8	9
Total Operating Expenses	62	63	153	118
Operating Income	34	39	73	76
Other Income, net	--	2	--	3
Earnings Before Interest and Income Taxes	$ 34	$ 41	$ 73	$ 79
Throughput Data (in Bcf):				
Natural Gas Sales	3	5	9	10
Transportation	193	205	439	443
Gathering	77	70	147	141
Elimination (1)	(1)	(1)	(2)	(1)
Total Throughput	272	279	593	593

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(1) Elimination of volumes both transported and sold.

Our Pipelines and Gathering business segment's EBIT for the three months and six months ended June 30, 2002 compared to the same periods in 2001, increased $7 million and $6 million, respectively. Operation and maintenance expenses increased $7 million and $13 million for the three and six months ended June 30, 2002, respectively, compared to the same periods in 2001 primarily due to project work consisting of construction management, engineering, project planning and other services. Project work expenses are offset by revenues billed for these services. Depreciation and amortization expense decreased $5 million and $9 million for the three months and six months ended June 30, 2002, respectively, as compared to the same periods in 2001, as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 6 to our Interim Financial Statements. Other income increased $2 million and $3 million for the three months and six months ended June 30, 2002, respectively, as compared to the same periods in 2001, primarily due to interest accrued on a fuel tax refund.

WHOLESALE ENERGY

Reliant Resources' Wholesale Energy business segment includes their non-regulated power generation operations in the United States, excluding Texas generation operations, and their wholesale energy trading, marketing, origination and risk management operations in North America. Trading and marketing purchases fuel to supply existing generation assets, sells the electricity produced by these assets, and manages the day-to-day trading and dispatch associated with these portfolios.

Reliant Resources is in the process of evaluating their trading, marketing, power origination and risk management services strategies. In the future, Reliant Resources may reduce their trading, marketing and origination activities, which would likely result in a corresponding decrease in earnings and cash flows.

For information regarding factors that may affect the future results of operations of Reliant Resources' Wholesale Energy business segment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our

Wholesale Energy Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of Reliant Resources' Wholesale Energy business segment for the three months and six months ended June 30, 2001 and 2002:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 7,660	$ 6,495	$ 16,020	$ 12,009
Operating Expenses:				
Fuel and Cost of Gas Sold	3,952	3,990	9,606	6,543
Purchased Power	3,239	2,141	5,553	4,775
Operation and Maintenance	146	233	279	391
Depreciation and Amortization	20	83	61	133
Other Operating Expenses	6	25	8	37
Total Operating Expenses	7,363	6,472	15,507	11,879
Operating Income	297	23	513	130
Other Income:				
Income of Equity Investment of Unconsolidated Subsidiaries	1	6	14	10
Other, net	--	2	--	5
Earnings Before Interest and Income Taxes	$ 298	$ 31	$ 527	$ 145
Operations Data:				
Electricity Wholesale Power Sales (in GWh)	61,267	74,830	114,478	166,303
Natural Gas Sales (in Bcf)	720	1,077	1,444	2,028

Reliant Resources' Wholesale Energy business segment's EBIT decreased by $267 million for the three months ended June 30, 2002 compared to the same period in 2001. The decline in EBIT is primarily due to decreases in gross margin (revenues less fuel and cost of gas sold and purchased power), and increases in operating expenses both of which are discussed, in detail below. In addition, Reliant Resources' Wholesale Energy business segment's EBIT was impacted by a $34 million reserve recorded during the three months ended June 30, 2002 for refunds owed by them as a result of a May 15, 2002 Federal Energy Regulatory Commission (FERC) order which revised the methodology for calculating refunds for California energy sales. During the same period in 2001, Reliant Resources' Wholesale Energy business segment recorded a $15 million reserve related to an earlier FERC order.

Reliant Resources' Wholesale Energy business segment's EBIT decreased by $382 million for the six months ended June 30, 2002 compared to the same period in 2001. The decrease in EBIT is primarily due to decreases in gross margin, increases in operating expenses, and recording of a reserve for potential refunds in the second quarter of 2002, as discussed above. These decreases in EBIT were partially offset by changes in the credit provisions related to energy sales in California. In the six months ended June 30, 2002, $38 million of a previously accrued credit provision for energy sales in California was reversed. The reversal resulted from collections of outstanding receivables during the period coupled with a determination that credit risk had been reduced on the remaining outstanding receivables as a result of payments in 2002 to the California Power Exchange. In addition, during the six months ended June 30, 2001, Reliant Resources' Wholesale Energy business segment recorded a $34 million credit provision against receivable balances related to energy sales in the West and a $15 million reserve for refunds, as discussed above.

Reliant Resources' Wholesale Energy business segment's revenues decreased by $1.2 billion (15%) in the three months ended June 30, 2002 compared to the same period in 2001. The decreased revenues were primarily due to decreased prices for natural gas sales (approximately $1.7 billion) and decreased prices for power sales (approximately $2.2 billion) compared to the same period in 2001. These decreases in prices were partially offset by increased volumes for

natural gas and power sales of approximately $1.8 billion and $0.9 billion, respectively. Reliant Resources' Wholesale Energy business segment's fuel and cost of gas sold and purchased power decreased by $1.1 billion in the three months ended June 30, 2002, largely due to decreased prices for natural gas and

purchased power compared to the same period in 2001. These decreases in fuel and cost of gas sold and purchased power were partially offset by increased volumes for natural gas and purchased power, and increased fuel expense due to an 171% increase in power generation sales volumes largely due to the Orion Power Holdings, Inc. (Orion Power) acquisition that closed in February 2002.

Reliant Resources' Wholesale Energy business segment's revenues decreased by $4.0 billion (25%) in the six months ended June 30, 2002 compared to the same period in 2001. The decreased revenues were primarily due to decreased prices for natural gas sales (approximately $6.3 billion) and decreased prices for power sales (approximately $4.6 billion) compared to 2001. These decreases in revenues were partially offset by increased volumes for natural gas and power sales of approximately $3.6 billion and $3.2 billion, respectively. Reliant Resources' Wholesale Energy business segment's fuel and cost of gas sold and purchased power decreased by $3.8 billion in the six months ended June 30, 2002, largely due to the same factors discussed above.

Reliant Resources' Wholesale Energy business segment's gross margin decreased by $105 million in the three months ended June 30, 2002 compared to the same period in 2001. This decrease was primarily due to lower margins from both their power generation operations and their trading and marketing activities, and a $19 million increase in reserves related to potential refunds related to energy sales in the West region in the second quarter 2002 as compared to the same period in 2001 as discussed above. Margins on power sales from their generation facilities decreased by $193 million, partially offset by $177 million from the Orion Power acquisition that closed in February 2002. Reliant Resources' Wholesale Energy business segment's gross margin for the three months ended June 30, 2001 benefited from favorable conditions in the West caused by a combination of factors including reduction in available hydroelectric generation resources, increased demand, and decreased electric imports. The absence of these market conditions over the same period in 2002 resulted in a 65% decrease in prices and 58% decrease in volumes for power sales in the West. Trading and marketing gross margins decreased $70 million from $119 million in the three months ended June 30, 2001 to $49 million in the three months ended June 30, 2002 primarily as a result of higher natural gas and power volatility levels in the three months ended June 30, 2001 which provided for greater trading opportunities compared to the three months ended June 30, 2002, particularly in the West.

Reliant Resources' Wholesale Energy business segment's gross margin decreased by $170 million in the six months ended June 30, 2002 compared to the same period in 2001. This decrease was primarily due to lower margins from both their power generation operations and their trading and marketing activities, and a $19 million increase in reserves related to potential refunds related to energy sales in the West, as discussed above. These factors were partially offset by a $72 million change in the credit provisions for California energy sales, as discussed above. Margins on power sales from Reliant Resources' generation facilities decreased by $353 million. This decrease was partially offset by $264 million of margins on power sales from the Orion Power acquisition that closed in February 2002. Trading and marketing gross margins decreased $134 million from $231 million in the six months ended June 30, 2001 to $97 million in the six months ended June 30, 2002 primarily as a result of higher natural gas and power volatility levels in the six months ended June 30, 2001 which provided for greater trading opportunities compared to the six months ended June 30, 2002.

The following table provides further summary data regarding gross margins by commodity of Reliant Resources' Wholesale Energy business segment for the three and six months ended June 30, 2001 and 2002.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Gas revenues	$ 3,708	$ 3,859	$ 8,997	$ 6,341
Power revenues	3,928	2,620	6,983	5,648
Other commodity revenues	24	16	40	20
Total revenues				

....	7,660	6,495	16,020	12,009
Cost of gas sold	3,628	3,809	8,838	6,238
Fuel and purchased power	3,545	2,310	6,294	5,063
Other commodity costs	18	12	27	17
Total cost of sales	7,191	6,131	15,159	11,318
Gross margin	$ 469	$ 364	$ 861	$ 691

Operation and maintenance and other operating expenses for Reliant Resources' Wholesale Energy business segment increased $106 million in the three months ended June 30, 2002 compared to the same period in 2001, primarily due to $62 million of operation and maintenance expenses of Reliant Resources' Orion Power generating plants acquired in February 2002, higher administrative costs to support growing wholesale commercial activities, including Orion Power, and increased expenses related to development activities of $28 million, which includes write-offs of $17 million in previously capitalized costs related to projects that have been terminated.

Operation and maintenance and other operating expenses for Reliant Resources' Wholesale Energy business segment increased $141 million in the six months ended June 30, 2002 compared to the same period in 2001, primarily due to $95 million of operation and maintenance expenses of Reliant Resources' Orion Power generating plants, higher administrative costs to support growing wholesale commercial activities, including Orion Power, and increased expenses related to development activities of $26 million, which includes write-offs of $17 million as discussed above.

Depreciation and amortization expense increased by $63 million in the three months ended June 30, 2002 compared to the same period in 2001 primarily as a result of depreciation expense related to Reliant Resources' Orion Power plants, and other generating plants placed into service during the second half of 2001 and a $15 million write-off of a plant which Reliant Resources' expects to close during the third quarter of 2002. For the three months ended June 30, 2001, Reliant Resources' Wholesale Energy business segment recorded $1 million in amortization expense related to goodwill. For information regarding the cessation of goodwill amortization, please read Note 2(q) to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, and Note 6 to our Interim Financial Statements.

Depreciation and amortization expense increased by $72 million in the six months ended June 30, 2002 compared to the same period in 2001 primarily as a result of depreciation expense related to Reliant Resources' Orion Power plants, other generating plants placed into service during the second half of 2001 and the plant closure as discussed above, partially offset by a decrease in amortization of air emissions regulatory allowances of $20 million. For the six months ended June 30, 2001, Reliant Resources' Wholesale Energy business segment recorded $2 million in amortization expense related to goodwill.

Reliant Resources' Wholesale Energy business segment reported income from equity investments for the three and six months ended June 30, 2002 of $6 million and $10 million, respectively, compared to $1 million and $14 million in the same periods in 2001, respectively. The equity income in both periods primarily resulted from an investment in an electric generation plant in Boulder City, Nevada. The equity income related to Reliant Resources' investment in the plant increased during the three months ended June 30, 2002 compared to the same period in 2001, primarily due to the receipt of business interruption and other insurance claims totaling $12 million, partially offset by decreases in margins due to lower prices realized by the project company in 2002. The equity income related to Reliant Resources' investment in the plant decreased during the six months ended June 30, 2002 compared to the same period in 2001, primarily due to decreases in margins as a result of lower prices realized by the project company in 2002, partially offset by the insurance claims received during the second quarter of 2002 as discussed above.

For information regarding the reserve against receivables, FERC refund methodology and uncertainties in the California wholesale energy market, please read Notes 13(a) and 13(d) to our Interim Financial Statements, which notes are incorporated herein by reference.

EUROPEAN ENERGY

Reliant Resources' European Energy business segment generates and sells power from their generation facilities in the Netherlands and participates in the emerging wholesale energy trading and power origination industry in Northwest Europe.

Reliant Resources is in the process of evaluating their trading and power origination strategies in Europe. In the future, Reliant Resources may reduce their trading and origination activities in order to concentrate on their core power generation asset position in the Netherlands.

For information regarding factors that may affect the future results of operations of Reliant Resources' European Energy business segment, please read "Management's Discussion and Analysis of Financial Condition and Results

of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our European Energy Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of Reliant Resources' European Energy business segment for the three months and six months ended June 30, 2001 and 2002:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 276	$ 641	$ 524	$ 1,176
Operating Expenses:				
Fuel	102	107	203	187
Purchased Power	116	381	197	772
Operation and Maintenance	30	36	58	69
Depreciation and Amortization	19	14	38	27
Other	--	--	--	2
Total Operating Expenses	267	538	496	1,057
Operating Income	9	103	28	119
Other Income, net	53	2	55	4
Earnings Before Interest and Income Taxes	$ 62	$ 105	$ 83	$ 123
Electricity (in GWh):				
Wholesale Sales	3,743	4,376	7,308	8,941
Trading Sales	5,936	19,474	8,954	34,553

Reliant Resources' European Energy business segment's EBIT increased $43 million and $40 million for the three and six months ended June 30, 2002 compared to the same periods in 2001 due to changes in gross margins (revenues less fuel and purchased power) as explained below. During the three months ended June 30, 2002, Reliant Resources' European Energy business segment recognized a one-time $109 million gain resulting from the amendment of their stranded cost electricity supply contracts which is recorded as a reduction in purchased power expense and is included in gross margins. For additional discussion regarding the amendment of these contracts, please read Note 13(e) to our Interim Financial Statements, which note is incorporated herein by reference.

Reliant Resources' European Energy business segment's operating revenues increased $365 million for the three months ended June 30, 2002 compared to the same period in 2001. Approximately $345 million of the increase was attributable to increased trading volumes associated with their participation in the Dutch, German, Austrian, United Kingdom and Nordic power markets, and to a lesser extent, the increase was due to a 17% increase in volume of electric generation sales representing an approximate $11 million net increase in sales in the second quarter of 2002 as compared to the same period in 2001. The increase in electric sales revenues as a result of increased sales volumes was partially offset by decreases in power prices of approximately 7% in the second quarter of 2002 as compared to the same period in 2001. The overall increases were also partially offset by the impact of a $30 million efficiency and energy payment received during the second quarter of 2001 from NEA, which was the coordinating body for the Dutch electric generating sector prior to wholesale competition. Also contributing to the increase in operating revenues was a favorable foreign exchange effect of approximately $40 million.

Reliant Resources' European Energy business segment's operating revenues increased $652 million for the six months ended June 30, 2002 compared to the same period in 2001. Revenues derived from trading volumes associated with their participation in the Dutch, German, Austrian, United Kingdom and Nordic power markets, increased approximately $678 million. In addition, but to a lesser extent, the increase in revenues was due to a 22% increase in volume of electric generation sales representing an approximate $24 million net increase in sales for the six months ended June 30, 2002 compared to the same period in 2001. The increase in electric sales revenues as a result of increased sales volume was

partially offset by decreases in power prices that decreased approximately 10% in the six months ended June 30, 2002 as compared to the same period in 2001. The overall increases were also offset by a $30 million efficiency and energy payment received during the second quarter of 2001 from NEA as described above. In addition, ancillary services revenues decreased approximately $7 million period over period. This overall increase in operating revenues was impacted by an unfavorable foreign exchange effect of approximately $13 million.

Fuel and purchased power costs increased $270 million for the three months ended June 30, 2002 compared to the same period in 2001 primarily due to a $343 million increase in purchased power for trading activities associated with the growth in Reliant Resources' trading business. Offsetting the increase was a one-time $109 million gain recognized as a result of the amendment of Reliant Resources' stranded cost electricity supply contracts which is recorded as a reduction of purchased power expense. For additional discussion regarding the amendment of these contracts please read Note 13(e) to our Interim Financial Statements. The overall increase in fuel and purchased power was impacted by an unfavorable foreign exchange effect of approximately $37 million.

Fuel and purchased power costs increased $559 million for the six month period ending June 30, 2002 compared to the same period in 2001 primarily due to a $693 million increase in purchased power for trading activities associated with the growth in Reliant Resources' trading business. Offsetting this increase was a one-time $109 million gain as discussed above and a net $16 million gain related to changes in the valuation of certain out-of-market contracts in the first six months of 2002 recorded in fuel expense. For further discussion of these out-of-market contracts, please read Notes 5 and 14(h) to the Reliant Energy 10-K/A Notes and Note 13(e) to our Interim Financial Statements. The overall increase in fuel and purchased power was impacted by a favorable foreign exchange effect of approximately $11 million.

Gross margin increased $95 million for the three months ended June 30, 2002 compared to the same period in 2001 primarily due to (a) the one-time $109 million gain discussed above, (b) a $2 million increase in trading and power origination gross margins which increased from $2 million for the three months ended June 30, 2001 to $4 million for the same period in 2002 due to an increase in power trading volumes and trading origination transactions, and (c) a $15 million increase in plant margins due to increases in electric sales volumes and decreased fuel prices. Offsetting the above increases was a $30 million efficiency and energy payment received during the second quarter of 2001 from NEA. In addition, in the three months ended June 30, 2002, a net $3 million loss was recognized related to changes in the valuation of certain out-of-market contracts.

Gross margin increased $93 million for the six months ended June 30, 2002 compared to the same period in 2001 primarily due to (a) the one-time $109 million gain discussed above, (b) the $16 million net gain recognized in fuel expense discussed above, (c) a $4 million increase in trading and power origination gross margins which increased from $3 million for the six months ended June 30, 2001 to $7 million for the same period in 2002 due to an increase in power trading volumes and trading origination transactions, and (d) a $5 million increase in plant margins due to increases in electric sales volumes and decreased fuel prices. Offsetting these increases were the $30 million payment received during the second quarter of 2001 from NEA, and decreased margins on ancillary services of $4 million. Further offsetting the increase in gross margin were unscheduled plant outages at certain of Reliant Resources' electric generating facilities in the first six months of 2002. Reliant Resources estimates that these unplanned outages resulted in a net decrease in gross margin of approximately $7 million.

Operation and maintenance and other expenses increased by $6 million for the three months ended June 30, 2002 compared to the same period in 2001. The increase was primarily attributable to increased consulting fees and employee benefit expenses, as well as increased expenses associated with overall trading business growth, primarily stemming from Reliant Resources' United Kingdom operations, which began in July 2001.

Operation and maintenance and other expenses increased by $13 million for the six months ended June 30, 2002 compared to the same period in 2001. The increase was primarily attributable to the reasons discussed above plus increased environmental expenditures of $2 million, and reversal of a reserve for environmental tax subsidies receivable in 2001 of $4 million.

Depreciation and amortization expenses decreased $5 million during the second quarter of 2002 compared to the same period in 2001 primarily due to the cessation of goodwill amortization effective January 1, 2002. During the three months ended June 30, 2001, Reliant Resources' European Energy business segment recorded $6 million in amortization expense related to goodwill. For additional discussion regarding the cessation of goodwill amortization, please read Note 2(q) to Reliant Energy Form 10-K/A Notes and Note 6 to our Interim Financial Statements. This decrease was partially offset by an increase of $1 million in depreciation expense during the same period as a result of capital expenditures in late 2001 associated with Reliant Resources' trading business.

Depreciation and amortization expenses decreased $11 million for the six months ended June 30, 2002 compared to the same period in 2001 primarily due to the cessation of goodwill amortization effective January 1, 2002. During the six months ended June 30, 2001, Reliant Resources' European Energy business segment recorded $13 million in amortization expense related to goodwill. This decrease was partially offset by an increase of $2 million in depreciation expense during the same period as a result of capital expenditures in late 2001 associated with Reliant Resources' trading business.

Other non-operating income decreased $51 million during the three and six months ended June 30, 2002 compared to the same periods in 2001 due to a $51 million gain recorded in the three months ended June 30, 2001, as equity income for the preacquisition gain contingency related to the acquisition of REPGB for the value of its equity investment in NEA. For further discussion of this gain, please read Note 14(h) to the Reliant Energy 10-K/A Notes and Note 13(e) to our Interim Financial Statements.

RETAIL ENERGY

Reliant Resources' Retail Energy business segment provides energy products and services to end-use customers, ranging from residential and small commercial customers to large commercial, industrial and institutional customers. In addition, Reliant Resources' Retail Energy business segment provided billing, customer service, credit and collection services to our Electric Operations business segment and remittance services to our Electric Operations business segment and two of the divisions of our Natural Gas Distribution business segment in 2001. Reliant Resources' Retail Energy business segment charged the regulated electric and natural gas utilities for these services at cost. Reliant Resources' Retail Energy business segment acquired approximately 1.7 million electric retail customers in the Houston metropolitan area when the Texas market opened to full competition in January 2002. During the first half of 2002, the Texas electric retail market was largely focused on the extensive efforts necessary to transition customers from the utilities to the affiliated retail electric providers.

For information regarding factors that may affect the future results of operations of Reliant Resources' Retail Energy business segment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Retail Energy Operations" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference.

The following table provides summary data, including EBIT, of Reliant Resources' Retail Energy business segment for the three months and six months ended June 30, 2001 and 2002:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 36	$ 1,425	$ 63	$ 2,404
Operating Expenses:				
Purchased Power	--	1,099	--	1,941
Operation and Maintenance	37	96	66	165
Depreciation and Amortization	2	6	4	11
Other	--	19	--	33
Total Operating Expenses	39	1,220	70	2,150
Operating (Loss) Income	(3)	205	(7)	254
Other, net	1	--	2	--
Earnings (Loss) Before Interest and Income Taxes	$ (2)	$ 205	$ (5)	$ 254
Operations Data: Electric Sales (GWh):				
Residential		5,294		8,449
Small commercial		2,756		6,043
Large commercial, industrial and institutional		6,880		11,275
Total		14,930		25,767
Customers as of June 30, 2002 (in thousands, metered locations):				
Residential				1,440
Small commercial				213
Large commercial, industrial and institutional				18
Total				1,671

Reliant Resources' Retail Energy business segment's EBIT increased $207 million and $259 million in the three and six months ended June 30, 2002, respectively, compared to the same period in 2001. The increase in EBIT was primarily due to increased gross margins (revenues less purchased power) related to retail electric sales to residential, small commercial and large commercial, industrial and institutional customers resulting from full competition. The increases in gross margins were partially offset by increased operating expenses as further discussed below.

Operating revenues increased $1.4 billion and $2.3 billion in the three and six months ended June 30, 2002, respectively, compared to the same periods in 2001, due to revenues of $1.0 billion and $1.7 billion, respectively, from retail electric sales in the Texas retail market which opened to full competition in January 2002. Revenues related to the managing and optimizing of electric energy supply contributed approximately $395 million and $630 million, respectively, of the increase in revenues for the three and six months ended June 30, 2002 compared to the same periods in 2001. Purchased power expense increased $1.1 billion and $1.9 billion, respectively, for the three and six months ended June 30, 2002 due to costs of approximately $765 million and $1.4 billion, respectively, associated with the retail electric sales and $334 million and $568 million, respectively, associated with managing and optimizing of electric energy supply.

Reliant Resources' Retail Energy business segment's gross margins increased $290 million and $400 million in the three and six months ended June 30, 2002, respectively, compared to the same periods in 2001 primarily due to increased margins of $309 million and $438 million, respectively, from retail electric sales of which $237 million and $343 million, respectively, was increased gross margin for electric sales exclusive of contracted energy sales to large commercial, industrial and institutional customers. Contracted energy sales to large commercial, industrial and institutional customers are accounted for under the mark-to-market method of accounting, and are included in the margins mentioned above. These energy contracts are recorded at fair value in revenues upon contract execution. The net changes in their market values are recognized in the income statement in revenues in the period of the change. Realized gains and losses are included in operating revenues and operating expenses in the

results of operations. During the three and six months ended June 30, 2002, Reliant Resources' Retail Energy business segment recognized $66 million and $77 million, respectively, of gross margins related to commercial, industrial and institutional energy contracts compared to $11 million and $15 million, respectively, in the same periods in 2001, respectively. Included in these margins are unrealized losses related to these contracts which were $13

million and $8 million in the three and six months ended June 30, 2002, respectively, compared to unrealized gains of $11 million and $15 million, respectively, in the same periods in 2001. For information regarding the accounting for contracted energy sales to large commercial, industrial and institutional customers, please read Notes 2(d) and 5 to the Reliant Energy 10-K/A Notes, which notes are incorporated by reference herein.

In addition, in the three and six months ended June 30, 2001, $11 million and $24 million, respectively, of revenues were recorded for billing, customer service, credit and collection and remittance services charged to Reliant Energy's regulated electric utility and two of its natural gas distribution divisions. The associated costs are included in operation and maintenance expenses and other expenses. The service agreement governing these services terminated on December 31, 2001.

Operations and maintenance expenses and other expenses increased $78 million and $132 million in the three and six months ended June 30, 2002 compared to the same periods in 2001, respectively, primarily due to (a) increased gross receipts taxes of $19 million and $33 million, respectively, (b) personnel and employee related costs and other administrative costs of $47 million and $83 million, respectively, due to the Texas retail market opening to full competition in January 2002, (c) increased bad debt reserves of $14 million and $24 million, respectively, associated with increased retail electric sales and (d) increased marketing costs of $6 million and $9 million, respectively, due to the Texas retail market opening to full competition.

Depreciation and amortization expense increased $4 million and $7 million in the three and six months ended June 30, 2002, respectively, compared to the same periods in 2001 primarily due to depreciation of information systems developed and placed in service to meet the needs of Reliant Resources' retail businesses. In addition, for the three and six months ended June 30, 2001, Reliant Resources' Retail Energy business segment recorded $1 million for both periods for amortization expense related to goodwill. For information regarding the cessation of goodwill amortization, please read Note 2(q) to the Reliant Energy 10-K/A Notes and Note 6 to our Interim Financial Statements, which notes are incorporated herein by reference.

The Electric Reliability Council of Texas (ERCOT) independent system operator (ERCOT ISO) is responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT market. The ERCOT ISO is also responsible for handling scheduling and settlement for all electricity supply volumes in the Texas deregulated electricity market. As part of settlement, the ERCOT ISO communicates the actual volumes delivered compared to the volumes scheduled. The ERCOT ISO calculates an additional charge or credit based on the difference between the actual and scheduled volumes, based on a market clearing price. Settlement charges also include allocated costs such as unaccounted-for energy. Preliminary settlement information is due from ERCOT within two months after electricity is delivered. Final settlement information is due from ERCOT within twelve months after electricity is delivered. As a result, Reliant Resources records their supply costs using scheduled supply volumes and adjusts those costs upon receipt of settlement and consumption information.

The ERCOT ISO is also responsible for ensuring that information relating to a customer's choice of retail electric provider is conveyed in a timely manner to anyone needing the information. Problems in the flow of information between the ERCOT ISO, the transmission and distribution utility and the retail electric providers have resulted in delays in enrolling and billing customers. While the flow of information is improving, operational problems in the new systems and processes are still being worked out.

Reliant Resources' Retail Energy business segment is dependent on the local transmission and distribution utilities for the reading of their customers' energy meters and is required to rely on the local utility or, in some cases, the independent transmission system operator, to provide them with their customers' information regarding energy usage, such as historical usage patterns, and they may be limited in their ability to confirm the accuracy of the information. The provision of inaccurate information or delayed provision of such information by the local utilities or system operators could have a material negative impact on Reliant Resources' business and results of operations and cash flows.

The Texas Utility Commission regulations allow Reliant Resources to request an adjustment to the fuel factor in their price to beat up to twice a year for their Houston area residential and small commercial customers based on the percentage change in the price of natural gas or increases in the price of purchased energy. Reliant Resources' price to beat fuel factor was initially set by the Texas Utility Commission in December 2001 based on an average forward 12-month natural gas price of $3.11/mmbtu. On May 2, 2002, Reliant Resources filed a request with the Texas Utility Commission to increase the price to beat fuel factor based on a 20% increase in the price of natural gas.

Commission in December 2001 based on an average forward 12-month natural gas price of $3.11/mmbtu. Reliant Resources' requested increase was based on an average forward 12-month natural gas price of $3.73/mmbtu. The requested increase represents a 5.9% increase in the total bill of a residential customer using, on average, 1,000 kWh per month. On June 6, 2002 the administrative law judge recommended to the Texas Utility Commission approval of a 19.9% increase to the price to beat fuel factor based on application of the Texas Utility Commission's price to beat rule. On July 5, 2002, the Texas Utility Commission issued an order delaying Reliant Resources' request as well as the request of each of the other four affiliated retail electric providers requesting adjustments to the price to beat fuel factors and remanded the cases to the administrative law judges requesting additional information in order to validate the Texas Utility Commission's rule. On July 24, 2002, Reliant Resources filed a request in the Travis County District Court that the Court declare that the Texas Utility Commission must apply its current rules to Reliant Resources' request and grant the fuel factor adjustment in accordance with the formula in the rule that the Texas Utility Commission had already approved. The other four affiliated retail electric providers also filed similar requests with the Travis County District Court. The Court issued an order on August 9, 2002 agreeing with Reliant Resources that the Texas Utility Commission must follow the existing rules that govern the adjustment of the price to beat fuel factor. Unless the Texas Utility Commission convenes a special meeting, the earliest a new price to beat could go into effect would be after August 23, 2002, the date of the Texas Utility Commission's next normally scheduled meeting.

OTHER OPERATIONS

Our Other Operations business segment includes the operations of Reliant Energy Thermal Systems, Inc., Reliant Energy Power Systems, Inc., Reliant Resources' new ventures businesses, various real estate used in business operations, remaining operations in Latin America and unallocated corporate costs. After Restructuring and Distribution, our Other Operations business segment will consist primarily of Reliant Energy Thermal Systems, Inc., Reliant Energy Power Systems, Inc., office buildings and other real estate used in our business operations and unallocated corporate costs.

The following table shows EBIT of our Other Operations business segment for the three months and six months ended June 30, 2001 and 2002:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Operating Revenues	$ 29	$ 7	$ 59	$ 10
Operating Expenses	49	12	212	15
Operating Loss	(20)	(5)	(153)	(5)
Other Income (Expense), net	(4)	(10)	(2)	(23)
Loss Before Interest and Income Taxes	$ (24)	$ (15)	$ (155)	$ (28)

Our Other Operations business segment's loss before interest and income taxes decreased by $9 million and $127 million for the three months and six months ended June 30, 2002, respectively, compared to the same periods in 2001. The decline in loss before interest and income taxes for the three months is primarily due to decreased other operating costs in 2002, partially offset by an increased non-cash unrealized loss of $13 million on our AOL Time Warner investment and related indexed debt securities. The decline in loss before interest and income taxes for the six months is primarily due to a $101 million pre-tax, non-cash charge related to the redesign of certain of our benefit plans in anticipation of our separation from Reliant Resources incurred in 2001 and decreased other operating costs in 2002, partially offset by an increased non-cash unrealized loss of $30 million on our AOL Time Warner investment and related indexed debt securities.

TRADING AND MARKETING OPERATIONS

Reliant Energy, primarily through our approximately 83% owned subsidiary, Reliant Resources, trades and markets power, natural gas and other energy-related commodities and provides related risk management services to

their customers. Reliant Resources applies mark-to-market accounting for all of their energy trading, marketing, power origination and risk management services activities. For information regarding mark-to-market accounting, please read Notes 2(d) and 5(a) to the Reliant Energy 10-K/A Notes. These trading activities consist of:

- the domestic energy trading, marketing, power origination and risk management services operations of Reliant Resources' Wholesale Energy business segment;

- the European energy trading and power origination operations of Reliant Resources' European Energy business segment; and

- the large commercial, industrial and institutional customers under retail electricity contracts of Reliant Resources' Retail Energy business segment.

Reliant Resources' domestic and European energy trading and marketing operations enter into derivative transactions with goals of optimizing their current power generation asset position and taking a market position.

Reliant Resources is in the process of evaluating their trading, marketing, power origination and risk management services strategies. In the future, Reliant Resources may reduce their trading, marketing and origination activities, which would likely result in a corresponding decrease in earnings and cash flows.

Reliant Resources' realized and unrealized trading, marketing and risk management services margins are as follows:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2002	2001	2002
	(IN MILLIONS)			
Realized	$ 27	$ 120	$ 129	$ 201
Unrealized	105	(1)	120	(20)
Total	$ 132	$ 119	$ 249	$ 181

Below is an analysis of Reliant Resources' net trading and marketing assets and liabilities for 2002 (in millions):

Fair value of contracts outstanding at December 31, 2001	$ 218
Fair value of new contracts when entered into during the period	46
Contracts realized or settled during the period	(201)
Changes in fair values attributable to changes in valuation techniques and assumptions	18
Changes in fair value attributable to market price and other market changes	147
Fair value of contracts outstanding at June 30, 2002	$ 228

During the six months ended June 30, 2002, Reliant Resources' Retail Energy business segment entered into contracts with large commercial, industrial and institutional customers ranging from six months to four years in duration. These contracts had an aggregate fair value of $35 million at the contract inception dates. Reliant Resources has entered into energy supply contracts to substantially economically hedge these contracts. The fair value of these Retail Energy business segment electric supply contracts was determined by comparing the contractual pricing to the estimated market price for the retail energy delivery and applying the estimated volumes under the provisions of these contracts. This calculation involves estimating the customer's anticipated load volume, and using the forward ERCOT over-the-counter (OTC) commodity prices, adjusted for the customer's anticipated load pattern. Load characteristics in the valuation model include: the customer's expected hourly electricity usage profile, the potential variability in the electricity usage profile (due to weather or operational uncertainties), and the electricity usage limits included in the customer's contract. In addition, estimates include anticipated delivery costs, such as regulatory and transmission charges, electric line losses, ERCOT system operator administrative fees and other market interaction charges, estimated credit risk and administrative costs to serve. The remaining weighted-average duration of these contracts is approximately eighteen months.

Reliant Resources' Retail Energy business segment also enters into

contracts to supply the contracts entered into with large commercial, industrial and institutional customers. These contracts had an aggregate fair value of $6 million at the contract inception dates. The fair values of these contracts are estimated using ERCOT OTC forward price and volatility curves and correlation among power and fuel prices specific to ERCOT, net of credit risk. A significant portion of the value of these contracts required utilization of internal models that yield similar results to externally developed standard industry models. For the contracts extending beyond June 30, 2002, the remaining weighted-average duration of these contracts is less than two years.

The remaining fair value of new contracts recorded at inception of $5 million primarily relates to natural gas transportation contracts entered into by Reliant Resources' Wholesale Energy business segment. The fair values of these Wholesale Energy business segment contracts at inception require the utilization of a spread option model and are estimated using OTC forward price and volatility curves and correlation among natural gas prices at differing locations, net of estimated credit risk. For the contracts extending beyond June 30, 2002, the remaining weighted-average duration of these contracts is less than five years.

During the second quarter of 2002, Reliant Resources changed their methodology for allocating credit reserves between their trading and non-trading portfolios. Total credit reserves calculated for both the trading and non-trading portfolios, which are less than the sum of the independently calculated credit reserves for each portfolio due to common counterparties between the portfolios, are allocated to the trading and non-trading portfolios based upon the independently calculated trading and non-trading credit reserves. Previously, credit reserves were independently calculated for the trading portfolio while credit reserves for the non-trading portfolio were calculated by deducting the trading credit reserves from the total credit reserves calculated for both portfolios. This change in methodology reduced credit reserves relating to the trading portfolio by $18 million.

Below are the maturities of Reliant Resources' contracts related to their trading and marketing assets and liabilities as of June 30, 2002 (in millions):

	FAIR VALUE OF CONTRACTS AT JUNE 30, 2002						
SOURCE OF FAIR VALUE	2003 (1)	2003 (2)	2004	2005	2006	2007 AND THEREAFTER	TOTAL FAIR VALUE
Prices actively quoted	$ 11	$ 2	$ (3)	$ --	$ --	$ --	$ 10
Prices provided by other external sources	137	87	9	5	12	1	251
Prices based on models and other valuation methods	15	(55)	1	(8)	(2)	16	(33)
Total	$ 163	$ 34	$ 7	$ (3)	$ 10	$ 17	$ 228

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(1) Twelve months ended June 30, 2003

(2) The third and fourth quarter of 2003

The "prices actively quoted" category represents Reliant Resources' New York Mercantile Exchange (NYMEX) futures positions in natural gas and crude oil. At June 30, 2002, NYMEX had quoted prices for natural gas and crude oil for the next 72 and 30 months, respectively.

The "prices provided by other external sources" category represents Reliant Resources' forward positions in natural gas and power at points for which OTC broker quotes are available. On average, OTC quotes for natural gas and power extend 72 and 36 months into the future, respectively. Reliant Resources values these positions against internally developed forward market price curves that are constantly validated and recalibrated against OTC broker quotes. This category also includes some transactions whose prices are obtained from external sources and then modeled to hourly, daily or monthly prices, as appropriate.

The "prices based on models and other valuation methods" category contains (a) the value of Reliant Resources' valuation adjustments for liquidity, credit and administrative costs, (b) the value of options not quoted by an exchange or OTC broker, (c) the value of transactions for which an internally developed price curve was constructed as a result of the long-dated nature of the transaction or the illiquidity of the market point, and (d) the value of structured transactions. In certain instances structured transactions can be

composed and modeled by Reliant Resources as simple forwards and options based on prices actively quoted. Options are typically valued using Black-Scholes option valuation models. Although the valuation of the simple structures might not be different from the valuation of contracts in other categories, the effective model price for any given period is a combination of prices from two or more different instruments and therefore has been included in this category due to the complex nature of these transactions.

The fair values in the above table are subject to significant changes based on fluctuating market prices and conditions. Changes in the assets and liabilities from trading, marketing, power origination and price risk management services result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions and the timing of settlements. The most significant parameters impacting the value of Reliant Resources' portfolio of contracts include natural gas and power forward market prices, volatility and credit risk. For

the Retail Energy business segment's sales discussed above, significant variables affecting contract values also include the variability in electricity consumption patterns due to weather and operational uncertainties (within contract parameters). Market prices assume a normal functioning market with an adequate number of buyers and sellers providing market liquidity. Insufficient market liquidity could significantly affect the values that could be obtained for these contracts, as well as the costs at which these contracts could be hedged. Please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of the Reliant Energy Form 10-K/A, which is incorporated herein by reference, for further discussion and measurement of the market exposure in the trading and marketing businesses and discussion of credit risk management.

Based on Reliant Resources' analysis, they believe their increased exposure to non-investment grade or unrated counterparties from December 31, 2001 is not material to their financial position. In addition, Reliant Resources' increase in exposure to non-investment grade or unrated counterparties compared to their total trading and marketing assets and total non-trading derivative assets has not increased significantly from December 31, 2001. For additional information regarding Reliant Resources' credit exposure to counterparties, please read Notes 5 to the Reliant Energy 10-K/A Notes and "Quantitative and Qualitative Disclosures About Market Risk - Credit Risk" in Item 7A of the Reliant Energy Form 10-K/A. Although a number of Reliant Resources' counterparties have experienced downgrades in credit worthiness since December 31, 2001, Reliant Resources has taken steps to mitigate their credit risk to these counterparties through position reductions and credit enhancements.

For additional information, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations - Certain Factors Affecting Our Future Earnings - Factors Affecting the Results of Our Wholesale Energy Operations - Price Volatility," and "- Risks Associated with Our Hedging and Risk Management Activities" in Item 7 of the Reliant Energy Form 10-K/A.

For a description of accounting policies for Reliant Resources' trading and marketing activities, please read Notes 2(d) and 5 to the Reliant Energy 10-K/A Notes.

Reliant Resources seeks to monitor and control their trading risk exposures through a variety of processes and committees. For additional information, please read "Quantitative and Qualitative Disclosures About Market Risk - Risk Management Structure" in Item 7A of the Reliant Energy Form 10-K/A.

CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

For information on other developments, factors and trends that may have an impact on our future earnings, including information relating to an anticipated decline in earnings of our electric business segments due to deregulation of the Texas electric industry, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference. For additional information regarding (a) the California wholesale market and related litigation, please read Notes 13(a) and 13(d) to our Interim Financial Statements, and (b) the Dutch stranded costs, please read Note 13(e) to our Interim Financial Statements.

FERC Notice of Proposed Rulemaking. On July 31, 2002, FERC issued a Notice of Proposed Rulemaking proposing requirements for standardization of basic market rules in the wholesale electricity markets. The stated intent of FERC's proposal is to implement standard rules that will provide for more equal access to electricity markets and more predictability and uniformity in the various parts of the country. The proposal includes provisions for capacity payments, market mitigation, independent market monitoring, transmission and congestion revenue rights, and independent transmission operations and governance. The new requirements will not take effect until Fall 2004. We generally view the proposal as beneficial to the extent that it may further open competitive markets and develop predictable rules that should enhance the stability of our long-term outlook.

FINANCIAL CONDITION

The following table summarizes the net cash provided by (used in) operating, investing and financing activities for the six months ended June 30, 2001 and 2002:

	SIX MONTHS ENDED JUNE 30,	
	2001	2002
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities..	$ 1,081	$ 182
Investing activities..	(1,047)	(3,695)
Financing activities..	(93)	4,078

Net cash provided by operating activities during the six months ended June 30, 2002 decreased $899 million compared to the same period in 2001 primarily due to (a) increased net accounts receivable and accrued unbilled revenues of $1.3 billion; (b) a $100 million settlement payment related to certain stranded cost contracts (please read Note 13(e) to our Interim Financial Statements); (c) settlement of hedges of Reliant Resources' net investment in foreign subsidiaries totaling $144 million; (d) decreased operating income from Reliant Resources' Wholesale Energy business segment; and (e) decreased cash flows from margin deposits related to Reliant Resources' trading and hedging activities. These items were partially offset by (a) increased accounts payable; (b) an increase in recovered fuel costs by our Electric Transmission and Distribution business segment; (c) $142 million of collateral deposits related to Reliant Resources' equipment financing structure returned to them in 2002 coupled with collateral deposits paid in 2001 (please read Note 13(f) to our Interim Financial Statements, which note is incorporated herein by reference); (d) reduced lease prepayments related to Reliant Resources' REMA sale-leaseback agreements (please read Note 13(g) to our Interim Financial Statements, which note is incorporated herein by reference); (e) $50 million related to the settlement of four structured transactions in 2002 (please read Note 4 to our Interim Financial Statements, which note is incorporated herein by reference); and (f) increased cash flows provided by our Retail Energy business segment for retail sales in the first six months of 2002 due to the Texas retail market opening to full competition in January 2002.

Net cash used in investing activities increased $2.6 billion during the six months ended June 30, 2002 compared to the same period in 2001 primarily due to funding of Reliant Resources' acquisition of Orion Power for $2.9 billion on February 19, 2002, partially offset by a decrease in capital expenditures related to the construction of domestic power generation projects during the six months ended June 30, 2002.

Cash flows provided by financing activities increased $4.2 billion during the six months ended June 30, 2002 compared to the same period in 2001 primarily due to an increase in short-term borrowings used to fund Reliant Resources' acquisition of Orion Power and termination of a customer accounts receivable factoring agreement and increased balances in cash and temporary investments, partially offset by $1.7 billion in net proceeds from the initial public offering of Reliant Resources in 2001.

FUTURE SOURCES AND USES OF CASH

The following discussion regarding future sources and uses of cash over the next twelve months is presented separately for our regulated businesses and unregulated businesses consistent with the separate liquidity plans that our management has developed for CenterPoint Energy and Reliant Resources.

RELIANT ENERGY (TO BECOME CENTERPOINT ENERGY SUBSEQUENT TO THE RESTRUCTURING)

FUTURE SOURCES OF CASH FLOWS

Credit Facilities. As of June 30, 2002, we had credit facilities, including facilities of Houston Industries FinanceCo LP (FinanceCo) and RERC Corp., that provided for an aggregate of $5.2 billion in committed credit. As of June 30, 2002, $4.5 billion was outstanding under these facilities including $1.0 billion of commercial paper supported by the facilities, borrowings of $3.5 billion and letters of credit of $2.5 million. For a discussion of the repayment, refinancing and/or amendment of certain of these committed credit facilities and our liquidity concerns, please read Note 8 to our Interim Financial Statements, which note is incorporated herein by reference.

Offerings of Securities. The following table lists shelf registration statements existing at June 30, 2002 for securities expected to be sold in public offerings.

REGISTRANT	SECURITY	AMOUNT(1)	TERMINATING ON DATE OF RESTRUCTURING
Reliant Energy..................	Preferred Stock	$ 230 million	Yes
Reliant Energy..................	Debt Securities	480 million	Yes
Reliant Energy..................	Common Stock	254 million	No
REI Trust II/................... Reliant Energy...............	Trust Preferred and related Junior Subordinated Debentures	125 million	Yes
RERC Corp......................	Debt Securities	50 million	No

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(1) The amount reflects the principal amount of debt securities, the aggregate liquidation value of trust preferred securities and the estimated market value of common stock based on the number of shares registered as of June 28, 2002 and the closing market price of Reliant Energy common stock on that date.

Debt securities having an aggregate principal amount of as much as $1.2 billion are expected to be issued by CenterPoint Energy and/or the transmission and distribution subsidiary of CenterPoint Energy in 2002 following the Restructuring. Additional debt offerings are expected to be made by one or both of these companies in early 2003. Amounts issued in 2002 and 2003 are expected to be affected by the market's perception of our creditworthiness, market conditions and factors affecting our industry. Proceeds from the sale of these debt securities are expected to be used primarily to repay short-term borrowings. In the event CenterPoint Energy elects in 2002 or 2003 to issue

common equity or a security having equity characteristics, proceeds from such offering are also expected to be used primarily to repay short-term borrowings.

Excluding the repayments expected to be made on the transition bonds described in Note 4(a) to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, we have long-term debt maturities of $300 million in November 2002 and $150 million in April 2003. Maturing debt is expected to be refinanced with borrowings under credit facilities.

Money Fund. We have a "money fund" through which we and participating subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money fund's net funding requirements are generally met with commercial paper and/or bank loans. Following the Restructuring, we expect that the terms under which the money fund operates will be modified in accordance with the requirements set forth for registered public utility holding companies under the 1935 Act.

FUTURE USES OF CASH FLOWS

Debt Service Requirements. Debt service requirements will be affected by the overall level of interest rates, credit spreads applicable to the various issuers of debt, the amount of short-term debt that is refinanced with long-term debt and/or equity, and the rate established on $175 million of 5.20% pollution control bonds when such bonds are remarketed in the fourth quarter of 2002. We expect to have large amounts of short-term floating-rate debt throughout 2002.

At June 30, 2002, we had entered into five-year forward starting interest rate swaps having an aggregate notional amount of $1.5 billion to hedge the interest rate on an anticipated offering of five-year notes. The weighted average rate on the swaps was 5.8%. At June 30, 2002, we also had entered into interest rate swaps to fix the rate on $750 million of our floating rate debt. The weighted average rate on these swaps was 3.5% at June 30, 2002 and the swaps expire in 2003 and 2004. While we have, in some instances, hedged our exposure to changes in interest rates by entering into interest rate swaps, the swaps leave us exposed to changes in our credit spread relative to the market indices reflected in the swaps. In addition, there is a risk that the $1.5 billion notional amount of hedges relating to anticipated offerings of debt in 2002 may exceed the principal amount of notes issued in 2002. The requirement that the forward starting swaps be cash settled on the September 4, 2002 start date of the swaps could result in large cash payments or receipts. It is estimated that, at June 30, 2002, the forward starting swaps of $1.5 billion could be terminated at a cost of approximately $74 million. The cash payment or receipt is determined just prior to the earlier of the swap termination date or the mandatory settlement date and may vary significantly depending on interest rate levels. In the event that the notional amount of terminated swaps exceeds the principal amount of any notes issued, 2002 earnings could be impacted by the cash payment or receipt upon the settlement or termination of those swaps that are unrelated to a note offering.

Credit Ratings. Credit ratings impact Reliant Energy's ability to obtain short- and long-term financing, the cost of such financings and the execution of our commercial strategies. For a discussion of our credit ratings and the related factors affecting our future financial position, results of operations and cash flows, please read Note 15(d) to our Interim Financial Statements, which note is incorporated herein by reference.

Zero-Premium Exchangeable Notes due 2029 (ZENS). From July 1, 2002 through August 9, 2002, holders of approximately 12% of the ZENS outstanding exercised their right to exchange their ZENS for cash, resulting in aggregate cash payments by Reliant Energy of $33 million. Holders of ZENS submitted for exchange are entitled to receive a cash payment equal to 95% of the market value of the reference shares of AOL Time Warner common stock. There are 1.5 reference shares of AOL Time Warner common stock for each of the 17.2 million ZENS units originally issued. The exchange market value is calculated using the average closing price per share of AOL Time Warner common stock on the New York Stock Exchange on one or more trading days following the notice date. Payment must be made no later than ten trading days following the notice date. The Company recorded a gain of $9 million related to the exchanges of the ZENS.

A subsidiary of Reliant Energy owns the reference shares of AOL Time Warner common stock and has elected to liquidate such holdings in an amount sufficient to make the cash payments. In connection with exchanges through August 9, 2002, Reliant Energy received net proceeds of $31 million from the liquidation of 3.1 million shares of AOL Time Warner common stock at an average price of $10 per share. Deferred taxes of $43 million became current tax obligations as a result of the ZENS submitted for exchange and the sale of AOL Time Warner common stock. For additional information on deferred taxes related to ZENS, please read Note 13 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference.

Temporary Investments. At June 30, 2002, we had temporary investments in a money market fund of $207 million. In July 2002, we liquidated such investments and used the proceeds to retire short-term debt.

Capital Expenditures. We expect capital requirements to be met with cash flows from operations as well as proceeds from debt offerings and other borrowings. We anticipate investing up to $3.3 billion in capital expenditures between 2002 and 2006, including $477 million expended during the six months ended June 30, 2002. Of this amount, we anticipate expenditures to be approximately $900 million and $700 million in 2002 and 2003, respectively.

Environmental Issues. We anticipate investing up to $468 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance, including $142 million expended during the six months ended June 30, 2002, and potentially up to an additional $88

million by 2007. Of this amount, we anticipate expenditures to be approximately $205 million and $109 million in 2002 and 2003, respectively. These environmental compliance expenditures are included in the capital requirements discussed above. For additional information related to environmental issues, please read Note 13(b) to our Interim Financial Statements, which note is incorporated herein by reference.

Distribution of Texas Genco. In 2002, approximately 20% of Texas Genco is expected to be distributed to holders of CenterPoint Energy common stock. The value of this publicly traded Texas Genco stock will be used to determine the value of Texas Genco for purposes of determining stranded costs.

Fuel Filing. Reliant Energy filed its final fuel reconciliation with the Texas Utility Commission on July 1, 2002. Although previous fuel reconciliation proceedings have generally covered three year periods, this filing covers $8.6 billion in fuel expense and interest incurred between August 1, 1997 and January 30, 2002. Also included in this amount is an under-recovery of $94 million, which was the balance as of July 31, 1997. During this period of time, Reliant Energy collected $8.5 billion in fuel revenues. This results in a current undercollection, including interest, of $144 million as of June 30, 2002. Current substantive rules require that the Texas Utility Commission rule on this case by March 1, 2003. A procedural schedule has been set with a hearing scheduled to begin November 19, 2002. Under the Texas electric restructuring law, the final fuel balance found to be reasonable by the Texas Utility Commission will be reflected in the 2004 true-up proceeding.

Reliant Energy HL&P Rate Matters. An order issued by the Texas Utility Commission on October 3, 2001 (October 3, 2001 Order) established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that Reliant Energy HL&P had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the 1998 transition to competition plan (Transition Plan) and Texas electric restructuring law. In this final order, Reliant Energy HL&P was required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the Transition Plan and the Texas electric restructuring law. Per the October 3, 2001 Order, our Electric Transmission and Distribution business segment recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation. Our Electric Transmission and Distribution business segment began refunding excess mitigation credits with the January 2002 unbundled bills, to be refunded over a seven year period. The annual cash flow impact of the reversal of both redirected and accelerated depreciation is a decrease of approximately $236 million. Under the Texas electric restructuring law, a final settlement of these stranded costs will occur in 2004. For further discussion, please read Note 4(a) to the Reliant Energy 10-K/A Notes.

Treasury Stock Purchases. As of June 30, 2002, we were authorized under our common stock repurchase program to purchase an additional $271 million of our common stock. Our purchases under our repurchase program depend on market conditions, might not be announced in advance and may be made in open market or privately negotiated transactions. CenterPoint Energy has no current plans to engage in a significant stock buy-back program, but may seek to repurchase shares in the open market for use in various benefit and employee compensation plans, or to maintain a targeted balance of outstanding shares to the extent that original issue stock is used for such purposes.

Pension and Postretirement Benefits Funding. We make contributions to achieve adequate funding of company sponsored pension and postretirement benefits in accordance with applicable regulations and rate orders. Due to the decline in current market value of the pension plan's assets, the value of the plan's assets is less than our accumulated pension benefit obligation. As a result, we may be required to record a minimum pension liability adjustment to other comprehensive income during the fourth quarter of 2002, which could be material.

Other Sources/Uses of Cash. Reliant Energy's liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs. We expect our capital requirements to be met with cash flows from operations, short-term borrowings and proceeds from debt and equity offerings, and believe that our current borrowing capability, along with our future anticipated cash flows from operations and proceeds from anticipated sales of securities in the capital markets, assuming successful refinancings of credit facilities as they mature, will be sufficient to meet our cash needs.

RELIANT RESOURCES - UNREGULATED BUSINESSES

FUTURE SOURCES OF CASH FLOWS

Credit Facilities. As of June 30, 2002, Reliant Resources had $8.3 billion in committed credit facilities of which $1.2 billion remained unused. Credit

facilities aggregating $5.4 billion were unsecured. As of June 30, 2002, letters of credit outstanding under these facilities aggregated $803 million. As of June 30, 2002, borrowings of $6.3 billion were outstanding under these facilities. As of June 30, 2002, Reliant Resources had $6.3 billion of committed credit facilities which will expire by June 30, 2003 of which $2.8 billion will expire by December 31, 2002. For a discussion of the repayment, refinancing and/or amendment of certain of these committed credit facilities and Reliant Resources' liquidity concerns, please read Note 8 to our Interim Financial Statements.

Credit Ratings. Credit ratings impact Reliant Resources' ability to obtain short- and long-term financing, the cost of such financing and the execution of Reliant Resources' commercial strategies. For a discussion of Reliant Resources' credit ratings and the related factors affecting their future financial position, results of operations and cash flows, please read Note 15(d) to our Interim Financial Statements.

Orion Power and its Subsidiaries Credit Facilities Covenant Waivers. For a discussion of Orion Power and its subsidiaries covenant waivers during the second quarter of 2002, please read Note 8 to our Interim Financial Statements.

For additional information regarding Orion Power and its subsidiaries' debt obligations, please read Note 8 to our Interim Financial Statements.

For a discussion of other factors affecting Reliant Resources' sources of cash and liquidity, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" in the Reliant Energy Form 10-K/A, which is incorporated herein by reference, and Note 8 to our Interim Financial Statements.

California Trade Receivables. As of June 30, 2002, Reliant Resources was owed a total of $239 million, net of a $49 million reserve for refund, by the Cal ISO, the Cal PX, the California Department of Water Resources, and California Energy Resources Scheduling for energy sales in the California wholesale market during the fourth quarter of 2000 through June 30, 2002. From June 30, 2002 through August 9, 2002, Reliant Resources has collected $1 million of these receivable balances. As of June 30, 2002, Reliant Resources had a pre-tax credit provision of $30 million against these receivable balances. For additional information regarding uncertainties in the California wholesale market, please read Notes 13(a) and 13(d) to our Interim Financial Statements and Notes 14(f) and 14(g) to the Reliant Energy 10-K/A Notes, which notes are incorporated herein by reference.

FUTURE USES OF CASH FLOWS

Generating Projects. As of June 30, 2002, Reliant Resources had one generating facility under construction. Total estimated costs of constructing this facility are $496 million. As of June 30, 2002, Reliant Resources had incurred $212 million of the total projected costs of this project, which was funded primarily from equity and debt facilities. In addition, in connection with the acquisition of Orion Power, Reliant Resources acquired contracts to purchase additional power generation equipment, consisting of steam and combustion turbines and heat recovery steam generators. Remaining costs under the contracts are $548 million or Reliant Resources may cancel the contracts for a total cost of $25 million. Reliant Resources is actively attempting to market this equipment, having determined that it is in excess of their current needs. In addition to these facilities, Reliant Resources is constructing facilities as construction agents under the construction agency agreements, which permit them, to lease or buy each of these facilities at the conclusion of their construction.

Construction Agency Agreement and Equipment Financing Structure. In 2001, Reliant Resources, through several of their subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power generation projects. These special purpose entities are not consolidated by Reliant Resources. In addition, Reliant Resources, through their subsidiary, REPG, has entered into an agreement with a bank whereby the bank, as owner, entered or will enter into contracts for the purchase and construction of power generation equipment and REPG, or its subagent, acts as the bank's agent in connection with administering the contracts for such equipment. For information regarding these transactions, please read Note 13(f) to our Interim Financial Statements.

Payment to Reliant Energy. To the extent that Reliant Resources' price for providing retail electric service to residential and small commercial customers in Reliant Energy's Houston service territory during 2002 and 2003, which price is mandated by the Texas electric restructuring law, exceeds the market price of electricity, Reliant Resources may be required to make a payment to Reliant Energy in early 2004 unless the Texas Utility Commission determines that, on or prior to January 1, 2004, 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers, as applicable, within Reliant Energy's electric utility's Houston service territory as of January 1, 2002 is committed to be served by retail electric providers other than Reliant Resources. Currently, Reliant Resources is unable to estimate the amount of such payment, if any.

Restricted Cash. All of Reliant Resources' operations are conducted by their subsidiaries. Reliant Resources' cash flow and their ability to service parent-level indebtedness when due is dependent upon their receipt of cash dividends, distributions or other transfers from their subsidiaries. The terms of some of Reliant Resources' subsidiaries' indebtedness restrict their ability to pay dividends or make restricted payments to Reliant Resources in some circumstances. Under the credit agreements of certain of Orion Power's subsidiaries, these subsidiaries are restricted from distributing cash to Orion Power. In addition, covenants under some indebtedness of Orion Power restrict its ability to pay dividends to Reliant Resources unless Orion Power meets certain conditions, including the ability to incur additional indebtedness without violating the required fixed charge coverage ratio of 2.0 to 1.0. A credit facility of Orion Power also restricts its ability to pay dividends to Reliant Resources unless the restrictions contained in certain of its subsidiaries' credit agreements have terminated and no restrictions remain under their credit agreements. As of June 30, 2002, Reliant Resources had restricted cash totaling $374 million related to Orion Power and its subsidiaries.

In addition, the ability of REMA, Reliant Resources' subsidiary that owns some of the power generation facilities in Reliant Resources' Northeast regional portfolio, to pay dividends or make payments to Reliant Resources is restricted under the terms of three lease agreements under which Reliant Resources leases all or an undivided interest in these generating facilities. These agreements allow REMA to pay dividends or make restricted payments only if specified conditions are satisfied, including maintaining specified fixed charge coverage ratios. As of June 30, 2002, the specified conditions were satisfied.

Counterparty Credit Risk. Reliant Resources is exposed to the risk that counterparties who owe them money or physical commodities, such as energy or gas, as a result of market transactions fail to perform their obligations. Should the counterparties to these arrangements fail to perform, Reliant Resources might incur losses if Reliant Resources is forced to acquire alternative hedging arrangements or replace the underlying commitment at then-current market prices. In addition, Reliant Resources might incur additional losses to the extent of amounts, if any, already paid to the defaulting counterparties.

The output of the Liberty Electric Generating Station is contracted under a tolling agreement (Tolling Agreement) for a term of approximately 14 years, with an option to extend at the end of the term. Standard & Poor's and Moody's have downgraded to below investment grade status the senior unsecured debt of PG&E National Energy Group, Inc., one of the two guarantors of PG&E Energy Trading-Power, L.P.'s (PGET) obligations under the Tolling Agreement. The downgrade constitutes an Event of Default by PGET under the Tolling Agreement unless PGET posts replacement security within ten business days after Liberty Electric Power, LLC (LEP) notifies PGET of the default. On August 5, LEP notified PGET of the default. PGET has informed LEP that it will not post the replacement credit support within the 10 business days period. While LEP could terminate the Tolling Agreement pursuant to the terms of the Tolling Agreement, there are certain limitations in the Liberty Credit Agreement on LEP's ability to take unilateral action in response to a PGET Event of Default.

Generating Capacity Auction Letter of Credit. After the Distribution, Reliant Resources will be required to post letters of credit to secure the entitlements to the generation capacity of Reliant Energy's Texas electric utility generation assets (Texas Genco) that they purchase in the capacity auctions conducted by Texas Genco. If Reliant Resources was not an affiliate as of June 30, 2002, they would have been required to post letters of credit to secure their entitlements to Texas Genco's capacity.

Treasury Stock Purchases. On December 6, 2001, Reliant Resources' Board of Directors authorized Reliant Resources to purchase up to 10 million additional shares of their common stock through June 2003. Purchases will be made on a discretionary basis in the open market or otherwise at times and in amounts as determined by management subject to market conditions, legal requirements and other factors. Since the date of this authorization through August 9, 2002, Reliant Resources has not purchased any shares of their common stock under this program.

Other Sources/Uses of Cash. Reliant Resources' liquidity and capital requirements are affected primarily by the results of operations, capital expenditures, debt service requirements, working capital needs and collateral requirements. Energy and capital markets permitting, Reliant Resources expect to grow through the construction of new generation facilities and the acquisition of generation facilities, and the expansion of their energy retail business. Reliant Resources expects any resulting capital requirements to be met with cash flows from operations, and proceeds from debt and equity offerings, project financings, securitization of assets, other borrowings and off-balance sheet financings. Additional capital expenditures, some of which may be substantial, depend to a large extent upon the nature and extent of future project commitments, which are discretionary. Reliant Resources believes that their current level of cash and borrowing capability, along with their future anticipated cash flows from operations and assuming successful refinancings of

credit facilities as they mature, will be sufficient to meet the existing operational and collateral needs of their business for the next 12 months. If cash generated from operations is insufficient to satisfy their liquidity requirements, Reliant Resources may seek to sell either equity or debt securities, sell assets or obtain additional credit facilities or long-term financings from financial institutions.

CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the portrayal of our financial condition and results of operations and requires management to make difficult, subjective or complex judgments. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be perceived with certainty. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes.

We believe the following are the most significant estimates used in the preparation of our consolidated financial statements.

ACCOUNTING FOR RATE REGULATION

SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated entities account for and report assets and liabilities consistent with the recovery of those costs in rates if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. Our rate-regulated businesses follow the accounting and reporting requirements of SFAS No. 71. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. The total amounts of regulatory assets and liabilities reflected in the Consolidated Balance Sheets are $3.3 billion and $1.4 billion at December 31, 2001, respectively, and $3.4 billion and $1.1 billion at June 30, 2002, respectively.

Application of SFAS No. 71 to the generation portion of our business was discontinued as of June 30, 1999. Only the electric transmission and distribution business, the natural gas distribution companies and one of our interstate pipelines are subject to SFAS No. 71 after January 1, 2002. We have recorded regulatory assets and liabilities related to stranded costs associated with our electric generation operations. Under the Texas electric restructuring law, a final settlement of these stranded costs will occur in 2004. In the event that regulation significantly changes the probability for us to recover our costs in the future, a write-down of all or a portion of our existing regulatory assets and liabilities could result.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, which include property, plant and equipment, goodwill and other intangibles and equity investments comprise a significant amount of our total assets. We make judgments and estimates in conjunction with the carrying value of these assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, the carrying values of these assets are periodically reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recorded in the period in which it is determined that the carrying amount is not recoverable. This requires us to make long-term forecasts of future revenues and costs related to the assets subject to review. These forecasts require assumptions about demand for our products and services, future market conditions and regulatory developments. Significant and unanticipated changes to these assumptions could require a provision for impairment in a future period.

UNBILLED ENERGY REVENUES

Revenues related to the sale of energy are generally recorded when service is rendered or energy is delivered to customers. However, the determination of the energy sales to individual customers is based on the reading of their meters which are read on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Beginning in January 2002, this unbilled electric revenue is estimated each month based on daily supply volumes, line losses and applicable customer rates based on analyses reflecting significant historical trends and experience as well as related supply costs for Reliant Resources' Retail Energy business segment. Unbilled natural gas sales are estimated based on estimated purchased gas volumes, estimated lost and unaccounted for gas and tariffed rates in effect. Accrued unbilled revenues recorded in the Consolidated Balance Sheet as of December 31, 2001 were $33 million related to our Electric Transmission and Distribution business segment, $19 million related to Reliant Resources' Retail Energy business segment and $188 million related to our Natural Gas Distribution business segment. Accrued unbilled revenues recorded in the Consolidated Balance Sheet as of June 30, 2002 were $89 million related to our Electric Transmission and Distribution business segment, $498 million related to Reliant Resources' Retail Energy business segment and $22 million related to our Natural Gas Distribution business segment.

ACCOUNTING FOR DERIVATIVES AND HEDGING INSTRUMENTS

SFAS No. 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires an entity to recognize the fair value of derivative instruments held as assets or liabilities on the balance sheet. In accordance with SFAS No. 133, the effective portion of the change in the fair value of a derivative instrument designated as a cash flow hedge is reported in other comprehensive income, net of tax. Amounts in accumulated other comprehensive income are ultimately recognized in earnings when the related hedged forecasted transaction occurs. The change in the fair value of the ineffective portion of the derivative instrument designated as a cash flow hedge is recorded in earnings. Derivative instruments that have not been designated as hedges are adjusted to fair value through earnings.

We utilize derivative instruments such as futures, physical forward contracts, swaps and options to mitigate the impact of changes in electricity, natural gas and fuel prices on our operating results and cash flows. We utilize cross-currency swaps, forward contracts and options to hedge our net investments in and cash flows of our foreign subsidiaries, interest rate swaps to mitigate the impact of changes in interest rates and other financial instruments to manage various other market risks.

The determination of fair values of trading and marketing assets and liabilities for our energy trading, marketing and price risk management operations and non-trading derivative assets and liabilities, including stranded cost obligations related to Reliant Resources' European Energy operations, are based on estimates. For further discussion, please read " -- Trading and Marketing Operations" and "Quantitative and Qualitative Disclosures About Market Risk" in Item 3 of this Form 10-Q and Note 4 to our Interim Financial Statements.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 "Business Combinations" (SFAS No. 141). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. We adopted the provisions of the statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002. The adoption of SFAS No. 141 did not have a material impact on our historical results of operations or financial position.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 did not materially change the methods used by us to measure impairment losses on long-lived assets, but may result in additional future dispositions being reported as discontinued operations than was previously permitted. We adopted SFAS No. 144 on January 1, 2002.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment will be effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting will be effective for transactions occurring after May 15, 2002. The Company will apply this guidance prospectively.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146). SFAS No. 146 nullifies Emerging Issues Task Force (EITF) No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" (EITF No. 94-3). The principal difference between SFAS No. 146 and EITF No. 94-3 relates to the requirements for recognition of a liability for costs associated with an exit or disposal activity. SFAS No. 146 requires that a liability be recognized for a cost associated with an exit or disposal activity when it is incurred. A liability is incurred when a transaction or event occurs that leaves an entity little or no discretion to avoid the future transfer or use of assets to settle the liability. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. In addition, SFAS No. 146 also requires that a liability for a cost associated with an exit or disposal activity be recognized at its fair value when it is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged. We will apply the provisions of SFAS No. 146 to all exit or disposal activities initiated after December 31, 2002

See Note 4 to our Interim Financial Statements for a discussion of our adoption of SFAS No. 133 on January 1, 2001 and adoption of subsequent cleared guidance. See Note 6 to our Interim Financial Statements for a discussion of our adoption of SFAS No. 142, "Goodwill and Other Intangible Assets".

In June 2002, the EITF reached a consensus on EITF No. 02-03 that all mark-to-market gains and losses on energy trading contracts should be shown net in the income statement whether or not settled physically. An entity should disclose the gross transaction volumes for those energy trading contracts that are physically settled. The EITF did not reach a consensus on whether recognition of dealer profit, or unrealized gains and losses at inception of an energy trading contract is appropriate in the absence of quoted market prices or current market transactions for contracts with similar terms. The FASB staff indicated that until such time as a consensus is reached, the FASB staff will continue to hold the view that previous EITF consensus do not allow for recognition of dealer profit, unless evidenced by quoted market prices or other current market transactions for energy trading contracts with similar terms and counterparties. The consensus on presenting gains and losses on energy trading contracts net is effective for financial statements issued for periods ending after July 15, 2002. Upon application of the consensus, comparative financial statements for prior periods should be reclassified to conform to the consensus. We currently report all trading, marketing and risk management services transactions on a gross basis with such transactions being reported in revenues and expenses except primarily for financial gas transactions such as swaps. Beginning with the quarter ended September 30, 2002, we will report all energy trading and marketing activities on a net basis in the Statements of Consolidated Income pursuant to EITF No. 02-03. Although we are in the process of determining the effect of adoption of EITF No. 02-03 on our Statements of Consolidated Income, we expect the adoption will result in a substantial reduction in operating revenues, fuel and cost of gas sold, and purchased power.

During the first quarter of 2002, the FASB considered proposed approaches related to identifying and accounting for special-purpose entities. The current proposal being considered by the FASB would limit special purpose entities used by a company for financing and other purposes not being consolidated with its results of operations. One criterion being considered is to require consolidation of a special purpose entity if the equity investments held by third-party owners in the special purpose entity are less than 10% of capitalization. The FASB likely will not grandfather special purpose entities existing at the date the final interpretation is issued. Special purpose entities in existence at the date of adoption of this interpretation will likely be consolidated by the primary beneficiary. For information regarding special purpose entities affiliated with Reliant Resources, please read Notes 13(f) and (g) to our Interim Financial Statements.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

COMMODITY PRICE RISK

We assess the risk of our non-trading derivatives (Energy Derivatives) using a sensitivity analysis method, and we assess the risk of our trading derivatives (Trading Derivatives) using the value-at-risk (VAR) method, in order to maintain our total exposure within management-prescribed limits.

The sensitivity analysis performed on our Energy Derivatives measures the potential loss based on a hypothetical 10% movement in energy prices. A decrease of 10% in the market prices of energy commodities from their June 30, 2002 levels would have decreased the fair value of our Energy Derivatives from their levels on those

respective dates by $69 million, excluding non-trading derivative liabilities associated with Reliant Resources' European Energy business segment's stranded cost gas contracts.

Reliant Resources' European Energy business segment's stranded cost gas import contract has exposure to commodity price movements. For information regarding this contract, please read Notes 4 and 13(e) to our Interim Financial Statements. A decrease of 10% in market prices of energy commodities from their June 30, 2002 levels would result in a loss of $73 million.

We utilize the variance/covariance model of VAR, which is a probabilistic model that measures the estimated risk of loss to earnings in market sensitive instruments based on historical experience. With respect to Trading Derivatives, our highest, lowest and average daily VAR were $29 million, $13 million and $17 million, respectively, during the second quarter of 2002 and $29 million, $13 million and $18 million, respectively, during the first six months of 2002 based on a 95% confidence level and primarily a one day holding period. During the second quarter of 2001, our highest, lowest and average daily VAR were $16 million, $3 million and $7 million, respectively, and during the first six months of 2001, our highest, lowest and average monthly VAR were $18 million, $3 million and $8 million, respectively, based on a 95% confidence level and primarily a one day holding period.

We cannot assure you that market volatility, failure of counterparties to meet their contractual obligations, transactions entered into after the date of this Form 10-Q or a failure of risk controls will not lead to significant losses from our trading, marketing and risk management activities.

INTEREST RATE RISK

We have outstanding long-term debt, bank loans and commercial paper obligations, mandatory redeemable preferred securities of subsidiary trusts holding solely our junior subordinated debentures (Trust Preferred Securities), securities held in our nuclear decommissioning trusts, some lease obligations and our obligations under the 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) that subject us to the risk of loss associated with movements in market interest rates. We utilize interest-rate swaps in order to hedge portions of our floating-rate debt and to hedge a portion of the interest rate applicable to future offerings of long-term debt.

Our floating-rate obligations borrowed from third parties aggregated $10.6 billion at June 30, 2002. If the floating rates were to increase by 10% from June 30, 2002 rates, our combined interest expense to third parties would increase by a total of $2.7 million each month in which such increase continued.

At June 30, 2002, we had outstanding fixed-rate debt (excluding indexed debt securities) and Trust Preferred Securities aggregating $6.8 billion in principal amount and having a fair value of $6.6 billion. These instruments are fixed-rate and, therefore, do not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of these instruments would increase by approximately $1.1 billion if interest rates were to decline by 10% from their levels at June 30, 2002. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments in the open market prior to their maturity.

As discussed in Note 14(k) to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, we contributed $14.8 million in 2001 to trusts established to fund our share of the decommissioning costs for the South Texas Project. In 2002, we began contributing $2.9 million per year to these trusts. The securities held by the trusts for decommissioning costs had an estimated fair value of $169 million as of June 30, 2002, of which approximately 45% were fixed-rate debt securities that subject us 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 June 30, 2002, the fair value of the fixed-rate debt securities would decrease by approximately $2 million. 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 we believe that our future contributions, which are currently recovered through the ratemaking process, will be adjusted for these gains and losses. For further discussion regarding the recovery of decommissioning costs pursuant to the Texas electric restructuring law, please read Note 4(a) to the Reliant Energy 10-K/A Notes.

As discussed in Note 10(b) to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, RERC Corp.'s $500 million aggregate principal amount of 6 3/8% Term Enhanced Remarketable Securities include

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 June 30, 2002, we could terminate the option at a cost of $25 million. A decrease of 10% in the June 30, 2002 level of interest rates would increase the cost of termination of the option by approximately $13 million.

As discussed in Note 8 to the Reliant Energy 10-K/A Notes, which note is incorporated herein by reference, upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component of $122 million and a derivative component of $788 million. The debt component of $122 million is a fixed-rate obligation and, therefore, does not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of the debt component would increase by approximately $18 million if interest rates were to decline by 10% from levels at June 30, 2002. Changes in the fair value of the derivative component will be recorded in our Statements of Consolidated Income and, therefore, we are exposed to changes in the fair value of the derivative component as a result of changes in the underlying risk-free interest rate. If the risk-free interest rate were to increase by 10% from June 30, 2002 levels, the fair value of the derivative component would increase by approximately $6 million, which would be recorded as a loss in our Statements of Consolidated Income.

As of June 30, 2002, we have interest rate swaps with an aggregate notional amount of $2.0 billion that fix the interest rate applicable to floating rate short-term debt and long-term debt. At June 30, 2002, the swaps relating to short-term and long-term debt could be terminated at a cost of $28 million. Of these swaps, $0.8 billion relating to short-term debt do not qualify as cash flow hedges under SFAS No. 133, and are marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income. The remaining $1.2 billion in swaps relating to both short-term and long-term debt qualify for hedge accounting under SFAS No. 133 and the periodic settlements are recognized as an adjustment to interest expense in the Statements of Consolidated Income over the term of the swap agreements. A decrease of 10% in the June 30, 2002 level of interest rates would increase the cost of terminating the swaps related to short-term debt and long-term debt outstanding at June 30, 2002 by $16 million.

As of June 30, 2002, we have entered into forward-starting interest rate swaps having an aggregate notional amount of $2 billion to hedge the interest rate on future offerings of long-term fixed-rate notes. At June 30, 2002, these swaps could be terminated at a cost of $91 million. These swaps qualify as cash flow hedges under SFAS No. 133. Should the forecasted interest payments no longer be probable, any deferred amount will be recognized immediately into income. A decrease of 10% in the June 30, 2002 level of interest rates would increase the cost of terminating these swaps by $17 million.

FOREIGN CURRENCY EXCHANGE RATE RISK

As of June 30, 2002, we have entered into foreign currency swaps and foreign exchange forward contracts and have issued Euro-denominated debt to hedge our net investment in Reliant Resources' European Energy business segment. Changes in the value of the swaps, forwards and debt are recorded as foreign currency translation adjustments as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of June 30, 2002, we have recorded a $9 million gain in cumulative net translation adjustments. The cumulative translation adjustments will be realized in earnings and cash flows only upon the disposition of the related investments.

As of June 30, 2002, Reliant Resources' European Energy business segment had entered into transactions to purchase approximately $249 million at fixed exchange rates in order to hedge future fuel purchases payable in U.S. dollars. As of June 30, 2002, the fair value of these financial instruments was a $7 million liability. An increase in the value of the Euro of 10% compared to the U.S. dollar from its June 30, 2002 level would result in a loss in the fair value of these foreign currency financial instruments of $24 million. For information regarding the accounting for these financial instruments, see Note 5(b) to the Reliant Energy 10-K/A Notes.

Reliant Resources' European Energy business segment's stranded cost gas contract has foreign currency exposure. An increase of 10% in the U.S. dollar relative to the Euro from their June 30, 2002 levels would result in a loss of earnings of $14 million.

EQUITY MARKET VALUE RISK

We are exposed to equity market value risk through our ownership of approximately 26 million shares of AOL Time Warner common stock, which we hold to facilitate our ability to meet our obligations under the ZENS. Please read Note 8 to the Reliant Energy 10-K/A Notes for a discussion of the effect of adoption of SFAS No. 133 on our ZENS obligation and our historical accounting treatment of our ZENS obligation. Subsequent to adoption of SFAS No. 133, a decrease of 10% from the June 30, 2002 market value of AOL Time Warner common stock would result in a net loss of approximately $3 million, which would be recorded as a loss in our Statements of Consolidated Income.

As discussed above under "-- Interest Rate Risk," we contribute to trusts established to fund our share of the decommissioning costs for the South Texas Project, which held debt and equity securities as of June 30, 2002. The equity securities expose us to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at June 30, 2002, the resulting loss in fair value of these securities would be approximately $9 million . Currently, the risk of an economic loss is mitigated as discussed above under "-- Interest Rate Risk."

We have an investment in Itron, Inc. (Itron), which is classified as "available-for-sale" under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". As of June 30, 2002, the value of the Itron investment was $7 million. The Itron investment exposes us 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 June 30, 2002 level would decrease the fair value by less than $1 million.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

For a description of legal proceedings affecting Reliant Energy, please read Note 13 to our Interim Financial Statements, the discussion under "Our Business -- Environmental Matters" and Item 3 of the Reliant Energy Form 10-K/A and Notes 4 and 14 to the Reliant Energy 10-K/A Notes, all of which are incorporated herein by reference.

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

At the annual meeting of Reliant Energy's shareholders held on June 5, 2002, the matters voted upon and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to such matters (including a separate tabulation with respect to each nominee for office) were as stated below:

The following nominee for Class III directors was elected to serve a three-year term expiring 2005 (there were no broker non-votes):

	For	Withheld
O. Holcombe Crosswell	249,600,527	13,073,233

The following directors' terms continued after the meeting and expire when indicated:

Robert J. Cruikshank (2003),
T. Milton Honea (2003),
Laree E. Perez (2003),
Milton Carroll (2004),
John T. Cater (2004), and
R. Steve Letbetter (2004).

Previous Class III directors James A. Baker, III and Richard E. Balzhiser retired from the board of directors at the expiration of their terms.

The ratification of the appointment of Deloitte & Touche LLP as independent accountants and auditors for Reliant Energy for 2002 was approved with 244,915,165 votes for, 15,378,170 votes against, 2,374,925 abstentions and 5,500 broker non-votes.

The shareholder proposal to adopt a policy stating that the public accounting firm retained by Reliant Energy to provide audit services, or any affiliated company, should not also be retained to provide non-audit services to Reliant Energy was not approved with 136,560,646 votes against, 57,683,351 votes for, 24,625,782 abstentions and 43,803,981 broker non-votes.

The shareholder proposal to require that the board of directors of Reliant Energy (the "Board") include in future proxy statements a description of the Board's role in the development and monitoring of Reliant Energy's long-term strategic plan was not approved with 181,694,663 votes against, 30,173,752 votes for, 7,001,364 abstentions and 43,803,981 broker non-votes.

ITEM 5. OTHER INFORMATION.

Forward-Looking Statements. From time to time, we make statements concerning our 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. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should," "will," "forecast," "goal," "objective," "projection," or other similar words.

We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

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

- state, federal and international legislative and regulatory developments, including deregulation; re-regulation and restructuring of the electric utility industry; and changes in, or application of environmental, siting and other laws and regulations to which we are subject;
- timing of the implementation of our business separation plan;
- the effects of competition, including the extent and timing of the entry of additional competitors in our markets;
- industrial, commercial and residential growth in our service territories;
- any reduction in our trading, marketing and origination activities;
- our pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities;
- state, federal and other rate regulations in the United States and in foreign countries in which we operate or into which we might expand our operations;
- the timing and extent of changes in commodity prices, particularly natural gas;
- weather variations and other natural phenomena;
- political, legal and economic conditions and developments in the United States and in foreign countries in which we operate or into which we might expand our operations, including the effects of fluctuations in foreign currency exchange rates;
- financial market conditions and the results of our financing efforts, including our ability to replace substantial bank credit facilities that are due to terminate in 2002 and early 2003;
- ramifications from the bankruptcy filing of Enron Corp.;
- any direct or indirect effect on our business resulting from the September 11, 2001 terrorist attacks or any similar incidents or responses to such incidents;
- the performance of our projects;
- the outcome of pending securities lawsuits; and
- other factors we discuss in the Reliant Energy Form 10-K/A, including those outlined in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings."

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

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

(a) Exhibits.

Exhibit 99	Items incorporated by reference from the Reliant Energy Form 10-K/A: Item 1 "Our Business - RERC Corp. Restructuring," Item 3 "Legal Proceedings," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" and "- Certain Factors Affecting Our Future Earnings," Item 7A - Quantitative and Qualitative Disclosures About Market Risk," and Notes 1 (Background and Basis of Presentation), 2(d) (Revenues), 2(e) (Long-Lived Assets and Intangibles), 2(f) (Regulatory Assets and Liabilities), 2(l) (Investment in Debt and Equity Securities), 2(q) (New Accounting Pronouncements), 3 (Business Acquisitions), 4 (Regulatory Matters), 5 (Derivative Financial Instruments), 8 (Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities), 10(b) (Long-term Debt), 11 (Trust Preferred Securities), 13 (Income Taxes), 14 (Commitments and Contingencies), 21 (Bankruptcy of Enron Corp. and its Affiliates) and 22 (Subsequent Events) of the Reliant Energy 10-K/A Notes.
Exhibit 10.1	First Amendment to $2,500,000,000 Senior A Credit Agreement dated as of July 12, 2002 among Houston Industries FinanceCo L.P., Reliant Energy, Incorporated and the lender thereto.
Exhibit 10.2	First Amendment to $1,800,000,000 Senior B Credit Agreement dated as of July 12, 2002 among Houston Industries FinanceCo L.P., Reliant Energy, Incorporated and the lender parties thereto.
Exhibit 10.3	First Amendment to $400,000,000 Amended and Restated Revolving Credit and Competitive Advance Facilities Agreement dated as of July 12, 2002 among Houston Industries FinanceCo L.P., Reliant Energy, Incorporated and the banks named therein.
Exhibit 10.4	Fourth Amendment to Houston Industries Incorporated Long-Term Incentive Compensation Plan, effective January 1, 2001.
Exhibit 10.5	First Amendment to NorAm Energy Corp. 1994 Incentive Equity Plan, effective January 1, 2001.
Exhibit 10.6	Reliant Energy, Incorporated 1994 Long-Term Incentive Compensation Plan, as amended and restated effective January 1, 2001.
Exhibit 10.7	Form of Stock Option Agreement for non-qualified options granted under the Reliant Energy, Incorporated 1994 Long-Term Incentive Compensation Plan.
Exhibit 10.8	Reliant Energy, Incorporated Savings Plan, as amended and restated April 1, 1999 (incorporated by reference to Exhibit 10(cc)(l) to Reliant Energy's Form 10-K for the year ended December 31, 1999).
Exhibit 10.9	First Amendment to Reliant Energy, Incorporated Savings Plan, as amended and restated April 1, 1999, effective as of the dates specified therein.
Exhibit 10.10	Second Amendment to Reliant Energy, Incorporated Savings Plan, as amended and restated April 1, 1999, effective as of the dates specified therein.
Exhibit 10.11	Third Amendment to Reliant Energy, Incorporated Savings Plan, as amended and restated April 1, 1999, effective as of the dates specified therein.
Exhibit 10.12	Fourth Amendment to Reliant Energy, Incorporated Savings Plan, as amended and restated April 1, 1999, effective as of the dates specified therein.

(b) Reports on Form 8-K.

On April 8, 2002, we filed a Current Report on Form 8-K dated April 5, 2002, announcing the SEC informal inquiry.

On April 29, 2002, we filed a Current Report on Form 8-K dated April 29, 2002, relating to the announcement of first quarter 2002 results.

On July 5, 2002, we filed a Current Report on Form 8-K dated July 5, 2002, in order to provide updated information regarding certain investigations, litigation and governmental proceedings involving Reliant Energy and/or its subsidiaries, including its approximately 83% owned subsidiary Reliant Resources, Inc.

On July 15, 2002, we filed a Current Report on Form 8-K dated July 12, 2002, announcing the extension of $4.7 billion in credit facilities of Reliant Energy.

On July 25, 2002, we filed a Current Report on Form 8-K dated July 25, 2002, relating to the announcement of second quarter 2002 results.

On August 1, 2002, we filed a Current Report on Form 8-K dated July 31, 2002 announcing that on July 31, 2002, Moody's Investors Service, Inc. and Standard & Poor's Rating Services took various actions related to the credit ratings of Reliant Energy, Incorporated and its subsidiaries. Also on July 31, 2002, Reliant Energy announced that the Internal Revenue Service had issued a supplemental ruling confirming that the proposed spin-off of Reliant Resources from Reliant Energy will be tax-free to Reliant Energy and its shareholders.

SIGNATURE

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

RELIANT ENERGY, INCORPORATED
(Registrant)

By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Senior Vice President and Chief Accounting Officer

Date: August 14, 2002

EXHIBIT 10.1

FIRST AMENDMENT TO CREDIT AGREEMENT

FIRST AMENDMENT (this "Amendment"), dated as of July 12, 2002, to the $2,500,000,000 Senior A Credit Agreement, dated as of July 13, 2001 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among HOUSTON INDUSTRIES FINANCECO LP, a Delaware limited partnership (the "Borrower"), RELIANT ENERGY, INCORPORATED, a Texas corporation ("Reliant Energy"), the several banks and other financial institutions (the "Banks") and agents from time to time parties thereto and JPMORGAN CHASE BANK (f/k/a The Chase Manhattan Bank), as administrative agent for the Banks (in such capacity, the "Agent").

W I T N E S S E T H :

WHEREAS, the Borrower, Reliant Energy, the Banks and the Agent are parties to the Credit Agreement; and

WHEREAS, the Borrower and Reliant Energy have requested that the Banks agree to extend the Termination Date and amend certain other provisions contained in the Credit Agreement, and the Banks and the Agent are agreeable to such request upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the premises herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Credit Agreement are used herein as therein defined.

2. Amendment to Section 1.1 of the Credit Agreement (Certain Defined Terms). Section 1.1 of the Credit Agreement is hereby amended by deleting, in their entirety, the terms "Applicable Margin", "Consolidated Capitalization", "Designated Rating", "Rating Agencies", "Termination Date" and "Usage Fee" appearing therein and inserting the following new definitions in the appropriate alphabetical order:

""Applicable Margin" means the rate per annum set forth below opposite the Designated Rating from time to time in effect during the period for which payment is due, with respect to any Committed Loan:

Designated Rating	Applicable Margin for LIBOR Rate Loans	Applicable Margin for ABR Loans
BBB+/Baa1 and higher	1.500%	0.500%
BBB/Baa2	1.650%	0.650%
BBB-/Baa3	2.000%	1.000%
BB+/Ba1 or lower or unrated	2.500%	1.500%

In each row in the table set forth above, the first indicated rating corresponds to that assigned by S&P and the second indicated rating corresponds to that assigned by Moody's; the determination of which row of such table is applicable at any time is set forth in the definition of "Designated Rating".

"Consolidated Capitalization" means, as of any date of determination, the sum of (a) Consolidated Shareholders' Equity, (b) Consolidated Indebtedness for Borrowed Money and, without duplication, (c) Mandatory Payment Preferred Stock; provided that for the purpose of calculating compliance with Section 8.4(b), Consolidated Capitalization shall be determined excluding any adjustment, non-cash charge to net income or other non-cash charges or writeoffs resulting thereto from application of SFAS No. 142.

"Designated Rating" means (a) at any time that the Long Term Debt Rating is assigned by both S&P and Moody's and such ratings are equivalent, such rating shall be the Designated Rating, (b) if clause (a) does not apply, (i) at any time that the Long Term Debt Rating is issued by only one of S&P or Moody's, the rating of such debt issued by such Rating Agency shall be the Designated Rating, and (ii) at any time that such debt is rated by both S&P and Moody's, the lower of such ratings and (c) if neither (a) nor (b) apply, if the Long Term Debt Rating is not assigned by either S&P or Moody's, the rating assigned to the senior unsecured debt of Reliant Energy shall be the Designated Rating in accordance with clauses (a) and (b) above. Any change in the calculation of the Facility Fees or the Applicable Margin with respect to the Borrower that is caused by a change in the Designated Rating will become effective on the date of the change in the Designated Rating. If the rating system of any Rating Agency shall change, or if either S&P or Moody's shall cease to be in the business of rating corporate debt obligations, Borrower and the Agent shall negotiate in good faith if necessary to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agencies and, pending the effectiveness of any such amendment, the Designated Rating shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Master Separation Agreement" means the master separation agreement, dated as of December 31, 2000, entered into between Reliant Energy and Unregco providing for, among other things, the Spin-off, as amended, modified or supplemented from time to time.

"Rating Agencies" means S&P and Moody's.

"Term Loans" has the meaning specified in Section 2.1(d).

"Termination Date" means (a) initially October 10, 2002, unless the Majority Banks direct in writing on or prior to September 5, 2002 that such Termination Date shall be September 10, 2002, in which case the Termination Date shall automatically be deemed to be September 10, 2002, or (b) any earlier date on which (i) the Commitments have been terminated in accordance with this Agreement or (ii) all unpaid principal amounts of Loans hereunder have become due and payable in accordance with this Agreement.".

3. Amendment to Section 2.1 of the Credit Agreement (The Committed Loans). Section 2.1 of the Credit Agreement is hereby amended by:

(a) adding at the end of paragraph (b) thereof the following:

"At a reasonable time at least one week prior to September 5, 2002, the Agent shall inquire as to whether requisite Banks intend to send the written direction referred to in the definition of Termination Date and shall notify the Borrower and the Banks if the requisite number of such directives have been received."; and

(b) adding at the end thereof immediately after paragraph (c) thereof a new paragraph (d) as follows:

"(d) Notwithstanding anything to the contrary contained in this Agreement or in the Regco $2.5 Billion Credit Agreement, on July 12, 2002, 75% of the principal amount of the Loans of each Bank outstanding on such date ($1,875,000,000 in aggregate) shall be deemed to be term loans (the "Term Loans"), with the remaining Loans (the "Revolving Loans") and corresponding Commitments (collectively, the "Revolving Facility") retaining their revolving features. Unless the Borrower designates a prepayment of the Loans as a Term Loan prepayment, all prepayments

shall be applied first to outstanding Revolving Loans, and the Commitments made available thereby may be utilized in accordance with this Agreement for borrowings, prepayments or reborrowings and issuances of Letters of Credit, subject to the conditions of this Agreement applicable thereto. Any prepayment designated by the Borrower as a Term Loan prepayment, or any prepayment after giving effect to which the aggregate principal amount of all Loans then outstanding would be less than $1,875,000,000 shall, to such extent, be deemed to be a permanent prepayment of the Term Loans, and the corresponding Commitments under the Revolving Facility shall automatically be permanently reduced by the amount thereof. Each Notice of Borrowing received, and each Loan made, after July 12, 2002 shall be deemed received and made under the Revolving Facility. Banks may make assignments, transfers, novations and delegations of, and sell participations in, subject to the other provisions of this Agreement, either or both of its Term Loans and its Revolving Facility. All references to Loans in this Agreement shall include the Term Loans and Revolving Loans except to the extent necessary to effectuate the foregoing.".

4. Amendment to Section 4.2 of the Credit Agreement (Fees). Section 4.2 of the Credit Agreement is hereby amended by:

(a) deleting the table in paragraph (a) thereof in its entirety, and inserting in lieu thereof the following table:

"Designated Rating	Facility Fee Rate
BBB+/Baa1 or higher	0.250%
BBB/Baa2	0.350%
BBB-/Baa3	0.500%
BB+/Ba1 or lower or unrated	0.500%";

and

(b) deleting paragraph (b) thereof in its entirety and substituting in lieu thereof the following:

"(b) [INTENTIONALLY OMITTED.]"; and

(c) amending paragraph (c) thereof by (i) deleting the phrase "and Usage Fees" and (ii) deleting the reference to "Sections 4.2(a) and 4.2(b)" and substituting in lieu thereof "Section 4.2(a)".

5. Amendment to Section 4.4(a) of the Credit Agreement (ABR Loans). Section 4.4(a) of the Credit Agreement is hereby amended by adding immediately after "ABR" in clause (i) therein "plus the Applicable Margin".

6. Amendment to Section 8.4(b) of the Credit Agreement (Financial Ratios). Section 8.4(b) of the Credit Agreement is hereby amended by deleting the ratio "0.65:1.00" and substituting in lieu thereof "0.68:1.00".

7. Amendment to Section 8.4(g) of the Credit Agreement (Certain Investments, Loans, Advances, Guarantees and Acquisitions). Section 8.4(g) of the Credit Agreement is hereby amended by adding at the end thereof the following:

"Notwithstanding the foregoing, Reliant Energy and its Subsidiaries shall not (x) make any future investments in, loans to, advances to and Guarantees of any obligations in Unregco or any of its Subsidiaries, (y) purchase or otherwise acquire (in one transaction or a series of related transactions) any assets of Unregco or any of its Subsidiaries other than, in the case of this clause (y), any such transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Reliant Energy and Unregco described in

Reliant Energy's filings with the SEC or (z) enter into any other transaction

constituting a Reliant Energy Investment with Unregco and its Subsidiaries other than, in the case of this clause (z), the transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Reliant Energy and Unregco described in Reliant Energy's filings with the SEC or other arrangements among Reliant Energy, Unregco and their respective Subsidiaries in the ordinary course of business consistent with recent past practices or otherwise at prices and on terms and conditions not less favorable to Reliant Energy or its Subsidiaries (other than Unregco and its Subsidiaries) than could be obtained on an arm's length basis from unrelated third parties.".

8. Amendment to Article XI of the Credit Agreement (Miscellaneous). Article XI of the Credit Agreement is hereby amended by:

(a) deleting "or" at the end of clause (iv) of Section 11.1 and substituting in lieu thereof a semicolon, (b) deleting the period at the end of clause (v) thereof and substituting in lieu thereof "; or" and (c) adding at the end thereof immediately after clause (v) a new clause (vi) as follows:

"(vi) amend, modify or waive the last paragraph of Section 8.4(g) without the written consent of the Supermajority Banks.";

(b) adding immediately after the first sentence in Section 11.6(c) the following:

"Notwithstanding the foregoing, with respect to the sale by a Bank of all or any part of its rights and obligations in respect of the Term Loans, (a) each such sale shall not require the consent of the Agent, the Borrower or any other Bank or Banks, (b) each such sale that is not to an existing Bank hereunder shall be in an aggregate amount of not less than $1,000,000 (or such lesser amount that represents the aggregate amount of Term Loans of such Bank), (c) each such sale may be to an Eligible Transferee (as defined below) and each such Eligible Transferee shall be deemed to be a Purchasing Bank and a Bank for all purposes under this Section 11.6(c) and this Agreement and (d) each such sale shall be consummated pursuant to a Committed Loan Assignment and Acceptance with such modifications as may be agreed on by the transferor Bank and the applicable transferee and consistent with this Section 11.6(c). For purposes of this Section 11.6(c), "Eligible Transferee" shall mean (w)(i) any bank or other financial institution, (ii) any insurance or reinsurance company, (iii) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in clause (y)(i) below), and (iv) a registered or licensed broker or dealer (other than a natural person or proprietorship); provided, however, in the case of each of the foregoing clauses (i) through (iv), that such entity has total assets of at least $500,000,000; (x) any Affiliate (as defined below) of an entity specified in the preceding clause (w); (y) any corporation, partnership, proprietorship, organization trust or other entity (i) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralized debt obligations, commercial paper conduit or other special purpose vehicle) that (A) has total assets of at least $100,000,000 or (B) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least $100,000,000, (ii) that has total assets of at least $500,000,000, or (iii) the obligations of which under an agreement, contract, or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support, or other agreement by an entity described in clauses (w), (x), (y)(ii) or (z); and (z) a Sovereign, Sovereign Agency or Supranational Organization (each as defined below). For purposes of the foregoing sentence, (a) "Affiliate" means, in relation to a person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person, (b) "control" of any entity or person means ownership of a majority of the voting power of the entity or person, (c) "Sovereign" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) thereof, (d) "Sovereign Agency" means any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing,

the central bank) of a Sovereign and (e) "Supranational Organization" means any entity or organization established by treaty or other

arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development."; and

(c) adding at the end thereof immediately after Section 11.17 a new Section 11.18 as follows:

"Section 11.18. Borrower as Co-Obligor Under the Regco $2.5 Billion Credit Agreement. Notwithstanding any provision in this Agreement or in the Regco $2.5 Billion Credit Agreement to the contrary, upon the assumption by Regco of the obligations in respect of the Loans hereunder and all other monetary obligations in respect hereof pursuant to the Regco $2.5 Billion Credit Agreement, Houston Industries FinanceCo LP shall, until the Termination Date (as defined in the Regco $2.5 Billion Credit Agreement), be a joint and several obligor with Regco in respect of all such obligations.".

9. Amendment to Exhibit L to the Credit Agreement (Form of Regco $2.5 Billion Credit Agreement). Exhibit L to the Credit Agreement (the "Regco Credit Agreement") is hereby amended in the manner set forth on Exhibit A.

10. Confirmation and Reaffirmation of Loan Documents. Each Loan Party does hereby (a) consent and acknowledge and agree to the transactions described in this Amendment and (b) after giving effect to this Amendment, (i) confirms, reaffirms and restates the representations and warranties (except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date) made by it in each Loan Document to which it is a party, (ii) ratifies and confirms each Loan Document to which it is a party and (iii) confirms and agrees that each such Loan Document is, and shall continue to be in full force and effect, with (to the extent applicable) the collateral described therein securing and continuing to secure, the payment of all obligations of such Loan Party referred to therein; provided that each reference to the Credit Agreement therein and in each of the other Loan Documents shall be deemed to be a reference to the Credit Agreement after giving effect to this Amendment.

11. Conditions to Effectiveness. This Amendment shall become effective as of the date set forth above upon satisfaction of the following conditions precedent:

(a) The Agent shall have received counterparts of this Amendment executed by the Borrower, Reliant Energy and each of the Banks;

(b) The Agent shall have received an amendment fee for the account of each Bank in an amount equal to 0.125% of such Bank's Commitment;

(c) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with this Amendment shall be in form and substance reasonably satisfactory to the Agent;

(d) The Agent shall have received all fees and expenses required to be paid in connection with the Credit Agreement; and

(e) The Agent shall have received satisfactory legal opinions and other documents and certificates reasonably requested by the Agent.

12. Reference to and Effect on the Loan Documents; Limited Effect. On and after the date hereof and the satisfaction of the conditions contained in Section 11 of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended hereby. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein,

operate as a waiver of any right, power or remedy of any Bank or the Agent under any of the Loan Documents, nor constitute a waiver of any provisions of any of the Loan Documents. Except as expressly amended herein, all of the provisions and covenants of the Credit Agreement and the other Loan Documents are and shall continue to remain in full force and effect in accordance with the terms thereof and are hereby in all respects ratified and confirmed.

13. Representations and Warranties. Each of the Borrower and Reliant Energy, as of the date hereof and after giving effect to the amendment contained herein, hereby confirms, reaffirms and restates the representations and warranties (except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date) made by it in Article VII of the Credit Agreement and otherwise in the Loan Documents to which it is a party; provided that each reference to the Credit Agreement therein shall be deemed to be a reference to the Credit Agreement after giving effect to this Amendment.

14. Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts (which may include counterparts delivered by facsimile transmission) and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Any executed counterpart delivered by facsimile transmission shall be effective as an original for all purposes hereof. The execution and delivery of this Amendment by any Bank shall be binding upon each of its successors and assigns (including Transferees of its Commitments and Loans in whole or in part prior to effectiveness hereof) and binding in respect of all of its Commitments and Loans, including any acquired subsequent to its execution and delivery hereof and prior to the effectiveness hereof.

15. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first written above.

HOUSTON INDUSTRIES
FINANCECO LP

By: HOUSTON INDUSTRIES
FINANCECO GP, LLC,
its General Partner

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

RELIANT ENERGY, INCORPORATED

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

JPMORGAN CHASE BANK, as
Agent and as a Bank

By: /s/ ROBERT TRABAND

Name: Robert Traband
Title: Vice President

ABN AMRO BANK N.V.

By: /s/ THOMAS J. STARR

Name: Thomas J. Starr
Title: Vice President

By: /s/ KRIS A. GROSSHANS

Name: Kris A. Grosshans
Title: Senior Vice President

BANK HAPOALIM, B.M.

By: /s/ SHAUN BREIDBART

Name: Shaun Breidbart
Title: Vice President

By: /s/ LAURA ANNE RAFFA

Name: Laura Anne Raffa
Title: Senior Vice President and
Corporate Manager

BANK ONE, N.A.

By: /s/ GEORGE R. SCHANZ

Name: George R. Schanz
Title: Managing Director

BANK OF AMERICA, N.A.

By: /s/ RICHARD L. STEIN

Name: Richard L. Stein
Title: Principal

THE BANK OF NOVA SCOTIA

By: /s/ M.D. SMITH

Name: M.D. Smith
Title: Agent, Operations

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: /s/ D. BARNELL

Name: D. Barnell
Title: Vice President

By: /s/ JOHN M. MEANS

Name: J. Means
Title: VP and Manager

BARCLAYS BANK PLC

By: /s/ ERIC CHILTON

Name: Eric Chilton
Title: Managing Director

BAYERISCHE LANDESBANK
GIROZENTRALE, CAYMAN ISLANDS BRANCH

By: /s/ HEREWARD DRUMMOND

Name: Hereward Drummond
Title: Senior Vice President

By: /s/ SEAN O'SULLIVAN

Name: Sean O'Sullivan
Title: Vice President

CITIBANK, N.A.

By: /s/ SANDIP SEN

Name: Sandip Sen
Title: Managing Director

COBANK

By: /s/ CATHLEEN D. REED

Name: Cathleen D. Reed
Title: Assistant Vice President

COMMERZBANK AG
New York and Grand Cayman Branches

By: /s/ HARRY P. YERGEY

Name: Harry P. Yergey
Title: Senior Vice President and Manager

By: /s/ W. DAVID SUTTLES

Name: W. David Suttles
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH

By: /s/ BERNARD WEYMULLER

Name: Bernard Weymuller
Title: Senior Vice President

CREDIT SUISSE FIRST BOSTON

By: /s/ JAMES P. MORAN /s/ DAVID M. KOCZAN

Name:	James P. Moran	David M. Koczan
Title:	Director	Associate

DEUTSCHE BANK AG NEW YORK BRANCH
AND/OR CAYMAN ISLANDS BRANCH

By: /s/ HANS C. NARBERHAUS

Name: Hans C. Narberhaus
Title: Vice President

By: /s/ JOEL MAKOWSKY

Name: Joel Makowsky
Title: Vice President

ERSTE BANK

By:	/s/ ROBERT SUEHNHOLZ	/s/ PATRICK W. SOMMER
Name:	Robert Suehnholz	Patrick W. Sommer
Title:	1st Vice President	Vice President Erste Bank New York Branch

WACHOVIA BANK, NATIONAL ASSOCIATION
(f/k/a First Union National Bank)

By: /s/ ROTCHER WATKINS

Name: Rotcher Watkins
Title: Managing Director

KBC BANK N.V.

By: /s/ ROBERT SNAUFFER

Name: Robert Snauffer
Title: First Vice President

By: /s/ ERIC RASKIN

Name: Eric Raskin
Title: Vice President

MELLON BANK, N.A.

By: /s/ RICHARD A. MATTHEWS

Name: Richard A. Matthews
Title: First Vice President

MIZUHO CORPORATE BANK, LTD

By: /s/ TORU MAEDA

Name: Toru Maeda
Title: General Manager

THE NORTHERN TRUST COMPANY

By: /s/ MELISSA A. WHITSON

Name: Melissa A. Whitson
Title: Vice President

ROYAL BANK OF CANADA

By: /s/ DAVID A. MCCLUSKEY

NAME: David A. McCluskey
Title: Manager

SUMITOMO MITSUI BANKING CORPORATION

By: DAVID A. BUCK

Name: David A. Buck
Title: Senior Vice President

TORONTO DOMINION (TEXAS) INC.

By: /s/ MARK A. BAIRD

Name: Mark A. Baird
Title: Vice President

UBS AG, STAMFORD BRANCH

By: /s/ DAVID J. KEITEL

Name: David J. Keitel
Title: Executive Director
Recovery Management

By: /s/ WILFRED V. SAINT

Name: Wilfred V. Saint
Title: Associate Director
Banking Products Services, US

UFJ BANK LIMITED

By: /s/ LAURANCE J. BRESSLER

Name: Laurance J. Bressler
Title: SVP and Group Co-Head

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, New York Branch

By: /s/ SALVATORE BATTINELLI

Name: Salvatore Battinelli
Title: Managing Director
Credit Department

By: /s/ ANTHONY ALESSANDRO

Name: Anthony Alessandro
Title: Associate Director

EXHIBIT A

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Regco Credit Agreement are used herein as therein defined.

2. Amendment to Section 1.01 of the Regco Credit Agreement (Certain Defined Terms). Section 1.01 of the Regco Credit Agreement is hereby amended by (a) deleting, in their entirety, the terms "Applicable Margin", "Designated Rating", "Termination Date" and "Usage Fee" appearing therein and inserting the following new definitions in the appropriate alphabetical order:

""Applicable Margin" means the rate per annum set forth below opposite the Designated Rating from time to time in effect during the period for which payment is due, with respect to any Committed Loan:

Designated Rating	Facility Fees	Applicable Margin for LIBOR Rate Loans	Applicable Margin for ABR Loans
BBB+/Baa1 and higher	0.250%	1.500%	0.500%
BBB/Baa2	0.350%	1.650%	0.650%
BBB-/Baa3	0.500%	2.000%	1.000%
BB+/Ba1 or lower or unrated	0.500%	2.500%	1.500%

In each row in the table set forth above, the first indicated rating corresponds to that assigned by S&P and the second indicated rating corresponds to that assigned by Moody's; the determination of which row of such table is applicable at any time is set forth in the definition of "Designated Rating".

"Designated Rating" means (a) at any time that the Long Term Debt Rating is assigned by both S&P and Moody's and such ratings are equivalent, such rating shall be the Designated Rating, (b) if clause (a) does not apply, (i) at any time that the Long Term Debt Rating is issued by only one of S&P or Moody's, the rating of such debt issued by such Rating Agency shall be the Designated Rating, and (ii) at any time that such debt is rated by both S&P and Moody's, the lower of such ratings and (c) if neither (a) nor (b) apply, if the Long Term Debt Rating is not assigned by either S&P or Moody's, the rating assigned to the senior unsecured debt of Reliant Energy shall be the Designated Rating in accordance with clauses (a) and (b) above. Any change in the calculation of the Facility Fees or the Applicable Margin with respect to Borrower that is caused by a change in the Designated Rating will become effective on the date of the change in the Designated Rating. If the rating system of any Rating Agency shall change, or if either S&P or Moody's shall cease to be in the business of rating corporate debt obligations, Borrower and the Agent shall negotiate in good faith if necessary to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agencies and, pending the effectiveness of any such amendment, the Designated Rating shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Master Separation Agreement" means the master separation agreement, dated as of December 31, 2000, entered into between Reliant Energy and Unregco providing for, among other things, the Spin-off, as amended, modified or supplemented from time to time.

"Spin-off" shall have the meaning specified in Schedule 2 attached hereto.

"Supermajority Banks" means, at any time, Banks having at least 65% of the aggregate Commitments or, if the Commitments have been terminated, 65% of the aggregate Commitments in effect immediately prior to such termination.

"Term Loans" has the meaning specified in Section 2.01(e).

"Termination Date" means (a) initially October 10, 2002, unless the Majority Banks direct in writing on or prior to September 5, 2002 that such Termination Date shall be September 10, 2002, in which case the Termination Date shall automatically be deemed to be September 10, 2002, or (b) any earlier date on which (i) the Commitments have been terminated in accordance with this Agreement or (ii) all unpaid principal amounts of Loans hereunder have become due and payable in accordance with this Agreement; and

(b) amending the definition of "Consolidated EBITDA" by deleting "for any period" and substituting in lieu thereof " means, for any twelve-month period ending on the date of determination".

3. Amendment to Section 2.01 of the Regco Credit Agreement (The Committed Loans). Section 2.01 of the Credit Agreement is hereby amended by:

(a) adding at the end of paragraph (a) thereof the following:

"At a reasonable time at least one week prior to September 5, 2002, the Agent shall inquire as to whether requisite Banks intend to send the written direction referred to in the definition of Termination Date and shall notify the Borrower and the Banks if the requisite number of such directives have been received."; and

(b) adding at the end thereof immediately after paragraph (d) thereof a new paragraph (e) as follows:

"(e) Notwithstanding anything to the contrary contained in this Agreement or in the FinanceCo $2.5 Billion Credit Agreement, upon the effectiveness of this Agreement, each Bank shall be deemed to have made to the Borrower (i) term loans in the aggregate principal amount of the aggregate principal amount of its Term Loan (as defined in the FinanceCo $2.5 Billion Credit Agreement) outstanding on such date, which term loans shall be deemed to be term loans (the "Term Loans") hereunder, and (ii) revolving loans in the aggregate principal amount of the aggregate principal amount of its Revolving Loan (as defined in the FinanceCo $2.5 Billion Credit Agreement) outstanding on such date, which revolving loans shall be deemed to be revolving loans (the "Revolving Loans") hereunder and, which shall, together with the corresponding Commitments (collectively, the "Revolving Facility") retain their revolving features. Unless Borrower designates a prepayment of the Loans as a Term Loan prepayment, all prepayments shall be applied first to outstanding Revolving Loans, and the Commitments made available thereby may be utilized in accordance with this Agreement for borrowings, prepayments or reborrowings and issuances of Letters of Credit, subject to the conditions of this Agreement applicable thereto. Any prepayment designated by Borrower as a Term Loan prepayment, or any prepayment after giving effect to which the aggregate principal amount of all Loans then outstanding would be less than the aggregate principal amount of Term Loans outstanding on the effective date of this Agreement shall, to such extent, be deemed to be a permanent prepayment of the Term Loans, and the corresponding Commitments under the Revolving Facility shall automatically be permanently reduced by the amount thereof. Each Notice of Borrowing received, and each Loan made, after July 12, 2002 shall be deemed received and made under the Revolving Facility. Banks may make assignments, transfers, novations and delegations of, and sell participations in, subject to the other provisions of this Agreement, either or both of its Term Loans and its Revolving Facility. All references to Loans in this Agreement shall include the Term Loans and Revolving Loans except to the extent necessary to effectuate the foregoing".

4. Amendment to Section 4.02 of the Regco Credit Agreement (Fees). Section 4.02 of the Regco Credit Agreement is hereby amended by:

(a) deleting paragraph (b) thereof in its entirety and substituting in lieu thereof the following:

"(b) [INTENTIONALLY OMITTED.]"; and

(b) amending paragraph (c) thereof by (i) deleting the phrase "and Usage Fees"; and (ii) by deleting "Sections 4.02(a) and 4.02(b)" and substituting in lieu thereof "Section 4.02(a)".

5. Amendment to Section 4.04(a) of the Credit Agreement (ABR Loans). Section 4.04(a) of the Credit Agreement is hereby amended by adding immediately after "ABR" in clause (i) therein "plus the Applicable Margin".

6. Amendment to Section 8.02(a) of the Regco Credit Agreement (Financial Ratio). Section 8.02(a) of the Regco Credit Agreement is hereby amended by deleting the ratio "4.50:1.00" and substituting in lieu thereof the ratio "4.75:1.00".

7. Amendment to Section 8.02(g) of the Credit Agreement (Certain Investments, Loans, Advances, Guarantees and Acquisitions). Section 8.02(g) of the Regco Credit Agreement is hereby amended by adding at the end thereof the following:

"Notwithstanding the foregoing, Borrower and its Subsidiaries shall not (x) make any future investments in, loans to, advances to and Guarantees of any obligations in Unregco or any of its Subsidiaries or purchase or otherwise acquire (in one transaction or a series of related transactions) any assets of Unregco or any of its Subsidiaries, (y) purchase or otherwise acquire (in one transaction or a series of related transactions) any assets of Unregco or any of its Subsidiaries other than, in the case of this clause (y), any such transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Reliant Energy and Unregco described in Reliant Energy's filings with the SEC or (z) enter into any other transaction constituting an Investment with Unregco and its Subsidiaries other than, in the case of this clause (z), the transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Reliant Energy and Unregco described in Reliant Energy's filings with the SEC or other arrangements among Borrower, Unregco and their respective Subsidiaries in the ordinary course of business consistent with recent past practices or otherwise at prices and on terms and conditions not less favorable to Borrower or its Subsidiaries (other than Unregco and its Subsidiaries) than could be obtained on an arm's length basis from unrelated third parties.".

8. Amendment to Article XI of the Credit Agreement (Miscellaneous). Article XI of the Credit Agreement is hereby amended by:

(a) deleting "or" at the end of clause (ii) of Section 11.01 and substituting in lieu thereof a comma, (b) deleting the period at the end of clause (iii) thereof and substituting in lieu thereof ", or" and (c) adding at the end thereof immediately after clause (iii) a new clause (iv) as follows:

"(iv) amend, modify or waive the last paragraph of Section 8.02(g) without the written consent of the Supermajority Banks.";

(b) adding immediately after the first sentence in Section 11.06(c) the following:

"Notwithstanding the foregoing, with respect to the sale by a Bank of all or any part of its rights and obligations in respect of the Term Loans, (a) each such sale shall not require the consent of the Agent, Borrower or any other Bank or Banks, (b) each such sale that is not to an existing Bank hereunder shall be in an aggregate amount of not less than $1,000,000 (or such lesser amount that

represents the aggregate amount of Term Loans of such Bank), (c) each such sale may be to an Eligible Transferee (as defined below) and each such Eligible Transferee shall be deemed to be a Purchasing Bank and a Bank for all purposes under this Section 11.06(c) and this Agreement and (d) each such sale shall be consummated pursuant to a Committed Loan Assignment and Acceptance with such modifications as may be agreed on by the transferor Bank and the applicable transferee and consistent with this Section 11.06(c). For purposes of this Section 11.06(c), "Eligible Transferee" shall mean (w)(i) any bank or other financial institution, (ii) any insurance or reinsurance company, (iii) a mutual fund, unit trust or similar collective investment vehicle (other than an entity specified in clause (y)(i) below), and (iv) a registered or licensed broker or dealer (other than a natural person or proprietorship); provided, however, in the case of each of the foregoing clauses (i) through (iv), that such entity has total assets of at least $500,000,000; (x) any Affiliate (as defined below) of an entity specified in the preceding clause (w); (y) any corporation, partnership, proprietorship, organization trust or other entity (i) that is an investment vehicle (including, without limitation, any hedge fund, issuer of collateralized debt obligations, commercial paper conduit or other special purpose vehicle) that (A) has total assets of at least $100,000,000 or (B) is one of a group of investment vehicles under common control or management having, in the aggregate, total assets of at least $100,000,000, (ii) that has total assets of at least $500,000,000, or (iii) the obligations of which under an agreement, contract, or transaction are guaranteed or otherwise supported by a letter of credit or keepwell, support, or other agreement by an entity described in clauses (w), (x), (y)(ii) or (z); and (z) a Sovereign, Sovereign Agency or Supranational Organization (each as defined below). For purposes of the foregoing sentence, (a) "Affiliate" means, in relation to a person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person, (b) "control" of any entity or person means ownership of a majority of the voting power of the entity or person, (c) "Sovereign" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) thereof, (d) "Sovereign Agency" means any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) of a Sovereign and (e) "Supranational Organization" means any entity or organization established by treaty or other arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development."; and

(c) adding at the end thereof immediately after Section 11.15 a new Section 11.16 as follows:

"Section 11.16. Houston Industries FinanceCo LP as Co-Obligor. Notwithstanding any provision in this Agreement or in the FinanceCo $2.5 Billion Credit Agreement to the contrary, on the Effective Date and thereafter until the Termination Date, Houston Industries FinanceCo LP shall be a joint and several obligor with Borrower in respect of all obligations hereunder.".

EXHIBIT 10.2

FIRST AMENDMENT TO CREDIT AGREEMENT

FIRST AMENDMENT (this "Amendment"), dated as of July 12, 2002, to the $1,800,000,000 Senior B Credit Agreement, dated as of July 13, 2001 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among HOUSTON INDUSTRIES FINANCECO LP, a Delaware limited partnership (the "Borrower"), RELIANT ENERGY, INCORPORATED, a Texas corporation ("Reliant Energy"), the several banks and other financial institutions (the "Banks") and agents from time to time parties thereto and JPMORGAN CHASE BANK (f/k/a The Chase Manhattan Bank), as administrative agent for the Banks (in such capacity, the "Agent").

W I T N E S S E T H :

WHEREAS, the Borrower, Reliant Energy, the Banks and the Agent are parties to the Credit Agreement; and

WHEREAS, the Borrower and Reliant Energy have requested that the Banks agree to extend the Termination Date and amend certain other provisions contained in the Credit Agreement, and the Banks and the Agent are agreeable to such request upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the premises herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Credit Agreement are used herein as therein defined.

2. Amendment to Section 1.1 of the Credit Agreement (Certain Defined Terms). Section 1.1 of the Credit Agreement is hereby amended by deleting, in their entirety, the terms "Applicable Margin", "Consolidated Capitalization", "Designated Rating", "Rating Agencies", "Termination Date" and "Usage Fee" appearing therein and inserting the following new definitions in the appropriate alphabetical order:

""Applicable Margin" means the rate per annum set forth below opposite the Designated Rating from time to time in effect during the period for which payment is due, with respect to any Committed Loan:

Designated Rating	Applicable Margin for LIBOR Rate Loans	Applicable Margin for ABR Loans
BBB+/Baa1 and higher	1.500%	0.500%
BBB/Baa2	1.650%	0.650%
BBB-/Baa3	2.000%	1.000%
BB+/Ba1 or lower or unrated	2.500%	1.500%

In each row in the table set forth above, the first indicated rating corresponds to that assigned by S&P and the second indicated rating corresponds to that assigned by Moody's; the determination of which row of such table is applicable at any time is set forth in the definition of "Designated Rating".

"Consolidated Capitalization" means, as of any date of determination, the sum of (a) Consolidated Shareholders' Equity, (b) Consolidated Indebtedness for Borrowed Money and, without duplication, (c) Mandatory Payment Preferred Stock; provided that for the purpose of calculating compliance with Section 8.4(b), Consolidated Capitalization shall be determined excluding any adjustment, non-cash charge to net income or other non-cash charges or writeoffs resulting thereto from application of SFAS No. 142.

"Designated Rating" means (a) at any time that the Long Term Debt Rating is assigned by both S&P and Moody's and such ratings are equivalent, such rating shall be the Designated Rating, (b) if clause (a) does not apply, (i) at any time that the Long Term Debt Rating is issued by only one of S&P or Moody's, the rating of such debt issued by such Rating Agency shall be the Designated Rating, and (ii) at any time that such debt is rated by both S&P and Moody's, the lower of such ratings and (c) if neither (a) nor (b) apply, if the Long Term Debt Rating is not assigned by either S&P or Moody's, the rating assigned to the senior unsecured debt of Reliant Energy shall be the Designated Rating in accordance with clauses (a) and (b) above. Any change in the calculation of the Facility Fees or the Applicable Margin with respect to the Borrower that is caused by a change in the Designated Rating will become effective on the date of the change in the Designated Rating. If the rating system of any Rating Agency shall change, or if either S&P or Moody's shall cease to be in the business of rating corporate debt obligations, Borrower and the Agent shall negotiate in good faith if necessary to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agencies and, pending the effectiveness of any such amendment, the Designated Rating shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Master Separation Agreement" means the master separation agreement, dated as of December 31, 2000, entered into between Reliant Energy and Unregco providing for, among other things, the Spin-off, as amended, modified or supplemented from time to time.

"Rating Agencies" means S&P and Moody's.

"Termination Date" means (a) initially October 10, 2002, unless the Majority Banks direct in writing on or prior to September 5, 2002 that such Termination Date shall be September 10, 2002, in which case the Termination Date shall automatically be deemed to be September 10, 2002, or (b) any earlier date on which (i) the Commitments have been terminated in accordance with this Agreement or (ii) all unpaid principal amounts of Loans hereunder have become due and payable in accordance with this Agreement.".

3. Amendment to Section 2.1 of the Credit Agreement (The Committed Loans). Section 2.1 of the Credit Agreement is hereby amended by adding at the end of paragraph (b) thereof the following:

> "At a reasonable time at least one week prior to September 5, 2002, the Agent shall inquire as to whether requisite Banks intend to send the written direction referred to in the definition of Termination Date and shall notify the Borrower and the Banks if the requisite number of such directives have been received.".

4. Amendment to Section 4.2 of the Credit Agreement (Fees). Section 4.2 of the Credit Agreement is hereby amended by:

(a) deleting the table in paragraph (a) thereof in its entirety, and inserting in lieu thereof the following table:

"Designated Rating	Facility Fee Rate -
BBB+/Baa1 or higher	0.250%
BBB/Baa2	0.350%
BBB-/Baa3	0.500%
BB+/Ba1 or lower or	

unrated
0.500%";
and

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(b) deleting paragraph (b) thereof in its entirety and substituting in lieu thereof the following:

"(b) [INTENTIONALLY OMITTED.]"; and

(c) amending paragraph (c) thereof by (i) deleting the phrase "and Usage Fees" and (ii) deleting the reference to "Sections 4.2(a) and 4.2(b)" and substituting in lieu thereof "Section 4.2(a)".

5. Amendment to Section 4.4(a) of the Credit Agreement (ABR Loans). Section 4.4(a) of the Credit Agreement is hereby amended by adding immediately after "ABR" in clause (i) therein "plus the Applicable Margin".

6. Amendment to Section 8.4(b) of the Credit Agreement (Financial Ratios). Section 8.4(b) of the Credit Agreement is hereby amended by deleting the ratio "0.65:1.00" and substituting in lieu thereof "0.68:1.00".

7. Amendment to Section 8.4(g) of the Credit Agreement (Certain Investments, Loans, Advances, Guarantees and Acquisitions). Section 8.4(g) of the Credit Agreement is hereby amended by adding at the end thereof the following:

"Notwithstanding the foregoing, Reliant Energy and its Subsidiaries shall not (x) make any future investments in, loans to, advances to and Guarantees of any obligations in Unregco or any of its Subsidiaries, (y) purchase or otherwise acquire (in one transaction or a series of related transactions) any assets of Unregco or any of its Subsidiaries other than, in the case of this clause (y), any such transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Reliant Energy and Unregco described in Reliant Energy's filings with the SEC or (z) enter into any other transaction constituting a Reliant Energy Investment with Unregco and its Subsidiaries other than, in the case of this clause (z), the transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Reliant Energy and Unregco described in Reliant Energy's filings with the SEC or other arrangements among Reliant Energy, Unregco and their respective Subsidiaries in the ordinary course of business consistent with recent past practices or otherwise at prices and on terms and conditions not less favorable to Reliant Energy or its Subsidiaries (other than Unregco and its Subsidiaries) than could be obtained on an arm's length basis from unrelated third parties.".

8. Amendment to Section 11.1 of the Credit Agreement (Amendments and Waivers). Section 11.1 of the Credit Agreement is hereby amended by (a) deleting "or" at the end of clause (iii) thereof and substituting in lieu thereof a semicolon, (b) deleting the period at the end of clause (iv) thereof and substituting in lieu thereof ", or" and (c) adding at the end thereof immediately after clause (iv) a new clause (v) as follows:

"(v) amend, modify or waive the last paragraph of Section 8.4(g) without the written consent of the Supermajority Banks.".

9. Amendment to Exhibit L to the Credit Agreement (Form of Regco $1.8 Billion Credit Agreement). Exhibit L to the Credit Agreement (the "Regco Credit Agreement") is hereby amended in the manner set forth on Exhibit A.

10. Confirmation and Reaffirmation of Loan Documents. Each Loan Party does hereby (a) consent and acknowledge and agree to the transactions described in this Amendment and (b) after giving effect to this Amendment, (i) confirms, reaffirms and restates the representations and warranties (except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date) made by it in each Loan Document to which it is a party, (ii) ratifies and confirms each Loan Document to which it is a party and (iii) confirms and agrees that each such Loan Document is, and shall continue to be in full force and effect, with

(to the extent applicable) the collateral described therein securing and continuing to secure, the payment of all obligations of such Loan Party referred to therein; provided that each reference to the Credit Agreement therein and in each of the other Loan Documents shall be deemed to be a reference to the Credit Agreement after giving effect to this Amendment.

11. Conditions to Effectiveness. This Amendment shall become effective as of the date set forth above upon satisfaction of the following conditions precedent:

(a) The Agent shall have received counterparts of this Amendment executed by the Borrower, Reliant Energy and each of the Banks;

(b) The Agent shall have received an amendment fee for the account of each Bank in an amount equal to 0.125% of such Bank's Commitment;

(c) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with this Amendment shall be in form and substance reasonably satisfactory to the Agent;

(d) The Agent shall have received all fees and expenses required to be paid in connection with the Credit Agreement; and

(e) The Agent shall have received satisfactory legal opinions and other documents and certificates reasonably requested by the Agent.

12. Reference to and Effect on the Loan Documents; Limited Effect. On and after the date hereof and the satisfaction of the conditions contained in Section 11 of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended hereby. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Bank or the Agent under any of the Loan Documents, nor constitute a waiver of any provisions of any of the Loan Documents. Except as expressly amended herein, all of the provisions and covenants of the Credit Agreement and the other Loan Documents are and shall continue to remain in full force and effect in accordance with the terms thereof and are hereby in all respects ratified and confirmed.

13. Representations and Warranties. Each of the Borrower and Reliant Energy, as of the date hereof and after giving effect to the amendment contained herein, hereby confirms, reaffirms and restates the representations and warranties (except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date) made by it in Article VII of the Credit Agreement and otherwise in the Loan Documents to which it is a party; provided that each reference to the Credit Agreement therein shall be deemed to be a reference to the Credit Agreement after giving effect to this Amendment.

14. Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts (which may include counterparts delivered by facsimile transmission) and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Any executed counterpart delivered by facsimile transmission shall be effective as an original for all purposes hereof. The execution and delivery of this Amendment by any Bank shall be binding upon each of its successors and assigns (including Transferees of its Commitments and Loans in whole or in part prior to effectiveness hereof) and binding in respect of all of its Commitments and Loans, including any acquired subsequent to its execution and delivery hereof and prior to the effectiveness hereof.

15. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first written above.

HOUSTON INDUSTRIES
FINANCECO LP

By: HOUSTON INDUSTRIES
FINANCECO GP, LLC,
its General Partner

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

RELIANT ENERGY, INCORPORATED

By: /s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

JPMORGAN CHASE BANK, as
Agent and as a Bank

By: /s/ ROBERT TRABAND

Name: Robert Traband
Title: Vice President

ABN AMRO BANK N.V.

By: /s/ THOMAS J. STARR

Name: Thomas J. Starr
Title: Vice President

By: /s/ KRIS A. GROSSHANS

Name: Kris A. Grosshans
Title: Senior Vice President

BANK OF AMERICA, N.A.

By: /s/ RICHARD L. STEIN

Name: Richard L. Stein
Title: Principal

BARCLAYS BANK PLC

By: /s/ ERIC CHILTON

Name: Eric Chilton
Title: Managing Director

CITIBANK, N.A.

By: /s/ SANDIP SEN

Name: Sandip Sen
Title: Managing Director

COMMERZBANK AG
New York and Grand Cayman Branches

By: /s/ HARRY P. YERGEY

Name: Harry P. Yergey
Title: Senior Vice President and
Manager

By: /s/ W. DAVID SUTTLES

Name: W. David Suttles
Title: Vice President

CREDIT SUISSE FIRST BOSTON

By: /s/ JAMES P. MORAN /s/ DAVID M. KOCZAN

Name: James P. Moran David M. Koczan
Title: Director Associate

DEUTSCHE BANK AG NEW YORK BRANCH
AND/OR CAYMAN ISLANDS BRANCH

By: /s/ HANS C. NARBERHAUS

Name: Hans C. Narberhaus
Title: Vice President

By: /s/ JOEL MAKOWSKY

Name: Joel Makowsky
Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION
(f/k/a First Union National Bank)

By: /s/ ROTCHER WATKINS

Name: Rotcher Watkins
Title: Managing Director

ROYAL BANK OF CANADA

By: /s/ DAVID A. MCCLUSKEY

Name: David A. McCluskey
Title: Manager

EXHIBIT A

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Regco Credit Agreement are used herein as therein defined.

2. Amendment to Section 1.01 of the Regco Credit Agreement (Certain Defined Terms). Section 1.01 of the Regco Credit Agreement is hereby amended by (a) deleting, in their entirety, the terms "Applicable Margin", "Designated Rating", "Termination Date" and "Usage Fee" appearing therein and inserting the following new definitions in the appropriate alphabetical order:

""Applicable Margin" means the rate per annum set forth below opposite the Designated Rating from time to time in effect during the period for which payment is due, with respect to any Committed Loan:

Designated Rating	Facility Fees	Applicable Margin for LIBOR Rate Loans	Applicable Margin for ABR Loans
BBB+/Baa1 and higher	0.250%	1.500%	0.500%
BBB/Baa2	0.350%	1.650%	0.650%
BBB-/Baa3	0.500%	2.000%	1.000%
BB+/Ba1 or lower or unrated	0.500%	2.500%	1.500%

In each row in the table set forth above, the first indicated rating corresponds to that assigned by S&P and the second indicated rating corresponds to that assigned by Moody's; the determination of which row of such table is applicable at any time is set forth in the definition of "Designated Rating".

"Designated Rating" means (a) at any time that the Long Term Debt Rating is assigned by both S&P and Moody's and such ratings are equivalent, such rating shall be the Designated Rating, (b) if clause (a) does not apply, (i) at any time that the Long Term Debt Rating is issued by only one of S&P or Moody's, the rating of such debt issued by such Rating Agency shall be the Designated Rating, and (ii) at any time that such debt is rated by S&P and Moody's, the lower of such ratings and (c) if neither (a) nor (b) apply, if the Long Term Debt Rating is not assigned by either S&P or Moody's, the rating assigned to the senior unsecured debt of Reliant Energy shall be the Designated Rating in accordance with clauses (a) and (b) above. Any change in the calculation of the Facility Fees or the Applicable Margin with respect to Borrower that is caused by a change in the Designated Rating will become effective on the date of the change in the Designated Rating. If the rating system of any Rating Agency shall change, or if either S&P or Moody's shall cease to be in the business of rating corporate debt obligations, Borrower and the Agent shall negotiate in good faith if necessary to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agencies and, pending the effectiveness of any such amendment, the Designated Rating shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Master Separation Agreement" means the master separation agreement, dated as of December 31, 2000, entered into between Reliant Energy and Unregco providing for, among other things, the Spin-off, as amended, modified or supplemented from time to time.

"Spin-off" shall have the meaning specified in Schedule 2 attached hereto.

"Supermajority Banks" means, at any time, Banks having at least 65% of the aggregate Commitments or, if the Commitments have been terminated, 65% of the aggregate Commitments in effect immediately prior to such termination.

"Termination Date" means (a) initially October 10, 2002, unless the Majority Banks direct in writing on or prior to September 5, 2002 that such Termination Date shall be September 10, 2002, in which case the Termination Date shall automatically be deemed to be September 10, 2002, or (b) any earlier date on which (i) the Commitments have been terminated in accordance with this Agreement or (ii) all unpaid principal amounts of Loans hereunder have become due and payable in accordance with this Agreement."; and

(b) amending the definition of "Consolidated EBITDA" by deleting "for any period" and substituting in lieu thereof "means, for any twelve-month period ending on the date of determination".

3. Amendment to Section 2.01 of the Credit Agreement (The Committed Loans). Section 2.01 of the Credit Agreement is hereby amended by adding at the end of paragraph (a) thereof the following:

"At a reasonable time at least one week prior to September 5, 2002, the Agent shall inquire as to whether requisite Banks intend to send the written direction referred to in the definition of Termination Date and shall notify the Borrower and the Banks if the requisite number of such directives have been received.".

4. Amendment to Section 4.02 of the Regco Credit Agreement (Fees). Section 4.02 of the Regco Credit Agreement is hereby amended by:

(a) deleting paragraph (b) thereof in its entirety and substituting in lieu thereof the following:

"(b) [INTENTIONALLY OMITTED.]"; and

(b) amending paragraph (c) thereof by (i) deleting the phrase "and Usage Fees"; and (ii) by deleting "Sections 4.02(a) and 4.02(b)" and substituting in lieu thereof "Section 4.02(a)".

5. Amendment to Section 4.04(a) of the Credit Agreement (ABR Loans). Section 4.04(a) of the Credit Agreement is hereby amended by adding immediately after "ABR" in clause (i) therein "plus the Applicable Margin".

6. Amendment to Section 8.02(a) of the Regco Credit Agreement (Financial Ratio). Section 8.02(a) of the Regco Credit Agreement is hereby amended by deleting the ratio "4.50:1.00" and substituting in lieu thereof the ratio "4.75:1.00".

7. Amendment to Section 8.02(g) of the Credit Agreement (Certain Investments, Loans, Advances, Guarantees and Acquisitions). Section 8.02(g) of the Regco Credit Agreement is hereby amended by adding at the end thereof the following:

"Notwithstanding the foregoing, Borrower and its Subsidiaries shall not (x) make any future investments in, loans to, advances to and Guarantees of any obligations in Unregco or any of its Subsidiaries or purchase or otherwise acquire (in one transaction or a series of related transactions) any assets of Unregco or any of its Subsidiaries, (y) purchase or otherwise acquire (in one transaction or a series of related transactions) any assets of Unregco or any of its Subsidiaries other than, in the case of this clause (y), any such transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Reliant Energy and Unregco described in Reliant Energy's filings with the SEC or (z) enter into any other transaction constituting an Investment with Unregco and its Subsidiaries other than, in the case of this clause (z), the transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Reliant

Energy and Unregco described in Reliant Energy's filings with the SEC or other arrangements among Borrower, Unregco and their respective Subsidiaries in the ordinary course of business consistent with recent past practices or otherwise at prices and on terms and conditions not less favorable to Borrower or its Subsidiaries (other than Unregco and its Subsidiaries) than could be obtained on an arm's length basis from unrelated third parties.".

8. Amendment to Section 11.01 of the Credit Agreement (Amendments and Waivers). Section 11.01 of the Credit Agreement is hereby amended by (a) deleting "or" at the end of clause (ii) thereof and substituting in lieu thereof a comma, (b) deleting the period at the end of clause (iii) thereof and substituting in lieu thereof ", or" and (c) adding at the end thereof immediately after clause (iii) a new clause (iv) as follows:

"(iv) amend, modify or waive the last paragraph of Section 8.02(g) without the written consent of the Supermajority Banks.".

EXHIBIT 10.3

FIRST AMENDMENT TO CREDIT AGREEMENT

FIRST AMENDMENT, dated as of July 12, 2002 (this "Amendment"), to the $400,000,000 Amended and Restated Revolving Credit and Competitive Advance Facilities Agreement, dated as of July 13, 2001 (as heretofore amended, supplemented or otherwise modified, the "Credit Agreement"), among, RELIANT ENERGY, INCORPORATED, a Texas corporation ("Borrower"), the several banks and other financial institutions (the "Banks") and agents from time to time parties thereto and JPMORGAN CHASE BANK (f/k/a The Chase Manhattan Bank), as administrative agent for the Banks (in such capacity, the "Agent").

W I T N E S S E T H :

WHEREAS, Borrower, the Banks and the Agent are parties to the Credit Agreement; and

WHEREAS, Borrower has requested that the Banks agree to extend the Termination Date and amend certain other provisions contained in the Credit Agreement, and the Banks and the Agent are agreeable to such request upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the premises herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Credit Agreement are used herein as therein defined.

2. Amendment to Section 1.01 of the Credit Agreement (Certain Defined Terms). Section 1.01 of the Credit Agreement is hereby amended by deleting, in their entirety, the terms "Applicable Margin", "Consolidated Capitalization", "Consolidated Indebtedness", "Designated Rating", "Long-Term Debt Rating", "Rating Agencies", "Termination Date" and "Usage Fee" appearing therein and inserting the following new definitions in the appropriate alphabetical order:

""Applicable Margin" means the rate per annum set forth below opposite the Designated Rating from time to time in effect during the period for which payment is due, with respect to any Committed Loan:

Designated Rating	Applicable Margin for LIBOR Rate Loans	Applicable Margin for ABR Loans
BBB+/Baa1 and higher	1.500%	0.500%
BBB/Baa2	1.650%	0.650%
BBB-/Baa3	2.000%	1.000%
BB+/Ba1 or lower or unrated	2.500%	1.500%

In each row in the table set forth above, the first indicated rating corresponds to that assigned by S&P and the second indicated rating corresponds to that assigned by Moody's; the determination of which row of such table is applicable at any time is set forth in the definition of "Designated Rating".

"Consolidated Capitalization" means, as of any date of determination, the sum of (a) Consolidated Shareholders' Equity, (b) Consolidated Indebtedness for Borrowed Money and, without duplication, (c)

Mandatory Payment Preferred Stock; provided that for the purpose of calculating compliance with Section 8.02(a), Consolidated Capitalization shall be determined excluding any adjustment, non-cash charge to net income or other non-cash charges or writeoffs resulting thereto from application of SFAS No. 142.

"Consolidated Indebtedness" means, as of any date of determination, the sum of (i) the total Indebtedness as shown on the consolidated balance sheet of Borrower and its Consolidated Subsidiaries, determined without duplication of any Guarantee of Indebtedness of Borrower by any of its Consolidated Subsidiaries or of any Guarantee of Indebtedness of any such Consolidated Subsidiary by Borrower or any other Consolidated Subsidiary of Borrower, plus any Mandatory Payment Preferred Stock, less (ii) such amount of Indebtedness attributable to amounts then outstanding under receivables facilities or arrangements to the extent that such amounts would not have been shown as Indebtedness on a balance sheet prepared in accordance with GAAP prior to January 1, 1997, less (iii) if any Indexed Debt Securities the liabilities in respect of which as shown on the consolidated balance sheet of Borrower and its Consolidated Subsidiaries have increased from the amount of liabilities in respect thereof at the time of their issuance by reason of an increase in the price of the Indexed Asset relating thereto, the excess of (a) the aggregate amount of liabilities in respect of such Indexed Debt Securities at the time of determination over (b) the initial amount of liabilities in respect of such Indexed Debt Securities at the time of their issuance.

"Designated Rating" means (a) at any time that the Long -Term Debt Rating is assigned by both S&P and Moody's and such ratings are equivalent, such rating shall be the Designated Rating, (b) if clause (a) does not apply, (i) at any time that the Long -Term Debt Rating is issued by only one of S&P or Moody's, the rating of such debt issued by such Rating Agency shall be the Designated Rating, and (ii) at any time that such debt is rated by both S&P and Moody's, the lower of such ratings and (c) if neither (a) nor (b) apply, if the Long -Term Debt Rating is not assigned by either S&P or Moody's, the rating assigned to the senior unsecured long-term debt of Borrower shall be deemed to be the rating that is one level below the then current rating of the senior secured long-term debt of Borrower in accordance with clauses (a) and (b) above. Any change in the calculation of the Facility Fees or the Applicable Margin with respect to Borrower that is caused by a change in the Designated Rating will become effective on the date of the change in the Designated Rating. If the rating system of any Rating Agency shall change, or if either S&P or Moody's shall cease to be in the business of rating corporate debt obligations, Borrower and the Agent shall negotiate in good faith if necessary to amend this definition to reflect such changed rating system or the unavailability of ratings from such Rating Agencies and, pending the effectiveness of any such amendment, the Designated Rating shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Long-Term Debt Rating" means the rating assigned by a Rating Agency to the senior unsecured long-term debt of Borrower (it being understood that a change in outlook status (e.g., watch status, negative outlook status) is not a change in rating as contemplated hereby).

"Master Separation Agreement" means the master separation agreement, dated as of December 31, 2000, entered into between Borrower and Unregco providing for, among other things, the Spin-off, as amended, modified or supplemented from time to time.

"Moody's" means Moody's Investors Service, Inc., and any successor rating agency.

"Rating Agencies" means S&P and Moody's.

"S&P" means Standard & Poor's Ratings Group, and any successor rating agency.

"Spin-off" shall have the meaning specified in Schedule 8.04 attached hereto.

"Supermajority Banks" means, at any time, Banks having at least 65% of the aggregate Commitments or, if the Commitments have been terminated, 65% of the aggregate Commitments in effect immediately prior to such termination.

"Termination Date" means (a) initially October 10, 2002, unless the Majority Banks direct in writing on or prior to September 5, 2002 that such Termination Date shall be September 10, 2002, in which case the Termination Date shall automatically be deemed to be September 10, 2002, or (b) any earlier date on which (i) the Commitments have been terminated in accordance with this Agreement or (ii) all unpaid principal amounts of Loans hereunder have become due and payable in accordance with this Agreement.".

3. Amendment to Section 2.01 of the Credit Agreement (The Committed Loans). Section 2.01 of the Credit Agreement is hereby amended by adding at the end thereof the following:

> "At a reasonable time at least one week prior to September 5, 2002, the Agent shall inquire as to whether requisite Banks intend to send the written direction referred to in the definition of Termination Date and shall notify the Borrower and the Banks if the requisite number of such directives have been received.".

4. Amendment to Section 4.02 of the Credit Agreement (Fees). Section 4.02 of the Credit Agreement is hereby amended by:

(a) deleting the table in paragraph (a) thereof in its entirety, and inserting in lieu thereof the following table:

"Designated Rating	Facility Fee Rate
BBB+/Baa1 or higher	0.250%
BBB/Baa2	0.350%
BBB-/Baa3	0.500%
BB+/Ba1 or lower or unrated	0.500%";

and

(b) amending paragraph (b) thereof by (i) deleting the phrase "and the fees payable under Section 4.02(e)" and (ii) deleting the phrase ", as the case may be,"; and

(c) deleting paragraph (e) thereof in its entirety.

5. Amendment to Section 4.04(a) of the Credit Agreement (ABR Loans). Section 4.04(a) of the Credit Agreement is hereby amended by adding immediately after "ABR" in clause (i) therein "plus the Applicable Margin".

6. Amendment to Section 8.02 of the Credit Agreement (Financial Ratios). Section 8.02 of the Credit Agreement is hereby amended by (a) amending paragraph (a) thereof by deleting the ratio "0.65:1.00" and substituting in lieu thereof "0.68:1.00"; and

(b) by adding at the end thereof immediately after paragraph (d) thereof a new paragraph (e) as follows:

> "(e) Certain Investments, Loans, Advances, Guarantees and Acquisitions. Borrower will not purchase, or acquire (including pursuant to any merger) any capital stock, evidences of indebtedness or other securities of or other interest in (including any option, warrant or other right to acquire any of the foregoing), make any loans or advances to, Guarantee any obligations of, or make any investment in or capital contribution to, any Subsidiary or any other Person (any of the foregoing, an "Investment"), in each case after the Effective Date, except pursuant to the Loan Documents and except that, notwithstanding the foregoing Borrower and its Subsidiaries may make Investments if, after giving effect thereto, Borrower would be in compliance with its covenant contained in Section 8.02(a) on a pro forma basis.

Notwithstanding the foregoing, Borrower and its Subsidiaries shall not (x) make any future investments in, loans to, advances to and Guarantees of any obligations in Unregco or any of its Subsidiaries, (y) purchase or otherwise acquire (in one transaction or a series of related transactions) any assets of Unregco or any of its Subsidiaries other than, in the case of this clause (y), any such transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Borrower and Unregco described in Borrower's filings with the SEC or (z) enter into any other transaction constituting an Investment with Unregco and its Subsidiaries other than, in the case of this clause (z), the transactions contemplated by the Master Separation Agreement and other agreements and arrangements in respect of the relationship between Borrower and Unregco described in Borrower's filings with the SEC or other arrangements among Borrower, Unregco and their respective Subsidiaries in the ordinary course of business consistent with recent past practices or otherwise at prices and on terms and conditions not less favorable to Borrower or its Subsidiaries (other than Unregco and its Subsidiaries) than could be obtained on an arm's length basis from unrelated third parties.".

7. Amendment to Section 11.01 of the Credit Agreement (Amendments and Waivers). Section 11.01 of the Credit Agreement is hereby amended by (a) deleting "or" at the end of clause (ii) thereof and substituting in lieu thereof a comma, (b) deleting the period at the end of clause (iii) thereof and substituting in lieu thereof ", or" and (c) adding at the end thereof immediately after clause (iii) a new clause (iv) as follows:

"(iv) amend, modify or waive the last paragraph of Section 8.02(e) without the written consent of the Supermajority Banks.".

8. Conditions to Effectiveness. This Amendment shall become effective as of the date set orth above upon satisfaction of the following conditions precedent:

(a) The Agent shall have received counterparts of this Amendment executed by Borrower and each of the Banks;

(b) The Agent shall have received an amendment fee for the account of each Bank in an amount equal to 0.125% of such Bank's Commitment;

(c) All corporate and other proceedings, and all documents, instruments and other legal matters in connection with this Amendment shall be in form and substance reasonably satisfactory to the Agent;

(d) The Agent shall have received all fees and expenses required to be paid in connection with the Credit Agreement; and

(e) The Agent shall have received satisfactory legal opinions and other documents and certificates reasonably requested by the Agent.

9. Reference to and Effect on the Loan Documents; Limited Effect. On and after the date hereof and the satisfaction of the conditions contained in Section 8 of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended hereby. The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Bank or the Agent under any of the Loan Documents, nor constitute a waiver of any provisions of any of the Loan Documents. Except as expressly amended herein, all of the provisions and covenants of the Credit Agreement and the other Loan Documents are and shall continue to remain in full force and effect in accordance with the terms thereof and are hereby in all respects ratified and confirmed.

10. Representations and Warranties. Borrower, as of the date hereof and after giving effect to the amendment contained herein, hereby confirms, reaffirms and restates the representations and warranties (except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date) made by it in Article VII of the Credit Agreement and otherwise in the Loan Documents to which it is a party; provided that each reference to the Credit Agreement therein shall be deemed to be a reference to the Credit Agreement after giving effect to this Amendment.

11. Counterparts. This Amendment may be executed by one or more of the parties hereto in any number of separate counterparts (which may include counterparts delivered by facsimile transmission) and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Any executed counterpart delivered by facsimile transmission shall be effective as an original for all purposes hereof. The execution and delivery of this Amendment by any Bank shall be binding upon each of its successors and assigns (including Transferees of its Commitments and Loans in whole or in part prior to effectiveness hereof) and binding in respect of all of its Commitments and Loans, including any acquired subsequent to its execution and delivery hereof and prior to the effectiveness hereof.

12. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first written above.

RELIANT ENERGY, INCORPORATED

By:/s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

JPMORGAN CHASE BANK, as
Agent and as a Bank

By:/s/ ROBERT TRABAND

Name: Robert Traband
Title: Vice President

BANK ONE, N.A.

By:/s/ GEORGE SCHANZ

Name: George Schanz
Title: Managing Director

BANK OF AMERICA, N.A.

By:/s/ RICHARD L. STEIN

Name: Richard L. Stein
Title: Principal

BAYERISCHE LANDESBANK GIROZENTRALE, CAYMAN ISLANDS BRANCH

By: /s/ HEREWARD DRUMMOND	By: /s/ SEAN O'SULLIVAN
Name: Hereward Drummond	Name: Sean O'Sullivan
Title: Senior Vice President	Title: Vice President

CITIBANK, N.A.

By: /s/ SANDIP SEN

Name: Sandip Sen
Title: Managing Director

COMMERZBANK AG
New York and Grand Cayman Branches

By: /S/ HARRY P. YERGEY

Name: Harry P. Yergey
Title: Senior Vice President and Manager

By: /s/ W. DAVID SUTTLES

Name: W. David Suttles
Title: Vice President

CREDIT AGRICOLE INDOSUEZ

By: /s/ GERARD M. RUSSELL

Name: Gerard M. Russell
Title: Vice President, Manager

By: /s/ LAURENCE F. GRANT

Name: Laurence F. Grant
Title: Senior Relationship Manager

CREDIT SUISSE FIRST BOSTON

By: /s/ JAMES P. MORAN

Name: James P. Moran
Title: Director

By: /s/ DAVID M. KOCZAN

Name: David M. Koczan
Title: Associate

KBC BANK N.V.

By: /s/ ROBERT SNAUFFER

Name: Robert Snauffer
Title: First Vice President

By: /s/ ERIC RASKIN

Name: Eric Raskin
Title: Vice President

MELLON BANK, N.A.

By: RICHARD A. MATTHEWS

Name: Richard A. Matthews
Title: First Vice President

MIZUHO CORPORATE GROUP, LTD.

By: /s/ TORU MAEDA

Name: Toru Maeda
Title: General Manager

SUMITOMO MITSUI BANKING CORPORATION

By: /s/ DAVID A BUCK

Name: David A. Buck
Title: Senior Vice President

TORONTO DOMINION (TEXAS) INC.

By: /s/ MARK A. BAIRD

Name: Mark A. Baird
Title: Vice President

UBS AG, STAMFORD BRANCH

By: /s/ DAVID J. KEITEL

Name: David J. Keitel
Title: Executive Director
Recovery Management

By: /s/ WILFRED V. SAINT

Name: Wilfred V. Saint
Title: Associate Director
Banking Products Services, US

WESTDEUTSCHE LANDESBANK
GIROZENTRALE, New York Branch

By: /s/ SALVATORE BATTINELLI

Name: Salvatore Battinelli
Title: Managing Director
Credit Department

By: /s/ ANTHONY ALESSANDRO

Name: Anthony Alessandro
Title: Associate Director

EXHIBIT 10.4

HOUSTON INDUSTRIES INCORPORATED
LONG-TERM INCENTIVE COMPENSATION PLAN

Fourth Amendment

Houston Industries Incorporated, a Texas corporation ("HII"), established the Houston Industries Incorporated Long-Term Incentive Compensation Plan, effective January 1, 1989, and as thereafter amended (the "Plan"). As the successor to HII, Reliant Energy, Incorporated, a Texas corporation (the "Company"), having reserved the right under Section 12.1 thereof to amend the Plan, does hereby amend the Plan, effective January 1, 2001, as follows:

1. The definition of "Company" in Section 2.1(e) of the Plan is hereby amended in its entirety to read as follows:

> "(e) 'Company' means Reliant Energy, Incorporated, a Texas corporation, and any successor thereto."

2. The following new definition of "Employer" is hereby added as Section 2.1(h) of the Plan, and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

> "(h) 'Employer' means the Company, Resources, a Subsidiary, or a Resources Subsidiary that employs the Key Employee."

3. The following new definition of "Resources" is hereby added as Section 2.1(q) of the Plan (prior to the redesignation in paragraph 2 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

> "(q) 'Resources' means Reliant Resources, Inc., a Delaware corporation, or a successor to Reliant Resources, Inc. in the ownership of substantially all of its assets."

4. The following new definition of "Resources Subsidiary" is hereby added as Section 2.1(q) of the Plan (prior to the redesignations in paragraphs 2 and 3 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"(q) 'Resources Subsidiary' means a subsidiary corporation of Resources as defined in Section 424(f) of the Code."

5. Section 4.2 of the Plan is hereby amended in its entirety to read as follows:

"4.2 Participation Not Guarantee of Employment. Nothing in this Plan or in the instrument evidencing the grant of a Stock Incentive shall in any manner be construed to limit in any way the right of the Employer to terminate a Key Employee's employment at any time, without regard to the effect of such termination on any rights such Key Employee would otherwise have under this Plan, or give any right to such a Key Employee to remain employed by an Employer in any particular position or at any particular rate of compensation."

6. Section 9.2(b) of the Plan is hereby amended in its entirety to read as follows:

"(b) Payment on Exercise: No shares of Common Stock shall be issued on the exercise of an Option unless paid for in full at the time of purchase. Payment for shares of Common Stock purchased upon the exercise of an Option shall be made in cash or, with the consent of the Committee, in Common Stock, or by a combination of cash and Common Stock. If shares of Common Stock are used to pay for shares of Common Stock purchased upon the exercise of an Option, such shares shall be valued based on the fair market value of Common Stock when the Option is exercised in accordance with such uniform rules and procedures as the Committee determines appropriate. No Key Employee shall have any rights as a shareholder with respect to any share of Common Stock covered by an Option unless and until such Key Employee shall have become the holder of record of such share, and, other than pursuant to an adjustment made in accordance with Section 13.3 hereof, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property or distributions or other rights) in respect of such share for which the record date is prior to the date on which such Key Employee shall have become the holder of record thereof."

7. Section 10.1(a) of the Plan is hereby amended in its entirety to read as follows:

"(a) voluntary termination of employment with an Employer by the Key Employee, with or without consent of the Company or Resources,"

8. Section 10.1(b) of the Plan is hereby amended in its entirety to read as follows:

"(b) termination of employment of the Key Employee by an Employer, with or without cause, or"

9. Section 10.1(c) of the Plan is hereby amended in its entirety to read as follows:

> "(c) termination of the Key Employee's employment with an Employer because of Disability, retirement under a retirement plan maintained by the Company or Resources, or because the entity employing such Key Employee ceases to be an Employer and he does not, prior thereto or contemporaneously therewith, become a Key Employee of another Employer;"

10. Section 10.1 of the Plan is hereby amended by adding the following sentence to the end thereof to read as follows:

> "Following the Distribution (as defined below), a termination of employment with an Employer includes a transfer of employment from the Company (or a Subsidiary) to Resources (or a Resources Subsidiary) and vice versa. "Distribution" means the distribution by the Company to the holders of its Common Stock of all of the shares of the common stock of Resources it then owns."

11. The last sentence in Section 11.1 of the Plan is hereby amended to read as follows:

> "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 Employers, the shareholders of the Company, the shareholders of Resources, the Committee and each of the members thereof, as well as Key Employees and Employees of the Company and their respective successors in interest."

12. Section 13.5 is hereby amended in its entirety to read as follows:

> "The Company or its designated third party administrator shall have the right to deduct taxes at the applicable supplemental rate from any payment or delivery hereunder and withhold, at the time of delivery or vesting of cash or shares of Common Stock under this Plan, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes or other amounts required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes, provided that withholding obligations with respect to Options may only be satisfied in cash as long as withholding of stock following the exercise of an Option would result in a charge to earnings. The Committee may also permit withholding to be satisfied by the transfer to the Company of shares of Common Stock theretofore owned by the holder of the award with respect to which withholding is required, except with respect to Options. 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."

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 7th day of August, 2002, but effective as of January 1, 2001.

RELIANT ENERGY, INCORPORATED

By /s/ David M. McClanahan

David M. McClanahan
President and Chief Operating Officer,
Reliant Energy Delivery Group

ATTEST:

/s/ Richard B. Dauphin
- ------------------------------
Assistant Corporate Secretary

EXHIBIT 10.5

NORAM ENERGY CORP. 1994 INCENTIVE EQUITY PLAN

First Amendment

NorAm Energy Corp., a Delaware corporation ("NorAm"), established the NorAm Energy Corp. 1994 Incentive Equity Plan, effective January 1, 1994, and as thereafter amended (the "Plan"). As the successor to NorAm, Reliant Energy, Incorporated, a Texas corporation (the "Company"), having reserved the right under Section 15(a) thereof to amend the Plan, does hereby amend the Plan, effective January 1, 2001, as follows:

1. The first sentence of the Plan shall be amended by removing the clause "(the 'Company')" therefrom.

2. The following new definition of "Company" is hereby added as Section 2(h) of the Plan, and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

> "(h) 'Company' means Reliant Energy, Incorporated, a Texas corporation, and any successor thereto."

3. The following new definition of "Employer" is hereby added as Section 2(i) of the Plan (prior to the redesignation in paragraph 2 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

> "(i) 'Employer' means the Company, Resources, a Subsidiary, or a Resources Subsidiary that employs the Key Employee."

4. The following new definition of "Resources" is hereby added as Section 2(r) of the Plan (prior to the redesignations in paragraphs 2 and 3 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

> "(r) 'Resources' means Reliant Resources, Inc., a Delaware corporation, or a successor to Reliant Resources, Inc. in the ownership of substantially all of its assets."

5. The following new definition of "Resources Subsidiary" is hereby added as Section 2(s) of the Plan (prior to the redesignations in paragraphs 2 and 3 herein and after the redesignation in paragraph 4 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

> "(s) 'Resources Subsidiary' means a subsidiary corporation of Resources as defined in Section 424(f) of the Code."

6. Section 13 of the Plan is hereby amended in its entirety to read as follows:

> "Withholding Taxes. The Company or its designated third party administrator shall have the right to deduct taxes at the applicable supplemental rate from any payment or delivery hereunder and withhold, at the time of delivery or vesting of cash or shares of Common Stock under this Plan, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes or other amounts required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes, provided that withholding obligations with respect to Option Rights may only be satisfied in cash as long as withholding of stock following the exercise of an Option Right would result in a charge to earnings. The Committee may also permit withholding to be satisfied by the transfer to the Company of shares of Common Stock theretofore owned by the holder of the award with respect to which withholding is required, except with respect to Option Rights. 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."

7. Section 15(c) of the Plan is hereby amended in its entirety to read as follows:

> "(c) This Plan will not confer upon any Participant any right with respect to continuance of employment or other service with any Employer, nor will it interfere in any way with any right any Employer would otherwise have to terminate such Participant's employment or other service at any time."

8. A new Section 16 is hereby added to the Plan to read as follows:

> "16. Service with Resources Not a Termination. From and after January 1, 2001, service with Resources or a Resources Subsidiary shall not constitute a termination of employment hereunder or under any grant authorized hereunder, and the transfer of a Participant from employment by one Employer to employment by another Employer shall not be deemed to be a termination of employment; provided, however, that following the Distribution (as defined below), the transfer of employment from the Company (or a Subsidiary) to Resources (or a Resources Subsidiary) or vice versa shall constitute a termination of employment for purposes of the Plan. "Distribution" means the distribution by the Company to the holders of its Common Stock of all of the shares of the common stock of Resources it then owns."

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 7th day of August, 2002, but effective as of January 1, 2001.

RELIANT ENERGY, INCORPORATED

By /s/ David M. McClanahan

David M. McClanahan
President and Chief Operating Officer,
Reliant Energy Delivery Group

ATTEST:

/s/ Richard B. Dauphin
- ----------------------------
Assistant Corporate Secretary

EXHIBIT 10.6

RELIANT ENERGY, INCORPORATED
1994 LONG-TERM INCENTIVE COMPENSATION PLAN

(AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2001)

RECITALS

Reliant Energy, Incorporated (the "Company") established the 1994 Houston Industries Incorporated Long-Term Incentive Compensation Plan (the "Prior Plan"), for the benefit of its eligible key employees and retained the right to amend the Prior Plan under Article XII thereof.

Effective as of January 1, 2001 and in connection with the Company's planned distribution of the shares of Reliant Resources, Inc. common stock to its shareholders, the Board authorized the amendment, restatement and continuation of the Prior Plan, as in effect on December 31, 2000, in the form of this plan (the "Plan") to provide for the vesting and conversion of certain outstanding performance shares to time-based restricted shares, to provide that employment with Reliant Resources, Inc. and it subsidiaries is not a termination of employment hereunder, and to make certain other changes therein.

NOW, THEREFORE, effective as of January 1, 2001, the Company hereby amends, restates in its entirety and continues the Prior Plan as follows:

ARTICLE I

PURPOSE

1.1 Purpose of Plan: The purpose of this Reliant Energy, Incorporated 1994 Long-Term Incentive Compensation Plan is to strengthen the alignment of financial interests of key employees of 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 key employees. The Plan (i) enhances the Company's ability to maintain a competitive position in attracting and retaining qualified key personnel who contribute, and are expected to contribute, materially to the success of the Company and its subsidiaries; (ii) provides a means of rewarding the outstanding performance of such key employees; and (iii) enhances the interest of such key employees in the Company's continued success and progress by enabling them to obtain a proprietary interest in the Company.

ARTICLE II

DEFINITIONS

2.1 Definitions: For purposes of the Plan, the following terms shall have the meanings below stated, subject to the provisions of Section 10.1.

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Committee" means the Compensation Committee or such other committee appointed by the Board to administer this Plan pursuant to Article X.

(d) "Common Stock" means, subject to the provisions of Section 12.3, the presently authorized common stock, without par value, of the Company.

(e) "Company" means Reliant Energy, Incorporated, a Texas corporation, and any successor thereto.

(f) "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 or Resources's benefit plans.

(g) "Distribution" means the distribution by the Company to the holders of its Common Stock of all of the shares of the common stock of Resources it then owns.

(h) "Employee" means an officer or key employee of the Company or a Subsidiary.

(i) "Employer" means the Company, Resources, Subsidiary, or Resources Subsidiary that employs the Key Employee.

(j) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(k) "Fair Market Value" means the average of the 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.

(l) "Incentive Stock Option" means an option to purchase Common Stock, granted by the Company to a Key Employee pursuant to Section 8.1, which meets the requirements of Section 422 of the Code.

(m) "Key Employee" means an Employee selected to participate in this Plan pursuant to the terms hereof.

(n) "Nonstatutory Stock Option" means an option to purchase Common Stock, granted by the Company to a Key Employee pursuant to Section 8.1, which does not meet the requirements of Section 422 of the Code.

(o) "Option" means an Incentive Stock Option or a Nonstatutory Stock Option.

(p) "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 Stock Awards have been met.

(q) "Performance Objective" 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 released from the restrictions of a Restricted Stock Award and the number of additional "opportunity shares" of Common Stock related to such Restricted Stock Award which the Committee may elect to award to a Key Employee.

(r) "Plan" means the Reliant Energy, Incorporated 1994 Long-Term Incentive Compensation Plan, as set forth herein and as from time to time amended.

(s) "Resources" means Reliant Resources, Inc., a Delaware corporation, or a successor to Reliant Resources, Inc. in the ownership of substantially all of its assets.

(t) "Resources Subsidiary" means a subsidiary corporation of Resources as defined in Section 424(f) of the Code.

(u) "Restricted Period" means the period from the date of the Distribution to December 31, 2002 during which a Key Employee must remain continuously employed by an Employer.

(v) "Restricted Stock Award" means an award of restricted shares of Common Stock, granted by the Company to a Key Employee pursuant to Section 5.1, implemented by credit to a bookkeeping account maintained by the Company.

(w) "Stock Appreciation Right" means a right, granted by the Company to a Key Employee pursuant to Section 8.4, to earn additional compensation for services rendered based upon the appreciation of the Fair Market Value of the Common Stock.

(x) "Stock Award" means a Restricted Stock Award and, if applicable, an award of "opportunity shares" related to such Restricted Stock Award granted pursuant to Section 5.1.

(y) "Stock Incentives" refers collectively to Stock Awards, Options and Stock Appreciation Rights.

(z) "Subsidiary" means a subsidiary corporation of the Company as defined in Section 424(f) of the Code.

ARTICLE III

SHAREHOLDER APPROVAL; RESERVATION OF SHARES

3.1 Shares Reserved Under Plan: The aggregate number of shares of Common Stock which may be issued under this Plan shall not exceed Eighteen Million (18,000,000) shares, subject to adjustment as hereinafter provided. The number of shares of Common Stock that are subject to awards under this Plan that are forfeited or terminated, expire unexercised, are settled in cash in lieu of Common Stock or in a manner such that all or some of the shares covered by an award are not issued to a Key Employee, shall again immediately become available for awards hereunder. In the event that any Option or other award granted hereunder is exercised through

the delivery of shares of Common Stock or in the event that withholding tax liabilities arising from such award are satisfied by the withholding of shares of Common Stock by the Company, the number of shares of Common Stock available for awards under the Plan shall be increased by the number of shares of Common Stock so surrendered or withheld. All or any part of such Eighteen Million shares may be issued pursuant to Stock Awards. The shares of Common Stock which may be granted pursuant to Stock Incentives 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 12.3 and to give effect to any amendment adopted as provided in Section 11.1. 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, but subject to such rules and procedures concerning the counting of shares against the Plan maximum as the Committee may deem appropriate to apply in order that applicable exemptions under Rule 16b-3 under the Exchange Act may be available for Stock Incentives.

Notwithstanding anything herein to the contrary, no Key Employee may be granted, during any calendar year, (i) Options (including Stock Appreciation Rights) covering, in the aggregate, more than 500,000 shares of Common Stock authorized under the Plan or (ii) Restricted Stock Awards (including "opportunity shares") covering, in the aggregate, more than 50,000 shares of Common Stock authorized under the Plan, in each case subject to adjustment in the same manner provided in Section 12.3.

ARTICLE IV

PARTICIPATION IN PLAN

4.1 Eligibility to Receive Stock Incentives: Stock Incentives 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 Stock Incentive is granted. Employees so selected and granted a Stock Incentive are referred to herein as "Key Employees."

4.2 Participation Not Guarantee of Employment: Nothing in this Plan or in the instrument evidencing the grant of a Stock Incentive shall in any manner be construed to limit in any way the right of an Employer to terminate a Key Employee's employment at any time, without regard to the effect of such termination on any rights such Key Employee would otherwise have under this Plan, or give any right to such a Key Employee to remain employed by an Employer in any particular position or at any particular rate of compensation.

PART II

RESTRICTED STOCK AWARDS

ARTICLE V

STOCK AWARDS

5.1 Grant of Restricted Stock Awards:

(a) Selection of Key Employees: Subject to the terms of this Plan, the Committee shall select from among the Employees of the Company and its Subsidiaries those Key Employees to whom Stock Awards shall be awarded for each Performance Cycle. Restricted Stock Awards and the allocation of "opportunity shares" related to such Restricted Stock Awards shall be made not later than 90 days following the commencement of a Performance Cycle; provided, however, the Committee shall retain discretion to name as a Key Employee to whom a Stock Incentive shall be granted an Employee hired or promoted after the commencement of the Performance Cycle. From and after April 10, 2001, no new grants of Stock Awards may be made under the Plan.

(b) Award of Shares: The Committee shall determine the number of shares of Common Stock covered by each Restricted Stock Award and the maximum number of "opportunity shares," if any, related to such Restricted Stock Award which may be awarded to a Key Employee. On or about the close of, and, if appropriate and in accordance with Section 7.2(b), during the term of, each Performance Cycle, the Committee shall determine whether the restrictions set forth in Article VI hereof shall lapse with respect to a portion or all of the shares awarded under a Restricted Stock Award and whether any additional "opportunity shares" related to such Restricted Stock Award shall be awarded. Notwithstanding the foregoing to the contrary, in the event of the Distribution, the number of shares of Common Stock granted under this Plan pursuant to a Restricted Stock Award for the 2000-2002 Performance Cycle and all outstanding "opportunity shares" related to such Restricted Stock Award shall be converted into an equal number of shares of Common Stock subject to a Restricted Period ("Time-Based Restricted Shares"). The Time-Based Restricted Shares shall be subject generally to all other terms and conditions of the Plan applicable to Restricted Stock Awards, provided, however, that where appropriate references to Restricted Stock Awards shall be replaced with reference to Time-Based Restricted Share Awards and references to Performance Cycle shall be replaced with reference to the Restricted Period.

The Committee shall implement the grant of a Restricted Stock Award by credit to a bookkeeping account maintained by the Company evidencing the accrual to a Key Employee of unsecured and unfunded rights to receive, subject to the terms of the Restricted Stock Award, shares of Common Stock.

(c) Form of Instrument: Each Restricted Stock Award shall be made pursuant to an instrument prescribed in form by the Committee. Such instrument shall specify the number of shares covered thereby, the restrictions set forth in Article VI and the Performance Objectives

which, if not achieved, may cause all or part of the shares to be forfeited after the close of the Performance Cycle with respect to which they were awarded.

5.2 Performance Objectives: Each Restricted Stock Award shall be subject to the achievement of Performance Objectives by the Company during the Performance Cycle with respect to which the Restricted Stock Award is made. The Committee shall specify in writing the Performance Objectives which are to apply for that Performance Cycle prior to the earlier of (i) 90 days after the commencement of the Performance Cycle or (ii) the elapse of 25% of the Performance Cycle, and in any event, while the outcome is substantially uncertain. Performance Objectives may vary among Key Employees and from Performance Cycle to Performance Cycle; provided, however, that the Performance Objectives established in connection with a Restricted Stock Award made after May 9, 1997, shall be based upon targets established by the Committee with respect to one or more of the following financial factors: earnings per share growth, total return ranking among S&P 500 Electric Utilities Panel, and cash return on capitalization ranking among S&P 500 Electric Utilities Panel. The degree to which the Company achieves such Performance Objectives shall serve as the basis for the Committee's determination of the portion of a Key Employee's Restricted Stock Award which shall become vested by reason of the lapse of the restrictions set forth in Article VI and the number of "opportunity shares," if any, which shall be awarded.

The Committee will certify in writing, prior to payment of the Restricted Stock Awards, that the applicable Performance Objectives and any other material terms were satisfied. The Committee in its sole discretion may decrease a Restricted Stock Award, but in no event shall the Committee have discretion to increase a Restricted Stock Award in a manner such that the Award would fail to meet the exception for qualified performance-based compensation under Code Section 162(m). In interpreting Plan provisions applicable to Performance Objectives and Restricted Stock Awards, it is the intent of the Plan to conform with the standards of Code Section 162(m) applicable to qualified performance-based compensation, and the Committee in establishing such goals and interpreting the Plan shall be guided by such provisions.

This Section 5.2 shall not apply to Time-Based Restricted Shares.

5.3 Rights with Respect to Shares: No Key Employee who is granted a Restricted Stock Award 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 Key Employee. The Committee may establish and express in the written instrument evidencing the Restricted Stock Award terms and conditions under which the Key Employee granted such Restricted Stock Award 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 Key Employee. 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 Restricted Stock Award, (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 Restricted Stock Award. 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 Restricted Stock Award shall terminate or lapse.

ARTICLE VI

RESTRICTIONS APPLICABLE TO RESTRICTED STOCK AWARDS

6.1 Restrictions: Each Restricted Stock Award 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 Article VII, shares of Common Stock awarded to a Key Employee pursuant to each Restricted Stock Award:

(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 Key Employee to such shares shall terminate without any payment of consideration by the Company, if (1) the Committee notifies the Key Employee pursuant to Section 7.1 (as of the end of the Performance Cycle or portion thereof) that it has determined that the Performance Objectives established with respect to all or a portion of the shares of Common Stock granted under such Restricted Stock Award have not been achieved, or (2) the Key Employee's continuous employment with the Employers shall terminate for any reason, except as provided in Section 7.2 or 7.3.

ARTICLE VII

LAPSE OF RESTRICTIONS

7.1 Lapse of Restrictions

(a) Due to Achievement of Performance Objectives: For Performance Cycles ending prior to the date of the Distribution, on or about the close of each Performance Cycle, the Committee shall determine whether, and if not, to what extent the Company has achieved the Performance Objectives established for such Performance Cycle. The Committee shall notify each Key Employee who has received a Restricted Stock Award of the Committee's determination of the extent to which the Performance Objectives established for the Performance Cycle have been achieved, the number of shares, if any, of Common Stock with respect to which the restrictions of Article VI have lapsed, the number of shares, if any, which shall be returned to the Company and the number of "opportunity shares," if any, related to such Restricted Stock Award which such Key Employee shall receive. Any lapse of restrictions or award of "opportunity shares" pursuant to this Section 7.1 shall occur on the date the Committee notifies the Key Employee thereof in writing.

(b) Due to Termination of Restricted Period: At the close of the Restricted Period, the restrictions set forth in Article VI shall lapse with respect to all of the Key Employee's Time-Based Restricted Shares with respect to each Key Employee who has been in

the continuous employment of an Employer since the date on which such Key Employee's Restricted Stock Award for the 2000-2002 Performance Cycle was converted into a Time-Based Restricted Share Award.

7.2 Lapse of Restrictions Due to Certain Terminations of Employment: If a Key Employee who has been in the continuous employment of an Employer since the date on which a Stock Award was granted to such Key Employee shall, while in such employment and prior to the close of the Performance Cycle with respect to which such Stock Award was granted, terminate employment by reason of death, Disability or retirement on or after attainment of age sixty (60), or if such Key Employee's employment is terminated by the Company without cause, then:

(a) if such event occurs during the first year of the Performance Cycle, all shares included in the Restricted Stock Award granted to such Key Employee and the contingent allocation of "opportunity shares" made as part of that Stock Award shall be cancelled; 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 year in which such event occurs and determine the number (if any) of shares included in the Stock Award (including both restricted and "opportunity shares") which such Key Employee would have otherwise been entitled to based on the attainment of such achievement level and (2) the restrictions set forth in Section 6.1(b)(2) and all other 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 (including both restricted and "opportunity 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 and any award of "opportunity shares" pursuant to this Section 7.2(b) shall occur on the later of December 31 of the year in which such event occurs and the date the Committee notifies the Key Employee thereof in writing.

The foregoing provisions of this Section 7.2 shall only apply prior to the date of the Distribution. From and after the date of the Distribution, if a Key Employee who has been in the continuous employment of an Employer since the date on which a Time-Based Restricted Share Award was granted to such Key Employee shall, while in such employment and prior to the close of the Restricted Period, terminate employment by reason of death, Disability or retirement on or after attainment of age sixty (60), or if such Key Employee's employment is terminated by an Employer without cause, then the restrictions set forth in Section 6.1(b)(2) and all other 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 Time-Based Restricted Shares awarded to such Key Employee in connection with the Distribution 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 7.2(b) shall occur on the later of the last day of the Restricted Period and the date the Committee notifies the Key Employee thereof in writing. Following the

Distribution, a termination of employment with an Employer includes a transfer of employment from the Company (or a Subsidiary) to Resources (or a Resources Subsidiary) and vice versa.

7.3 Treatment Upon Change in Control: Notwithstanding any provision of Section 6.1 or any other provision of this Plan or any provision in any grant or award hereunder to the contrary, forthwith upon the occurrence of any "change in control" of the Company, the Company shall pay cash to each Key Employee to whom a Restricted Stock Award 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 Restricted Stock Awards and all "opportunity shares" related to such Restricted Stock Awards times the Fair Market Value on the date of the "change in control." Such a "change in control" shall be deemed to have taken place if: (i) any "person," including a "group" as determined in accordance with Section 13(d)(3) of the Exchange Act, is or becomes the beneficial owner, directly or indirectly, of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding voting securities; (ii) as a result of, or in connection with, any tender offer or exchange offer, merger or other business combination, sale of assets or contested election or any combination of the foregoing transactions (a "Transaction"), the persons who were directors of the Company before the Transaction shall cease to constitute a majority of the Board of Directors of the Company or any successor to the Company; (iii) the Company is merged or consolidated with another corporation and as a result of such merger or consolidation less than seventy percent (70%) of the outstanding voting securities of the surviving or resulting corporation shall then be owned in the aggregate by the former shareholders of the Company, other than (x) any party to such merger or consolidation or (y) any affiliates of any such party; or (iv) a tender offer or exchange offer is made and consummated for the ownership of securities of the Company representing thirty percent (30%) or more of the combined voting power of the Company's then outstanding voting securities; or (v) the Company transfers all or substantially all of its assets to another corporation that is not a wholly owned corporation of the Company.

PART III

OPTIONS AND STOCK APPRECIATION RIGHTS

ARTICLE VIII

OPTIONS AND STOCK APPRECIATION RIGHTS

8.1 Grant of Options:

(a) Grant: The Committee may grant Incentive Stock Options and/or Nonstatutory Stock Options to Key Employees. All Options under this Plan shall be granted within ten years of the date this Plan is adopted or the date this Plan is approved by shareholders of the Company, whichever is earlier. No Options shall be granted pursuant to this Plan after February 2, 2003.

(b) Option Price: The purchase price per share of Common Stock under each Option shall be not less than one hundred percent (100%) of the Fair Market Value per share of

such Common Stock on the date the Option is granted. The Option price shall be subject to adjustment in accordance with the provisions of Section 12.3 hereof.

(c) Option Agreements: Options and any Stock Appreciation Rights attached to such Options shall be evidenced by Option Agreements in such form as the Committee shall approve and containing such terms and conditions, including the period of their exercise and whether in installments or otherwise, as shall be contained therein, which need not be the same for all Options.

(d) Options Nontransferable: An Option granted under this Plan shall by its terms be nontransferable by the Key Employee otherwise than by will or the laws of descent and distribution, and, during the lifetime of the Key Employee, shall be exercisable only by such Key Employee. No transfer of an Option by a Key Employee by will or by the laws of descent and distribution shall be effective to bind the Company unless the Company shall have been furnished with written notice thereof and a copy of the will and/or such other evidence as the Committee may determine necessary to establish the validity of the transfer.

8.2 Exercise of Options:

(a) Terms of Options: No Option granted under this Plan may be exercised until one (1) year after the date of grant thereof. The restriction contained in the preceding sentence shall cease to apply to the exercise of any Option heretofore or hereafter granted under this Plan upon and simultaneously with the occurrence of any "change in control" (as defined in Section 7.3) of the Company. Options may be exercised over such period ending not later than ten years from the date such Options shall have been granted, as the Committee shall determine at the time each Option is granted.

(b) Payment on Exercise: No shares of Common Stock shall be issued on the exercise of an Option unless paid for in full at the time of purchase. Payment for shares of Common Stock purchased upon the exercise of an Option shall be made in cash or, with the consent of the Committee, in Common Stock, or by a combination of cash and Common Stock. If shares of Common Stock are used to pay for shares of Common Stock purchased upon the exercise of an Option, such shares shall be valued based on the fair market value of Common Stock when the Option is exercised in accordance with such uniform rules and procedures as the Committee determines appropriate. The Committee may also provide for procedures to permit the exercise of Options by the use of the proceeds to be received from the sale of Common Stock issuable pursuant to an Option. No Key Employee shall have any rights as a shareholder with respect to any share of Common Stock covered by an Option unless and until such Key Employee shall have become the holder of record of such share, and, other than pursuant to an adjustment made in accordance with Section 12.3 hereof, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property or distributions or other rights) in respect of such share for which the record date is prior to the date on which such Key Employee shall have become the holder of record thereof.

8.3 Incentive Stock Options:

(a) Annual Limitation: Subject to the limitation of Section 3.2 relating to the aggregate number of shares subject to this Plan, Incentive Stock Options may be granted with

respect to any number of shares; provided, however, the aggregate Fair Market Value of such shares (determined as of the time such Option is granted) with respect to which such Options are exercisable for the first time by a Key Employee during any one (1) calendar year (under this Plan and any other plans of the Company and its Subsidiaries) shall not exceed $100,000. To the extent that the aggregate Fair Market Value of shares with respect to which Incentive Stock Options (determined without regard to this subsection) are exercisable for the first time by any Key Employee during any calendar year (under this Plan and any other plan of the Company and its Subsidiaries) exceeds $100,000, such Options shall be treated as Nonstatutory Options.

(b) Incentive Stock Options Granted to Ten Percent Shareholders: No Incentive Stock Options shall be granted to any Key Employee who owns, directly or indirectly pursuant to Section 424(d) of the Code, stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company or any Subsidiary, unless at the time such Incentive Stock Option is granted, the price of the Incentive Stock Option is at least 110 percent of the Fair Market Value of the Common Stock subject to the Incentive Stock Option and such Incentive Stock Option, by its terms, is not exercisable after the expiration of five (5) years from the date such Incentive Stock Option is granted.

(c) Notice: Each Key Employee shall give prompt notice to the Company of any disposition of shares acquired upon exercise of an Incentive Stock Option if such disposition occurs within either two (2) years after the date of grant or one (1) year after the date of transfer of such shares to the Key Employee upon the exercise of such Incentive Stock Option.

8.4 Stock Appreciation Rights Attached to Options:

(a) Award: The Committee may award a Stock Appreciation Right with respect to any shares of Common Stock covered by any Option granted under this Plan and such Stock Appreciation Right shall be granted only at the time of the grant of the related Option.

(b) Terms and Conditions: Each Stock Appreciation Right shall be subject to the same terms and conditions as the related Option with respect to date of expiration, limitations on transferability and eligibility to exercise. No Stock Appreciation Right may be exercised after the related Option becomes nonexercisable. Stock Appreciation Rights shall be payable, at the sole discretion of the Committee, in cash or in Common Stock or a combination thereof.

(c) Amount of Compensation: The amount of compensation which shall be payable to a Key Employee pursuant to the exercise of a Stock Appreciation Right shall be equal to the excess of the Fair Market Value of one (1) share of Common Stock on the date of exercise of the Stock Appreciation Right over the Fair Market Value of such share on the date the Stock Appreciation Right was granted multiplied by the number of Option shares with respect to which the Stock Appreciation Right is exercised (the spread).

(d) Tandem Nature of Awards: Upon the exercise of a Stock Appreciation Right, the related Option shall cease to be exercisable as to the number of shares of Common Stock with respect to which such Stock Appreciation Right was exercised, and upon the exercise of an Option, the related Stock Appreciation Right shall cease to be exercisable with respect to the number of shares of Common Stock with respect to which the Option was exercised.

ARTICLE IX

TERMINATION OF EMPLOYMENT AND DEATH

9.1 Termination of Employment: Unless earlier terminated in accordance with its terms, an Option or Stock Appreciation Right shall terminate (i) ninety (90) days in the case of an Incentive Stock Option and (ii) three (3) years in the case of a Nonstatutory Stock Option after any of the following:

(a) voluntary termination of employment with an Employer by the Key Employee, with or without consent of the Company or Resources,

(b) termination of employment of the Key Employee by an Employer, with or without cause, or

(c) termination of the Key Employee's employment with an Employer because of Disability, retirement on or after attainment of age sixty (60) and prior to attainment of age sixty-five (65), or because the entity employing such Key Employee ceases to be an Employer, as applicable, and the Key Employee does not, prior thereto or contemporaneously therewith, become a Key Employee of another Employer;

provided that, with regard to terminations of employment pursuant to paragraph (b), the Option or Stock Appreciation Right shall terminate as of the date of such discharge if prior to such termination the Committee in its discretion shall determine that it is not in the best interest of the Company that the Option or Stock Appreciation Right should continue for said period. The Option or Stock Appreciation Right shall be exercisable only to the extent it was exercisable on the date of the event described in (a-c) above. Following the Distribution, a termination of employment with an Employer includes a transfer of employment from the Company (or a Subsidiary) to Resources (or a Resources Subsidiary) and vice versa.

9.2 Normal Retirement of Optionee: If a Key Employee retires on or after attainment of age sixty-five (65), an Option or Stock Appreciation Right shall terminate (i) ninety (90) days in the case of an Incentive Stock Option and (ii) three (3) years in the case of a Nonstatutory Stock Option after the date of such Key Employee's retirement, unless such Option or Stock Appreciation Right has terminated earlier in accordance with its terms. Such Option or Stock Appreciation Right shall be fully exercisable on the date of such Key Employee's retirement.

9.3 Death of Optionee: If a Key Employee or former Key Employee shall die during the term of the Option or Stock Appreciation Right, the legal representatives of such Key Employee shall be entitled to exercise the Option or Stock Appreciation Right in whole or in part, to the extent such Option or Stock Appreciation Right was exercisable by such Key Employee on the date of such Key Employee's death, at any time within three (3) years following the death of such Key Employee, unless such Option or Stock Appreciation Right earlier terminated in accordance with its terms.

PART IV

ADMINISTRATION

ARTICLE X

ADMINISTRATION OF PLAN

10.1 The Committee: This Plan shall be administered solely by the Compensation Committee of the Board of Directors or such other committee of the Board as the Board shall designate to administer the Plan. A majority of the Committee shall constitute a quorum thereof and the actions of a majority of the Committee at a meeting at which a quorum is present, or actions unanimously approved in writing by all members of the Committee, shall be the actions of the Committee. Vacancies occurring on the Committee shall be filled by the Board. The Committee shall have full and final authority to interpret this Plan and the agreements evidencing Stock Incentives 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, Resources, the shareholders of the Company, the shareholders of Resources, the Committee and each of the members thereof, and Employees of the Company, and their respective successors in interest. The Committee may delegate any of its rights, powers and duties to any one or more of its members, or to any other person, by written action as provided herein, acknowledged in writing by the delegate or delegates, except that the Committee may not delegate to any person the authority to grant Stock Incentives to, or take other action with respect to, Participants who are subject to Section 16 of the Exchange Act. Such delegation may include, without limitation, the power to execute any documents on behalf of the Committee.

10.2 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 10.1 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.

10.3 Determinations of the Committee: In making its determinations concerning the Key Employees who shall receive Stock Incentives, as well as the number of shares to be covered thereby and the time or times at which they shall be granted, the Committee shall take into account the nature of the services rendered by the respective Key Employees, their past, present and potential contribution to the Company's success and such other factors as the Committee may deem relevant. The Committee shall also determine the form of Stock Incentives 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 Stock Incentive, provided such waiver is not inconsistent with the terms of this Plan as then in effect.

10.4 Compliance With the Exchange Act: With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Committee.

ARTICLE XI

AMENDMENT AND TERMINATION OF PLAN

11.1 Amendment, Modification, Suspension or Termination:

(a) The Board may from time to time amend, modify, suspend or terminate the Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law except that (i) no amendment or alteration that would impair the rights of any Key Employee under any Stock Incentive awarded to such Employee shall be made without such Employee's consent and (ii) no amendment or alteration shall be effective prior to approval by the Company's shareholders to the extent such approval is then required pursuant to Rule 16b-3 under the Exchange Act in order to preserve the applicability of any exemption provided by such rule to any Stock Incentive then outstanding (unless the holder of such Stock Incentive consents) or to the extent shareholder approval is otherwise required by applicable legal requirements.

(b) Amendments Relating to Incentive Stock Options: To the extent applicable, this Plan is intended to permit the issuance of Incentive Stock Options in accordance with the provisions of Section 422 of the Code. The Plan may be modified or amended at any time, both prospectively and retroactively, and in such manner as to affect Incentive Stock Options previously granted, if such amendment or modification is necessary for this Plan and the Incentive Stock Options granted hereunder to qualify under said provisions of the Code.

11.2 Termination: The Board may at any time terminate this Plan as of any date specified in a resolution adopted by the Board. If not earlier terminated, this Plan shall terminate on February 2, 2003. No Stock Incentives 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 Stock Incentives previously granted.

ARTICLE XII

MISCELLANEOUS PROVISIONS

12.1 Restrictions Upon Grant of Stock Incentives: 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 Stock Incentives or the resale or other disposition of any such shares of Common Stock by or on behalf of the Key Employees receiving such shares) may be necessary or desirable and, in any such 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.

12.2 Restrictions Upon Resale of Unregistered Stock: If the shares of Common Stock that have been transferred to a Key Employee 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 Key Employee, 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 Key Employee pursuant to this Plan will not be sold except pursuant to an effective registration statement under the Securities Act of 1933, as amended, or pursuant to an exemption from registration under said Act and (ii) that such Key Employee is acquiring such shares of Common Stock for such Key Employee's own account and not with a view to the distribution thereof.

12.3 Adjustments:

(a) The existence of outstanding Stock Incentives 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 consolidation of outstanding shares of Common Stock or declaration of a dividend payable in shares of Common Stock or capital reorganization or reclassification or other transaction involving an increase or decrease in the number of outstanding shares of Common Stock, the Committee may adjust proportionally (i) the number of shares of Common Stock reserved under this Plan and covered by outstanding Stock Incentives denominated in Common Stock or units of Common Stock; (ii) the exercise or other price in respect of such Stock Incentives; and (iii) the appropriate Fair Market Value and other price determinations for such Stock Incentives. 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), the Committee shall 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, separation, reorganization or liquidation, the Committee shall be authorized to issue or assume stock options, regardless of whether in a transaction to which Section 424(a) of the Code applies, by means of substitution of new options for previously issued options or an assumption of previously issued options, or to make provision for the acceleration of the exercisability of, or lapse of restrictions with respect to, Stock Incentives and the termination of unexercised options in connection with such transaction.

12.4 Withholding of Taxes: The Company or its designated third party administrator shall have the right to deduct taxes at the applicable supplemental rate from any payment or delivery hereunder and withhold, at the time of delivery or vesting of cash or shares of Common Stock under this Plan, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes or other amounts required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes, provided that withholding obligations with respect to Options may only be satisfied in cash as long as withholding of stock following the exercise of an Option would result in a charge to earnings. The Committee may also permit withholding to be satisfied by the transfer to the Company of shares of Common Stock theretofore owned by the holder of the award with respect to which withholding is required, except with respect to Options. 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.

12.5 Restrictions on Benefit: Notwithstanding the provisions of Sections 7.3 and 8.2(a) of this Plan, the aggregate present value of all parachute payments payable to or for the benefit of a Key Employee in the Plan, whether payable pursuant to the Plan or otherwise, shall be limited to three times the Key Employee's base amount less one dollar and, to the extent necessary, the acceleration of unmatured Option installments and the cash payments in lieu of Restricted Stock Awards shall be reduced by the Committee in order that this limitation not be exceeded. For purposes of this Section 12.6, the terms "parachute payment," "base amount" and "present value" shall have the meanings assigned thereto under Section 280G of the Code. It is the intention of this Section 12.6 to avoid excise taxes on the Key Employee under Section 4999 of the Code or the disallowance of a deduction to the Company pursuant to Section 280G of the Code.

RELIANT ENERGY, INCORPORATED

By /s/ David M. McClanahan

David M. McClanahan
President and Chief Operating Officer,
Reliant Energy Delivery Group

ATTEST:

/s/ Richard Dauphin

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

Assistant Corporate Secretary

EXHIBIT 10.7

1994 Long-Term Incentive Compensation Plan
NON-QUALIFIED STOCK OPTION NOTICE

[NAME]
[ADDRESS]
[CITY, STATE ZIP]

Grant Date: March 6, 2001
Shares Granted:
Stock Option Price:
Last Date to Exercise: March 5, 2011

We are pleased to inform you that the Compensation Committee of the Board has granted you an option to purchase Reliant Energy's common stock. Your grant has been made under the Company's 1994 Long-Term Incentive Compensation Plan (the "Plan"), which together with the terms contained in this Notice, sets forth the terms and conditions of your grant and is incorporated herein by reference. A copy of the Plan is attached. Please review it carefully.

VESTING:
Subject to the terms of the Plan, shares vest according to the following vesting schedule:

DATE OF VESTING	NUMBER SHARES VESTING -
03/06/2002	
03/06/2003	
03/06/2004	

EXERCISE:
You may exercise this Option, in whole or in part, to purchase a whole number of vested shares at any time, by following the exercise procedures set up by the Company. All exercises must take place before the Last Date to Exercise, or such earlier date as is set out in the Plan following your death, disability or your ceasing to be an employee. The number of shares you may purchase as of any date cannot exceed the total number of shares vested by that date, less any shares you have previously acquired by exercising this Option.

EMPLOYMENT REQUIREMENTS:
Standard: Upon termination of employment all vesting of shares on this grant will cease and the unvested portion will be canceled. However, the vested portion shall remain exercisable for three (3) years from your date of termination or until the expiration of the grant on 03/05/2011, whichever occurs first.

Death, Disability or Retirement: Upon termination after age 60 but prior to age 65 the vested portion of your Option shall remain exercisable for three (3) years from your date of termination or until the expiration of the grant on 03/05/2011, whichever occurs first. However, if your termination is due to retirement at or after the age of 65, your option shall automatically become fully vested and will remain exercisable for three (3) years from your date of retirement or until the expiration of the grant on 03/05/2011, whichever occurs first.

TAXES AND WITHHOLDING:

This option is not intended to be an Incentive Stock Option, as defined under Section 422(b) of the Internal Revenue Code. Therefore, upon exercise of a Non-Qualified Stock Option, you will need to remit payment for all taxes in accordance with the Plan.

ADJUSTMENT OF OPTION:
As provided in the Plan, the exercise price of this Option and/or the number of shares granted under this Option may be adjusted upon any recapitalization, merger, distribution, or other change in the capital stock of the Company. Accordingly, assuming the proposed spin-off of Reliant Resources, Inc. occurs during the term of this Option, the exercise price of this Option and/or number of shares granted under this Option may be adjusted in such equitable manner as prescribed by the Committee. You will be notified of any such change.

EXHIBIT 10.9

RELIANT ENERGY, INCORPORATED SAVINGS PLAN

(As Amended and Restated Effective April 1, 1999)

First Amendment

The Benefits Committee of Reliant Energy, Incorporated, having reserved the right under Section 10.3 of the Reliant Energy, Incorporated Savings Plan, as amended and restated effective April 1, 1999 (the "Plan"), to amend the Plan, does hereby amend the Plan, effective as of the dates specified below, as follows:

1. Effective as of January 1, 1999, the third paragraph of Section 4.1 of the Plan is hereby amended to read as follows:

> "In addition, for any Plan Year, the Employer, in its discretion, may make an additional Employer Matching Contribution in the amount, if any, necessary to result in a total allocation under Article V to the ESOP Accounts 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, in the percentage determined by the Chairman of the Committee, in his sole discretion, of the total of each such eligible Participant's Pre-Tax Matched Contribution and After-Tax Matched Contribution for such Plan Year. The foregoing discretionary allocation shall be communicated to such eligible Participants within 90 days following the close of the applicable Plan Year. Further, the Employer may 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."

2. Effective as of January 1, 1999, the last sentence of Section 5.3(b) of the Plan is hereby amended to read as follows:

> "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 Contribution and After-Tax Matched Contribution and, if applicable, after the close of the first quarter following the end of the applicable Plan Year in an amount equal to the discretionary allocation percentage of the total of each eligible Participant's

Pre-Tax Matched Contribution and After-Tax Matched Contribution in accordance with the third paragraph of Section 4.1."

3. Effective as of April 1, 1999, the sixth line of Section 1.11 of the Plan is hereby amended to add the words "in cash" after the words "payments of compensation" and before the words "which would be" in such line.

4. Effective as of April 1, 1999, the second sentence of Section 3.1 of the Plan is hereby amended to read as follows:

"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)(2) of the Code, subject to Code Section 414(n)(5)); (iii) an individual who is designated, compensated, or otherwise classified or treated as an independent contractor or a leased employee 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."

5. Effective as of April 1, 1999, the first sentence in Section 6.3 of the Plan is hereby amended to read as follows:

"In the event of termination of a Participant's Service due to his death, the entire amount of such Participant's Account shall be fully vested as of his date of death. If a Participant's death occurs prior to filing his written election to commence the payment of his benefit under the Plan, after receipt by the Committee of acceptable proof of death, the entire vested amount in the Account of such Participant shall be payable as follows:"

6. Effective as of April 1, 1999, the first, second and third paragraphs of Section 6.6 of the Plan and Clauses (a) and (b) of Section 6.6 of the Plan are hereby amended to read as follows:

"6.6 Payment 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 a payment becomes 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. Notwithstanding any other provision of this Section 6.6 or the Plan to the contrary, 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 payment as soon as administratively practicable following termination of Service 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 vested amount in the Participant's Accounts to the party or parties entitled thereto under Section 6.3 in a lump-sum distribution in cash or, if timely elected by such party or parties, all or a portion in kind in the shares of Common Stock held in an Account invested in the Reliant Energy Common Stock Fund, within five years after the death of such Participant.

Subject to the requirements of Section 6.10 and except as otherwise provided in this Section 6.6, any distribution to be made to a Participant under the provisions of this Article VI following his termination of employment shall be made or commence as soon as administratively practicable after the Participant files his written election, in the form and manner prescribed by the Committee, to receive the amounts in his Accounts, with such amounts to be paid in one of the following methods, as elected by the Participant:

(a) Lump-Sum Distributions: As a lump-sum distribution in cash, provided that no lump-sum distribution may be paid to the Participant 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, 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, with such Installment Payments continuing to the Participant's Beneficiary designated on such election form (or his Beneficiary under the Plan in lieu of a valid election form designation) if the Participant's death occurs during the term of the Installment Payments. After Installment Payments commence, the Participant (or his Beneficiary, as provided above in the event of the Participant's death) shall have the right at any time to convert the remaining balance of his Account to a lump-sum distribution."

7. Effective as of July 1, 2000, Article I of the Plan is hereby amended to add new Section 1.28(A) to read as follows:

"1.28(A) INSYNC PARTICIPANT: A Participant who was participating in the Insync Plan immediately prior to July 1, 2000."

8. Effective as of July 1, 2000, Article I of the Plan is hereby amended to add new Section 1.28(B) as follows:

"1.28(B) INSYNC PLAN: The Insync Internet Services, Inc. 401(k) Plan as in effect immediately prior to July 1, 2000."

9. Effective as of July 1, 2000, the second paragraph of Section 5.1(a) of the Plan and Clause (i) of Section 5.1(a) of the Plan are hereby amended to read as follows:

"The foregoing to the contrary notwithstanding, with respect to certain amounts transferred to the Plan from the Insync Plan, Minnegasco Plan and NorAm Plan, the following Prior Plan Accounts shall be maintained:

(i) Prior Plan Matching Account: The interest in each Investment Fund attributable to employee matching contribution to (A) the Minnegasco and NorAm Plans prior to January 1, 1999 for Minnegasco and NorAm Participants, respectively, and (B) the Insync Plan prior to July 1, 2000 for Insync Participants shall be reflected in a Prior Plan Matching Account;"

IN WITNESS WHEREOF, the Benefits Committee of Reliant Energy, 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 6th day of September, 2000, but effective as of the dates specified herein.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By: /s David M. McClanahan

David McClanahan, Chairman

ATTEST:

/s/ Lynne Harkel-Rumford
- --------------------------------------
Lynne Harkel-Rumford, Secretary

EXHIBIT 10.10

RELIANT ENERGY, INCORPORATED SAVINGS PLAN

SECOND AMENDMENT

The Benefits Committee of Reliant Energy, Incorporated, having reserved the right under Section 10.3 of the Reliant Energy, Incorporated Savings Plan, as amended and restated effective April 1, 1999 (the "Plan"), to amend the Plan, does hereby amend the Plan, effective as of the dates specified below, as follows:

1. Effective as of January 1, 1997, the definition of "Employee" in Section 1.16 of the Plan is hereby amended in its entirety to read as follows:

> "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 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."

2. Effective as of July 1, 2000, the definition of "Insync Participant" in Section 1.28(A) of the Plan is hereby redesignated as Section 1.29 of the Plan, and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly.

3. Effective as of July 1, 2000, the definition of "Insync Plan" in Section 1.28(B) of the Plan is hereby redesignated as Section 1.30 of the Plan, and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly.

4. Effective as of January 1, 1997, the following new definition of "Leased Employee" is hereby added as Section 1.31 of the Plan (prior to the redesignations in Paragraphs 2 and 3 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.31 LEASED EMPLOYEE: Each person who is not an employee of the Employer or an Affiliate but who performs services for the Employer or an Affiliate pursuant to a leasing agreement (oral or written) between the Employer or an Affiliate and any leasing organization, provided that such person has performed such services for the Employer or an Affiliate or for related persons (within the meaning of Section 144(a)(3) of the Code) on a substantially full-time basis for a period of at least one year and such services are performed under primary direction or control by the Employer or an Affiliate. The term 'Leased Employee' shall also include any individual who is deemed to be an employee of the Employer under Section 414(o) of the Code. Notwithstanding the preceding sentences, if individuals described in the preceding sentences constitute less than 20% of the Employer's nonhighly compensated work force within the meaning of Section 414(n)(5)(C)(ii) of the Code, the Plan shall not treat an individual as a Leased Employee if the leasing organization covers the individual in a money purchase pension plan providing immediate participation, full and immediate vesting and a nonintegrated contribution formula equal to at least 10% of the individual's annual compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludable from the individual's gross income under Sections 125, 402(a)(8), 402(h) or 403(b) of the Code. If any Leased Employee shall be treated as an Employee of the Employer, however, contributions or benefits provided by the leasing organization which are attributable to services of the Leased Employee performed for the Employer shall be treated as provided by the Employer."

5. Effective as of April 1, 1999, the following new definition of "Qualified Joint and Survivor Annuity" is hereby added as Section 1.45 of the Plan (prior to the redesignations in Paragraphs 2, 3 and 4 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.45 QUALIFIED JOINT AND SURVIVOR ANNUITY: With respect to a Participant with a Cengas Account, a monthly annuity for the life of the Participant beginning on the date any distribution is to be made with a survivor annuity equal to 50% of the amount of the annuity which is payable during the

joint lives of the Participant and the person who is the spouse of the Participant on the earlier of the date benefits commence or the date the annuity is distributed, and which is purchased from an insurance company with the vested portion of the Participant's Cengas Account determined as of the most recent Valuation Date. The Committee shall have the discretion to determine the insurance company from which the annuity shall be purchased. If a Participant is not married, the term 'Qualified Joint and Survivor Annuity' shall mean an immediate annuity for the life of the Participant purchased in the same manner as provided above."

6. Effective as of April 1, 1999, the following new definition of "Qualified Survivor Annuity" is hereby added as Section 1.46 of the Plan (prior to the redesignations in Paragraphs 2, 3, 4 and 5 herein), and all subsequent definitions shall be redesignated and all affected references are hereby amended accordingly:

"1.46 QUALIFIED SURVIVOR ANNUITY: With respect to a Participant with a Cengas Account, an annuity payable for the life of the surviving spouse beginning on the date any distribution is to be made which is purchased from an insurance company with the vested portion of the Participant's Cengas Account determined as of the most recent Valuation Date. The Committee shall have the discretion to determine the insurance company from which the annuity shall be purchased."

7. Effective as of April 1, 1999, the definition of "Valuation Date" in Section 1.54 of the Plan (prior to the redesignations in Paragraphs 2, 3, 4, 5 and 6 herein) is hereby amended in its entirety to read as follows:

"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 calendar month shall be the "monthly Valuation Date," 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."

8. Effective as of January 1, 1997, the phrase "(ii) an Employee who is a 'leased employee' as defined in Section 414(n) of the Code" in the last sentence of Section 3.1 of the Plan is hereby deleted and the phrase "(ii) an Employee who is a Leased Employee" is hereby substituted therefor.

9. Effective as of January 1, 1997, the phrase "and if elected by the Employer, was in the 'top-paid group' (the top 20% of payroll) for the Plan Year" in subsection (ii) of the definition of "Highly Compensated Employee" in Section 4.5 of the Plan, is hereby deleted.

10. Effective as of January 1, 1997, the last two sentences in the second paragraph of Section 4.8 of the Plan are hereby amended to read as follows:

"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 distributing excess Pre-Tax Contributions under Section 401(k)(8)(A)(i) 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, the Actual Deferral Percentage for Highly Compensated Employees is deemed to be the largest amount permitted under Section 401(k)(3) of the Code."

11. Effective as of April 1, 1999, the first sentence of the first paragraph of Section 5.4(c) is hereby amended to add the word "any" immediately following the words "each Valuation Date," and before the words "installment payments".

12. Effective as of April 1, 1999, the first paragraph of Section 6.6 is hereby amended to read as follows:

"6.6 Payment 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 or commence as of such entitlement or to be deferred to the extent provided below. If a payment becomes 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. Unless a Participant elects otherwise, payment of his benefits under this Plan shall be made or commence no later than the 60th day after the latest of the end of the Plan Year in which (a) the

Participant attains age 65, (b) occurs the tenth anniversary of the year in which the Participant commenced participation in the Plan or (c) the Participant's Service terminates. If the Participant so consents to an earlier payment, such payment shall be made as soon as practicable. Notwithstanding any other provision of this Section 6.6 or the Plan to the contrary, 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 payment as soon as administratively practicable following termination of Service for any reason."

13. Effective as of April 1, 1999, the term "qualified survivor annuity" in Section 6.6(d) of the Plan is hereby deleted and the term "Qualified Survivor Annuity" is hereby substituted therefor.

14. Effective as of April 1, 1999, each use of the term "qualified joint and survivor annuity" in Section 6.6(d) of the Plan is hereby deleted and the term "Qualified Joint and Survivor Annuity" is hereby substituted therefor.

15. Effective as of January 1, 2000, Section 6.7(b)(i) is hereby amended to add the phrase "any hardship distribution made under Section 401(k)(2)(B)(i)(IV) of the Code;" immediately following the phrase "under Section 401(a)(9) of the Code;" and before the phrase "and the portion of."

16. Effective as of April 1, 1999, Section 7.5 of the Plan is hereby amended to add the following new sentence to the end thereof:

"The foregoing notwithstanding, any withdrawal from a Participant's Cengas Account shall be subject to the written consent of his spouse in a manner prescribed by the Committee."

IN WITNESS WHEREOF, the Benefits Committee of Reliant Energy, 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 3rd day of November, 2000, but effective as of the dates specified herein.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By: /s/ David McClanahan

David McClanahan, Chairman

ATTEST:

/s/ Phylis Hazel

Phylis Hazel, Secretary

EXHIBIT 10.11

RELIANT ENERGY, INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective April 1, 1999)

Third Amendment

The Benefits Committee of Reliant Energy, Incorporated, having reserved the right under Section 10.3 of the Reliant Energy, Incorporated Savings Plan, as amended and restated effective April 1, 1999, and as thereafter amended (the "Plan"), to amend the Plan, does hereby amend the Plan, to make certain design and law changes, including those which reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001, effective as of the dates set forth below, as follows:

1. Effective as of January 1, 2001, the definition of "Anniversary Date" in Section 1.5 of the Plan is hereby deleted, and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly.

2. Effective as of January 1, 2002, clause (v) in the third sentence of the definition of "Compensation" in Section 1.11 of the Plan (prior to the redesignation in Paragraph 1 herein) is hereby amended to read as follows:

"(v) Compensation taken into account under the Plan for any Participant during a given Plan Year exceeding $200,000 (or such other amount provided under Code Section 401(a)(17)), as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B)."

3. Effective as of March 1, 2001, the definition of "Contribution" in Section 1.12 of the Plan (prior to the redesignation in Paragraph 1 herein) is hereby amended in its entirety to read as follows:

"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 After-Tax Matched Contributions, After-Tax Unmatched Contributions, Employer Matching Contributions, ESOP Contributions, Pre-Tax Matched Contributions, Pre-Tax Unmatched Contributions and Profit Sharing Contributions."

4. Effective as of March 1, 2001, the definition of "Employer Contributions" in Section 1.18 of the Plan (prior to the redesignation in Paragraph 1 herein) is hereby amended in its entirety to read as follows:

"1.18 EMPLOYER CONTRIBUTIONS: Collectively, Employer Matching Contributions, ESOP Contributions and Profit Sharing Contributions."

5. Effective as of March 1, 2001, the definition of "Employer Matching Account" in Section 1.19 of the Plan (prior to the redesignation in Paragraph 1 herein) is hereby amended in its entirety to read as follows:

"1.19 EMPLOYER MATCHING ACCOUNT: A Reliant Employer Matching Account and/or Resources Employer Matching Account, individually or collectively, as indicated by the context in which the term is used."

6. Effective as of March 1, 2001, the definition of "Employer Matching Contributions" in Section 1.20 of the Plan (prior to the redesignation in Paragraph 1 herein) is hereby amended in its entirety to read as follows:

"1.20 EMPLOYER MATCHING CONTRIBUTIONS: Collectively, Reliant Employer Matching Contributions and Resources Employer Matching Contributions."

7. Effective as of March 1, 2001, the definition of "Participant" in Section 1.39 of the Plan (prior to the redesignation in Paragraph 1 herein) is hereby amended in its entirety to read as follows:

"1.39 PARTICIPANT: An Employee who, pursuant to the provisions of Article III hereof, has met the eligibility requirements and is participating in the Plan. A former Employee shall be deemed a Participant under the Plan as long as he has an Account in the Trust Fund that has not been forfeited under Section 6.1 hereof and 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 contributions to the Plan under Article IV and Participant loans under Section 7.5 hereof."

8. Effective as of March 1, 2001, the following new definition of "Profit Sharing Contributions" is hereby added as Section 1.48 of the Plan (prior to the redesignation in Paragraph 1 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.48 PROFIT SHARING CONTRIBUTIONS: Any amount contributed to the Trust Fund by the Resources Employer pursuant to Section 4.1(d), in the form of an 'Annual Profit Sharing Contribution' or a 'Payroll Profit Sharing Contribution' (as each is described in Section 4.1(d))."

9. Effective as of March 1, 2001, the following new definition of "Profit Sharing Account" is hereby added as Section 1.49 of the Plan (prior to the redesignation in Paragraph 1 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.49 PROFIT SHARING ACCOUNT: The account maintained to reflect the Profit Sharing Contributions to the Plan for a Participant, and any adjustments thereto made pursuant to the provisions of the Plan."

10. Effective as of March 1, 2001, the following new definition of "Reliant Employee" is hereby added as Section 1.50 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.50 RELIANT EMPLOYEE: An Employee who is not classified as a Resources Employee."

11. Effective as of March 1, 2001, the following new definition of "Reliant Employer" is hereby added as Section 1.51 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.51 RELIANT EMPLOYER: The Company and each other Employer that is not a Resources Employer."

12. Effective as of March 1, 2001, the following new definition of "Reliant Employer Matching Account" is hereby added as Section 1.52 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.52 RELIANT EMPLOYER MATCHING ACCOUNT: The account maintained to reflect Reliant Employer Matching Contributions to the Plan (and to reflect all 'Employer Matching Contributions' made to, and maintained in, the 'Employer Matching Account' prior to March 1, 2001, as each such term was defined under

the Plan immediately prior to March 1, 2001) for each Participant, and any adjustments thereto made pursuant to the provisions of the Plan."

13. Effective as of March 1, 2001, the following new definition of "Reliant Employer Matching Contributions" is hereby added as Section 1.53 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.53 RELIANT EMPLOYER MATCHING CONTRIBUTIONS: Any amount, with the exception of ESOP Contributions, contributed to the Trust Fund by a Reliant Employer pursuant to Section 4.1(b)."

14. Effective as of March 1, 2001, the following new definition of "Resources" is hereby added as Section 1.54 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.54 RESOURCES: Reliant Resources, Inc., a Delaware corporation, or a successor to Reliant Resources, Inc., in the ownership of substantially all of its assets."

15. Effective as of March 1, 2001, the following new definition of "Resources Employee" is hereby added as Section 1.55 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.55 RESOURCES EMPLOYEE: An Employee of a Resources Employer, excluding, however, any Employee whose employment is covered by a collective bargaining agreement by and between an Employer and Local 66 of the International Brotherhood of Electrical Workers, AFL-CIO, that provides, pursuant to good faith bargaining, for such Employee's participation in the Plan."

16. Effective as of March 1, 2001, the following new definition of "Resources Employer" is hereby added as Section 1.56 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.56 RESOURCES EMPLOYER: Resources and each of its eligible subsidiaries that is an Employer and Reliant Energy Tegco, Inc., or its successor."

17. Effective as of March 1, 2001, the following new definition of "Resources Employer Matching Account" is hereby added as Section 1.57 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.57 RESOURCES EMPLOYER MATCHING ACCOUNT: The account maintained to reflect Resources Employer Matching Contributions to the Plan for a Participant, and any adjustments thereto made pursuant to the provisions of the Plan."

18. Effective as of March 1, 2001, the following new definition of "Resources Employer Matching Contributions" is hereby added as Section 1.58 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

"1.58 RESOURCES EMPLOYER MATCHING CONTRIBUTIONS: Any amount contributed to the Trust Fund by a Resources Employer pursuant to Section 4.1(c)."

19. Effective as of March 1, 2001, the following new definition of "Resources Stock" is hereby added as Section 1.59 of the Plan (prior to the redesignations in Paragraphs 1, 8 and 9 herein), and all subsequent definitions are hereby redesignated and affected references are hereby amended accordingly:

"1.59 RESOURCES STOCK: Common stock of Resources, which is readily tradable on an established securities market."

20. Effective as of January 1, 2002, Section 2.15 of the Plan is hereby amended in its entirety to read as follows:

"2.15 Presenting Claims for Benefits: Any Participant or any other person claiming under any deceased Participant (collectively, the 'Applicant') 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.

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, including the claimant's right to bring a civil action under Section 502(a) of ERISA following a denial on review.

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. Applicants 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."

21. Effective as of January 1, 2002, Section 2.16 of the Plan is hereby amended in its entirety to read as follows:

"2.16 Claims Review Procedure: If an application filed by an Applicant under Section 2.15 above shall result in a denial 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, by the Committee. 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 the Committee's final decision shall be furnished to the Applicant in writing, in a manner calculated to be understood by him, and if the Applicant's claim on review is denied in whole or in part, the notice shall set forth the specific reason or reasons for the denial and the specific reference to the pertinent plan provisions on which the denial is based, the Applicant's right to receive upon request, free of charge, reasonable access to, and copies of, all relevant documents, records and other information to his claim, and his right to bring a civil action under Section 502(a) of ERISA. If the decision on review is not furnished within the time period set forth above, the claim shall be deemed denied on review. Benefits under this Plan will only be paid if the Committee decides in its discretion that the Applicant is entitled to them."

22. Effective as of January 1, 2002, Section 2.17 of the Plan is hereby amended in its entirety to read as follows:

"2.17 Disputed Benefits: If any dispute shall arise between an Applicant 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 Applicant until such dispute has been resolved by a court of competent jurisdiction or settled by the parties involved."

23. Effective as of March 1, 2001, Section 3.1 of the Plan is hereby amended in its entirety to read as follows:

"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 an Eligible Employee 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 the Effective Date or the date he first began Service with an Employer. From and after March 1, 2001, each Eligible Employee who is a Resources Employee shall become a Participant for purposes of Profit Sharing Contributions (if any) as of the later of (a) March 1, 2001 or (b) the date he first began Service with a Resources 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; (iii) an individual who is designated, compensated or otherwise classified or treated as an independent contractor or a leased employee by an Employer or an Affiliate; and (iv) an individual who is a nonresident alien and who receives no United States source earned income from the Employer."

24. Effective as of March 1, 2001, Section 3.4 of the Plan is hereby amended in its entirety to read as follows:

"3.4 Application by Participants to Make Pre-Tax and/or After-Tax Contributions: Each Participant pursuant to this Article III who desires to make Pre-Tax Contributions and/or After-Tax Contributions to the Plan 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."

25. Effective as of March 1, 2001, Section 4.1 of the Plan is hereby amended in its entirety to read as follows:

"4.1 Employer Contributions.

(a) ESOP Contributions: For each Plan Year during which an Exempt Loan is outstanding, the Reliant Employer shall make an ESOP Contribution to the Trust Fund, in such amount, if any, and at such times as shall be determined by the Company.

(b) Reliant Employer Matching Contributions: In addition to any contribution required under subsection (a) above, the Reliant Employer shall make a Reliant 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 the ESOP Account of each Participant who is a Reliant Employee of not less than 75% of the total of his Pre-Tax Matched Contribution and After-Tax Matched Contribution (not to exceed in the aggregate 6% of the Participant's Compensation) for each payroll period.

In addition to the foregoing contribution, for any Plan Year, the Reliant Employer, in its sole discretion, may make a discretionary

Reliant Employer Matching Contribution in the amount, if any, necessary to result in a total allocation under Article V to the ESOP Accounts of:

(i) Participants who as of the last day of the applicable Plan Year are (1) Reliant Employees and (2) in active Service;

(ii) Participants (1) whose Service terminates during the applicable Plan Year other than due to death or Disability and (2) who, as of such termination date, are (I) age 55 or older with five years of Service and (II) Reliant Employees; and

(iii) Participants (1) whose Service terminates during the applicable Plan Year due to death or Disability and (2) who, as of such termination date, are Reliant Employees;

equal to a percentage, determined by the Chairman of the Committee, in his sole discretion, of the total of each such eligible Participant's Pre-Tax Matched Contributions and After-Tax Matched Contributions for such Plan Year. Any discretionary Reliant Employer Matching Contribution shall be communicated to such eligible Participants within 90 days following the close of the applicable Plan Year, with such contribution to be made as soon as administratively practicable on or after the date of such communication, but in no event later than the time prescribed by law for filing the federal income tax return of the Company for the applicable Plan Year, including any extension which has been granted for the filing of such tax return.

Further, the Reliant Employer may make an additional ESOP Contribution under Section 4.1(a) and/or Reliant Employer Matching Contribution under this Section 4.1(b), as necessary, to make the allocation required under Section 5.3(d)(ii) with respect to dividends used to repay an Exempt Loan.

(c) Resources Employer Matching Contributions: The Resources Employer shall make a Resources Employer Matching Contribution (subject to adjustment for forfeitures and limitations on annual additions as elsewhere specified in the Plan) in an amount in cash to result in a total allocation under Article V to the Resources Employer Matching Account of each Participant who is a Resources Employee equal to 100% of the total of his Pre-Tax Matched Contribution and After-Tax Matched Contribution (not to exceed in the aggregate 6% of the Participant's Compensation) for each payroll period.

(d) Profit Sharing Contributions by Resources Employer: For any Plan Year, the Resources Employer may, in its sole discretion, make a Profit Sharing Contribution or Contributions (subject to adjustments for

forfeitures and limitations on annual additions as elsewhere specified in the Plan) as described in clause (i) and/or clause (ii) below:

(i) Annual Profit Sharing Contribution: For any Plan Year, the Resources Employer may, in its sole discretion, contribute to the Trust Fund a discretionary Profit Sharing Contribution in an amount, if any, necessary to result in a total allocation under Article V to the Profit Sharing Accounts of:

(1) Participants who, as of the last day of the applicable Plan Year, are (A) Resources Employees and (B) in active Service;

(2) Participants (A) whose Service terminates during the applicable Plan Year other than due to death or Disability and (B) who, as of such termination date, are (I) Resources Employees and (II) age 55 or older with five years of Service; and

(3) Participants (A) whose Service terminates during the applicable Plan Year due to death or Disability and (B) who, as of such termination date, are Resources Employees;

equal to a percentage, not to exceed 3%, determined by the Chairman of the Committee, in his sole discretion, of each such eligible Participant's Compensation for such Plan Year ('Annual Profit Sharing Contribution'). The Annual Profit Sharing Contribution may be made in cash, Resources Stock or a combination of cash and Resources Stock, as determined by the Chairman of the Committee, in his sole discretion. Any Annual Profit Sharing Contribution shall be communicated to eligible Participants within 90 days following the close of the applicable Plan Year, with such contribution to be made as soon as administratively practicable on or after the date of such communication, but in no event later than the time prescribed by law for filing the federal income tax return of the Company for the applicable Plan Year, including any extension which has been granted for the filing of such tax return.

(ii) Payroll Profit Sharing Contributions: For any Plan Year, the Resources Employer may, in its sole discretion, contribute to the Trust Fund a discretionary Profit Sharing Contribution in cash as soon as administratively practicable on or after each payroll period during such Plan Year in an amount to result in a total allocation under Article V to the Profit Sharing Accounts of each Participant who is a Resources Employee as of

the last day of each payroll period equal to a percentage of each such Participant's eligible Compensation (as defined below) for each such payroll period, as determined by the Chairman of the Committee, in his sole discretion ('Payroll Profit Sharing Contribution'). For any Plan Year in which the Payroll Profit Sharing Contribution is elected to be made, Compensation for such contributions shall be the first $85,000 (or such other amount determined by the Chairman of the Committee, in his sole discretion) of Compensation for such Plan Year. For the 2001 Plan Year, (1) solely for purposes of determining the foregoing Compensation limit (and not for contribution purposes), all Compensation earned by an eligible Participant for the 2001 Plan Year shall be included, and (2) only payroll periods beginning after February 28, 2001 shall be eligible for the contribution under this Section 4.1(d)(ii). With the exception of the 2001 Plan Year, any Payroll Profit Sharing Contribution shall be communicated to eligible Participants prior to the first day of the applicable Plan Year.

(e) Forfeitures: To the extent specified in Section 5.3(d)(iii), any amount attributable to forfeitures will be applied to reduce, to the extent of such forfeitures, the Employer Matching Contributions required to be made and/or Profit Sharing Contributions (if any) the Employer elects to make under this Section 4.1 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 reemployment or claim, an amount equal to the forfeiture to be reinstated."

26. Effective as of January 1, 2002, the fourth sentence in the first paragraph of Section 4.2 of the Plan is hereby amended 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 dollar limitation provided under Code Section 402(g), as adjusted by the Secretary of the Treasury or his delegate for cost-of-living increases pursuant to Code Section 402(g)."

27. Effective as of January 1, 2002, Section 4.12 of the Plan is hereby amended to add the following new paragraph to the end thereof:

"The multiple use test described in Treasury Regulation Section 1.401(m)- 2 and this Section of the Plan shall not apply for Plan Years beginning after December 31, 2001."

28. Effective as of March 1, 2001, the first paragraph of Section 5.1(a) of the Plan is hereby amended in its entirety to read as follows:

"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 Pre-Tax and/or After-Tax 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, respectively. The interest in the Reliant Energy Common Stock Fund of each Participant attributable to Reliant Employer Matching Contributions made to the Plan shall be reflected in a Reliant Employer Matching Account for each such Participant. The interest in the Investment Funds of each Participant attributable to Resources Employer Matching Contributions and/or Profit Sharing Contributions made to the Plan shall be reflected in a Resources Employer Matching Account and/or Profit Sharing Account, respectively, for each such 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 a Participant also may have a Rollover Account to reflect any rollover contributions he made pursuant to Section 4.16."

29. Effective as of March 1, 2001, subsections (a) and (b) of Section 5.3 of the Plan are hereby amended in their entirety to read as follows:

"(a) Pre-Tax Contributions, After-Tax Contributions, Employer Matching Contributions and Profit Sharing Contributions:

(i) Pre-Tax Contributions and After-Tax Contributions received in the Trust Fund shall be credited as soon as practicable after the close of each applicable payroll period to the respective Pre-Tax Contribution Accounts and After-Tax Contribution Accounts of the Participants, and shall be invested in the Investment Funds in accordance with the Participants' instructions pursuant to Section 8.1.

(ii) Reliant Employer Matching Contributions, if any, received in the Trust Fund shall be allocated and credited as soon as practicable after the close of each applicable payroll period or, in the case of the discretion contribution, as soon as practicable after the end of the applicable Plan Year, but in no event later than the time prescribed by law for the filing of the federal income tax return for the Company for the applicable Plan Year, including any extension which has been granted for the filing of such tax return, to such Participants' Reliant Employer Matching Accounts in accordance with Section 4.1(b) and shall be invested in accordance with Section 8.1.

(iii) Resources Employer Matching Contributions received in the Trust Fund shall be allocated and credited as soon as practicable after the close of each applicable payroll period to such Participants' Resources Employer Matching Accounts in accordance with Section 4.1(c) and shall be invested in the Investment Funds in accordance with the Participants' instructions pursuant to Section 8.1.

(iv) Payroll Profit Sharing Contributions, if any, under Section 4.1(d)(ii) received in the Trust Fund shall be allocated and credited as soon as practicable after the close of each applicable payroll period to the Profit Sharing Accounts of the eligible Participants in an amount equal to the percentage of each such Participant's eligible Compensation for the applicable payroll period as determined in accordance with Section 4.1(d)(ii), and shall be invested in the Investment Funds in accordance with the Participants' instructions pursuant to Section 8.1.

(v) An Annual Profit Sharing Contribution, if any, under Section 4.1(d)(i) received in the Trust Fund for a Plan Year shall be allocated and credited as soon as practicable after the end of the applicable Plan Year, but in no event later than the time prescribed by law for the filing of the federal income tax return for the Company for the applicable Plan Year, including any extension which has been granted for the filing of such tax return, to the Profit Sharing Accounts of the eligible Participants in an amount equal to the ratio that the sum of each such eligible Participant's Compensation for that applicable Plan Year bears to the total Compensation for all such eligible Participants for such applicable Plan Year, and shall be invested (1) if made in cash, in the Investment Funds in accordance with the Participants' instructions pursuant to Section 8.1, and (2) if made in Resources Stock, in the appropriate Investment Fund established by the Committee for the investment in Resources Stock.

(b) ESOP Accounts: The ESOP Account of each Participant who is a Reliant Employee shall have credited to his ESOP Account 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 Reliant 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 such 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 such Participants for the period. The foregoing 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 such eligible Participant's Pre-Tax Matched Contribution and After-Tax Matched Contribution and, if applicable, after the close of the first quarter following the end of the applicable Plan Year in an amount equal to the discretionary allocation percentage of the total of each such eligible Participant's Pre-Tax Matched Contribution and After-Tax Matched Contribution in accordance with Section 4.1(b)."

30. Effective as of March 1, 2001, Section 5.5(a)(4) of the Plan is hereby amended in its entirety to read as follows:

"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 to the extent such returned and reduced contributions would reduce the Excess Amount. If any such Excess Amount shall then remain, the Participant's Profit Sharing Contributions, as defined in Section 4.1(d), if any, attributable to that Limitation Year shall be released and allocated to a suspense account in the manner set forth in Paragraph B below 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 Unmatched Contributions, as defined in Section 4.2, if any, attributable to that Limitation Year shall be returned to the Participant 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 and/or Profit Sharing Contributions for the Participant shall be reallocated out of the ESOP Account, Employer Matching Account or Profit Sharing Account, as applicable, of such Participant and shall be held in a suspense account that shall be applied as a part of (and to reduce to such extent what would otherwise be) the Employer Matching Contributions and/or Profit Sharing 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."

31. Effective as of March 1, 2001, the definition of "Annual Additions" in Section 5.5(d)(2) of the Plan is hereby amended in its entirety to read as follows:

"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, Profit Sharing 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."

32. Effective as of January 1, 2002, the definition of "Maximum Permissible Amount" in Section 5.5(d)(5) of the Plan is hereby amended in its entirety to read as follows:

"5. Maximum Permissible Amount: For a Limitation Year, the Maximum Permissible Amount with respect to any Participant shall be the lesser of:

A. $40,000, as adjusted by the Secretary of the Treasury or his delegate pursuant to Code Section 415(d); or

B. 100% of the Participant's Compensation for the Limitation Year."

33. Effective as of January 1, 2001, the definition of "Compensation" in Section 5.5(d)(6) of the Plan is hereby amended to add the following model language provided in Internal Revenue Service ("IRS") Notice 2001-37, 2000-25 I.R.B. 1340, with respect to amendments made by section 314(e) of the Community Renewal Tax Relief Act of 2000 ("CRA") to Section 415(c)(3) of the Internal Revenue Code of 1986 ("Code"), to the end thereof:

"For Limitation Years beginning on and after January 1, 2001, for purposes of applying the limitations described in Section 5.5 of the Plan, Compensation paid or made available during such Limitation Years shall include elective amounts that are not includible in the gross income of the Employee by reason of Code Section 132(f)(4)."

34. Effective as of January 1, 2002, the last sentence in the second paragraph of the definition of "Compensation" in Section 5.5(d)(6) of the Plan is hereby amended to read as follows:

"The foregoing notwithstanding, Compensation shall be limited to $200,000 (or such other amount provided under Code Section 401(a)(17)), as adjusted for cost-of-living increases in accordance with Code Section 401(a)(17)(B)."

35. Effective as of March 1, 2001, Section 6.1 of the Plan is hereby amended to add the following new paragraph to the end thereof:

"The foregoing to the contrary notwithstanding, a Participant who is an active Resources Employee on or after March 1, 2001 shall be 100% and fully vested in the values of his Accounts as of March 1, 2001 (if any) and in all Employer Contributions to his Accounts made on and after March 1, 2001. Such Resources Employee who subsequently becomes a Reliant Employee after March 1, 2001 shall continue to be 100% and fully vested in the values of his Accounts at all times and in all Employer Contributions to his Accounts made after he is no longer a Resources Employee."

36. Effective as of March 1, 2001, the last paragraph of Section 6.6 of the Plan is hereby amended in its entirety to read as follows:

"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 Profit Sharing 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 Energy 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 Energy Common Stock Fund, shall be distributed in cash."

37. Effective as of March 1, 2001, subsection (a) of Section 6.8 of the Plan is hereby amended in its entirety to read as follows:

"(a) Pre-Tax Contributions, After-Tax Contributions, Profit Sharing Contributions, Employer Matching Contributions and ESOP Contributions made subsequent to such Valuation Date;"

38. Effective as of January 1, 2001, Section 6.10 of the Plan is hereby amended to add the following model language provided under IRS Announcement 2001-18, 2001-10 I.R.B. 791, to adopt the proposed regulations under Section 401(a)(9) of the Code, published January 17, 2001, for purposes of making required minimum distributions from the Plan, to the end thereof:

"With respect to distributions under the Plan made for calendar years beginning on or after January 1, 2001, the Plan will apply the minimum distribution requirements of Section 401(a)(9) of the Code in accordance with the regulations under Section 401(a)(9) that were proposed on January 17, 2001,

notwithstanding any provision of the Plan to the contrary. This amendment shall continue in effect until the end of the last calendar year beginning before the effective date of final regulations under Code Section 401(a)(9) or such other date as may be specified in guidance published by the Internal Revenue Service."

39. Effective as of March 1, 2001, Section 7.2 of the Plan is hereby amended in its entirety to read as follows:

"7.2 Withdrawal of 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, and subject to first withdrawing all amounts that may be available under Sections 7.1 and 7.3, each Participant who is age 59 1/2 or older may elect to withdraw all or any amounts attributable to 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) Pre-Tax Unmatched Contributions and then Pre-Tax Matched Contributions in his Pre-Tax Contribution Account."

40. Effective as of March 1, 2001, the first, second and third paragraphs of Section 8.1 of the Plan are hereby amended in their entirety to read as follows:

"8.1 Investment of Trust Fund: Except as provided in Article VII with respect to Plan loans and as otherwise provided below, 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 (a) may not direct the investment of the amounts in his (i) Reliant Employer Matching Account (including amounts contributed to a Participant's 'Employer Matching Account' prior to March 1, 2001 (as such term was defined under the Plan immediately prior to March 1, 2001)), (ii) ESOP Account, or (iii) 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, and (b) may not direct the investment of amounts in his Profit Sharing Account that were contributed in the form of Resources Stock into any Investment Fund other than the Investment Fund established by the Committee for such contribution until such Participant attains age 55 or older.

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 (i) Pre-Tax

Contributions, (ii) After-Tax Contributions, (iii) Resources Employer Matching Contributions, (iv) Profit Sharing Contributions paid in cash and, if age 55, paid in Resources Stock, (v) amounts in his Prior Plan Accounts, excluding the Prior Plan 1999 Matching Account, and (vi) 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 that may be established by the Committee, direct (1) the investment of his future (i) After-Tax Contributions, (ii) Pre-Tax Contributions, (iii) Resources Employer Matching Contributions and (iv) Profit Sharing Contributions paid in cash, and (2) the transfer of the current values in his (i) After-Tax Contribution Account, (ii) Pre-Tax Contribution Account, (iii) Prior Plan Accounts, excluding the Prior Plan 1999 Matching Account, (iv) Resources Employer Matching Account, (v) Profit Sharing Contributions paid in cash and, if age 55, paid in Resources Stock and/or (vi) 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 nondiscriminatory manner."

41. Effective as of March 1, 2001, subsection (a) of Section 8.2 of the Plan is hereby amended in its entirety to read as follows:

"(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 Reliant 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 10 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."

42. Effective as of March 1, 2001, clause (i) of Section 8.2(b) of the Plan is hereby amended in its entirety to read as follows:

"(i) Each Participant who has (1) completed at least 10 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 Reliant 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(b) 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."

43. Effective as of January 1, 2002, the fifth sentence in the first paragraph of Section 11.3 of the Plan is hereby amended to read as follows:

"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 $200,000 (or such other amount provided under Code Section 401(a)(17)) for the Plan Year."

44. Effective as of January 1, 2002, the first sentence in Section 11.4 of the Plan is hereby amended to read as follows:

"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 $200,000 (or such other amount provided under Code Section 401(a)(17)), as adjusted by the Secretary of the Treasury or his delegate for cost-of-living increases in accordance with Code Section 401(a)(17)(B)."

45. Effective as of January 1, 2002, Article XI of the Plan is hereby amended to add the following new Section 11.9 to the end thereof:

"11.9. Modification of Top-Heavy Rules.

(a) Effective Date. This Section shall apply for purposes of determining whether the Plan is a top-heavy plan under Section 416(g) of

the Code for Plan Years beginning after December 31, 2001, and whether the Plan satisfies the minimum benefits requirements of Section 416(c) of the Code for such years, and, as applicable, amends this Article XI of the Plan.

(b) Determination of Top-Heavy Status.

1. 'Key Employee' means any Employee or former Employee (including any deceased Employee) who at any time during the Plan Year that includes the Determination Date was an officer of a Considered Company having annual compensation greater than $130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5-percent owner of a Considered Company, or a 1-percent owner of a Considered Company having annual compensation of more than $150,000. For this purpose, annual compensation means compensation within the meaning of Section 415(c)(3) of the Code. The determination of who is a Key Employee will be made in accordance with Section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

2. This subparagraph (2) shall apply for purposes of determining the present values of accrued benefits and the amounts of account balances of Employees as of the Determination Date.

(A) Distributions during year ending on the Determination Date. The present values of accrued benefits and the amounts of account balances of an Employee as of the Determination Date shall be increased by the distributions made with respect to the Employee under the Plan and any plan aggregated with the Plan under Section 416(g)(2) of the Code during the 1-year period ending on the Determination Date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting '5-year period' for '1-year period.'

(B) Employees not performing services during year ending on the Determination Date. The accrued benefits and accounts of any individual who has not performed services for a Considered Company during the

1-year period ending on the Determination Date shall not be taken into account.

(c) Minimum Benefits. Employer matching contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of Section 416(c)(2) of the Code and the Plan. The preceding sentence shall apply with respect to matching contributions under the Plan or, if the Plan provides that the minimum contribution requirement shall be met in another plan, such other plan. Employer matching contributions that are used to satisfy the minimum contribution requirements shall be treated as matching contributions for purposes of the actual contribution percentage test and other requirements of Section 401(m) of the Code."

IN WITNESS WHEREOF, the Benefits Committee of Reliant Energy, 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 19th day of December, 2001, but effective as of the dates specified herein.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By: /s/ David M. McClanahan

David M. McClanahan, Chairman

ATTEST:

/s/ Lynne Harkel-Rumford
- ------------------------------
Lynne Harkel-Rumford, Secretary

EXHIBIT 10.12

RELIANT ENERGY, INCORPORATED
SAVINGS PLAN

(As Amended and Restated Effective April 1, 1999)

Fourth Amendment

The Benefits Committee of Reliant Energy, Incorporated (the "Committee"), having reserved the right under Section 10.3 of the Reliant Energy, Incorporated Savings Plan, as amended and restated effective April 1, 1999, and as thereafter amended (the "Plan"), to amend the Plan, does hereby amend the Plan, in accordance with the January 9, 2002 and May 1, 2002 resolutions of the Board of Directors of the Company, effective as of the dates specified herein, as follows:

1. Effective as of May 6, 2002, Article I of the Plan is hereby amended to add the following new definition of "Reliant Energy Common Stock Fund" as Section 1.56, and all subsequent definitions are hereby redesignated and all affected references are hereby amended accordingly:

> "1.56 RELIANT ENERGY COMMON STOCK FUND: An Investment Fund that is invested and reinvested primarily in Common Stock and constitutes an employee stock ownership plan, within the meaning of Section 4975(e) of the Code, with such fund a part of, and included within, the ESOP Fund and ESOP Account."

2. Effective as of July 1, 2002, the fourth sentence in the first paragraph of Section 4.2 of the Plan is hereby amended to read as follows:

> "Effective as of July 1, 2002, a Participant's Pre-Tax Contributions under this Plan and all other plans, contracts or arrangements of the Employer shall not exceed a maximum dollar limitation provided under Code Section 402(g), as adjusted by the Secretary of the Treasury or his delegate for cost-of-living increases pursuant to Code Section 402(g), except to the extent permitted under this Section 4.2 with respect to Catch-Up Contributions."

3. Effective as of July 1, 2002, Section 4.2 of the Plan is hereby amended by adding the following new paragraph after the second paragraph thereof:

"Notwithstanding the foregoing paragraph, from and after July 1, 2002, all Employees who are eligible to make Pre-Tax Contributions under this Plan and who have attained age 50 before the close of the Plan Year shall be eligible to make catch-up contributions in accordance with, and subject to the limitations of, Section 414(v) of the Code ('Catch-Up Contributions') in the form and manner prescribed by the Committee. Such Catch-Up Contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of Sections 402(g) and 415 of the Code. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of Section 401(k)(3), 401(k)(11), 401(k)(12), 410(b), or 416 of the Code, as applicable, by reason of the making of such Catch-Up Contributions."

4. Effective as of May 6, 2002, Section 5.3(b) of the Plan is hereby amended to read as follows:

"(b) ESOP Accounts: Other than with respect to the portion of the ESOP Account attributable to the Reliant Energy Common Stock Fund, the ESOP Account of each Participant who is a Reliant Employee shall have credited to his ESOP Account 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 Reliant 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. Except as provided below with respect to the Reliant Energy Common Stock Fund, allocations shall be made in the ratio that the sum of each such 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 such Participants for the period. The foregoing allocations 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 such eligible Participant's Pre-Tax Matched Contribution and After-Tax Matched Contribution and, if applicable, after the close of the first quarter following the end of the applicable Plan Year in an amount equal to the discretionary allocation percentage of the total of each such eligible Participant's Pre-Tax Matched Contribution and After-Tax Matched Contribution in accordance with Section 4.1(b). Allocations to the portion of the ESOP Fund that is the Reliant Energy Common Stock Fund shall be made in accordance with Section 5.3(a)(i)."

5. Effective as of May 6, 2002, clauses (i) and (ii) of subsection (d) of Section 5.3 of the Plan are hereby amended to read as follows:

"(i) Earnings of the Investment Fund: The earnings (or loss) of the Investment Fund, including the Reliant Energy Common Stock 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, Other Than the Reliant Energy Common Stock Fund, in the Trust Fund: Other than with respect to the Reliant Energy Common Stock 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."

6. Effective as of July 1, 2002, paragraph (5) of Section 5.5(d) of the Plan is hereby amended to read as follows:

"5. Maximum Permissible Amount: Except to the extent permitted under Section 4.2 with respect to Catch-Up Contributions and Code Section 414(v), if applicable, for a Limitation Year, the Maximum Permissible Amount with respect to any Participant shall be the lesser of:

A. $40,000, as adjusted by the Secretary of the Treasury or his delegate pursuant to Code Section 415(d); or

B. 100% of the Participant's Compensation for the Limitation Year."

7. Effective as of May 6, 2002, the first paragraph of Section 6.1 of the Plan is hereby amended to add the following new sentence to the end thereof:

"The foregoing to the contrary notwithstanding, a Participant who is an active Employee and eligible to participate in the Plan on or after May 6, 2002 shall be 100% and fully vested in the values of his Accounts as of May 6, 2002 (if any) and in all Employer Contributions to his Accounts made on and after May 6, 2002."

8. Effective as of May 6, 2002, Section 6.5 of the Plan is hereby amended to read as follows:

"6.5 In-Service Distributions: A Participant may elect, in such manner and pursuant to such rules and procedures prescribed by the Committee, to have cash dividends paid with respect to shares of Company Stock in the Participant's ESOP Account (1) paid in cash to the Participant or (2) paid to the Participant's ESOP Account and reinvested in Company Stock, in accordance with, and subject to, the requirements of Code Section 404(k), as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001. Participants shall be provided a reasonable opportunity to change their election at least annually.

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."

9. Effective as of May 6, 2002, Section 8.1 of the Plan is hereby amended to read as follows:

"8.1 Investment of Trust Fund: Except as provided in Article VII with respect to Plan loans and as otherwise provided below, 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, prior to May 6, 2002, a Participant (a) may not direct the investment of the amounts in his (i) Reliant Employer Matching Account (including amounts contributed to a Participant's 'Employer Matching Account' prior to March 1, 2001 (as such term was defined under the Plan immediately prior to March 1, 2001)), (ii) ESOP Account, or (iii) 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 (i) Pre-Tax Contributions, (ii) After-Tax Contributions, (iii) Employer Contributions, (iv) amounts in his Prior Plan Accounts, and (v) 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 that may be established by the Committee, direct (1) the investment of his future (i) After-Tax Contributions, (ii) Pre-Tax Contributions and Employer Contributions, and (2) the transfer of the current values in his (i) After-Tax Contribution Account, (ii) Pre-Tax Contribution Account, (iii) Prior Plan Accounts, (iv) Employer Matching Account, (v) Profit Sharing Account, (vi) ESOP Account and/or (vii) 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 nondiscriminatory manner.

Except as otherwise expressly provided herein, and subject to Section 6.5, 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. 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."

10. Effective as of May 6, 2002, Section 8.2 of the Plan is hereby amended to read as follows:

"8.2 Diversification Election: 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 Reliant 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, as applicable) 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 10 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."

IN WITNESS WHEREOF, the Benefits Committee of Reliant Energy, 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, effective as of the dates specified above.

BENEFITS COMMITTEE OF
RELIANT ENERGY, INCORPORATED

By: /s/ David M. McClanahan

David M. McClanahan, Chairman

ATTEST:

/s/ Lynne Harkel-Rumford
- -------------------------------
Lynne Harkel-Rumford, Secretary

ITEM 1. BUSINESS

OUR BUSINESS

RERC CORP. RESTRUCTURING

Following the Restructuring, CenterPoint Energy will be a utility holding company under the 1935 Act and as such will be required to register under the 1935 Act unless it qualifies for an exemption. In order to enable CenterPoint Energy to comply with the requirements in the exemption in Section 3(a)(1) of the 1935 Act, we plan to divide the gas distribution businesses conducted by RERC Corp.'s three unincorporated divisions, Reliant Energy Entex (Entex), Reliant Energy Arkla (Arkla) and Reliant Energy Minnegasco (Minnegasco), among three separate business entities. For more information regarding our application under the 1935 Act and regulation under the 1935 Act, please read "Regulation -- Public Utility Holding Company Act of 1935" in Item 1 of this Form 10-K. The entity that will hold the Entex assets will also hold RERC Corp.'s natural gas pipelines and gathering businesses. For more information regarding RERC Corp.'s divisions and their operations, please read "Natural Gas Distribution" and "Pipelines and Gathering" in Item 1 of this Form 10-K. In addition to regulatory approvals we have obtained, this restructuring will require approval of the public service commissions of Louisiana, Oklahoma and Arkansas.

ITEM 3. LEGAL PROCEEDINGS

For a description of certain legal and regulatory proceedings affecting us, see Notes 4, 14(f), 14(g) and 21 to our consolidated financial statements, which notes are incorporated herein by reference.

RESTATEMENT OF SECOND AND THIRD QUARTER 2001 RESULTS OF OPERATIONS

On February 5, 2002, Reliant Energy announced that it was restating its earnings for the second and third quarters of 2001. As more fully described in Reliant Energy's March 15, 2002 Current Report on Form 8-K, the restatement related to a correction in accounting treatment for a series of four structured transactions that were inappropriately accounted for by Reliant Resources as cash flow hedges for the period of May 2001 through September 2001, rather than as derivatives with changes in fair value recognized through the income statement. Each structured transaction involved a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003.

At the time of the public announcement of Reliant Energy's intention to restate its reporting of the structured transactions, the Audit Committees of each of the boards of directors of Reliant Energy and Reliant Resources instructed Reliant Resources to conduct an internal audit review to determine whether there were any other transactions included in the asset books as cash flow hedges that failed to meet the cash flow hedge requirements under Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). This targeted internal audit review found no other similar transactions.

The Audit Committees also directed an internal investigation by outside legal counsel of the facts and circumstances leading to the restatement, which investigation has been completed. In connection with the restatement and related investigations, the Audit Committees have met eight times to hear and assess reports from the investigative counsel regarding its investigation and contacts with the staff of the SEC. To address the issues identified in the investigation process, the Audit Committees and management have begun analyzing and implementing remedial actions, including, among other things, changes in organizational structure and enhancement of internal controls and procedures.

On April 5, 2002, Reliant Resources was advised that the Staff of the Division of Enforcement of the SEC is conducting an informal inquiry into the facts and circumstances surrounding the restatement. Reliant Resources is cooperating with this inquiry. Before releasing its 2001 earnings, Reliant Energy received concurrence from the SEC's accounting staff on the accounting treatment of the restatement, which increased its earnings for the two quarters by a total of $107 million. At this time, we cannot predict the outcome of the SEC's inquiry. In addition, we cannot predict what effect the inquiry may have on our pending application to the SEC under the 1935 Act, which is required for our Restructuring. For more information about our Restructuring, please read "Our Business -- Status of Business Separation" and "-- Business Separation" in Item 1 of this Form 10-K.

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

CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

Our past earnings are not necessarily indicative of our future earnings and results of operations. The magnitude of our future earnings and results of our operations will depend on numerous factors including:

- state, federal and international legislative and regulatory developments, including deregulation, re-regulation and restructuring of the electric utility industry, changes in or application of environmental and other laws and regulations to which we are subject and changes in or application of laws or regulations applicable to other aspects of our business, such as commodities trading and hedging activities;

- the timing of the implementation of our Business Separation Plan;

- the effects of competition, including the extent and timing of the entry of additional competitors in our markets;

- liquidity concerns in our markets;

- industrial, commercial and residential growth in our service territories;

- the degree to which Reliant Resources successfully integrates the operations and assets of Orion Power into the Wholesale Energy business segment;

- the determination of the amount of our Texas generation business' stranded costs and the recovery of these costs;

- the availability of adequate supplies of fuel, water, and associated transportation necessary to operate our generation facilities;

- our pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities;

- state, federal and other rate regulations in the United States and in foreign countries in which we operate or into which we might expand our operations;

- the timing and extent of changes in interest rates and commodity prices, particularly natural gas prices;

- weather variations and other natural phenomena, which can affect the demand for power from, or our ability to produce power at our generating facilities;

- our ability to cost-effectively finance and refinance;

- the degree to which we successfully integrate the operations and assets of Orion Power into our Wholesale Energy segment;

- the successful and timely completion of our construction programs, as well as the successful start-up of completed projects;

- financial market conditions, our access to and cost of capital and the results of our financing and refinancing efforts, including availability of funds in the debt/capital markets for merchant generation companies;

- the credit worthiness or bankruptcy or other financial distress of our trading, marketing and risk management services counterparties;

- actions by rating agencies with respect to us or our competitors;

- acts of terrorism or war;

- the availability and price of insurance;

- the reliability of the systems, procedures and other infrastructure necessary to operate our retail electric business, including the systems owned and operated by ERCOT;

- political, legal, regulatory and economic conditions and developments in the United States and in foreign countries in which we operate or into which we might expand our operations, including the effects of fluctuations in foreign currency exchange rates;

- the resolution of the refusal by California market participants to pay

our receivables balances due to the recent energy crisis in the West region; and

- the successful operation of deregulating power markets.

In order to adapt to the increasingly competitive environment in our industry, we continue to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, dispositions of currently owned businesses, as well as developing new generation projects, products, services and customer strategies.

FACTORS ASSOCIATED WITH THE BUSINESS SEPARATION, RESTRUCTURING AND DISTRIBUTION

As previously discussed, in anticipation of electric deregulation in Texas, and pursuant to the Texas Electric Restructuring Law, we submitted a business separation plan in January 2000 to the Texas Utility Commission. Pursuant to the Business Separation Plan, we are in the process of separating our regulated and our unregulated businesses into two separate publicly traded companies.

After the Restructuring, we plan, subject to further corporate approvals, market and other conditions, to complete the separation of our regulated and unregulated businesses through the Distribution. Our goal is to complete the Restructuring and subsequent Distribution as quickly as possible after all the necessary conditions are fulfilled, including receipt of an order from the SEC granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act) and an extension from the IRS for a private letter ruling we have obtained regarding the tax-free treatment of the Distribution. We currently expect to complete the Restructuring and Distribution in the summer of 2002. See "Our Business -- Business Separation" in Item 1 of this Form 10-K.

Regulatory Uncertainty. The Restructuring as currently planned cannot be completed unless and until the SEC issues an order approving the acquisition by CenterPoint Energy of Reliant Energy and its subsidiary companies and either granting CenterPoint Energy an exemption from regulation as a registered public utility holding company under the 1935 Act or the necessary authority to operate as a registered holding company. While we believe such an order will be received, and that both the Restructuring and Distribution will be completed during the summer of 2002, there can be no assurances that such will be the case. The Restructuring has been designed to enable us to meet all of the requirements of the Texas Electric Restructuring Law. We have not formulated an alternative restructuring plan that could be implemented if the SEC fails or refuses to grant an exemption for CenterPoint Energy or the authority for CenterPoint Energy to become a registered holding company on terms consistent with our business plan. For information about an informal inquiry by the staff of the Division of Enforcement of the SEC in connection with an earnings restatement by Reliant Energy that might impact the approval process, please read "Restatement of Second and Third Quarter 2001 Results of Operations" in Item 3 of this Form 10-K.

The tax ruling that we received from the IRS expires at the end of April 2002. We are currently seeking an extension of this ruling from the IRS. There can be no assurance that we will receive the extension quickly or at all. In this event, the Restructuring and Distribution are not likely to be completed within our expected time frame, or, perhaps, at all. In addition, our tax ruling contemplates that the Restructuring will occur prior to the Distribution. If, due to delay or uncertainty regarding receipt of an order under the 1935 Act, we decide to make the Distribution before completing the Restructuring, we would have to seek a new ruling from the IRS that the Distribution would be tax free to us and to our shareholders. This process could take six months or longer.

A significant delay in completing the Restructuring and the Distribution may impact planned financings by each of Reliant Energy and Reliant Resources and make it more difficult and more expensive for us to obtain bank financing. We cannot predict how any such delay might impact our credit ratings or those of Reliant Resources.

Adverse Tax Consequences. If we take actions which cause the Distribution to fail to qualify as a tax-free transaction, we will incur taxable gain equal to the positive difference between the value of the Reliant Resources shares distributed and our tax basis in those shares. Current tax law provides that, depending on the facts and circumstances, the Distribution may be taxable if either CenterPoint Energy or Reliant Resources undergo a 50% or greater change in stock ownership within two years after the Distribution. These costs may be so great that they delay or prevent a strategic acquisition or change in control of our company. If Reliant Resources takes actions which cause the Distribution to fail to qualify as a tax-free transaction, for example, through a change in control of Reliant Resources, we will be responsible for the tax due on the gain but may seek indemnity from Reliant Resources for such payments.

Credit. To the extent that we continue to need access to current amounts of committed credit prior to the Distribution, we expect to extend or replace the credit facilities on a timely basis. The terms of any new

credit facilities are expected to be adversely affected by our leverage, the amount of bank capacity utilized, any delay in the date of Restructuring and Distribution and conditions in the bank market. These same factors are expected to make the syndication of new credit facilities more difficult in the future. Proceeds from any issuance of debt in the capital markets are expected to be used to retire a portion of our short-term debt and reduce our need for committed revolving credit facilities.

FACTORS AFFECTING THE RESULTS OF OUR ELECTRIC OPERATIONS

Deregulation. In June 1999, the Texas legislature adopted the Texas Electric Restructuring Law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail competition. Retail pilot projects for up to 5% of each utility's load in all customer classes began in August 2001 and retail electric competition for all other customers began on January 1, 2002. We have made significant changes in the electric utility operations previously conducted through Reliant Energy HL&P. For additional information regarding these changes, please read "Our Business -- Deregulation," "-- Electric Operations," "-- Regulation -- State and Local Regulations -- Texas -- Electric Operations -- The Texas Electric Restructuring Law" and "-- Our Business Going Forward" in Item 1 of this Form 10-K and Note 4 to our consolidated financial statements.

Transmission and Distribution. Under the Texas Electric Restructuring Law, our T&D Utility will remain subject to traditional rate regulation by the Texas Utility Commission, and we will collect from retail electric providers the rates approved in the T&D Utility's rate case (Wires Case) to cover the cost of providing transmission and distribution service and any other expenses. Our ability to earn the rate of return built into the T&D Utility's rates may be affected, positively or negatively, to the extent that the T&D Utility's actual expenses or revenues differ from the estimates used to set the T&D Utility's rates.

Generation. As described under "Electric Operations -- Generation," since January 1, 2002, we have been obligated to sell substantially all of the generating capacity and related ancillary services of our Texas generation business through auctions. As a result, we are not guaranteed any rate of return on our investment in these generation facilities through mandated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity in the Texas market and the related results of our capacity auctions. These market prices may fluctuate substantially over relatively short periods of time. In addition, ERCOT, the independent system operator for the Texas markets, may impose price limitations, bidding rules and other mechanisms that may impact wholesale power prices in the Texas market and the outcome of our capacity auctions. Our historical financial results represent the results of our Texas generation business as part of an integrated utility in a regulated market and may not be representative of its results as a stand-alone wholesale electric power generation company in an unregulated market. Therefore, the historical financial information included in this report does not necessarily reflect what our financial position, results of operations and cash flows would have been had our generation facilities been operated in an unregulated market.

Under the terms of the auctions pursuant to which we are obligated to sell our capacity, we are obligated to provide specified amounts of capacity to successful bidders. The products we sell in the auctions are only entitlements to capacity dispatched from our units and do not convey the right to have power dispatched from a particular unit. This flexibility exposes us to the risk that, depending on the availability of our units, we could be required to supply energy from a higher cost unit to meet an obligation for lower cost generation or to obtain the energy on the open market. Obtaining such replacement generation could involve significant additional costs. We manage this risk by maintaining appropriate reserves within our generation asset base but these reserves may not cover an entire exposure in the event of a significant outage at one of our facilities. For information about operating risks associated with our Texas generation business, please read "Factors Affecting the Results of Our Wholesale Energy Operations -- Operating Risks" below.

Also, market volatility in the price of fuel for our generation operations, as well as in the price of purchased power, could have an effect on our cost to generate or acquire power. For additional information regarding commodity prices and supplies, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility."

Pursuant to the Texas Electric Restructuring Law, we will be entitled to recover our stranded costs (i.e., the excess of regulatory net book value of generation assets, as defined by the Texas Electric Restructuring Law, over the market value of those assets) and our regulatory assets related to generation. The Texas Electric Restructuring Law prescribes specific methods for determining the amount of stranded costs and the details for their recovery, and our recovery of stranded costs is dependent upon the outcome of regulatory proceedings in which we will be required to establish the extent of our stranded costs and related underlying matters. During the base rate freeze period from July 1999 through 2001, earnings above the utility's authorized rate of return formula were 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 was redirected to generation assets for regulatory purposes from 1998. The Texas Electric Restructuring Law also provided for us, or a special purpose entity formed by us, to issue securitization bonds for the recovery of generation related regulatory assets and a portion of stranded costs. Reliant Energy Transition Bond Company LLC, our wholly owned subsidiary, issued $749 million of securitization bonds on October 24, 2001. Any stranded costs not recovered through the sale of securitization bonds may be recovered through a charge to transmission and distribution customers. For additional information regarding these securitization bonds, please read Note 4(a) to our consolidated financial statements. For information regarding recovery of under-collected fuel expenses, please read "Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Fuel Filing in Item 7 of this Form 10-K".

The Texas Utility Commission issued a final order on October 3, 2001 (October 3, 2001 Order) that established the transmission and distribution rates that became effective January 2002. In this Order, the Texas Utility Commission found that we had overmitigated our stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the Transition Plan and Texas Electric Restructuring Law. In December 2001, we recorded a regulatory liability of $1.1 billion to reflect the prospective refund of accelerated depreciation, removed our previously recorded embedded regulatory asset of $841 million related to redirected depreciation and recorded a regulatory asset of $2.0 billion based upon current projections of market value of the Reliant Energy HL&P generation assets to be covered by the 2004 true-up proceeding provided for in the Texas Electric Restructuring Law. Recovery of this asset is subject to regulatory risk. We began refunding the excess mitigation credits in January 2002 and will continue over a seven year period. If events occur that make the recovery of all or a portion of the regulatory assets no longer probable, we will write off the corresponding balance of these assets as a charge against earnings. One of the results of discontinuing the application of regulatory accounting for the generation operations is the elimination of the regulatory accounting effects of excess deferred income taxes and investment tax credits related to these operations. We believe it is probable that some parties will seek to return these amounts to ratepayers and, accordingly, we have recorded an offsetting liability.

The Texas Electric Restructuring Law requires us to auction 15% of the output of the installed generating capacity of our Texas generation business until January 1, 2007 unless certain criteria are met (state mandated auctions). In addition, the master separation agreement between Reliant Energy and Reliant Resources requires us to auction to third parties, including Reliant Resources, the capacity available in excess of amounts included in the state mandated auctions (contractually mandated auctions). Beginning January 2002, our Texas generation business began delivering power sold through the state mandated auctions and contractually mandated auctions at market rates. However, the Texas Electric Restructuring Law provides for recovery of any difference between market power prices received in these capacity auctions and the Texas Utility Commission's earlier estimates of those market prices. This capacity auction true-up should provide for revenues earned by our Texas generation business during the two-year period ending December 2003 to approximate a regulated return on the invested capital of our Texas generation business. The Texas Utility Commission's estimate serves as a preliminary identification of stranded costs for recovery through securitization. This component of the true-up is intended to ensure that neither the customers nor we are disadvantaged economically as a result of the two-year transition period by providing this pricing structure. The underlying data for the true-up calculation has not been finalized. Because the capacity true-up process provided for in the Texas Electric Restructuring Law will take into account only the prices we receive in the state mandated auctions, lower prices that we may receive in the contractually mandated auctions will not be considered and

we may therefore not recover all of our stranded costs. We cannot predict the amount, if any, of these costs that would not be recovered.

Retail. For a discussion of factors affecting our retail operations, please read "-- Factors Affecting the Results of Our Retail Operations."

Other. For additional information regarding litigation over franchise fees, please read Note 14(f) to our consolidated financial statements.

FACTORS AFFECTING THE RESULTS OF RERC'S OPERATIONS

Natural Gas Distribution. Our Natural Gas Distribution business segment competes primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other gas distributors and marketers also compete directly with our Natural Gas Distribution business segment for gas sales to end-users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass our Natural Gas Distribution business segment's facilities and market, sell and/or transport natural gas directly to commercial and industrial customers.

Generally, the regulations of the states in which our Natural Gas Distribution business segment operates allow us to pass through changes in the costs of natural gas to our customers through purchased gas adjustment provisions in rates. There is, however, an inherent timing difference between our purchases of natural gas and the ultimate recovery of these costs. Consequently, we may incur additional "carrying" costs as a result of this timing difference and the resulting, temporary under-recovery of our purchased gas costs. To a large extent, these additional carrying costs are not recovered from our customers.

On November 21, 2001, Arkla filed a rate case (Docket 01-243-U) with the Arkansas Public Service Commission seeking an increase in rates for its Arkansas customers of approximately $47 million on an annual basis. Arkla's last rate increase was authorized in 1995. In the rate filing, Arkla maintains that its rate base has grown by $183 million, and its operating expenses have increased from $93 million to $106 million on an annual basis and, therefore, Arkla's current rates for service to Arkansas customers do not provide a reasonable opportunity for Arkla to cover its operating costs and earn a fair return on its investment. A decision in the case is expected by the fourth quarter of 2002.

Pipelines and Gathering. Our Pipelines and Gathering business 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. Our Pipelines and Gathering business segment 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 we serve and the level of competition for transportation and storage services. Since FERC Order No. 636, REGT's and MRT's commodity sales activity has been minimal. Commodity transactions are usually related to system management activity which we have been able to manage with little exposure. We have not been nor do we anticipate being negatively impacted by higher price levels and the tightening of supply experienced in the fourth quarter of 2000 and the first quarter of 2001. In addition, competition for our gathering operations is impacted by commodity pricing levels in its markets because these prices influence the level of drilling activity in those markets.

Natural Gas Pipeline Company of America has proposed, and is soliciting customers for a 30" pipeline paralleling MRT's East Line in Illinois to a point 17 miles east of St. Louis Metro, with a proposed in-service date of June 2002. This service would represent an alternative to that provided by MRT. MRT has renewed or is engaged in negotiations to renew service agreements under multi-year terms, including service and potential expansion needs along MRT's existing East Line in Illinois. Our Pipelines and Gathering business segment derives approximately 14% of its revenues from Laclede Gas Company, which has an annual evergreen term provision. In February 2002, MRT negotiated an agreement to extend its existing service relationship with Laclede for a five year period subject to acceptance by the FERC. However, the Pipelines and Gathering

business segment's financial results could be materially adversely affected after this five year period if Laclede decides to engage another pipeline for the transportation services currently provided by the Pipelines and Gathering business segment.

FACTORS AFFECTING THE RESULTS OF OUR WHOLESALE ENERGY OPERATIONS

Price Volatility. Our Wholesale Energy business segment, which is conducted through Reliant Resources, sells electricity from its facilities into spot markets under short- and long-term contractual arrangements. We are not guaranteed any rate of return on our capital investments through cost of service rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity and fuel in our regional markets. In addition to our power generation operations, we trade and market power. Market prices may fluctuate substantially over relatively short periods of time. Demand for electricity can fluctuate dramatically, creating periods of substantial under- or over-supply. During periods of over-supply, prices are depressed. During periods of under-supply, there is frequently regulatory or political pressure to regulate prices to compensate for product scarcity.

In addition, the FERC, which has jurisdiction over wholesale power rates, as well as independent system operators that oversee some of these markets, have imposed price limitations, bidding rules and other mechanisms to attempt to address some of the volatility in these markets and mitigate market prices. For a discussion of the implementation of price limitations and other rules in the California market, please read Note 14(g) to our consolidated financial statements.

Most of our Wholesale Energy business segment's domestic power generation facilities purchase fuel under short-term contracts or on the spot market. Fuel prices may also be volatile, and the price we can obtain for power sales may not change at the same rate as changes in fuel costs. In addition, we trade and market natural gas and other energy-related commodities. These factors could have an adverse impact on our revenues, margins and results of operations.

Volatility in market prices for fuel and electricity may result from:

- weather conditions;
- seasonality;
- forced or unscheduled plant outages;
- addition of generating capacity;
- changes in market liquidity;
- disruption of electricity or gas transmission or transportation, infrastructure or other constraints or inefficiencies;
- availability of competitively priced alternative energy sources;
- demand for energy commodities and general economic conditions;
- availability and levels of storage and inventory for fuel stocks;
- natural gas, crude oil and refined products, and coal production levels;
- natural disasters, wars, embargoes and other catastrophic events; and
- federal, state and foreign governmental regulation and legislation.

Risks Associated with Our Hedging and Risk Management Activities. To lower our financial exposure related to commodity price fluctuations, our trading, marketing and risk management services operations routinely enter into contracts to hedge a portion of our purchase and sale commitments, exposure to weather fluctuations, fuel requirements and inventories of natural gas, coal, crude oil and refined products, and other commodities. As part of this strategy, we routinely utilize fixed-price forward physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets and on exchanges. However, we do not expect to cover the entire exposure of our assets or our positions to market price volatility, and the coverage will vary over time. This hedging activity fluctuates according to strategic objectives, taking into account the desire for cash flow or earnings certainty and our view on market prices. To the extent we have unhedged positions, fluctuating commodity prices could negatively impact our financial

results and financial position. For additional information regarding the accounting treatment for our hedging, trading and marketing and risk management activities, please read Notes 2(d) and 5 to our consolidated financial statements. For additional information regarding the types of contracts and activities of our trading and marketing operations, please read "-- Trading and Marketing Operations" and "Qualitative and Quantitative Disclosures about Market Risk" in Item 7A of this Form 10-K.

We manage our power generation hedge objectives in the context of market conditions while targeting certain hedge percentages of future earnings through hedge actions in the current year. As of December 31, 2001, we had hedged 39% and 29% of our planned Wholesale Energy margins for 2002 and 2003, respectively, excluding margins related to Orion Power. Margins for 2002 and 2003 are expected to be positively impacted by the acquisition of Orion Power and negatively affected by lower forward electric power prices as they relate to unhedged positions and an estimated decline in our trading and marketing operations due to projected decreases in volatility in energy commodity markets.

At times, we have open trading positions in the market, within established corporate risk management guidelines, resulting from the management of our trading portfolio. To the extent open trading positions exist, changes in commodity prices could negatively impact our financial results and financial position.

The risk management procedures we have in place may not always be followed or may not always work as planned. As a result of these and other factors, we cannot predict with precision the impact that our risk management decisions may have on our businesses, operating results or financial position. For information regarding our risk management policies, please read "Quantitative and Qualitative Disclosures about Market Risk -- Risk Management Structure" in Item 7A to this Form 10-K.

The trading, marketing and risk management services operations conducted by our Wholesale Energy business segment are also exposed to the risk that counterparties who owe us money or physical commodities, such as power, natural gas or coal, will not perform their obligations. Should the counterparties to these arrangements fail to perform, we might be forced to acquire alternative hedging arrangements or replace the underlying commitment at then-current market prices. In this event, we might incur additional losses to the extent of amounts, if any, already paid to the counterparties. For information regarding our credit risk, including exposure to Enron and utilities in California, please read "Quantitative and Qualitative Disclosure About Market Risk -- Credit Risk" in Item 7A of this Form 10-K and Notes 5(c), 14(g) and 21 to our consolidated financial statements.

In the ordinary course of business, and as part of our hedging strategy, we enter into long-term sales arrangements for power, as well as long-term purchase arrangements. For information regarding our long-term fuel supply contracts, purchase power and electric capacity contracts and commitments, electric energy and electric sale contracts and tolling arrangements, please read Notes 5, 14(a) and 14(b) to our consolidated financial statements.

Uncertainty in the California Market. During portions of 2000 and 2001, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreased net electric imports and limitations on supply as a result of maintenance and other outages. Because of the high prices that prevailed during this period, we, and several of Reliant Resources' subsidiaries, including Reliant Energy Services and REPG, as well as some of the officers of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets.

In response to the filing of a number of complaints challenging the level of these wholesale prices, the FERC initiated a staff investigation and issued a number of orders implementing a series of wholesale market reforms and modifications to those reforms. On February 13, 2002, the FERC issued an order initiating a staff investigation into potential manipulation of electric and natural gas prices in the West region for the period January 1, 2000 forward. Some of our long-term bilateral contracts already have been challenged by one of our many counterparties based on the alleged market dysfunction in Western power markets in 2000 and 2001. If these challenges are successful, the precedent set by the challenge could have larger ramifications to our

business and operations beyond the challenged contracts at issue. Furthermore, in addition to FERC investigations, several state and other federal regulatory investigations have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action.

Finally, there have been proposals in the California state legislature to regulate the operations of our California generating subsidiaries, beyond the existing state regulation regarding siting, environmental and other health and safety matters. For additional information regarding the litigation and market uncertainty in California, please read Notes 14(f) and 14(g) to our consolidated financial statements.

Industry Restructuring, the Risk of Re-regulation and the Impact of Current Regulations. The regulatory environment applicable to the United States electric power industry is undergoing significant changes as a result of varying restructuring initiatives at both the state and federal levels and the reassessment of existing regulatory mechanisms stemming from the California power market situation and the bankruptcy of Enron. These initiatives have had a significant impact on the nature of the industry and the manner in which its participants conduct their business. These changes are ongoing and we cannot predict the future development of restructuring in these markets or the ultimate effect that this changing regulatory environment will have on our business.

Moreover, existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us, our facilities or our commercial activities, and future changes in laws and regulations may have a detrimental effect on our business. Some restructured markets, particularly California, have experienced supply problems and price volatility. These supply problems and volatility have been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some markets, including California, proposals have been made by governmental agencies and/or other interested parties to delay or discontinue proposed restructuring or to re-regulate areas of these markets, especially with respect to residential retail customers, that have previously been deregulated. In this connection, state officials, the California Independent System Operator (Cal ISO) and the investor-owned utilities in California have argued to the FERC that our California generating subsidiaries should not continue to have market-based rate authority. While the FERC to date has consistently refused petitions to force entities with market-based rates to return to cost-based rates, some of these proceedings are ongoing and we cannot predict what action the FERC may take on such petitions in the future. If we were forced to adopt cost-based rates, future earnings would be affected. Furthermore, the Cal ISO is undertaking a market redesign process to fundamentally change the structure of wholesale electricity markets and transmission service in California. These changes, if approved by the FERC, could include a revised market monitoring and mitigation structure, a revised congestion management mechanism and an obligation for load-serving entities in California to maintain capacity reserves. The Cal ISO's stated goal is to complete the first phase of this redesign by September 30, 2002, when the existing FERC market mitigation scheme for California will expire.

On November 20, 2001, the FERC instituted an investigation under Section 206 of the Federal Power Act regarding the tariffs of all sellers with market-based rates authority, including Reliant Energy. For information regarding this FERC proceeding and other FERC actions relating to the California market, please read Note 14(g) to our consolidated financial statements. If the FERC does not modify or reject its proposed approach for dealing with anti-competitive behavior, our future earnings may be affected by the open-ended refund obligation.

Additionally, federal legislative initiatives have been introduced and discussed to address the problems being experienced in some of these markets, including legislation seeking to impose price caps on sales. We cannot predict whether other proposals to re-regulate will be made or whether legislative or other attention to the restructuring of the electric power industry will cause the restructuring to be delayed or reversed. If the trend towards competitive restructuring of the wholesale power markets is reversed, discontinued or delayed, the business growth prospects and financial results of our Wholesale Energy and Retail Energy segments could be adversely affected.

If RTOs are established as envisioned by Order No. 2000, "rate pancaking," or multiple transmission charges that apply to a single point-to-point delivery of energy will be eliminated within a region, and

wholesale transactions within the region, and between regions will be facilitated. The end result could be a more competitive, transparent market for the sale of energy and a more economic and efficient use and allocation of resources; however, considerable opposition exists to the development of RTOs.

The FERC also has initiated a rulemaking proceeding to establish standardized transmission service throughout the United States, a standard wholesale electric market design, including forward and spot markets for energy and an ancillary services market, and specifications regarding the entities that administer these markets and for market monitoring and mitigation, that could be used in all RTOs. We cannot predict at this time what effect FERC's standard market design will have on our business growth prospects and financial results.

Partly in response to the bankruptcy of Enron, there have been proposals in the United States Congress to make online platforms that trade energy and metals derivatives subject to oversight by the Commodities Futures Trading Commission (CFTC), to prohibit market price manipulation and fraud. Under some of these proposals, dealers in energy derivatives would be required to file reports with the CFTC and maintain amounts of capital, as determined by the CFTC, to support the risks of their transactions. Other proposals would require the CFTC to review these markets for potential regulatory recommendations. We do not know what impact, if any, these proposals would have on our business if enacted. Additionally, there may be other broader proposals introduced to submit energy trading to comprehensive regulation by the FERC or by the CFTC.

The acquisition, ownership and operation of power generation facilities require numerous permits, approvals and certificates from federal, state and local governmental agencies. The operation of our generation facilities must also comply with environmental protection and other legislation and regulations. At present, we have operations in Arizona, California, Florida, Illinois, Maryland, Nevada, New Jersey, New York, Ohio, Pennsylvania, Texas and West Virginia. Most of our existing domestic generation facilities are exempt wholesale generators that sell electricity exclusively into the wholesale market. These facilities are subject to regulation by the FERC regarding rate matters and by state public utility commissions regarding siting, environmental and other health and safety matters. The FERC has authorized us to sell our generation from these facilities at market prices. The FERC retains the authority to modify or withdraw our market-based rate authority and to impose "cost of service" rates if it determines that market pricing is not in the public interest.

Uncertainty Related to the New York Regulatory Environment. The New York market is subject to significant regulatory oversight and control. Our operating results are as dependent on the continuance of the regulatory structure as they are on fluctuations in the market price for electricity. The rules governing the current regulatory structure are subject to change. We cannot assure you that we will be able to adapt our business in a timely manner in response to any changes in the regulatory structure, which could have a material adverse effect on our revenues and costs. The primary regulatory risk in this market is associated with the oversight activity of the New York Public Service Commission, the New York Independent System Operator (NYISO) and the FERC.

Our assets located in New York are subject to "lightened regulation" by the New York Public Service Commission, including provisions of the New York Public Service Law that relate to enforcement, investigation, safety, reliability, system improvements, construction, excavation, and the issuance of securities. Because "lightened regulation" was accomplished administratively, it could be revoked.

The NYISO has the ability to revise wholesale prices, which could lead to delayed or disputed collection of amounts due to us for sales of energy and ancillary services. The NYISO also has the ability, in some cases subject to FERC approval, to impose cost-based pricing and/or price caps. The NYISO has implemented a measure known as the "Automated Mitigation Procedure" (AMP) under which day-ahead energy bids will be automatically reviewed and, if necessary, mitigated if economic or physical withholding is determined. Proposed modifications to the AMP provide a level of uncertainty over the impacts of that procedure in the summer of 2002. FERC has also directed the NYISO to adopt mitigation measures for all limits in New York City consistent with its overall market-monitoring plan. NYISO has filed in-city mitigation measures with the FERC, which it is proposing to be implemented beginning in late spring of 2002. The full impact of these revisions may not be known until the summer of 2002.

Integration and Other Risks Associated with Our Orion Power Assets. We have made a substantial investment in our recent acquisition of Orion Power. If we are unable to profitably integrate, operate, maintain and manage our newly acquired power generation facilities our results of operations will be adversely affected.

Duquesne Light Company is obligated to supply electricity at predetermined tariff rates to all retail customers in its existing service territory who do not select another electricity supplier. Orion Power has committed to provide 100% of the energy that Duquesne Light Company needs to meet this obligation under a contract that was recently extended through December 2004. If our obligation under this contract exceeds the available output from the combination of Orion Power's generation facilities and our additional generation facilities in the region, we would be forced to buy additional energy at prevailing market prices and, in certain cases where we failed to deliver the required amount, we could incur penalties during periods of peak demand of up to $1,000 per megawatt hour. If this situation were to occur during periods of peak energy prices, we could suffer substantial losses that could materially adversely affect our results of operations. In addition, our revenues generated under this contract may be adversely impacted if a substantial number of Duquesne Light Company's retail customers select other retail electric providers.

Operating Risks. Our Electric Generation, Wholesale Energy operations and our European Energy operations are exposed to risks relating to the breakdown or failure of equipment or processes, fuel supply interruptions, shortages of equipment, material and labor, and operating performance below expected levels of output or efficiency. A significant portion of our facilities were constructed many years ago. Older generating equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to add or upgrade equipment to keep it operating at peak efficiency, to comply with changing environmental requirements, or to provide reliable operations. Such changes could affect operating costs. Any unexpected failure to produce power, including failure caused by breakdown or forced outage, could result in reduced earnings.

We depend on transmission and distribution facilities owned and operated by utilities and other power companies to deliver the electricity we sell from our power generation facilities to our customers, who in turn deliver these products to the ultimate consumers of the power. If transmission is disrupted, or transmission capacity is inadequate, our ability to sell and deliver our products may be hindered.

Factors Affecting Our Acquisition and Project Development Activities. Our plans for our Wholesale Energy business segment indicate a shift in emphasis from identifying and pursuing acquisition and development candidates to construction and integration of generation facilities. We believe this is a temporary shift based on the requirements of integrating the Orion Power assets and the maturation of both our and Orion Power's development projects and by the current state of the wholesale electricity and capital markets.

There are numerous risks relating to the acquisition and development of power generation plants and construction and integration of these facilities. We may not be able to identify attractive acquisitions or development opportunities, complete acquisitions or development projects we undertake, or we may not be able to integrate these plants, especially larger acquisitions, into the portfolios of our Wholesale Energy business segment and achieve the synergies, including cost savings, we originally envisioned.

Currently, our Wholesale Energy business segment has a select number of power generation facilities under development and many under construction (either owned or leased). Our completion of these facilities is subject to the following:

- market prices;

- shortages and inconsistent quality of equipment, material and labor;

- financial market conditions and the results of our financing efforts;

- actions by rating agencies with respect to us or our competitors;

- work stoppages, due to plant bankruptcies and contract labor disputes;

- permitting and other regulatory matters;

- unforeseen weather conditions;

- unforeseen equipment problems;

- environmental and geological conditions; and

- unanticipated capital cost increases.

Any of these factors could give rise to delays, cost overruns or the termination of the plant expansion, construction or development. Many of these risks cannot be adequately covered by insurance. While we maintain insurance, obtain warranties from vendors and obligate contractors to meet specified performance standards, the proceeds of such insurance, warranties or performance guarantees may not be adequate to cover lost revenues, increased expenses or liquidated damages payments we may owe.

If we were unable to complete the development of a facility, we would generally not be able to recover our investment in the project. The process for obtaining initial environmental, siting and other governmental permits and approvals is complicated, expensive, lengthy and subject to significant uncertainties. Transmission interconnection, fuel supply and cooling water represent some cost uncertainties during project development that may also result in termination of the project. In addition, construction delays and contractor performance shortfalls can result in the loss of revenues and may, in turn, adversely affect our results of operations. The failure to complete construction according to specifications can result in liabilities, reduced plant efficiency, higher operating costs and reduced earnings. We may not be successful in the development or construction of power generation facilities in the future.

As a result of several recent events, including the United States economic recession, the price decline of our industry sector in the equity capital markets and the downgrading of the credit ratings of several of our significant competitors, the availability and cost of capital for our business and the businesses of our competitors has been adversely affected. In response to these events and the intensified scrutiny of companies in our industry sector by the rating agencies, our Wholesale Energy business segment has reduced its planned capital expenditures by $2.7 billion over the 2002-2006 time frame.

Successful integration of plants, especially acquisitions, is subject to a number of risks, including the following:

- unforeseen liabilities or other exposures;

- inaccurate due diligence of acquired facilities, such as underestimates of outage rates and operating costs;

- inability to achieve adequate cost savings in both overhead and operations;

- inability to achieve various commercial synergies with existing operations; and

- market prices for power and fuels.

Any of these factors could significantly affect the economic impact of an acquisition on our results of operations.

As part of this integration process and our temporary shift in emphasis, the Orion Power plants will be part of an operations improvement process that strives to achieve both reduced operating and maintenance costs and increase gross margins through improved availability and reliability of plants. This process is currently underway at our other plants and will be introduced at the Orion Power facilities beginning in the third quarter of 2002.

Increasing Competition in Our Industry. Our Wholesale Energy business segment competes with other energy merchants. In order to successfully compete, we must have the ability to aggregate supplies at competitive prices from different sources and locations and must be able to efficiently utilize transportation services from third-party pipelines and transmission services from electric utilities. We also compete against other energy merchants on the basis of our relative skills, financial position and access to credit sources. Energy customers, wholesale energy suppliers and transporters often 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, we anticipate that our operations will experience greater competition and downward pressure on per-unit profit margins. Furthermore, demands for liquidity to support trading and merchant asset businesses are increasing at the same time that the credit rating agencies are reviewing the liquidity and other credit criteria for trading, marketing and merchant generation firms. Other companies we compete with may not have similar credit ratings pressure or may have higher credit ratings. The growth of electronic trading platforms has increased the number of transactions, potential counterparties and level of price transparency in the energy commodity market. As a result, we are likely to transact with a wide range of customers potentially increasing our risk due to their changing credit circumstances, while at the same time potentially diversifying our reliance on a smaller number of customers.

Developments with respect to our competitors frequently have a collateral and tangible impact on us. Credit and liquidity concerns impact our ability to do business with counterparties. Adverse regulatory and political ramifications can result from activities and investigations directed at our competitors.

Hydroelectric Facilities Licensing. The Federal Power Act gives the FERC exclusive authority to license non-federal hydroelectric projects on navigable waterways and federal lands. The FERC hydroelectric licenses are issued for terms of 30 to 50 years. Some of the hydroelectric facilities in our Wholesale Energy business segment, representing approximately 90 MW of capacity, have licenses that expire within the next ten years. Facilities that we own representing approximately 160 MW of capacity have new or initial license applications pending before the FERC. Upon expiration of a FERC license, the federal government can take over the project and compensate the licensee, or the FERC can issue a new license to either the existing licensee or a new licensee. In addition, upon license expiration, the FERC can decommission an operating project and even order that it be removed from the river at the owner's expense. In deciding whether to issue a license, the FERC gives equal consideration to a full range of licensing purposes related to the potential value of a stream or river. It is not uncommon for the relicensing process to take between four and ten years to complete. Generally, the relicensing process begins at least five years before the license expiration date and the FERC issues annual licenses to permit a hydroelectric facility to continue operations pending conclusion of the relicensing process. We expect that the FERC will issue to us new or initial hydroelectric licenses for all the facilities with pending applications. Presently, there are no applications for competing licenses and there is no indication that the FERC will decommission or order any of the projects to be removed.

FACTORS AFFECTING THE RESULTS OF OUR EUROPEAN ENERGY OPERATIONS

General. Our European Energy segment, which is operated by subsidiaries of Reliant Resources, intends to focus its activities in existing trading markets in the Netherlands, the United Kingdom, Germany, the Scandinavian countries, Austria and Switzerland. Historical results of operations may not be indicative of future results of operations. In particular, results of operations for our European Energy segment prior to 2001 reflect the impact of a regulated generation price system that has been discontinued. In addition, in 2001 and prior years, under Dutch corporate income tax laws, the earnings of REPGB were subject to a zero percent Dutch corporate income tax rate as a result of the Dutch tax holiday applicable to its electric industry. After December 31, 2001, all of European Energy's earnings in the Netherlands will be subject to the standard Dutch corporate income tax rate, which currently is 34.5%. Furthermore, European Energy's results of operations for 2001 include the effect of a number of non-recurring items, including the $37 million net gain resulting from the settlement of a stranded cost indemnity agreement.

Future results of operations of our European Energy segment could be affected by, among other things, the following:

- increasing competition in the Dutch wholesale energy market, resulting in declining electric power margins;

- the timing and pace of the deregulation of other sectors of the European energy markets;

- the continuing negative impact of the bankruptcy of Enron on market liquidity and credit requirements in European trading markets;

- the mark-to-market price risk exposure associated with certain stranded cost electricity and natural gas supply contracts;

- the impact of any renegotiation of European Energy's stranded cost contracts;

- the impact and changes of natural gas tariffs pursuant to changes in the regulatory structure;

- the ability to negotiate new contracts or renew contracts with customers on favorable terms; and

- the impact of slowing economic growth on power generation demand in the markets in which our European Energy segment operates.

Competition in the European Market. Competition for energy customers in the markets in which our European Energy segment operates is high. The primary factors affecting our European Energy segment's competitive position are price, regulation, the economic resources of its competitors, and its market reputation and perceived creditworthiness.

Our European Energy segment competes in the Dutch Wholesale market against a variety of other companies, including other Dutch generation companies, cogenerators, various producers of alternate sources of power and non-Dutch generators of electric power, primarily from France and Germany. As of December 31, 2001, the Dutch electricity system had 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 (post 2005), including interconnections with Norway and the United Kingdom. The Belgian interconnections are primarily used to import electricity from France, but a larger portion of Dutch electricity imports comes from Germany. It is anticipated that over time, transmission constraints between the Netherlands and other European markets will be reduced, thereby exposing our European Energy segment to even greater competitive pressures.

Our European Energy segment's trading and marketing operations are also subject to increasing levels of competition. Competition among power generators for customers is intense and is expected to increase as more participants enter increasingly deregulated markets. Many of our European Energy segment's existing competitors have geographic market positions far more extensive than that of our European Energy segment. In addition, many of these competitors possess significantly greater financial, personnel and other resources than our European Energy segment.

Deregulation of the Dutch Market. The Dutch wholesale electric market was completely opened to competition on January 1, 2001. Consistent with our expectations at the time we acquired our operations in the Netherlands, the gross margin of our European Energy segment declined in 2001 as a result of the deregulation of the market and the termination of an agreement with the other Dutch generators and the Dutch distributors. Commercial markets were generally opened to retail competition in January 2002. We expect the remainder of the market, consisting of mainly residential customers, will be open to competition by January 1, 2003. The timing of opening of the residential segment of the market is subject to change, however, at the discretion of the Dutch Minister of Economic Affairs. Since our European Energy segment's operations focus on the wholesale market, we do not expect that the opening of the Dutch commercial or residential electric market will have a significant impact on the segment's results of operations.

Plant Outages. During 2001, our margins were negatively impacted by unplanned outages at some of our Dutch generation facilities. The unplanned outages were primarily due to malfunctions of the generation turbines and related equipment and complications encountered in the maintenance of one of our facilities. We estimate that these unplanned outages resulted in losses of approximately $11 million, a significant portion of which is covered by property damage and business interruption insurance. For additional information regarding operational risks applicable to our European Energy segment, including unplanned plant outages, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Operating Risks."

Other Factors. In December 2001, REPGB and its former shareholders entered into a settlement agreement resolving the former shareholders' stranded cost indemnity obligations under the purchase agreement of REPGB. For additional information regarding the stranded cost indemnity settlement and the potential impact on earnings from changes in the valuation in the future of the related stranded cost contracts,

please read Notes 5(b) and 14(h) to our consolidated financial statements. We have begun discussions with the other parties to these contracts to modify the terms of certain of the out-of-market contracts. The structure of these settlements, if consummated, likely would entail an upfront cash payment to the counterparty in exchange for amendments to price and other terms intended to make the contracts more market conforming. REPGB would seek to fund these payments, if made, to the extent possible through the proceeds from the settlement of its stranded cost indemnity agreement and, possibly, anticipated distributions from NEA. We cannot currently predict the outcome of these negotiations. However, to the extent that these discussions result in amendments to the contracts, we could realize a gain.

We are in the process of reviewing our European Energy segment's goodwill and certain intangibles for impairment pursuant to SFAS No. 142. For information regarding assessing the impairment in 2002 under SFAS No. 142, please read "-- New Accounting Pronouncements."

Our European operations are subject to various risks incidental to investing or operating in foreign countries. These risks include 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. For example, we estimate that the impact of the devaluation of the Euro relative to the U.S. dollar during 2001 negatively affected U.S. dollar net income by approximately $2 million.

FACTORS AFFECTING THE RESULTS OF OUR RETAIL ENERGY OPERATIONS

General. The Texas retail electricity market fully opened to competition in January 2002. Therefore, we do not expect the earnings from our Retail Energy segment, which is operated by subsidiaries of Reliant Resources, for past years to be indicative of our future earnings and results. The level of future earnings generated by our Retail Energy segment will depend on numerous factors including:

- legislative and regulatory developments related to the newly opened retail electricity market in Texas and changes in the application of such laws and regulations;

- the effects of competition, including the extent and timing of the entry or exit of competitors in our markets and the impact of competition on retail prices and margins;

- customer attrition rates and cost associated with acquiring and retaining new customers;

- our ability to negotiate new contracts or renew contracts with customers on favorable terms;

- the timing and extent of changes in wholesale commodity prices and transmission and distribution rates;

- our ability to procure adequate electricity supply upon economic terms;

- our ability to effectively hedge commodity prices;

- our ability to pass increased supply costs on to customers in a timely manner;

- our ability to timely perform our obligations under our customer contracts;

- market liquidity for wholesale power;

- the financial condition and payment patterns of our customers;

- weather variations and other natural phenomena;

- the timely and accurate implementation of the new internal and external information technology systems and processes necessary to provide customer information and to implement customer switching in the retail electricity market in Texas which was established in late 2001;

- the costs associated with operating our internal customer service and other operating functions; and

- the timing and accuracy of ERCOT settlements, and the exchange of information between ERCOT, the T&D Utility and our Retail Energy segment's retail electric provider, which facilitates our Retail Energy business segment's billing, collection and supply management processes.

Competition in the Texas Market. Under the Texas Electric Restructuring Law, beginning in 2002, all classes of Texas customers of most investor-owned utilities, and those of any municipal utility and electric cooperative that opted to participate in the competitive marketplace, are able to choose their retail electric provider. In January 2002, Reliant Resources began to provide retail electric services to all customers of Reliant Energy HL&P who did not select another retail electric provider. Under the market framework established by the Texas Electric Restructuring Law, Reliant Resources is recognized as the affiliated retail electric provider of Reliant Energy's electric utility. The Distribution will not change this treatment, even though Reliant Resources will cease to be a subsidiary of Reliant Energy after the Distribution. As an affiliated retail electric provider, Reliant Resources is initially required to sell electricity to these Houston area residential and small commercial customers at a specified price, which is referred to in the law as the "price to beat," whereas other retail electric providers are allowed to sell electricity to these customers at any price. Reliant Resources' price to beat was set at a level resulting in an estimated average 17% reduction from December 31, 2001 rates for its residential customers and an estimated average 22% reduction from December 31, 2001 rates for its pre-existing small commercial customers. The wholesale energy supply cost component, or "fuel factor," included in its price to beat was initially set by the Texas Utility Commission at the then average forward 12 month gas price strip of approximately $3.11/MMBtu.

Reliant Resources is not permitted to offer electricity to these customers at a price other than the price to beat until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers in the Houston metropolitan area is committed to be served by retail electric providers other than Reliant Resources. In addition, as the affiliated retail electric provider, Reliant Resources is obligated to offer the price to beat to requesting residential and small commercial customers in Reliant Energy's electric utility service territory through January 1, 2007. Because Reliant Resources will not be able to compete for residential and small commercial customers on the basis of price in the Houston area, it may lose a significant number of these customers to other retail electric providers. Customers were given the opportunity to switch beginning in August 2001 through the retail pilot project. Due to system related problems which restricted the timely switching of customers during the pilot project and in early 2002, we cannot be sure of the number of customers that have attempted to switch to other retail electric providers. For additional information regarding retail market systems problems, please read "-- Operational Risks." Between the beginning of the pilot project in August 2001 and February 28, 2002, Reliant Resources estimates that approximately 67,000 customers (or approximately 4% of their residential and small commercial customers) have switched to other retail electric providers. Due to the switching systems problems, the actual numbers of customers that switched or attempted to switch by this date may actually be higher.

Reliant Resources is providing commodity service to the large commercial, industrial and institutional customers previously served by Reliant Energy's electric utility who did not take action to select another retail electric provider. In addition, Reliant Resources has signed contracts to provide electricity and services to large commercial, industrial and institutional customers, both in the Houston area as well as outside of the Houston market. Reliant Resources or any other retail electric provider can provide services to these customers at any negotiated price. The market for these customers is very competitive, and any of these customers that select Reliant Resources as their provider may subsequently decide to switch to another provider at the conclusion of the term of their contract with Reliant Resources.

In most retail electric markets outside the Houston area, Reliant Resources' principal competitor may be the local incumbent utility company's retail affiliate. These retail affiliates have the advantage of long-standing relationships with their customers. In addition to competition from the incumbent utilities' affiliates, Reliant Resources may face competition from a number of other retail providers, including affiliates of other non-incumbent utilities, independent retail electric providers and, with respect to sales to large commercial and industrial customers, independent power producers acting as retail electric providers. Some of these competitors or potential competitors may be larger and better capitalized than Reliant Resources.

Generally, retail electric providers will purchase electricity from the wholesale generators at unregulated rates, sell electricity to their retail customers and pay the transmission and distribution utility a regulated tariffed rate for delivering the electricity to their customers. Retail electric providers will then bill and collect

payments from the customers. Because Reliant Resources is required to sell electricity to residential and small commercial customers in the Houston area at the price to beat, it may lose a significant number of these customers to non-affiliated retail electric providers if their cost to provide electricity to these customers is lower than the price to beat. In addition, the results of our Retail Energy operations for sales to residential and small commercial customers over the next several years in Texas will be largely dependent upon the amount of gross margin, or "headroom," available in our price to beat. Until 2004, when Reliant Resources will have the option to acquire our ownership interest in Texas Genco, Reliant Resources' results will be largely based on the ability of the Wholesale Energy segment to buy power at prices that yield acceptable gross margins at revenue levels determined by the price to beat set by the Texas Utility Commission. The available headroom in the price to beat is equal to the difference between the price to beat and the sum of the charges, fees and transmission and distribution utility rates approved by the Texas Utility Commission and the price Reliant Resources pays for power to serve its price to beat customers. The larger the amount of headroom, the more incentive new market entrants should have to provide retail electric services in that particular market. The Texas Utility Commission's regulations allow affiliated retail electric providers to adjust their price to beat fuel factor based on the percentage change in the price of natural gas. In addition, they may also request an adjustment as a result of changes in their price of purchased energy. In such a request, they may adjust the fuel factor to the extent necessary to restore the amount of headroom that existed at the time the initial price to beat fuel factor was set by the Texas Utility Commission. Affiliated retail electric providers may not request that their price to beat be adjusted more than twice a year. Reliant Resources cannot estimate with any certainty the magnitude and frequency of the adjustments they may seek, if any, and the eventual impact of such adjustments on the amount of headroom. Based on forward gas prices at the end of March 2002, Reliant Resources would be able to increase its price to beat rates by approximately 4-5%. Available headroom in the Houston market, as well as in other Texas markets where Reliant Resources intends to compete, will be affected by any changes in transmission and distribution rates that may be requested by the transmission and distribution provider in the respective service territory and in taxes, fees and other charges assessed or levied by third parties. Any changes in transmission and distribution rates must be approved by the Texas Utility Commission. The Texas Utility Commission has initiated a proceeding to determine what taxes a municipality or other local taxing authority can charge retail electric providers relating to the provision of electricity.

In Texas, our Wholesale Energy business segment and our Retail Energy business segment work together in order to determine the price, demand and supply of energy required to meet the needs of our Retail Energy business segments' customers. Reliant Resources may purchase capacity from non-affiliated parties in the state mandated auctions and from our Texas generation business in the contractually mandated auctions. Reliant Resources also enters into bilateral contracts with third parties for capacity, energy and ancillary services. Supply positions are continuously monitored and updated based on retail sales forecasts and market conditions. However, Reliant Resources does not expect to cover the entire exposure of these positions to market price volatility, and the coverage will vary over time. For a discussion of risks similar to those associated with our Retail Energy segment's hedging activities, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility," and "-- Risks Associated with Our Hedging and Risk Management Activities." In addition to the factors noted in these sections, Reliant Resources' ability to adequately hedge its retail electricity requirements is also dependent on the accurate forecast of the number of our customers in each customer class and uncertainties associated with the recently established ERCOT settlement procedures.

Obligations as a Provider of Last Resort. The Texas Electric Restructuring Law requires the Texas Utility Commission to designate certain retail electric providers as providers of last resort in areas of the state in which retail competition is in effect. A provider of last resort is required to offer a standard retail electric service package for each class of customers designated by the Texas Utility Commission at a fixed, nondiscountable rate approved by the Texas Utility Commission, and is required to provide the service package to any requesting retail customer in the territory for which it is the provider of last resort. In the event that another retail electric provider fails to serve any or all of its customers, the provider of last resort is required to offer that customer the standard retail service package for that customer class with no interruption of service to the customer. The Texas Utility Commission designated Reliant Resources' subsidiary, StarEn Power to serve as the provider of last resort for residential and small commercial customers in the western

portion of the Dallas/Fort Worth metropolitan area formally served by Texas Utilities, Inc., a subsidiary of TXU, Inc. In addition, StarEn Power has been appointed as the provider of last resort for large commercial, industrial and institutional customers in Reliant Energy's electric utility service territory. StarEn Power will serve two consecutive six month terms as the provider of last resort. The first term began on January 1, 2002. The second six-month term, beginning July 1, 2002, will include a potential adjustment to the energy component of our provider of last resort rate based on a NYMEX Henry Hub natural gas index. The terms and rates for provider of last resort service are governed by a settlement between Reliant Resources and various interested parties, which settlement was approved by the Texas Utility Commission. In this role, StarEn Power retains the rights to require customer deposits and disconnect service in accordance with Texas Utility Commission rules, and to petition the Texas Utility Commission for a price change in the event it is determined that StarEn power will experience a net financial loss over the term of its provider of last resort obligations. In the first quarter of 2002, the Texas Utility Commission initiated a proceeding to review and possibly amend both the governing rules and structure of provider of last resort service and obligations. This proceeding is in its initial stages and we cannot be sure whether the structure of provider of last resort service and obligations will change, how they will change or what effect, if any, any changes would have on the financial condition, results of operations or cash flows of StarEn Power or our Retail Energy business segment.

"Clawback" Payment to Reliant Energy. To the extent the price to beat exceeds the market price of electricity, Reliant Resources will be required to make a payment to Reliant Energy in 2004 unless the Texas Utility Commission determines that, on or prior to January 1, 2004, 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers (at or below one MW), as applicable, within Reliant Energy HL&P's service territory is committed to be served by retail electric providers other than Reliant Resources. If the 40% test is not met and the reconciliation and a retail payment is required, the amount of this retail payment will be equal to (a) the amount that the price to beat, less non-bypassable delivery charges, is in excess of the prevailing market price of electricity during such period per customer, but not to exceed $150 per customer, multiplied by (b) the number of residential or small commercial customers, as the case may be, that we serve on January 1, 2004 in Reliant Energy HL&P's service territory, less the number of new retail electric customers Reliant Resources serves in other areas of Texas. Amounts received from Reliant Resources with respect to the clawback payment, if any, will be included in the 2004 stranded cost true-up as a reduction of stranded costs.

Operational Risks. The price of purchased power could have an adverse effect on the costs incurred by our Retail Energy segment in acquiring power to serve the demand of its retail customers. For additional information regarding commodity price volatility, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility."

Reliant Resources is dependent on local transmission and distribution utilities for maintenance of the infrastructure through which electricity is delivered to its retail customers. Any infrastructure failure that interrupts or impairs delivery of electricity to its customers could negatively impact the satisfaction of its customers with its service. Additionally, Reliant Resources is dependent on the local transmission and distribution utilities for the reading of its customers' energy meters. Reliant Resources is required to rely on the local utility or, in some cases, the independent transmission system operator, to provide it with its customers' information regarding energy usage, and Reliant Resources may be limited in its ability to confirm the accuracy of the information. The provision of inaccurate information or delayed provision of such information by the local utilities or system operators could have a material negative impact on our business and results of operations and cash flows.

The ERCOT ISO is the independent system operator responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT market. Its responsibilities include ensuring that information relating to a customer's choice of retail electric provider is conveyed in a timely manner to anyone needing the information. Problems in the flow of information between the ERCOT ISO, the transmission and distribution utility and the retail electric providers have resulted in delays in switching customers. While the flow of information is improving, operational problems in the new system and processes are still being worked out.

The ERCOT ISO is also responsible for handling scheduling and settlement for all electricity supply volumes in the Texas deregulated electricity market. In addition, the ERCOT ISO plays a vital role in the collection and dissemination of metering data from the transmission and distribution utilities to the retail electric providers. Reliant Resources and other retail electric providers schedule volumes based on forecasts. As part of settlement, the ERCOT ISO communicates the actual volumes delivered compared to the forecast volumes scheduled. The ERCOT ISO calculates an additional charge or credit based on the difference between the actual and forecast volumes, utilizing a market clearing price for the difference. Settlement charges also include allocated costs such as unaccounted-for energy. Currently, there is a three to four month delay in receiving the final settlement information. As a result, Reliant Resources must estimate its supply costs. Timing delays in receiving final settlement information creates supply cost estimation risk.

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding our exposure to risk as a result of fluctuations in commodity prices and derivative instruments, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

ENVIRONMENTAL EXPENDITURES

We are subject to numerous environmental laws and regulations, which require us 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. For additional information regarding environmental contingencies, please read Note 14(f) to our consolidated financial statements.

Clean Air Act Expenditures. We expect the majority of capital expenditures associated with environmental matters to be incurred by our Electric Generation and Wholesale Energy business segments in connection with emission limitations for NOx under the Clean Air Act, or to enhance operational flexibility under Clean Air Act requirements. In 2000, emission reduction requirements for NOx were finalized for our electric generating facilities in the United States. We currently estimate that up to $476 million will be required to comply with the requirements through the end of 2004, with an estimated $287 million to be incurred in 2002. The Texas regulations require additional reductions that must be completed by March 2007. Plans for the Texas units for the period 2004 through 2007 have not been finalized, but have been estimated at $88 million. We are currently litigating the economic and technical viability of the Texas post-2004 reduction requirements, but cannot predict the outcome of this litigation. In addition, the Texas Electric Restructuring Law created a program mandating air emissions reductions for some generating facilities of our Electric Generation business segment. The Texas Electric Restructuring Law provides for stranded cost recovery of costs associated with this obligation incurred before May 1, 2003. For additional information regarding the Texas Electric Restructuring Law, please read "-- Regulation -- State and Local Regulations -- Texas -- Electric Operations -- The Texas Electric Restructuring Law" in Item 1 of this Form 10-K and Note 4(a) to our consolidated financial statements. For additional information regarding environmental regulation of air emissions, please read "Business -- Environmental Matters -- Air Emissions" in Item 1 of this Form 10-K.

Site Remediation Expenditures. From time to time we have received notices from regulatory authorities or others regarding our 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, we believe that remediation costs will not materially affect our 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 our estimates. For information about specific sites that are the subject of remediation claims, please read Note 14(f) to our consolidated financial statements.

Water, Mercury and Other Expenditures. As discussed under "Business -- Environmental Matters -- Water Issues" in Item 1 of this Form 10-K, regulatory authorities are in the process of implementing regulations and quality standards in connection with the discharge of pollutants into waterways. Once these regulations and quality standards are enacted, we will be able to determine if our operations are in compliance,

or if we will have to incur costs in order to comply with the quality standards and regulations. Until that time, however, we are not able to predict the amount of these expenditures, if any. To date, however, our expenditures associated with respect to permits, registrations and authorizations for operation of facilities under the statutes regulating the discharge of pollutants into surface water have not been material. With regard to mercury remediation and other environmental matters, such as the disposal of solid wastes, our expenditures have not been, and are not expected to be material, based on our experiences and that of others in our industries. Please read "Business -- Environmental Matters -- Mercury Contamination" and "-- Other" in Item 1 of this Form 10-K.

OTHER FACTORS

Terrorist Attacks and Acts of War. We are currently unable to measure the ultimate impact of the terrorist attacks of September 11, 2001 on our industry and the United States economy as a whole. The uncertainty associated with the retaliatory military response of the United States and other nations and the risk of future terrorist activity may impact our results of operations and financial condition in unpredictable ways. These actions could result in adverse changes in the insurance markets and disruptions of power and fuel markets. In addition, our generation facilities or the power transmission and distribution facilities on which we rely could be directly or indirectly harmed by future terrorist activity. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the United States economy. A lower level of economic activity could result in a decline in energy consumption which could adversely affect our revenues, margins and limit our future growth prospects. The occurrence or risk of occurrence could also increase pressure to regulate or otherwise limit the prices charged for electricity or gas. Also, these risks could cause instability in the financial markets and adversely affect our ability to access capital.

Environmental Regulation. Our Electric Generation and Wholesale Energy business segments are subject to extensive environmental regulation by federal, state and local authorities. We are required to comply with numerous environmental laws and regulations, and to obtain numerous governmental permits, in operating our facilities. We may incur significant additional costs to comply with these requirements. If we fail to comply with these requirements, we could be subject to civil or criminal liability and fines. Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. If any of these events occur, our business, operations and financial condition could be adversely affected.

We may not be able to obtain or maintain from time to time all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if we fail to obtain and comply with them, the operation of our facilities could be prevented or become subject to additional costs.

We are generally responsible for all on-site liabilities associated with the environmental condition of our power generation facilities which we have acquired and developed, regardless of when the liabilities arose and whether they are known or unknown. These liabilities may be substantial.

Holding Company Organizational Structure. We are a holding company, and we conduct a significant portion of our operations through our subsidiaries. After the Restructuring and Distribution, CenterPoint Energy will be a holding company that conducts substantially all of its operations through its respective subsidiaries. CenterPoint Energy's only significant assets will be the capital stock of its subsidiaries, and its subsidiaries will generate substantially all of CenterPoint Energy's operating income and cash flow. As a result, dividends or advances from CenterPoint Energy's subsidiaries will be the principal source of funds necessary to meet its debt service obligations. In some circumstances, contractual provisions (including terms of indebtedness) or laws, as well as the financial condition or operating requirements of our respective subsidiaries, may limit our or CenterPoint Energy's ability to obtain cash from our respective subsidiaries. As of December 31, 2001, all conditions on payments to us by our subsidiaries that are contained in existing agreements were satisfied. After the Distribution, Reliant Resources will also be a holding company that conducts all of its operations through its subsidiaries and will be subject to similar structural limitations as

described above with respect to CenterPoint Energy. For information regarding payment of dividends please read Item 5 of this Form 10-K.

In addition, the ability of REMA, a Reliant Resources subsidiary that owns some of the power generation facilities in our Northeast regional portfolio, to pay dividends or make restricted payments to Reliant Resources is restricted under the terms of three lease agreements under which we lease all or an undivided interest in these generating facilities. These agreements allow our Mid-Atlantic subsidiary to pay dividends or make restricted payments only if specified conditions are satisfied, including maintaining specified fixed charge coverage ratios.

Liquidity Concerns. For a discussion of factors affecting our sources of cash and liquidity, please read "-- Liquidity and Capital Resources -- Future Sources and Uses of Cash."

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The net cash provided by/used in operating, investing and financing activities for 1999, 2000 and 2001 is as follows (in millions):

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Cash provided by (used in):			
Operating activities................................	$ 1,104	$ 1,344	$ 1,713
Investing activities................................	(2,870)	(3,286)	(2,085)
Financing activities................................	1,823	2,032	337

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operations in 2001 increased $369 million compared to 2000. This increase primarily resulted from:

- an increase in recovered fuel costs by our Electric Operations business segment;

- a decrease in net margin deposits on energy trading activities as a result of reduced commodity volatility and relative price levels of natural gas and power compared to the fourth quarter of 2000; and

- an increase in operating margins from Wholesale Energy's power generation operations.

This increase is partially offset by:

- a prepayment of a lease obligation related to REMA sale/leaseback transactions (please read Note 14(b) to our consolidated financial statements);

- an increase in restricted cash related to our REMA operations;

- an increase in deposits in a collateral account related to an equipment financing structure (please read Note 14(l) to our consolidated financial statements);

- an increase in costs related to our Retail Energy business segments' increased staffing levels and preparation for competition in the retail electric market in Texas;

- reduced cash flows from our European Energy business segment primarily resulting from a decline in electric power generation gross margins as the Dutch electric market was completely opened to wholesale competition on January 1, 2001; and

- other changes in working capital.

Net cash provided by operations in 2000 increased $240 million compared to 1999. This increase primarily resulted from:

- proceeds from the sale of an investment in marketable debt securities by REPGB;

- improved operating results of our Wholesale Energy business segment's California generating facilities;

- incremental cash flows provided by REPGB, acquired in the fourth quarter of 1999;

- cash flows from REMA, acquired in the second quarter of 2000; and

- increased sales from our Electric Operations business segment due to growth in usage and number of customers.

These increases were partially offset by increases in under-recovered fuel costs of our Electric Operations business segment and Wholesale Energy's net margin deposits on energy trading activities.

CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities decreased $1.2 billion during 2001 compared to 2000. This decrease was primarily due to no acquisitions being made in 2001 as compared to the $2.1 billion acquisition of REMA in 2000, and the funding of the remaining $982 million purchase obligation for REPGB in 2000.

These decreases were partially offset by additional capital expenditures in 2001 of $211 million primarily related to our Electric Operations business segment, proceeds of $1.0 billion received in 2000 from the REMA sale-leaseback and $642 million received in 2000 from the sale of our Latin America assets, net of investments and advances.

Net cash used in investing activities increased $416 million during 2000 compared to 1999. This increase was primarily due to:

- the funding of the remaining purchase obligation for REPGB of $982 million on March 1, 2000;

- the acquisition of REMA for $2.1 billion on May 12, 2000; and

- increased capital expenditures related to the construction of domestic power generation projects.

Proceeds of $1.0 billion from the REMA sale-leaseback in 2000, the sale of a substantial portion of our Latin America investments in 2000 and the purchase of $537 million of AOL Time Warner securities in 1999 partially offset these increases.

CASH PROVIDED BY FINANCING ACTIVITIES

Cash flows provided by financing activities decreased $1.7 billion in 2001 compared to 2000, primarily due to a decline in short term borrowings partially offset by $1.7 billion in net proceeds from the initial public offering of Reliant Resources.

Cash flows provided by financing activities increased $209 million in 2000 compared to 1999, primarily due to an increase in short-term borrowings partially offset by a decline in proceeds from long-term debt and the sale of trust preferred securities.

FUTURE SOURCES AND USES OF CASH

The following table sets forth our consolidated capital requirements for 2001, and estimates of our consolidated capital requirements for 2002 through 2006 (in millions).

	2001	2002	2003	2004	2005	2006
Electric Operations (with nuclear fuel) (1)	$ 936	$ --	$ --	$ --	$ --	$ --
Electric Transmission and Distribution(1)	--	338	320	381	362	352
Electric Generation (with nuclear fuel) (1)	--	285	192	89	79	45
Natural Gas Distribution	209	219	231	231	234	231
Pipelines and Gathering	54	76	45	45	43	38
Wholesale Energy(2) (3)	658	3,579	322	147	215	146
European Energy	21	22	--	--	--	--
Retail Energy	117	40	19	18	14	16
Other Operations	58	111	80	46	73	38
Major maintenance cash outlays	88	94	87	106	86	85
Total	$2,141	$4,764	$1,296	$1,063	$1,106	$951

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(1) Beginning in 2002, the Electric Operations business segment will be replaced by the Electric Transmission and Distribution business segment and the Electric Generation business segment. In December 2001, we formed Texas Genco, LP, a Texas limited partnership, as an indirect, wholly owned subsidiary (Texas Genco). It is anticipated that the majority interest in Texas Genco held by CenterPoint Energy will be purchased by Reliant Resources in early 2004 pursuant to the terms of an option that Reliant Resources holds, or will otherwise be sold to one or more other parties. The Texas generation operations referred to as our "Texas generation business" throughout this Form 10-K will be reported as the "Electric Generation" business segment beginning in 2002. Capital requirements for current generation operations of Reliant Energy HL&P are included in the Electric Generation business segment. Capital requirements for the remainder of Reliant Energy HL&P's operations are included in the Electric Transmission and Distribution business segment.

(2) Capital requirements for 2002 include $2.9 billion for the acquisition of Orion Power by Reliant Resources.

(3) We currently estimate the capital expenditures by off-balance sheet special purpose entities to be $704 million, $343 million, $163 million and $48 million in 2002, 2003, 2004 and 2005, respectively. Capital expenditures for these projects have been excluded from the table above. Please read "Future Sources and Uses -- Reliant Resources (unregulated businesses)," "-- Off-Balance Sheet Transactions -- Construction Agency Agreements" and "-- Equipment Financing Structure" below for additional information.

The following table sets forth estimates of our consolidated contractual obligations as of December 31, 2001 to make future payments for 2002 through 2006 and thereafter (in millions):

CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006	2007 AND THEREAFTER
Long-term debt, including capital leases(1)........................	$ 6,403	$ 538	$1,226	$ 90	$ 390	$218	$3,941
Short-term borrowing, including credit facilities(1)..............	3,435	3,435	--	--	--	--	--
Trust preferred securities(2).......	706	--	--	--	--	--	706
REMA operating lease payments(3)....	1,560	136	77	84	75	64	1,124
Other operating lease payments(3)...	969	66	84	94	95	95	535
Trading and marketing liabilities(4)...................	1,840	1,478	216	85	33	13	15
Non-trading derivative liabilities(4)...................	1,121	472	198	115	62	35	239
Other commodity commitments(5)......	4,014	451	314	340	344	348	2,217
Other long-term obligations.........	300	10	10	10	10	10	250
Total contractual cash obligations...................	$20,348	$6,586	$2,125	$818	$1,009	$783	$9,027

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(1) For a discussion of short-term and long-term debt, please read Note 10 to our consolidated financial statements.

(2) For a discussion of trust preferred securities, please read Note 11 to our consolidated financial statements.

(3) For a discussion of REMA and other operating leases, please read Note 14(b) to our consolidated financial statements.

(4) For a discussion of trading and marketing liabilities and non-trading derivative liabilities, please read Note 5 to our consolidated financial statements.

(5) For a discussion of other commodity commitments, please read Note 14(a) to our consolidated financial statements. Excluded from the table above are amounts to be acquired by Reliant Resources from Texas Genco under purchase power and electric capacity commitments of $213 million and $57 million in 2002 and 2003, respectively.

The following discussion regarding future sources and uses of cash over the next twelve months is presented separately for our regulated businesses and unregulated businesses consistent with the separate liquidity plans that our management has developed for CenterPoint Energy and Reliant Resources. We believe that our borrowing capability combined with cash flows from operations will be sufficient to meet the operational needs of our businesses for the next twelve months.

RELIANT ENERGY (TO BECOME CENTERPOINT ENERGY SUBSEQUENT TO THE RESTRUCTURING)

Our liquidity and capital requirements will be affected by:

- capital expenditures;

- debt service requirements;

- the repayment of notes payable to Reliant Resources;

- the reduction in, and elimination of, programs under which we have sold customer accounts receivable;

- proceeds from the expected initial public offering of Texas Genco;
- various regulatory actions; and
- working capital requirements.

We expect capital requirements to be met with cash flows from operations, as well as proceeds from debt offerings and other borrowings. The following table sets forth our capital requirements for 2001, and estimates of our capital requirements for 2002 through 2006 (in millions):

	2001	2002	2003	2004	2005	2006
Electric Operations (with nuclear fuel)(1)	$ 936	$ --	$ --	$ --	$ --	$ --
Electric Transmission and Distribution(1)	--	338	320	381	362	352
Electric Generation (with nuclear fuel)(1)	--	285	192	89	79	45
Natural Gas Distribution	209	219	231	231	234	231
Pipelines and Gathering	54	76	45	45	43	38
Other Operations	14	36	34	15	41	5
Total	$1,213	$954	$822	$761	$759	$671

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(1) Beginning in 2002, the Electric Operations business segment will be replaced by the Electric Transmission and Distribution business segment and the Electric Generation business segment. It is anticipated that the majority interest in Texas Genco held by CenterPoint Energy will be purchased by Reliant Resources in early 2004 pursuant to the terms of an option that Reliant Resources holds, or will otherwise be sold to one or more other parties. The Texas generation operations referred to as our "Texas generation business" throughout this Form 10-K will be reported as the "Electric Generation" business segment beginning in 2002. Capital requirements for current generation operations of Reliant Energy HL&P are included in the Electric Generation business segment. Capital requirements for the remainder of Reliant Energy HL&P's operations are included in the Electric Transmission and Distribution business segment.

The following table sets forth estimates of our contractual obligations to make future payments for 2002 through 2006 and thereafter (in millions):

CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006	2007 AND THEREAFTER
Long-term debt, including capital leases	$ 5,511	$ 514	$687	$ 48	$378	$206	$3,678
Short-term borrowing, including credit facilities	3,138	3,138	--	--	--	--	--
Trust preferred securities	706	--	--	--	--	--	706
Other operating lease payments(1)	110	14	12	7	6	5	66
Non-trading derivative liabilities	83	73	7	2	1	--	--
Other commodity commitments(2)	1,150	199	129	133	137	141	411
Total contractual cash obligations	$10,698	$3,938	$835	$190	$522	$352	$4,861

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(1) For a discussion of other operating leases, please read Note 14(b) to our consolidated financial statements.

(2) For a discussion of other commodity commitments, please read Note 14(a) to our consolidated financial statements.

Credit Facilities. As of December 31, 2001, we had credit facilities, including facilities of Houston Industries FinanceCo LP (FinanceCo) and RERC Corp., that provided for an aggregate of $5.4 billion in committed credit. As of December 31, 2001, $3.1 billion was outstanding under these facilities including $2.5 billion of commercial paper supported by the facilities, borrowings of $636 million and letters of credit of $2.5 million.

The following table summarizes amounts available under these credit facilities at December 31, 2001 and commitments expiring in 2002 (in millions):

BORROWER	TYPE OF FACILITY	AMOUNT OF COMMITTED CREDIT	TOTAL UNUSED AMOUNT AT 12/31/01	COMMITMENTS EXPIRING IN 2002
Reliant Energy	Revolver	$ 400	$ 236	$ 400
FinanceCo	Revolvers	4,300	1,671	4,300
RERC Corp.	Revolver	350	347	--
RERC Corp.	Receivables	350	4	350
Total		$5,400	$2,258	$5,050

The RERC Corp. receivables facility was reduced from $350 million to $150 million in January 2002. Proceeds for the repayment of $196 million of advances under the facility were obtained from the liquidation of a temporary investment and the sale of commercial paper.

The revolving credit facilities contain various business and financial covenants requiring us to, among other things, maintain leverage (as defined in the credit facilities) below specified ratios. We are in compliance with the covenants under all of these credit agreements. We do not expect these covenants to materially limit our ability to borrow under these facilities. For additional discussion, please read Note 10(a) to our consolidated financial statements.

The revolving credit facilities support commercial paper programs. The maximum amount of outstanding commercial paper of an issuer is limited to the amount of the issuer's aggregate revolving credit facilities less any direct loans or letters of credit obtained under its revolvers. Due to an inability to consistently satisfy all short-term borrowing needs by issuing commercial paper, short-term borrowing needs have been met with a combination of commercial paper and bank loans. The extent to which commercial paper will be issued in lieu of bank loans will depend on market conditions and our credit ratings.

Pursuant to the terms of the existing agreements (but subject to certain conditions precedent which we anticipate will be met) the revolving credit agreements aggregating $4.3 billion of FinanceCo will terminate and CenterPoint Energy revolving credit facilities of the same amount and with the same termination dates will become effective on the date of Restructuring.

To the extent that we continue to need access to current amounts of committed credit prior to the Distribution, we expect to extend or replace the credit facilities on a timely basis. The terms of any new credit facilities are expected to be adversely affected by the leverage of Reliant Energy, the amount of bank capacity utilized by Reliant Energy, any delay in the date of Restructuring and Distribution and conditions in the bank market. These same factors are expected to make the syndication of new credit facilities more difficult in the future. Proceeds from any issuance of debt in the capital markets are expected to be used to retire a portion of our short-term debt and reduce our need for committed revolving credit facilities.

Shelf Registrations. The following table lists shelf registration statements existing at December 31, 2001 for securities expected to be sold in public offerings.

REGISTRANT	SECURITY	AMOUNT(1)	TERMINATING ON DATE OF RESTRUCTURING
Reliant Energy..............	Preferred Stock	$230 million	Yes
Reliant Energy..............	Debt Securities	580 million	Yes
Reliant Energy..............	Common Stock	398 million	No
REI Trust II/Reliant Energy....................	Trust Preferred and related Junior Subordinated Debentures	125 million	Yes
RERC Corp...................	Debt Securities	50 million	No

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(1) The amount reflects the principal amount of debt securities, the aggregate liquidation value of trust preferred securities and the estimated market value of common stock based on the number of shares registered as of December 31, 2001 and the closing market price of Reliant Energy common stock on that date.

We expect to register $2.5 billion of debt securities some or all of which may be issued either by Reliant Energy prior to the Restructuring or by CenterPoint Energy after the Restructuring. Proceeds from the sale of these debt securities are expected to be used to repay short-term borrowings. The amount actually issued will depend on interest rates and other market conditions.

Debt Service Requirements. Excluding the repayments expected to be made on the transition bonds described in Note 4(a) to our consolidated financial statements, we have maturing long-term debt in 2002 aggregating $500 million. Maturing debt is expected to be refinanced with new debt. In addition, Reliant Energy has $175 million of 5.20% pollution control bonds that are expected to be remarketed in 2002 as multi-year fixed-rate debt.

Debt service requirements will be affected by the overall level of interest rates in 2002 and credit spreads applicable to the various issuers of debt in 2002. Up to $2.7 billion of long-term debt is expected to be issued or remarketed in 2002 and we expect to have large amounts of short-term floating-rate debt in 2002. At December 31, 2001, we had entered into five year forward starting interest rate swaps having an aggregate notional amount of $500 million to hedge the interest rate on an anticipated 2002 offering of five year notes. The weighted average rate on the swaps was 5.6%. At December 31, 2001, we also had entered into interest rate swaps to fix the rate on $1.8 billion of our floating rate debt. The weighted average rate on these swaps was 4.1% and the swaps expire in 2002 and 2003. While we have, in some instances, hedged our exposure to changes in interest rates by entering into interest rate swaps, the swaps leave us exposed to changes in our credit spread relative to the market indices reflected in the swaps.

Money Fund. We have a "money fund" through which Reliant Energy and participating subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. The money fund's net funding requirements are generally met with commercial paper and/or bank loans. At December 31, 2001, Reliant Resources had $390 million invested in the money fund. Reliant Resources is expected to withdraw its investment from the money fund on or before the Distribution. Funds for repayment of the notes payable to Reliant Resources will be obtained from bank loans or the issuance of commercial paper.

Environmental Issues. We anticipate investing up to $397 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance. Of this amount, we anticipate expenditures to be approximately $234 million and $132 million in 2002 and 2003, respectively. These environmental compliance expenditures are included in the capital requirements table presented above. For additional information related to

environmental issues, please read Note 14(f) to our consolidated financial statements.

Initial Public Offering of Texas Genco. In 2002, approximately 20% of Texas Genco is expected to be sold in an initial public offering or distributed to holders of CenterPoint Energy common stock. The decision

whether to distribute the Texas Genco shares or to sell the shares in an initial public offering will depend on numerous factors, including market conditions. Proceeds, if any, are expected to be used to retire short-term debt.

Fuel Filing. As of December 31, 2000 and 2001, Reliant Energy HL&P was under-collected on fuel recovery by $558 million and $200 million, respectively. In two separate filings with the Texas Utility Commission in 2000, Reliant Energy HL&P received approval to implement fuel surcharges to collect the under-recovery of fuel expenses, as well as to adjust the fuel factor to compensate for significant increases in the price of natural gas. Under the Texas Electric Restructuring Law, a final settlement of these stranded costs will occur in 2004.

Reliant Energy HL&P Rate Matters. The October 3, 2001 Order established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that Reliant Energy HL&P had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the Transition Plan and Texas Electric Restructuring Law. In this final order, Reliant Energy HL&P is required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the Transition Plan and the Texas Electric Restructuring Law. Per the October 3, 2001 Order, our Electric Operations business segment recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation. Our Electric Operations business segment began refunding excess mitigation credits with the January 2002 unbundled bills, to be refunded over a seven year period. The annual cash flow impact of the reversal of both redirected and accelerated depreciation is a decrease of approximately $225 million. Under the Texas Electric Restructuring Law, a final settlement of these stranded costs will occur in 2004. For further discussion, please read Note 4(a) to our consolidated financial statements.

In addition to the above factors, our liquidity and capital requirements could be affected by:

- a downgrade in credit ratings;

- the need to provide cash collateral in connection with trading activities;

- various regulatory actions; and

- funding of our pension plan.

Impact on Liquidity of a Downgrade in Credit Ratings. At December 31, 2001, Moody's Investors Service, Inc. (Moody's), Standard & Poor's, a division of The McGraw Hill Companies (S&P) and Fitch, Inc. (Fitch) had assigned the following credit ratings to senior debt of Reliant Energy and certain subsidiaries:

	MOODY'S		S&P		FITCH		
COMPANY/INSTRUMENT	RATING	OUTLOOK	RATING	OUTLOOK	RATING	WATCH	OUTLOOK
- Reliant Energy							
Senior Secured Debt.......	A3	Stable(1)	BBB+	Stable(2)	A-	Negative(3)	N/A
Senior Unsecured Debt.....	Baa1	Stable(1)	BBB	Stable(2)	BBB+	Negative(3)	N/A
Reliant Energy FinanceCo II LP Senior Debt...............	Baa1	Stable(1)	BBB	Stable(2)	BBB	N/A	Stable(4)
RERC Corp. Senior Debt...............							

Baa2 Stable(1)
BBB+ Stable(2)
BBB+ Negative(3)
N/A

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(1) A "stable" outlook from Moody's indicates that Moody's does not expect to put the rating on review for an upgrade or downgrade within 18 months from when the outlook was assigned or last affirmed.

(2) A "stable" outlook from S&P indicates that the rating is not likely to change over the intermediate to longer term.

(3) A "negative" watch from Fitch signals that the rating may be downgraded or affirmed in the near term. Fitch has indicated that the Reliant Energy senior secured debt ratings will change from A- to BBB+

upon the distribution of Reliant Resources shares and that the RERC Corp. senior debt ratings will change from BBB+ to BBB upon the distribution of Reliant Resources shares.

(4) A "stable" outlook from Fitch signals that the medium term view of the credit trend of an issuer is stable rather than positive or negative.

We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities and may be revised or withdrawn at any time by the rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

A decline in credit ratings would increase commitment fees and borrowing costs under our existing bank credit facilities. A decline in credit ratings would also adversely affect our ability to issue commercial paper and the interest rates applicable to commercial paper. Increased direct borrowings under our bank credit facilities could also result in the payment of usage fees under the terms of these arrangements. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets.

Our revolving credit agreements are broadly syndicated committed facilities which contain "material adverse change" clauses that could impact our ability to borrow under these facilities. The "material adverse change" clauses generally relate to our ability to perform our obligations under the agreements.

The $150 million receivables facility of RERC Corp. requires the maintenance of credit ratings of at least BB from S&P and Ba2 from Moody's. Advances under the facility would need to be repaid in the event a credit rating fell below the threshold.

As previously discussed, bank facilities of FinanceCo are expected to be converted into bank facilities of CenterPoint Energy on the date of Restructuring. There is a ratings-related condition precedent to the conversion from the existing FinanceCo bank credit facilities (totaling $4.3 billion) to facilities under which CenterPoint Energy will become the obligor. The condition precedent requires that CenterPoint Energy be rated at least BBB by S&P and Baa2 by Moody's at the time of Restructuring. We believe that we could obtain a waiver of this condition, if necessary. However, if we were unable to obtain such a waiver, the facilities would remain obligations of FinanceCo until the earlier of 90 days after the date of Restructuring or the expiration of the facilities in July 2002, subject to compliance with applicable covenants.

Similar ratings-related provisions govern the transfer to CenterPoint Energy of rights and obligations under certain interest rate swap agreements entered into by Reliant Energy and Houston Industries FinanceCo LP to effect interest rate hedging. Interest rate swaps having an aggregate notional amount of $1.5 billion as of December 31, 2001 contained such provisions. These agreements are generally assumable by CenterPoint Energy without the consent of the counterparties, provided that CenterPoint Energy's rating is at least BBB- from S&P or Baa3 from Moody's. We believe that we could obtain the consent of the counterparties if necessary, but if we were unable to do so, the swaps would remain obligations of the current counterparties until their expiration. All of the swaps terminate no later than 2004.

As discussed in Note 8 to our consolidated financial statements, each ZENS note is exchangeable at the holder's option at any time for an amount of cash equal to 95% of the market value of the reference shares of AOL TW common stock attributable to each ZENS note. If our credit worthiness were to drop such that ZENS note holders felt our liquidity was adversely affected or the market for the ZENS notes was to become illiquid, some ZENS holders might decide to exchange their ZENS for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the AOL TW common stock that we own or from other sources. We own shares of AOL TW common stock equal to 100% of the "reference shares" used to calculate our obligation to the holders of the ZENS notes.

Certain of the contracts that we have entered into on behalf of Texas Genco for the sale of capacity from our Texas generation business contain requirements obligating us to put up additional security in the event that our rating or the rating of CenterPoint Energy falls below BBB- from S&P or Baa3 from Moody's. These

requirements stem from reciprocal provisions under power purchase and sale agreements with purchasers of capacity to be delivered in various monthly, 12-month or 24-month periods or "strips" until December 2003. If a downgrade below either of these levels were to occur, the purchasers would be entitled to call upon us to provide collateral to secure our obligations in a "commercially reasonable" amount within three business days of notice. Failure to provide this collateral entitles the other party to terminate the agreement and unwind all pending transactions under the agreement. Our Texas generation business is always the seller under these agreements, and its performance obligation in all cases is one of delivery, rather than payment. Accordingly, it is difficult to quantify the amount of collateral we would be required to provide as assurance for these delivery obligations. We believe that any such quantification should be predicated on our Texas generation business' ultimate exposure under these agreements. Our Texas generation business has no exposure until (1) it cannot deliver power as called for in the agreements and (2) the market cost of replacement power has increased above the contract price. In the unlikely event that our Texas generation business could not deliver any of this power as agreed, we estimate that our Texas generation business' total exposure under these contracts at December 31, 2001 was approximately $73 million.

As part of its normal business operations, our Texas generation business has also entered power purchase and sale agreements with counterparties that contain similar provisions that require a party to provide additional collateral on three business days notice when that party's rating falls below BBB- from S&P or Baa3 from Moody's. Our Texas generation business both buys and sells under these agreements, and we use them whenever possible either to locate less expensive power than our Texas generation business' marginal cost of generation or to sell power to another party who is willing to pay more than our marginal cost of generation. Our Texas generation business' purchases for 2001 under agreements with ratings triggers were approximately $23 million and its sales under those agreements were approximately $8 million. This compares to total purchases of approximately $125 million and total sales of approximately $32 million under all buy/sell agreements in 2001. We believe that this risk is mitigated because most of the purchases and sales under these arrangements take place over relatively short time periods; typically, these transactions are for one-day deliveries and rarely exceed periods of one month.

Entex Gas Resources Corp., a wholly owned subsidiary of RERC Corp., provides comprehensive natural gas sales and services to industrial and commercial customers who are primarily located within or near the territories served by our pipelines and distribution subsidiaries. In order to hedge its exposure to natural gas prices, Entex Gas Resources Corp. will have agreements with provisions standard to the industry that establish credit thresholds and then require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (RERC Corp. in this case), falls below those levels. The senior unsecured debt of RERC Corp. is currently rated BBB+ by S&P and Baa2 by Moody's. Based on these ratings, we estimate that unsecured credit limits extended to Entex Gas Resources Corp. by counterparties could aggregate $250 million; however, utilized credit capacity would typically be lower.

Regulatory Matters. Our liquidity can be impacted by regulatory actions affecting our Electric Operations and our Natural Gas Distribution business segments. For further discussion, please read Note 4 to our consolidated financial statements.

Treasury Stock Purchases. As of December 31, 2001, we were authorized under our common stock repurchase program to purchase an additional $271 million of our common stock. Our purchases under our repurchase program depend on market conditions, might not be announced in advance and may be made in open market or privately negotiated transactions. CenterPoint Energy has no current plans to engage in a significant stock buy-back program, but may seek to repurchase shares in the open market for use in various benefit and employee compensation plans, or to maintain a targeted balance of outstanding shares to the extent that original issue stock is used for such purposes.

Pension and Postretirement Benefits Funding. We make contributions to achieve adequate funding of Company sponsored pension and postretirement benefits in accordance with applicable regulations and rate orders. Based on current estimates, we expect to have funding requirements, excluding Reliant Resources, of

approximately $330 million for the period 2002-2006. These anticipated funding requirements are not reflected in the table of contractual obligations presented above.

RELIANT RESOURCES -- UNREGULATED BUSINESSES

Liquidity and capital requirements for these businesses are affected primarily by the results of operations, capital expenditures, debt service requirements and working capital needs. Reliant Resources expects to grow these businesses through the construction of new generation facilities and the acquisition of generation facilities, the expansion of their energy trading and marketing activities and the expansion of their energy retail business. Reliant Resources expects any resulting capital requirements to be met with cash flows from operations, and proceeds from debt and equity offerings, project financings, securitization of assets, other borrowings and off-balance sheet financings. Additional capital expenditures, some of which may be substantial, depend to a large extent upon the nature and extent of future project commitments which are discretionary. In the discussion below, Reliant Resources has provided several tables outlining their expected future capital requirements by category of expenditure followed by more detailed descriptions of the most significant of their currently known future capital requirements and descriptions of known uncertainties that could impact these items.

The following table sets forth Reliant Resources' consolidated capital requirements for 2001, and estimates of their consolidated capital requirements for 2002 through 2006 (in millions).

	2001	2002	2003	2004	2005	2006
Wholesale Energy(1)(2)(3)	$658	$3,579	$322	$147	$215	$146
European Energy	21	22	--	--	--	--
Retail Energy	117	40	19	18	14	16
Other Operations	44	75	46	31	32	33
Major maintenance cash outlays	88	94	87	106	86	85
Total	$928	$3,810	$474	$302	$347	$280

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(1) Capital requirements for 2002 includes $2.9 billion for the acquisition of Orion Power.

(2) In connection with Reliant Resources' separation from Reliant Energy, Reliant Energy has granted Reliant Resources an option, subject to completion of the Distribution, to purchase the majority interest in Texas Genco held by CenterPoint Energy in January 2004. This option may be exercised between January 10, 2004 and January 24, 2004. The purchase of Texas Genco has been excluded from the above table. For additional information regarding this option to purchase Texas Genco, please read Note 4(b) to our consolidated financial statements.

(3) Reliant Resources currently estimates the capital expenditures by off-balance sheet special purpose entities to be $704 million, $343 million, $163 million and $48 million in 2002, 2003, 2004 and 2005, respectively. Capital expenditures for these projects have been excluded from the table above. Please read "Future Sources and Uses -- Reliant Resources -- unregulated businesses," "-- Off-Balance Sheet Transactions -- Construction Agency Agreements" and "-- Equipment Financing Structure" below for additional information.

Acquisition of Orion Power. On February 19, 2002, Reliant Resources acquired all of the outstanding shares of common stock of Orion Power for $26.80 per share in cash for an aggregate purchase price of $2.9 billion. As of February 19, 2002, Orion Power's debt obligations were $2.4 billion ($2.1 billion net of cash acquired, some of which is restricted pursuant to debt covenants). Reliant Resources funded the purchase of Orion Power with a $2.9 billion credit facility (Orion Bridge Facility) and $41 million of cash on hand. Please read "-- Consolidated Sources of Cash -- Orion Bridge Facility" for further information.

Generating Projects. As of December 31, 2001, Reliant Resources had three generating facilities under construction. Total estimated costs of constructing these facilities are $1.1 billion, including $304 million in commitments for the purchase of combustion turbines. As of December 31, 2001, Reliant Resources had

incurred $690 million of the total projected costs of these projects, which were funded primarily from equity and debt facilities. In addition, Reliant Resources has options to purchase additional combustion turbines for a total estimated cost of $42 million, but is actively attempting to market these turbines, having determined that they are in excess of their current needs. In addition to these facilities, Reliant Resources is constructing facilities as construction agents under the construction agency agreements under synthetic leasing arrangements, which permit them to lease or buy each of these facilities at the conclusion of their construction. For more information regarding the construction agency agreements, please read "-- Off Balance Sheet Transactions -- Construction Agency Agreements."

Environmental Expenditures. Reliant Resources anticipates investing up to $135 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance, totaling approximately $53 million, $20 million, $9 million, $29 million and $24 million in 2002, 2003, 2004, 2005 and 2006, respectively, which is included in the above table. Additionally, environmental capital expenditures for the recently acquired Orion Power assets were estimated by Orion Power to be approximately $241 million over the same time period. Reliant Resources is currently reviewing Orion Power's estimates.

The following table sets forth estimates of Reliant Resources' consolidated contractual obligations as of December 31, 2001 to make future payments for 2002 through 2006 and thereafter (in millions):

CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006	2007 AND THEREAFTER
Long-term debt....................	$ 892	$ 24	$ 539	$ 42	$ 12	$ 12	$ 263
Short-term borrowing, including credit facilities................	297	297	--	--	--	--	--
Mid-Atlantic generating assets operating lease payments.........	1,560	136	77	84	75	64	1,124
Other operating lease payments.....	859	52	72	87	89	90	469
Trading and marketing liabilities.....................	1,840	1,478	216	85	33	13	15
Non-trading derivative liabilities.....................	1,038	399	191	113	61	35	239
Other commodity commitments........	3,134	465	242	207	207	207	1,806
Other long-term obligations........	300	10	10	10	10	10	250
Total contractual cash obligations...................	$9,920	$2,861	$1,347	$628	$487	$431	$4,166

Long-term debt obligations as of December 31, 2001, include $829 million of borrowings under credit facilities that have been classified as long-term debt, based upon the availability of committed credit facilities and management's intention to maintain these borrowings in excess of one year.

As of December 31, 2001, Reliant Resources has issued $396 million of letters of credit, of which $345 million were issued under two credit facilities expiring in 2003 and $51 million were issued under a credit facility expiring in 2004.

Mid-Atlantic Assets Lease Obligation. In August 2000, Reliant Resources' subsidiaries entered into separate sale-leaseback transactions with each of the three owner-lessors for their respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, which Reliant Resources acquired as part of the REMA acquisition. These lessees lease an interest in each facility from each owner-lessor under a facility lease agreement. The equity interests in all the subsidiaries of REMA are pledged as collateral for REMA's lease obligations. In addition, the subsidiaries have guaranteed the lease obligations. The lease documents contain restrictive covenants that restrict REMA's ability to, among other things, make dividend distributions unless REMA satisfies various conditions. The covenant restricting dividends would be suspended if the direct or indirect parent of REMA, meeting

specified criteria, including having a credit rating on its long-term unsecured senior debt of at least BBB from Standard & Poor's and Baa2 from Moody's, guarantees the lease obligations. For additional discussion of these lease transactions, please read Notes 3(a) and 14(b) to our consolidated financial statements. Reliant Resources expects to make lease

payments through 2029 under these leases, with total cash payments of $1.6 billion. The lease terms expire in 2034. During 2000 and 2001, cash lease payments totalled $1 million and $259 million, respectively.

Other Operating Lease Commitments. For a discussion of other operating leases, please read Note 14(b) to our consolidated financial statements.

Other Commodity Commitments. For a discussion of other commodity commitments, please read Note 14(a) to our consolidated financial statements.

Naming Rights to Houston Sports Complex. In October 2000, Reliant Resources acquired the naming rights for the new football stadium for the Houston Texans, the National Football League's thirty-second franchise. The agreement extends for 31 years. The aggregate undiscounted cost of the naming rights under this agreement is expected to be $300 million. Starting in 2002, when the new stadium is operational, Reliant Resources will pay $10 million each year through 2032 for annual advertising under this agreement. For additional information on the naming rights agreement, please read Note 14(d) to our consolidated financial statements.

Payment to Reliant Energy. To the extent that Reliant Resources' price for providing retail electric service to residential and small commercial customers in Reliant Energy HL&P's historical service territory during 2002 and 2003, which price is mandated by the Texas Electric Restructuring Law, exceeds the market price of electricity, Reliant Resources will be required to make a payment to Reliant Energy in early 2004. Due to the nature of this possible payment, Reliant Resources currently cannot reasonably estimate this payment, and accordingly, it is excluded from the above tables.

Treasury Stock Purchases. On December 6, 2001, the Reliant Resources' board of directors authorized the purchase of up to 10 million additional shares of common stock through June 2003. Purchases will be made on a discretionary basis in the open market or otherwise at times and in amounts as determined by management subject to market conditions, legal requirements and other factors. Since the date of such authorization through March 28, 2002, Reliant Resources has not purchased any of these shares of their common stock under this program.

In addition to the capital requirements discussed above, the following items, among others, could impact future capital requirements for Reliant Resources.

Downgrade in Credit Rating. In accordance with industry practice, Reliant Resources has entered into commercial contracts or issued guarantees related to their trading, marketing and risk management operations that require them to maintain an investment grade credit rating. If one or more of their credit ratings decline below investment grade, Reliant Resources may be obligated to provide additional or other credit support to the guaranteed parties in the form of a pledge of cash collateral, a letter of credit or other similar credit support.

Counterparty Credit Risk. Reliant Resources is exposed to the risk that counterparties who owe them money or physical commodities, such as energy or gas, as a result of market transactions fail to perform their obligations. Should the counterparties to these arrangements fail to perform, Reliant Resources might incur losses if they are forced to acquire alternative hedging arrangements or replace the underlying commitment at then-current market prices. In addition, Reliant Resources might incur additional losses to the extent of amounts, if any, already paid to the defaulting counterparties.

CONSOLIDATED SOURCES OF CASH

Reliant Resources believes that their current level of cash and borrowing capability, along with their future anticipated cash flows from operations and assuming successful refinancings of credit facilities as they mature, will be sufficient to meet the existing operational needs of their business for the next 12 months. If cash generated from operations is insufficient to satisfy their liquidity requirements, Reliant Resources may seek to sell either equity or debt securities or obtain additional credit facilities or long-term financings from financial institutions. In the discussion below, Reliant Resources has provided a description of the significant

factors that could impact their cash flows from operations, their currently available liquidity sources, currently contemplated future liquidity sources and known uncertainties that could impact these sources.

The following items will affect Reliant Resources' future cash flows from operations:

Reliant Resources Restricted Cash. Covenants under the Mid-Atlantic assets lease, discussed above, restrict REMA's ability to make dividend distributions. The restricted cash is available for REMA's working capital needs and for it to make future lease payments. As of December 31, 2001, REMA had $167 million of restricted cash. Reliant Resources currently anticipates that REMA will be able to satisfy the conditions necessary to distribute these restricted funds in 2002. In addition, the terms of two of their subsidiaries' indebtedness restrict the subsidiaries' ability to pay dividends or make restricted payments to Reliant Resources in some circumstances. Specifically, their subsidiary which holds an electric power generation facility in Channelview, Texas (Channelview) and their subsidiary which holds an equity investment in the entity owning and operating an electric power generation facility in Nevada (El Dorado) are each party to credit agreements used to finance construction of these generating plants. Both the Channelview credit agreement and the El Dorado credit agreement allow the respective subsidiary to pay dividends or make restricted payments only if specified conditions are satisfied, including maintaining specified debt service coverage ratios and debt service reserve account balances. In both cases, the amount of the dividends or restricted payments that may be paid if the conditions are met is limited to a specified level and may be paid only from a particular account.

Orion Power Restricted Cash. Substantially all of Orion Power's operations are conducted by its subsidiaries. The terms of some of its subsidiaries' indebtedness restrict the subsidiaries' ability to pay dividends to Orion Power or Reliant Resources. Restricted funds are available for such subsidiaries to make debt service payments and to meet their working capital needs. In addition, covenants under some indebtedness of Orion Power restrict its ability to pay dividends to Reliant Resources unless Orion Power meets certain conditions, including the ability to incur additional indebtedness without violating the required fixed charge coverage ratio of 2.0 to 1.0. A credit facility of Orion Power also restricts its ability to pay dividends to Reliant Resources unless the restrictions contained in certain of its subsidiaries' credit agreements have terminated and no restrictions remain under its credit agreements.

California Trade Receivables. As of December 31, 2001, Reliant Resources was owed $302 million by Cal ISO, the California Power Exchange (Cal PX) and the California Department of Water Resources (CDWR) and California Energy Resource Scheduling for energy sales in the California wholesale market, during the fourth quarter of 2000 through December 31, 2001 and has recorded an allowance against such receivables of $68 million. From January 1, 2002 through March 26, 2002, Reliant Resources has collected $45 million of these receivable balances. For additional information regarding uncertainties in the California wholesale market, please read Notes 14(f) and 14(g) to our consolidated financial statements.

Other Items. For other items that may affect our future cash flows from operations, please read "-- Certain Factors Affecting Our Future Earnings" related to the Reliant Resources business segments.

The following discussion summarizes Reliant Resources' currently available liquidity sources and material factors that could impact that availability.

Credit Facilities. The following table provides a summary of the amounts owed and amounts available under Reliant Resources' various credit facilities (in millions).

	TOTAL COMMITTED CREDIT	DRAWN AMOUNT	LETTERS OF CREDIT	UNUSED AMOUNT	EXPIRING BY DECEMBER 31, 2002(1)
Reliant Resources, as of December 31, 2001	$5,563	$1,078	$396	$4,089	$1,114
Orion Power, as of February 19, 2002	2,028	1,827	95	106	1,736
Total					$2,850

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(1) Excludes $383 million of facilities expiring in November 2002 as borrowings under such facilities are convertible into a long-term loan.

As of February 19, 2002, Reliant Resources has $2.9 billion of credit facilities which will expire in 2002. To the extent that they continue to need access to this amount of committed credit, Reliant Resources expects to extend or replace these facilities. The current credit environment currently impacting their industry may require their future facilities to include terms that are more restrictive or burdensome or at higher borrowing rates than those of their current facilities.

Reliant Resources Credit Facilities Covenants. As of December 31, 2001, Reliant Resources, including certain of their subsidiaries, had committed credit facilities of $5.6 billion. Of these facilities, $5.0 billion contain various business and financial covenants requiring them to, among other things, maintain a ratio of net balance sheet debt to the sum of net balance sheet debt, subordinated affiliate balance sheet debt and stockholders' equity not to exceed 0.60 to 1.00. These covenants are not anticipated to materially restrict Reliant Resources from borrowing funds or obtaining letters of credit under these facilities. The remaining credit facilities of $0.6 billion, which were held by certain of their domestic power generation subsidiaries, contain various business and financial covenants that are typical for limited or non-recourse project financings. Such covenants include restrictions on dividends and capital expenditures, as well as requirements regarding insurance, approval of operating budgets and commercial contracts. These covenants are not anticipated to materially restrict Reliant Resources from borrowing funds or obtaining letters of credit under their credit facilities. None of the above committed bank credit facilities have any defaults or prepayments triggered by changes in credit ratings, or are in any way linked to the price of Reliant Resources' common stock or any other traded instrument.

For additional information regarding the terms and related interest rates of these credit facilities, please read Note 10 of our consolidated financial statements.

Orion Power Credit Facilities. The credit facilities of Orion Power and its subsidiaries contain various business and financial covenants that are typical for limited or non-recourse project financings. Such covenants include restrictions on dividends and capital expenditures, as well as requirements regarding insurance, approval of operating budgets and commercial contracts. These include covenants that require two of Orion Power's significant subsidiaries which have credit facilities with outstanding borrowings of $1.6 billion as of December 31, 2001, to, among other things, maintain a debt service coverage ratio of at least 1.5 to 1.0, and for Orion Power, which has a $75 million credit facility, to, among other things, maintain a debt service coverage ratio of at least 1.4 to 1.0. One of the subsidiaries may not be able to meet this debt service coverage ratio for the quarter ended June 30, 2002, and Orion Power did not meet the debt service coverage ratio for the quarter ended March 31, 2002. In the event that Orion Power is unable to meet this financial covenant for a second consecutive fiscal quarter, it would constitute a default under its credit facility. Reliant Resources currently intends to arrange for the repayment, refinancing or amendment of these facilities prior to June 30, 2002. If these facilities are not repaid, refinanced or amended prior to that date, and if a waiver is required under either or both of these credit facilities, Reliant Resources believes that they will be able to obtain such a waiver on or prior to June 30, 2002. Reliant Resources currently has no assurance that they will be able to obtain such a waiver or amendment from the respective lender groups if required under either or both of these credit facilities.

Orion Bridge Facility. In November 2001, Reliant Resources entered into a $2.2 billion term loan facility to be utilized for the acquisition of Orion Power. In January 2002, the facility was increased to $2.9 billion. On February 19, 2002, in connection with the Orion Power acquisition Reliant Resources borrowed $2.9 billion under the Orion Bridge Facility, which is required to be repaid on or before February 19, 2003.

Potential Future Liquidity Sources. Reliant Resources is currently considering pursuing the following sources of cash to meet their future capital requirements.

Commercial Paper Program. Reliant Resources plans to commence a commercial paper program in 2002, which will be supported by their existing credit facilities. Although they have not yet determined the size

of such program, Reliant Resources does not expect that it would exceed $300 million initially, due to market conditions and their current credit ratings. To the extent that they are not successful in placing commercial paper consistently, Reliant Resources will borrow directly under their existing credit facilities.

Debt Securities in the Capital Markets. As part of refinancing the Orion Bridge Facility, Reliant Resources currently expects that they will issue various fixed and floating rate debt securities in 2002 having maturities up to ten years or greater depending upon market conditions. Reliant Resources expects to offer debt securities in the amount of $2.5 to $3.0 billion, depending on market conditions. Their ability to complete such debt offerings in the capital markets will depend on their future performance and prevailing market conditions. This Form 10-K does not constitute an offer to sell or the solicitation of an offer to buy debt securities of Reliant Resources or their subsidiaries.

Settlement of Indemnification of REPGB Stranded Costs. In December 2001, REPGB and its former shareholders entered into a settlement agreement resolving the former shareholders' stranded cost indemnity obligations under the purchase agreement of REPGB. Under the settlement agreement, the former shareholders paid to REPGB NLG 500 million ($202 million based on an exchange rate of 2.48 NLG per U.S. dollar as of December 31, 2001) in January and February 2002. In addition, under the settlement agreement, the former shareholders waived all rights under the original indemnification agreement to claim distributions from NEA, a 22.5% owned equity investment. Reliant Resources estimates that there will be future distributions from 2002 through 2005 from NEA to REPGB totaling approximately $299 million. For additional information regarding the settlement agreement, Reliant Resources' investment in NEA and indemnification of district heat contract obligations, please read Note 14(h) to our consolidated financial statements.

Factors Affecting Our Sources of Cash and Liquidity. As a result of several recent events, including the United States economic recession, the price decline of the common stock of participants in Reliant Resources' industry sector and the downgrading of the credit ratings of several of Reliant Resources' significant competitors, the availability and cost of capital for their business and the businesses of their competitors have been adversely affected. Any future acquisition or development projects will likely require Reliant Resources to access substantial amounts of capital from outside sources on acceptable terms. Reliant Resources may also need external financing to fund capital expenditures, including capital expenditures necessary to comply with air emission regulations or other regulatory requirements. If Reliant Resources is are unable to obtain outside financing to meet their future capital requirements on terms that are acceptable to them, their financial condition and future results of operations could be materially adversely affected. In order to meet their future capital requirements, Reliant Resources may increase the proportion of debt in their overall capital structure. Increases in their debt levels may adversely affect their credit ratings thereby increasing the cost of their debt. In addition, the capital constraints currently impacting their industry may require Reliant Resources' future indebtedness to include terms and/or pricing that are more restrictive or burdensome than those of their current indebtedness. This may negatively impact their ability to operate their business, or severely restrict or prohibit distributions from their subsidiaries.

Reliant Resources' ability to arrange financing, including refinancing, and their cost of capital are dependent on the following factors:

- general economic and capital market conditions;

- maintenance of acceptable credit ratings;

- credit availability from banks and other financial institutions;

- investor confidence in Reliant Resources, their competitors and peer companies and their wholesale power markets;

- market expectations regarding their future earnings and probable cash flows;

- market perceptions of Reliant Resources' ability to access capital markets on reasonable terms;

- the success of current power generation projects;

- the perceived quality of new power generation projects; and

- provisions of relevant tax and securities laws.

Credit Ratings. Credit ratings for Reliant Resources' senior unsecured debt are as follows:

DATE ASSIGNED	RATING AGENCY	RATING	OUTLOOK
March 22, 2002	Moody's	Baa3	Stable
February 14, 2002	Fitch(1)	BBB	Negative
March 21, 2002	Standard & Poor's	BBB	Stable

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(1) Fitch assigned a negative rating outlook to reflect its analysis of Reliant Resources' plan for financing and integrating the acquisition of Orion Power.

Reliant Resources cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. Reliant Resources notes that these credit ratings are not recommendations to buy, sell or hold Reliant Resources' securities and may be revised or withdrawn at any time by a rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of their credit ratings could have a material adverse impact on Reliant Resources' ability to access capital on acceptable terms. Reliant Resources has commercial contracts and/or guarantees related to their trading, marketing and risk management and hedging operations that require them to maintain an investment grade credit rating. If their credit rating declines below investment grade, Reliant Resources estimates that they could be obligated to provide significant credit support to the counterparties in the form of a pledge of cash collateral, a letter of credit or other similar credit support.

Furthermore, if their credit ratings decline below an investment grade credit rating, Reliant Resources' trading partners may refuse to trade with them or trade only on terms less favorable to them. As of December 31, 2001, Reliant Resources had $214 million of margin deposits on energy trading and hedging activities posted as collateral with counterparties. As of December 31, 2001, Reliant Resources had $1.5 billion available under their credit facilities to satisfy future commodity obligations.

OFF-BALANCE SHEET TRANSACTIONS

Construction Agency Agreements. In 2001, Reliant Resources, through several of their subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power generation projects. The special purpose entities are not consolidated by Reliant Resources. The special purpose entities have an aggregate financing commitment from equity and debt participants (Investors) of $2.5 billion of which the last $1.1 billion is currently available only if the cash is collateralized. The availability of the commitment is subject to satisfaction of various conditions, including the obligation to provide cash collateral for the loans and letters of credit outstanding on November 27, 2004. Reliant Resources, through several of their subsidiaries, acts as construction agent for the special purpose entities and is responsible for completing construction of these projects by December 31, 2004, but Reliant Resources has generally limited their risk during construction to an amount not in excess of 89.9% of costs incurred to date, except in certain events. Upon completion of an individual project and exercise of the lease option, their subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If Reliant Resources does not exercise their option to lease any project upon its completion, they must purchase the project or remarket the project on behalf of the special purpose entities. Reliant Resources' ability to exercise the lease option is subject to certain conditions. Reliant Resources must guarantee that the Investors will receive an amount at least equal to 89.9% of their investment in the case of a remarketing sale at the end of construction. At the end of an individual project's initial operating lease term (approximately five years from construction completion), Reliant Resources' subsidiary lessees have the option to extend the lease with the approval of Investors, purchase the project at a fixed amount equal to the original construction cost, or act as a remarketing agent and sell the project to an independent third party. If the lessees elect the remarketing option, they may be required to make a payment of an amount not to exceed 85% of the project cost, if the proceeds from remarketing are not sufficient to repay the Investors. Reliant Resources has guaranteed the performance and payment of their subsidiaries' obligations during the construction periods and, if the lease option is exercised, each lessee's obligations during the lease period. At anytime during the

construction period or during the lease, Reliant Resources may purchase a facility by paying an amount approximately equal to the outstanding balance plus costs. As of December 31, 2001, the special purpose entities had property, plant and equipment of $428 million and net other assets of $52 million, which were primarily restricted cash and debt obligations of $465 million. As of December 31, 2001, the special purpose entities had equity from unaffiliated third parties of $15 million. Reliant Resources currently estimates the aggregate cost of the three generating facilities that are currently under construction by the special purpose entities to be approximately $1.8 billion.

Equipment Financing Structure. Reliant Resources, through their subsidiary, REPG, has entered into an agreement with a bank whereby the bank, as owner, entered or will enter into contracts for the purchase and construction of power generation equipment and REPG, or its subagent, acts as the bank's agent in connection with administering the contracts for such equipment. Under the agreement, the bank has agreed to provide up to a maximum aggregate amount of $650 million. REPG and its subagents must cash collateralize their obligation to administer the contracts. This cash collateral is approximately equivalent to the total payments by the bank for the equipment, interest and other fees. As of December 31, 2001, the bank had assumed contracts for the purchase of eleven turbines, two heat recovery steam generators and one air-cooled condenser with an aggregate cost of $398 million. REPG, or its designee, has the option at any time to purchase or, at equipment completion, subject to certain conditions, including the agreement of the bank to extend financing, to lease equipment, or to assist in the remarketing of the equipment under terms specified in the agreement. All costs, including the purchase commitment on the turbines, are the responsibility of the bank. The cash collateral is deposited by REPG or an affiliate into a collateral account with the bank and earns interest at the London inter-bank offered rate (LIBOR) less 0.15%. Under certain circumstances, the collateral deposit or a portion of it will be returned to REPG or its designee. Otherwise it will be retained by the bank. At December 31, 2001, REPG and its subsidiary had deposited $230 million into the collateral account. The bank's payments for equipment under the contracts totaled $227 million as of December 31, 2001. In January 2002, the bank sold to the parties to the construction agency agreements discussed above, equipment contracts with a total contractual obligation of $258 million under which payments and interest during construction totaled $142 million. Accordingly, $142 million of our collateral deposits were returned to Reliant Resources. As of December 31, 2001, there were equipment contracts with a total contractual obligation of $140 million under which payments during construction totaled $83 million. Currently this equipment is not designated for current planned power generation construction projects. Therefore, Reliant Resources anticipates that it will either purchase the equipment, assist in the remarketing of the equipment or negotiate to cancel the related contracts.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

We are exposed to various market risks. These risks arise from transactions entered into in the normal course of business and are inherent in our consolidated financial statements. Most of the revenues and income from our business activities are impacted by market risks. Categories of market risks include exposures to commodity prices through trading and marketing and non-trading activities, interest rates, foreign currency exchange rates and equity prices. A description of each market risk category is set forth below:

- Commodity price risk results from exposures to changes in spot prices, forward prices and price volatilities of commodities, such as electricity, natural gas and other energy commodities.

- Interest rate risk primarily results from exposures to changes in the level of borrowings and changes in interest rates.

The following table presents credit exposure by maturity for total trading and marketing assets and non-trading derivative assets, net of collateral, as of December 31, 2001 (in millions).

CREDIT RATING EQUIVALENT	0-12 MONTHS	1 YEAR OR GREATER	EXPOSURE NET OF COLLATERAL
AAA/Aaa	$ 95	$ 41	$ 136
AA/Aa2	142	49	191
A/A2	860	185	1,045
BBB/Baa2	660	355	1,015
BB/Ba2 or lower	125	100	225
Unrated(1)(2)	31	18	49

------ ---- ------ 1,913 748 2,661 Less:
Credit and other reserves............ 69
45 114 ------ ---- ------ $1,844 $703
$2,547 ====== ==== ======

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(1) For unrated counterparties, we perform financial statement analysis, considering contractual rights and restrictions, and collateral, to create a synthetic credit rating.

(2) In lieu of making an individual assessment of the credit of unrated counterparties, we may make a determination that the collateral held in respect of such obligations is sufficient to cover a substantial portion of our exposure. In making this determination, we take into account various factors, including market volatility.

(3) Collateral consists of cash and standby letters of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

Reliant Energy, Incorporated (Reliant Energy), together with its subsidiaries (collectively, the Company), is a diversified international energy services company that provides energy and energy services primarily in North America and Western Europe. Reliant Energy is both an electric utility company and a utility holding company through its wholly owned subsidiary Reliant Energy Resources Corp. (RERC).

The Company's financial reporting business segments include the following: Electric Operations, Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy, European Energy, Retail Energy, Latin America and Other Operations. Electric Operations includes the operations of Reliant Energy HL&P, an electric utility. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers and some non-rate regulated retail gas marketing operations to commercial and industrial customers. Pipelines and Gathering includes the interstate natural gas pipeline operations and the natural gas gathering and pipelines services businesses. 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, power origination and risk management services in North America. European Energy is engaged in the operation of power generation facilities in the Netherlands as well as wholesale energy trading and power origination activities in Europe. Retail Energy consists of the Company's unregulated retail electric operations, and has historically been reported in the Other Operations business segment. Other Operations includes unallocated general corporate expenses, a communications business and non-operating investments. Latin America primarily consists of an electric utility and an electric cogeneration plant located in Argentina. Wholesale Energy, European Energy, Retail Energy and certain operations included within Other Operations are currently owned by Reliant Resources.

Reliant Energy is in the process of separating its regulated and unregulated businesses into two publicly traded companies. In December 2000, Reliant Energy transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources) which, at the time, was a wholly owned subsidiary. In May 2001, Reliant Resources conducted an initial public offering (Offering) of approximately 20% of its common stock (59.8 million shares of its common stock) at a price of $30 per share, and received net proceeds from the Offering of $1.7 billion. After the Offering, Reliant Energy owned approximately 80% of Reliant Resources. As of December 31, 2001, Reliant Energy owns approximately 83% of Reliant Resources due to treasury stock repurchases of $189 million during 2001 by Reliant Resources. As a result of the Offering, the Company recorded directly into stockholders' equity as a component of common stock a $509 million unrealized gain on the sale of subsidiaries' stock. Pursuant to a master separation agreement between Reliant Energy and Reliant Resources, Reliant Resources used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. In connection with the Offering, Reliant Energy converted $1.7 billion of intercompany indebtedness owed by Reliant Resources and its subsidiaries prior to the closing of the Offering to equity as a capital contribution to Reliant Resources. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger by which the following will occur (which we refer to as the Restructuring):

- CenterPoint Energy will become the holding company for Reliant Energy and its subsidiaries;

- Reliant Energy and its subsidiaries will become subsidiaries of CenterPoint Energy; and

- each share of Reliant Energy common stock will be converted into one share of CenterPoint Energy common stock.

After the Restructuring, Reliant Energy plans, subject to further corporate approvals, market and other conditions, to complete the separation of its regulated and unregulated businesses by distributing the shares of common stock of Reliant Resources that the Company owns to its shareholders (Distribution). The Company's goal is to complete the Restructuring and subsequent Distribution as quickly as possible after all

the necessary conditions are fulfilled, including receipt of an order from the Securities and Exchange Commission (SEC) granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act) and an extension from the IRS of its private letter ruling that the Company has obtained regarding the tax-free treatment of the Distribution. Although receipt or timing of regulatory approvals cannot be assured, the Company believes it meets the standards for such approvals. Reliant Energy currently expects to complete the Restructuring and Distribution in the summer of 2002.

Effective December 1, 2000, Reliant Energy's board of directors approved a plan to dispose of the Company's Latin America business segment through sales of its assets. Accordingly, in its 2000 consolidated financial statements, the Company reported the results of its Latin America business segment as discontinued operations in accordance with Accounting Principles Board (APB) Opinion No. 30 "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," (APB Opinion No. 30) for each of the three years in the period ended December 31, 2000. On December 20, 2001, negotiations for the sale of the remaining Latin America investments were terminated as a result of the recent economic developments in Argentina. The Company will continue to evaluate options related to the future disposition of these assets.

Accordingly, the Latin America business segment is no longer reported as discontinued operations. The related operating results and loss on disposal have been reclassified within the Consolidated Statements of Income for all periods into operating income with respect to consolidated subsidiaries and other income with respect to equity investments in unconsolidated subsidiaries as required for assets held for sale by Emerging Issues Task Force (EITF) Issue No. 90-6 (EITF 90-6). For additional information regarding the disposal of the Latin America business segment, see Note 19.

RESTATEMENT

On May 9, 2002, Reliant Resources determined that it had engaged in same-day commodity trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price, which the personnel who effected these transactions apparently did so with the sole objective of increasing volumes. Reliant Resources commenced a review to quantify the amount and assess the impact of these trades (round trip trades). The Audit Committees of each of the Board of Directors of Reliant Energy and Reliant Resources (Audit Committees) also directed an internal investigation by outside legal counsel, with assistance by outside accountants, of the facts and circumstances relating to the round trip trades and related matters.

The Company currently reports all trading, marketing and risk management services transactions on a gross basis with such transactions being reported in revenues and expenses except primarily for financial gas transactions such as swaps. Therefore, the round trip trades were reflected in both the Company's revenues and expenses. The round trip trades should not have been recognized in revenues or expenses (i.e. they should have been reflected on a net basis). However, since the round trip trades were done at the same volume and substantially the same price, they had no impact on the Company's reported cash flows, operating income or net income.

Based on Reliant Resources' review, Reliant Resources determined that it engaged in such round trip trades in 1999, 2000 and 2001. The results of the Audit Committees' investigation were consistent with the results of Reliant Resources' review. The round trip trades were for 30 million megawatt hours (MWh) of power and 182 billion cubic feet (Bcf) in 1999, 30 million MWh of power in 2000, and 74 million MWh of power and 46 Bcf of natural gas in 2001. On May 13, 2002, Reliant Resources previously announced its preliminary findings of round trip trades which had identified 30 million MWh of power in 1999, 30 million MWh of power in 2000, and 78 million MWh of power and 45 Bcf of natural gas in 2001. In addition to the round trip trades reported on May 13, 2002, Reliant Resources' review also identified an additional transaction in 1999 involving 182 Bcf of natural gas totaling $364 million, which based on available information, Reliant

Resources believes was also recorded with the sole objective of increasing volumes but also resulted in increased revenues and fuel and cost of gas sold expense.

In the course of Reliant Resources' review, Reliant Resources also identified and determined to record on a net basis several transactions for energy related services (not involving round trip trades) that totaled $85 million over the three year period ended December 31, 2001. These transactions were originally recorded on a gross basis.

During 1999, 2000 and 2001, these transactions, referred to above, collectively, had the effect of increasing revenues, fuel and cost of gas sold expense and purchased power expense as follows:

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
Revenues	$1,417	$1,070	$3,902
Fuel and cost of gas sold expense	376	27	208
Purchase power expense	1,041	1,043	3,694

In addition, during the May 2001 through September 2001 time frame, Reliant Resources entered into four structured transactions involving a series of forward or swap contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003 (four structured transactions). The four structured transactions were intended to increase future cash flow and earnings and to increase certainty associated with future cash flow and earnings, albeit at the expense of 2001 cash flow and earnings. Each series of contracts in a structure were executed contemporaneously with the same counterparty and were for the same commodities, quantities and locations. The contracts in each structure were offsetting in terms of physical attributes. The transactions that settled in 2001 were previously recorded on a gross basis with such transactions being reported in revenues and expenses which resulted in $1.5 billion of revenues, $364 million in fuel and cost of gas sold and $1.2 billion of purchased power expense being recognized during the period from May 2001 through December 31, 2001. Having further reviewed the transactions, Reliant Resources now believes these transactions should have been accounted for on a net basis.

During the fourth quarter of 2000, two power generation swap contracts with a fair value of $261 million were terminated and replaced with a substantially similar contract providing for physical delivery and designated to hedge electric generation. The termination of the original contracts and execution of the replacement contract represented a substantive modification to the original contract. As a result, upon termination of the original contracts, a contractual liability representing the fair value of the original contracts and a deferred asset of equal amount should have been recorded. As of January 1, 2001, in connection with the adoption of Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), the deferred asset should have been recorded as a transition adjustment to other comprehensive loss. The liability and transition adjustment should have been amortized on a straight-line basis over the term of the power generation contract replacing the terminated power generation contracts (through May 2004). The Company previously did not give accounting recognition to these transactions. As a result, the Company has restated its Consolidated Balance Sheets as of December 31, 2000 and 2001 and the Statements of Consolidated Stockholders' Equity and Comprehensive Income for the year ended December 31, 2001, to appropriately account for these transactions as described above. The restatement had no impact on the Company's reported consolidated cash flows, operating income or net income.

The consolidated financial statements for 1999, 2000 and 2001 have been restated from amounts previously reported to reflect all of the transactions described herein. In addition, the unaudited quarterly financial data for the interim periods ended March 31, 2001, June 30, 2000 and 2001, and September 30, 2000 and 2001 have been restated from amounts previously reported to reflect all of the transactions described

herein. The unaudited restated condensed quarterly financial statement information for the quarters ended March 31, 2001, June 30, 2000 and 2001, September 30, 2000 and 2001, and December 31, 2000 and 2001 have been included in Note 17. The restatement had no impact on previously reported consolidated cash flows, operating income or net income. A summary of the principal effects of the restatement are as follows for 1999, 2000 and 2001: (Note -- Those line items for which no change in amounts is shown were not affected by the restatement.)

YEAR ENDED DECEMBER 31, 1999	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
Revenues	$13,794	$15,211
Expenses:		
Fuel and Cost of Gas Sold	6,331	6,707
Purchased Power	3,095	4,136
Other Expenses	3,109	3,109
Total	12,535	13,952
Operating Income	1,259	1,259
Other Income, net	1,305	1,305
Income Tax Expense	(899)	(899)
Income Before Extraordinary Loss	1,665	1,665
Extraordinary Loss	(183)	(183)
Net Income Attributable to Common Stockholders	$ 1,482	$ 1,482

YEAR ENDED DECEMBER 31, 2000	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
Revenues	$28,269	$29,339
Expenses:		
Fuel and Cost of Gas Sold	15,050	15,077
Purchased Power	7,580	8,623
Other Expenses	3,802	3,802
Total	26,432	27,502
Operating Income	1,837	1,837
Other Expense, net	(1,079)	(1,079)
Income Tax Expense	(318)	(318)
Income Before Extraordinary Gain	440	440
Extraordinary Gain	7	7
Net Income Attributable to Common Stockholders	$ 447	$ 447

	YEAR ENDED DECEMBER 31, 2001	
	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
Revenues	$40,810	$46,226
Expenses:		
Fuel and Cost of Gas Sold	19,504	20,075
Purchased Power	15,127	19,972
Other Expenses	4,186	4,186
Total	38,817	44,233
Operating Income	1,993	1,993
Other Expense, net	(574)	(574)
Income Tax Expense	(500)	(500)
Income Before Cumulative Effect of Accounting Change	919	919
Cumulative Effect of Accounting Change, net of tax	61	61
Net Income Attributable to Common Stockholders	$ 980	$ 980

	DECEMBER 31, 2000	
	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
ASSETS		
CURRENT ASSETS:		
Other current assets	$ 279	$ 203
Other	9,634	9,634
Total current assets	9,913	9,837
OTHER ASSETS:		
Other noncurrent assets	932	747
Property, plant and equipment and other assets	21,115	21,115
Total other assets	22,047	21,862
TOTAL ASSETS	$31,960	$31,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Other current liabilities	$ 706	$ 630
Other	14,939	14,939
Total current liabilities	15,645	15,569
OTHER LIABILITIES:		
Other liabilities	1,048	863
Other	4,074	4,074
Total other liabilities	5,122	4,937
LONG-TERM DEBT	4,996	4,996
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	9	9
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	706	706
STOCKHOLDERS' EQUITY:		
Cumulative Preferred Stock	10	10
Common Stock	3,257	3,257
Treasury Stock	(121)	(121)
Unearned ESOP	(161)	(161)
Retained earnings	2,520	2,520
Accumulated other comprehensive loss	(23)	(23)
Stockholders' equity	5,482	5,482
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$31,960	$31,699

DECEMBER 31, 2001	AS PREVIOUSLY REPORTED	AS RESTATED
	(IN MILLIONS)	
ASSETS		
CURRENT ASSETS	$ 6,249	$ 6,249
PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS	24,432	24,432
TOTAL ASSETS	$30,681	$30,681
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Non-trading derivative liabilities	$ 472	$ 396
Accumulated deferred income taxes, net	359	386
Other	8,875	8,875
Total current liabilities	9,706	9,657
OTHER LIABILITIES:		
Accumulated deferred income taxes, net	2,308	2,346
Non-trading derivative liabilities	649	540
Other	3,785	3,785
Total other liabilities	6,742	6,671
LONG-TERM DEBT	5,742	5,742
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	1,047	1,047
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS	706	706
STOCKHOLDERS' EQUITY:		
Common Stock	3,897	3,897
Unearned ESOP	(132)	(132)
Retained earnings	3,177	3,177
Accumulated other comprehensive loss	(204)	(84)
Stockholders' equity	6,738	6,858
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$30,681	$30,681

The restatement did not impact earnings per share for 1999, 2000 and 2001, the Statements of Consolidated Cash Flows for 1999, 2000 and 2001, the Statements of Consolidated Comprehensive Income for 1999 and 2000 or the Statements of Consolidated Stockholders' Equity as of December 31, 1999 and 2000.

In addition to the round trip trades described above, Reliant Resources' review and the Audit Committees' investigation also considered other transactions executed on the same day at the same volume, price and delivery terms and with the same counterparty. These transactions were executed in the normal course of Reliant Resources' trading and marketing activities, and were historically reported on a gross basis, and were not material.

Beginning with the quarter ended September 30, 2002, the Company will report all energy trading and marketing activities on a net basis in the Statements of Consolidated Income pursuant to Emerging Issues

Task Force Issue No. 02-3, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities".

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(d) REVENUES

The Company records revenue for electricity and natural gas sales and services to retail customers, except for certain contracted sales to large commercial, industrial and institutional customers, under the accrual method and these revenues are generally recognized upon delivery. Pipelines and Gathering record revenues as transportation services are provided. Energy sales and services not billed by month-end are accrued based upon estimated energy and services delivered. Domestic non-rate regulated electric power and other non-rate regulated energy services are sold at market-based prices through existing power exchanges or through third-party contracts. Prior to January 1, 2001, energy revenues related to the Company's power generation facilities in Europe were generated under a regulated pricing structure, which included compensation for the cost of fuel, capital and operation and maintenance expenses. The wholesale electric market in the Netherlands opened to competition on January 1, 2001. Accordingly, beginning in 2001, electric power and other energy services in Europe are sold at market-based prices or through third-party contracts.

The Company's energy trading, marketing, power origination and risk management services activities and contracted sales of electricity to large commercial, industrial and institutional customers are accounted for under mark-to-market accounting. Under the mark-to-market method of accounting, financial instruments and contractual commitments are recorded at fair value in revenues upon contract execution. The net changes in their fair values are recognized in the Statements of Consolidated Income as revenues in the period of change. Trading and marketing revenues related to the physical sale of natural gas, electric power and other energy related commodities are recorded on a gross basis in the delivery period. For additional discussion regarding trading and marketing revenue recognition and the related estimates and assumptions that can affect reported amounts of such revenues, see Note 5.

The gains and losses related to financial instruments and contractual commitments qualifying and designated as hedges related to the sale of electric power and sales and purchases of natural gas are recognized in the same period as the settlement of the underlying physical transaction. These realized gains and losses are included in operating revenues and operating expenses in the Statements of Consolidated Income. For additional discussion, see Note 5.

(e) LONG-LIVED ASSETS AND INTANGIBLES

The Company records property, plant and equipment at historical cost. The Company recognizes repair and maintenance costs incurred in connection with planned major maintenance, such as turbine and generator overhauls, control system upgrades and air conditioner replacements, under the "accrual in advance" method for its non-rate regulated power generation operations acquired or developed prior to December 31, 1999. Planned major maintenance cycles primarily range from two to ten years. Under the accrual in advance method, the Company estimates the costs of planned major maintenance and accrues the related expense over the maintenance cycle. As of December 31, 2000 and 2001, the Company's maintenance reserve was $27 million and $19 million, respectively, of which $20 million and $17 million, respectively, were included in other long-term liabilities and the remainder in other current liabilities. The Company expenses all other repair and maintenance costs as incurred. Property, plant and equipment includes the following:

	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31, 2000	DECEMBER 31, 2001
		(IN MILLIONS)	
Electric	5-75	$18,754	$20,092
Natural gas distribution	5-50	1,809	2,002
Pipelines and gathering	5-75	1,582	1,627
Other property	3-40	247	450
Total		22,392	24,171
Accumulated depreciation and amortization		(7,132)	(8,357)
Property, plant and equipment, net		$15,260	$15,814

The Company records goodwill for the excess of the purchase price over the fair value assigned to the net assets of an acquisition. Goodwill has been amortized on a straight-line basis over 5 to 40 years. See Note 3 and the following table for additional information regarding goodwill and the related amortization periods.

	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31, 2000	DECEMBER 31, 2001
		(IN MILLIONS)	
Reliant Energy Resources Corp. (RERC Corp.)	40	$1,955	$1,955
Reliant Energy Mid-Atlantic Power Holdings, LLC	35	7	5
Reliant Energy Power Generation Benelux N.V.	30	897	877
Florida Generation Plant	35	2	2
California Generation Plants	30	70	70
Reliant Energy Services, Inc.	40	131	131
Other	5-35	64	45
Total		3,126	3,085
Accumulated amortization		(222)	(303)
Foreign currency exchange impact		(107)	(150)
Total goodwill, net		$2,797	$2,632

The Company recognizes specifically identifiable intangibles, including air emissions regulatory allowances and water rights and permits, when specific rights and contracts are acquired. As of December 31, 2000 and 2001, specific intangibles were $284 million and $315 million, respectively. The Company amortizes air emissions regulatory allowances primarily on a units-of-production basis as utilized. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range between 5 and 35 years.

The Company periodically evaluates long-lived assets, including property, plant and equipment, goodwill and specifically identifiable intangibles, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions. During 2001, the Company determined equipment and goodwill associated with its Communications business was impaired and accordingly recognized $22 million of fixed asset impairments and $19 million of goodwill impairments (see Note 20). For discussion of goodwill impairment analysis in 2002, see Note 2(q).

During December 2001, the Company evaluated its European Energy business segment's long-lived assets and goodwill for impairment. As of December 31, 2001, pursuant to Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), no impairment had been indicated. For discussion of goodwill impairment analysis in 2002, see Note 2(q).

During the fourth quarter of 2001, the Distribution of Reliant Resources was deemed to be a probable event. As Reliant Resources has an option, subject to the completion of the Distribution, to purchase the Company's Texas generation assets in 2004 (see Note 4(b)), the Company was required to evaluate these assets for potential impairment in accordance with SFAS No. 121, due to an expected decrease in the number of years the Company expects to hold and operate these assets. As of December 31, 2001, no impairment had been indicated. The Company anticipates that future events, such as the expected public offering of the Company's Texas generation operations (see Note 4(b)), or change in the estimated holding period of the Texas generation assets, will require the Company to re-evaluate these assets for impairment between now and 2004. If an impairment is indicated, it could be material and will not be fully recoverable through the 2004 true-up proceeding calculations (see Note 4(a)).

The Texas Electric Restructuring Law provides the Company recovery of the regulatory book value of its Texas generating assets for the amount the regulatory book value exceeds the estimated market value. If the Texas generating assets are sold to Reliant Resources, or to a third party in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset (see Note 2(f)), will occur to the extent the recorded book value of the Texas generating assets exceeds the regulatory book value. As of December 31, 2001, the recorded book value was $638 million in excess of the regulatory book value. This amount declines each year as the recorded book value is depreciated and increases by the amount of non-environmental capital expenditures. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4.

(f) REGULATORY ASSETS AND LIABILITIES

The Company 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 transmission and distribution operations of Reliant Energy HL&P and the utility operations of Natural Gas Distribution and to some of the accounts of Pipelines and Gathering. For information regarding Reliant Energy HL&P's electric generation operations' discontinuance of the application of SFAS No. 71 in 1999 and the effect on its regulatory assets and the Texas Electric Choice Plan (Texas Electric Restructuring Law), see Note 4(a).

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2000 and 2001:

	DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
Recoverable impaired plant costs, net	$ 281	$ --
Recoverable electric generation related regulatory assets, net	1,150	160
Securitized regulatory asset	--	740
Regulatory tax asset, net	186	111
Unamortized loss on reacquired debt	66	62
Recoverable electric generation plant mitigation	--	1,967
Excess mitigation liability	--	(1,126)
Other long-term assets/liabilities	6	3
Total	$1,689	$ 1,917

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, the Company would be required to write off or write down these regulatory assets and liabilities. In addition, the Company would be required to determine any impairment to the carrying costs of plant and inventory assets. See Note 4(a) for a discussion of the discontinuation of SFAS No. 71 related to Reliant Energy HL&P's electric generation operations.

Through December 31, 2001, the Texas Utility Commission provided for the recovery of most of Reliant Energy HL&P's fuel and purchased power costs from customers through a fixed fuel factor included in electric rates. Included in the above table in recoverable electric generation related regulatory assets, net are $558 million and $200 million of regulatory assets related to the recovery of fuel costs as of December 31, 2000 and 2001.

In December 2001, the Company recorded a regulatory asset for recoverable electric generation plant mitigation for $2.0 billion and recorded a regulatory liability of $1.1 billion for excess mitigation, resulting in net regulatory assets of $841 million on which the Company will not earn a return and which are not included in the Company's rate base. Recoverable electric plant generation regulatory assets are anticipated to be recovered in the 2004 true-up proceedings as further discussed in Note 4(a). The Company is entitled to

recover its full amount of stranded costs in the 2004 true-up proceeding. That recovery would include any amounts whose earlier mitigation was prevented by excess mitigation credits and the reversal of redirected depreciation ordered by the Texas Utility Commission.

In 2001, the Company monetized $738 million of regulatory assets in a securitization financing authorized by the Texas Utility Commission pursuant to the Texas Electric Restructuring Law. For additional information regarding the securitization financing, see Note 4(a).

For additional information regarding recoverable impaired plant costs and recoverable electric generation related assets and the related amortization during 1999, 2000 and 2001, see Notes 2(g) and 4(a).

(l) INVESTMENT IN OTHER DEBT AND EQUITY SECURITIES

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), the Company reports "available-for-sale" securities at estimated fair value within other long-term assets in the Company's Consolidated Balance Sheets and any unrealized gain or loss, net of tax, as a separate component of stockholders' equity and accumulated other comprehensive (loss) income. In accordance with SFAS No. 115, the Company reports "trading" securities at estimated fair value in the Company's Consolidated Balance Sheets, and any unrealized holding gains and losses are recorded as other income (expense) in the Company's Statements of Consolidated Income.

As of December 31, 2000 and 2001, the Company held "available-for-sale" debt and equity securities in its nuclear decommissioning trust, which is reported at its fair value of $159 million and $169 million, respectively, in the Company's Consolidated Balance Sheets in other long-term assets. Any unrealized losses or gains are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability.

In addition, as of December 31, 2000 and 2001, the Company held marketable equity securities of $5 million and $12 million, respectively, classified as "available-for-sale." At December 31, 2000, the accumulated unrealized loss, net of tax, relating to these equity securities was $2 million. At December 31, 2001, the accumulated unrealized gain, net of tax, relating to these equity securities was $6 million.

During 2000, pursuant to SFAS No. 115, the Company incurred a pre-tax impairment loss equal to the $27 million of cumulative unrealized losses that had been charged to accumulated other comprehensive loss through December 31, 1999. Management's determination to recognize this impairment resulted from a combination of events occurring in 2000 related to this investment. These events affecting the investment included changes occurring in the investment's senior management, announcement of significant restructuring charges and related downsizing for the entity, reduced earnings estimates for this entity by brokerage analysts and the bankruptcy of a competitor of the investment in the first quarter of 2000. These events, coupled with the stock market value of the Company's investment in these securities continuing to be below the Company's cost basis, caused management to believe the decline in fair value of these "available-for-sale" securities to be other than temporary.

As of December 31, 2000 and 2001, the Company held an investment in AOL Time Warner common stock, which was classified as a "trading" security. For information regarding the Company's investment in AOL Time Warner, Inc. common stock, see Note 8.

As of December 31, 2000, the Company did not hold debt or equity securities that are classified as "trading", other than its investment in AOL Time Warner. As of December 31, 2001, the Company held equity securities classified as "trading" totaling $1 million, other than its investment in AOL Time Warner. The Company recorded unrealized holding gains on "trading" securities, excluding unrealized gains and losses related to the Company's investment in AOL Time Warner, included in gains from investments in the Statements of Consolidated Income of $16 million, $4 million and $5 million during 1999, 2000 and 2001, respectively.

(q) NEW ACCOUNTING PRONOUNCEMENTS

Staff Accounting Bulletin No. 101, "Revenue Recognition" (SAB No. 101), was issued by the SEC on December 3, 1999. SAB No. 101 summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The consolidated financial statements reflect the accounting guidance provided in SAB No. 101.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 "Business Combinations" (SFAS No. 141) and SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 provides for a nonamortization approach, whereby goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead will be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. The Company adopted the provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002. The adoption of SFAS No. 141 did not have a material impact on the Company's historical results of operations or financial position. On January 1, 2002, the Company discontinued amortizing goodwill into the results of operations pursuant to SFAS No. 142. The Company recognized $81 million of goodwill amortization expense in the Statements of Consolidated Income during 2001, excluding a $19 million write-off of its Communications business goodwill balance which was recorded as goodwill amortization expense (see Note 20). The Company is in the process of determining further effects of adoption of SFAS No. 142 on its consolidated financial statements, including the review of goodwill and certain intangible assets for impairment. The Company has not completed its review pursuant to SFAS No. 142. However, based on the Company's preliminary review, the Company believes an impairment of its European Energy business

segment goodwill is reasonably possible. As of December 31, 2001, net goodwill associated with the European Energy business segment is $632 million. The Company has not completed its preliminary review of its other business segments with net goodwill totaling $2.0 billion. The Company anticipates finalizing its review of goodwill and certain intangible assets during 2002.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of a liability for an asset retirement legal obligation to be recognized in the period in which it is incurred. When the liability is initially recorded, associated costs are capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. The Company plans to adopt SFAS No. 143 on January 1, 2003 and is in the process of determining the effect of adoption on its consolidated financial statements. For certain operations subject to cost of service rate regulation, the Company is permitted to include annual charges for cost of removal and nuclear decommissioning costs in the revenues charged to customers.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 and APB Opinion No. 30, while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with early adoption encouraged. SFAS No. 144 is not expected to materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in additional future dispositions being reported as discontinued operations than was previously permitted. The Company adopted SFAS No. 144 on January 1, 2002.

See Note 5 for the Company's adoption of SFAS No. 133 on January 1, 2001 and adoption of subsequent cleared guidance.

(3) BUSINESS ACQUISITIONS

(a) RELIANT ENERGY MID-ATLANTIC POWER HOLDINGS, LLC

On May 12, 2000, a subsidiary of the Company purchased entities owning electric power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having an aggregate net generating capacity of approximately 4,262 MW. With the exception of development entities that were sold to another subsidiary of Reliant Resources in July 2000, the assets of the entities acquired are held by REMA. The purchase price for the May 2000 transaction was $2.1 billion. In 2002, the Company made an $8 million payment to the prior owner for post-closing adjustments which resulted in an adjustment to purchase price. The Company accounted for the acquisition as a purchase with assets and liabilities of REMA reflected at their estimated fair values. The Company's fair value adjustments related to the acquisition primarily included adjustments in property, plant and equipment, air emissions regulatory allowances, specific intangibles, materials and supplies inventory, environmental reserves and related deferred taxes. The air emissions regulatory allowances of $153 million are being amortized on a units-of-production basis as utilized. The specific intangibles which relate to water rights and permits of $43 million will be amortized over the estimated life of the related facility of 35 years. The excess of the purchase price over the fair value of the net assets acquired of $5 million was recorded as goodwill and historically was amortized over 35 years. The Company finalized these fair value adjustments in May 2001. There were no additional material modifications to the preliminary adjustments from December 31, 2000. Funds for the acquisition of REMA were made available through commercial paper borrowings by a finance subsidiary, which borrowings were supported by credit facilities.

The net purchase price of REMA was allocated and the fair value adjustments to the seller's book value are as follows:

	PURCHASE PRICE ALLOCATION	FAIR VALUE ADJUSTMENTS
	(IN MILLIONS)	
Current assets	$ 85	$ (27)
Property, plant and equipment	1,898	627
Goodwill	5	(146)
Other intangibles	196	33
Other assets	3	(5)
Current liabilities	(50)	(13)
Other liabilities	(39)	(15)
Total	$2,098	$ 454

Adjustments to property, plant and equipment, other intangibles which includes air emissions regulatory allowances and other specific intangibles, and environmental reserves included in other liabilities are based primarily on valuation reports prepared by independent appraisers and consultants.

In August 2000, the Company, through subsidiaries, entered into separate sale-leaseback transactions with each of three owner-lessors covering the subsidiaries' respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, acquired as part of the REMA acquisition. As lessee, Reliant Resources leases an interest in each facility from each owner-lessor under a facility lease agreement. As consideration for the sale of the Company's interest in the facilities, the Company received $1.0 billion in cash. The Company used the $1.0 billion of sale proceeds to repay certain commercial paper borrowings as described above.

The Company's results of operations include the results of REMA only for the period beginning May 12, 2000. The following table presents selected actual financial information and unaudited pro forma information for 1999 and 2000, as if the acquisition had occurred on November 24, 1999 and January 1, 2000, as applicable. Pro forma information for operations prior to November 24, 1999 would not be meaningful since historical financial results of the business and the revenue generating activities underlying that period are substantially different from the wholesale generation activities that REMA has been engaged in after November 24, 1999. Pro forma amounts also give effect to the sale and leaseback of interests in three of the REMA generating plants, which were consummated in August 2000.

	YEAR ENDED DECEMBER 31,			
	1999		2000	
		UNAUDITED		UNAUDITED
	ACTUAL	PRO FORMA	ACTUAL	PRO FORMA
	(IN MILLIONS)			
Revenues	$13,794	$13,824	$28,269	$28,436
Income after tax and before extraordinary items	1,666	1,656	440	431
Net income attributable to common stockholders	1,482	1,472	447	438

These unaudited pro forma results, based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the amounts that would have resulted if the acquisition of the REMA entities had occurred on November 24, 1999 and January 1, 2000, as applicable. Purchase-related adjustments to the results of operations include the effects on depreciation and amortization, interest expense and income taxes.

(b) RELIANT ENERGY POWER GENERATION BENELUX N.V.

Effective October 7, 1999, a subsidiary of the Company acquired REPGB, a Dutch electric generation company, for a total net purchase price, payable in Dutch Guilders (NLG), of $1.9 billion based on an exchange rate on October 7, 1999 of 2.06 NLG per U.S. dollar. The aggregate purchase price paid in 1999 by the Company consisted of $833 million in cash. On March 1, 2000, under the terms of the acquisition agreement, the Company funded the remaining purchase obligation for $982 million. A portion ($596 million) of this obligation was financed with a three-year term loan facility obtained in the first quarter of 2000.

The Company recorded the REPGB acquisition under the purchase method of accounting, with assets and liabilities of REPGB reflected at their estimated fair values. As outlined in the table below, the Company's fair value adjustments related to the acquisition of REPGB primarily included increases in property, plant and equipment, long-term debt, severance liabilities, post-employment benefit liabilities and deferred foreign taxes. Additionally, a $19 million receivable was recorded in connection with the acquisition as the selling shareholders agreed to reimburse REPGB for some obligations incurred prior to the purchase of REPGB. Adjustments to property, plant and equipment are based on valuation reports prepared by independent appraisers and consultants. The excess of the purchase price over the fair value of net assets acquired of $877 million was recorded as goodwill and was historically amortized on a straight-line basis over 30 years. The Company finalized these fair value adjustments in September 2000. The Company finalized a severance plan (REPGB Plan) in connection with the REPGB acquisition in September 2000 (commitment date) and in accordance with EITF Issue No. 95-3 "Recognition of Liabilities in Connection with a Purchase Business Combination," recorded this liability of $19 million in the third quarter of 2000. During 2001, the Company utilized $8 million of the reserve for the REPGB Plan. As of December 31, 2001, the remaining severance liability is $11 million. The majority of the $11 million of remaining severance liability will be disbursed in accordance with the terms and conditions outlined by a collective labor bargaining agreement regarding employees near retirement age (Social Plan) in accordance with applicable Dutch labor law. The Social Plan, which by formula defines termination benefits, prescribes a payout period for up to five years for an employee subsequent to termination date. In the fourth quarter of 2001, the Dutch taxing authority finalized REPGB's tax basis of property, plant and equipment as of October 1999. As a result, the Company recorded an adjustment to decrease goodwill and accumulated deferred tax liability by $5 million in the fourth quarter of 2001. As of December 31, 2001, the tax basis of other certain assets and liabilities has not been finalized.

In connection with the acquisition of REPGB, the Company developed a comprehensive business process reengineering and employee severance plan intended to make REPGB competitive in the deregulated Dutch electricity market that began January 1, 2001. The REPGB Plan's initial conceptual formulation was initiated prior to the acquisition of REPGB in October 1999. The finalization of the REPGB Plan was approved and

completed in September 2000. The Company identified 195 employees who were involuntarily terminated in REPGB's following functional areas: plant operations and maintenance, procurement, inventory, general and administrative, legal, finance and support. The Company has notified all employees identified under the severance component of the REPGB Plan that they are subject to involuntary termination and the majority of terminations occurred during 2001. The termination benefits under the REPGB Plan are governed by REPGB's Social Plan, a collective bargaining agreement between REPGB and its various representative labor unions signed in 1998. The Social Plan provides defined benefits for involuntarily severed employees depending upon age, tenure and other factors, and was agreed to by the management of REPGB as a result of the anticipated deregulation of the Dutch electricity market. The Social Plan is still in force and binding on the current management of the Company and REPGB. The Company is still executing the REPGB Plan as of the date of these consolidated financial statements.

The net purchase price of REPGB was allocated and the fair value adjustments to the seller's book value are as follows:

	PURCHASE PRICE ALLOCATION	FAIR VALUE ADJUSTMENTS
	(IN MILLIONS)	
Current assets	$ 244	$ 34
Property, plant and equipment	1,899	719
Goodwill	877	877
Current liabilities	(336)	--
Deferred taxes	(76)	(76)
Long-term debt	(422)	(87)
Other long-term liabilities	(244)	(35)
Total	$1,942	$1,432

The following table presents selected actual financial information for 1999 and unaudited pro forma information for 1999, as if the acquisition of REPGB had occurred on January 1, 1999. The 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 consolidated results that would have resulted if the acquisition of REPGB had occurred on January 1, 1999. Purchase related adjustments to results of operations include amortization of goodwill, interest expense and the effects on depreciation and amortization of the assessed fair value of some of REPGB's net assets and liabilities.

	1999	
	ACTUAL	PRO FORMA
	(IN MILLIONS)	
Revenues	$13,794	$14,371
Net income attributable to common stockholders	1,482	1,455

(c) FLORIDA GENERATION PLANT PURCHASE

On October 6, 1999, the Company purchased a steam turbine generation plant (Indian River) with a net generating capacity of 619 MW from a Florida municipality (Municipality) for a net purchase price of $188 million. Indian River, located near Titusville, Florida, consists of three conventional steam generation units fueled by both oil and natural gas. Under the Company's ownership, the units will sell up to 578 MW of power generation from Indian River to the Municipality through a power purchase agreement that was originally scheduled to expire in September 2003, but has been extended through September 2007. During the option period, the Municipality has the right to purchase up to 500 MW for the first two years of the option period and 300 MW for the final two years. Any excess power generated by the plant may be sold to other utilities and rural electric cooperatives within the state and other entities within the Florida wholesale market.

The Company recorded the acquisition under the purchase method of accounting. The purchase price has been allocated to assets acquired and liabilities assumed based on their estimated fair market values at the date of acquisition. The Company's fair value adjustments related to the acquisition of Indian River primarily included increases in property, plant and equipment, specific intangibles related to water rights and permits, major maintenance reserves and related deferred taxes. The specific intangibles of $112 million are being amortized over their contractual lives of 35 years. The Company finalized these fair value adjustments during September 2000. There were no material adjustments made to the purchase allocation subsequent to December 31, 1999.

Net purchase price of Indian River was allocated as follows (in millions):

Current assets	$ 15
Property, plant and equipment	93
Goodwill	2
Other intangibles	112
Major maintenance reserve	(3)
Other long-term liabilities	(31)
Total	$188

The Company's results of operations include Indian River's results of operations only for the period beginning with the October 6, 1999 acquisition date. Pro forma information has not been presented for Indian River for 1999. Pro forma information would not be meaningful since historical financial results of the business and the revenue generating activities underlying that period as described below are substantially different from the wholesale generation activities that Indian River has been engaged in after October 6, 1999. Prior to the Company's acquisition, the acquired Indian River generation operations were fully integrated with, and its results of operations were consolidated into, the Municipality's vertically-integrated utility operations. In addition, prior to the Company's acquisition, the electric output of these facilities was sold based on rates set by regulatory authorities and are not indicative of these assets' future operating results as a wholesale electricity provider.

(4) REGULATORY MATTERS

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

In June 1999, the Texas legislature adopted the Texas Electric Restructuring Law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition. Retail pilot projects allowing competition for up to 5% of each utility's load in all customer classes began in the third quarter of 2001, and retail electric competition for all other customers began in January 2002. In preparation for competition, the Company made significant changes in the electric utility operations it conducts through its electric utility division, Reliant Energy HL&P. In addition, the Texas Utility Commission issued a number of new rules and determinations in implementing the Texas Electric Restructuring Law.

The Texas Electric Restructuring Law defined the process for competition and created a transition period during which most utility rates were frozen at rates not in excess of their then-current levels. The Texas Electric Restructuring Law provided for utilities to recover their generation related stranded costs and regulatory assets (as defined in the Texas Electric Restructuring Law).

Retail Choice. Under the Texas Electric Restructuring Law, beginning January 1, 2002, retail customers of most investor owned electric utilities in Texas became eligible to purchase their electricity from any of a number of "retail electric providers," which are certified by the Texas Utility Commission. Retail electric providers may not own or operate generation assets and their sales prices are not subject to traditional

cost-of-service rate regulation. Retail electric providers that are affiliates of electric utilities may compete substantially statewide for these sales, but prices they charge within the affiliated electric utility's traditional service territory are subject to some limitations at the outset of retail choice, as described below. The Texas Utility Commission has prescribed regulations governing quality, reliability and other aspects of service from retail electric providers. Reliant Resources intends to compete in the Texas retail market and, as a result, has certified three of its subsidiaries as retail electric providers.

Unbundling. As of January 1, 2002, electric utilities in Texas such as Reliant Energy HL&P unbundled their businesses in order to separate power generation, transmission and distribution, and retail activities into different units. Pursuant to the Texas Electric Restructuring Law, the Company submitted a plan in January 2000 that was later amended and updated to accomplish the required separation (the Business Separation Plan). For additional information regarding the Business Separation Plan, see Note 4(b). 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 customers. The Company plans to transfer the Texas generation facilities that were formerly part of the Reliant Energy HL&P integrated utility (Texas generation business) to an indirect wholly owned partnership (Texas Genco) in connection with the Restructuring. As a result of these changes, the Company's Texas generation operations will no longer be conducted as part of an integrated utility and will comprise a new business segment in 2002, Electric Generation. Additionally, these operations will not be part of the Company's business if they are acquired in 2004 by Reliant Resources pursuant to an option agreement as described below. At that time, Reliant Resources will be an unaffiliated company as a result of the planned Distribution.

Generation. Power generators began selling electric energy to wholesale purchasers, including retail electric providers, at unregulated prices on January 1, 2002. To facilitate a competitive market, each power generation company affiliated with a transmission and distribution utility is required to sell at auction 15% of the output of its installed generating capacity. The first auction was held in September 2001 for power delivered beginning January 1, 2002. This obligation continues until January 1, 2007 unless before that date the Texas Utility Commission determines that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial load in the electric utility's service area is being served by retail electric providers other than the affiliated retail electric provider. See Note 4(b) for information regarding the capacity auctions and the effect of the Business Separation Plan on the Company. Texas Genco plans to auction all of its remaining capacity (less approximately 10% withheld to provide for unforeseen outages) during the time period prior to Reliant Resources' exercise of the Texas Genco option discussed below. Pursuant to the Business Separation Plan, Reliant Resources is entitled to purchase, at prices established in these auctions, 50% (but no less than 50%) of the remaining capacity, energy and ancillary services auctioned by Texas Genco.

Rates. Base rates charged by Reliant Energy HL&P on September 1, 1999 were frozen until January 1, 2002. Pursuant to Texas Utility Commission regulations, effective January 1, 2002, after the cycle meter read in January 2002, retail rates charged to residential and small commercial customers by an affiliated retail electric provider were reduced by 6% from the average rates (on a bundled basis) in effect on January 1, 1999. Following adjustments for changes in fuel prices, this actually resulted in a 17% rate reduction for Reliant Resources, through its subsidiaries, as an affiliated retail provider. That reduced rate, known as the "price to beat", is being charged by the affiliated retail electric provider to residential and small commercial customers in the utility'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 in the affiliated transmission and distribution utility's service area 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 rate 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 Texas Electric Restructuring Law) over the market value of those assets) and its regulatory assets related to generation. The Texas Electric Restructuring Law prescribes specific methods for determining the amount of stranded costs and the details for their recovery. During the transition period to deregulation (the Transition Period) which included 1998 and the first six months of 1999, and extending through the base rate freeze period from July 1999 through 2001, the Texas Electric Restructuring Law provided that earnings above a stated overall annual rate of return on invested capital be used to recover the Electric Operations business segments' investment in generation assets (Accelerated Depreciation). In addition, during the Transition Period, the redirection of depreciation expense to generation assets that the Electric Operation business segment would otherwise apply to transmission, distribution and general plant assets was permitted for regulatory purposes (Redirected Depreciation). See discussion of the accounting treatment of Accelerated Depreciation and Redirected Depreciation for financial reporting purposes below under "Accounting." We cannot predict the amount, if any, of these costs that may not be recovered.

In accordance with the Texas Electric Restructuring Law, beginning on January 1, 2002, and ending when the true-up proceeding is completed in January 2004, any difference between market power prices received in the generation capacity auction and the Texas Utility Commission's earlier estimates of those market prices will be included in the 2004 stranded cost true-up, as further discussed below. This component of the true-up is intended to ensure that neither the customers nor the Company are disadvantaged economically as a result of the two-year transition period by providing this pricing structure.

On October 24, 2001, Reliant Energy Transition Bond Company LLC (Bond Company), a Delaware limited liability company and direct wholly owned subsidiary of Reliant Energy, issued $749 million aggregate principal amount of its Series 2001-1 Transition Bonds pursuant to a financing order of the Texas Utility Commission. Classes of the bonds have final maturity dates of September 15, 2007, September 15, 2009, September 15, 2011 and September 15, 2015, and bear interest at rates of 3.84%, 4.76%, 5.16% and 5.63%, respectively. Scheduled payments on the bonds are from 2002 through 2013. Net proceeds to the Bond Company from the issuance were $738 million. The Bond Company paid Reliant Energy $738 million for the transition property. Reliant Energy used the net proceeds for general corporate purposes, including the repayment of indebtedness.

The Transition Bonds are secured primarily by the "transition property," which includes the irrevocable right to recover, through non-bypassable transition charges payable by certain retail electric customers, the qualified costs of Reliant Energy HL&P authorized by the financing order. The holders of the Bond Company's bonds have no recourse to any assets or revenues of Reliant Energy, and the creditors of Reliant Energy have no recourse to any assets or revenues (including, without limitation, the transition charges) of the Bond Company. Reliant Energy has no payment obligations with respect to the Transition Bonds except to remit collections of transition charges as set forth in a servicing agreement between Reliant Energy and the Bond Company and in an intercreditor agreement among Reliant Energy, the Bond Company and other parties.

Costs associated with nuclear decommissioning will continue to be subject to cost-of-service rate regulation and are included in a charge to transmission and distribution customers. For further discussion of the effect of the Business Separation Plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

True-Up Proceeding. The Texas Electric Restructuring Law and current Texas Utility Commission implementation guidance provide for a True-up Proceeding to be initiated in January 2004. The purpose of the True-up Proceeding is to quantify and reconcile the amount of stranded costs, the capacity auction true-up, unreconciled fuel costs (see Note 2(f)), and other regulatory assets associated with Reliant Energy HL&P's

electric generating operations that were not previously securitized through the Transition Bonds. The True-up Proceeding will result in either additional charges or credits being assessed on certain retail electric customers.

Accounting. Historically, Reliant Energy HL&P has applied the accounting policies established in SFAS No. 71. Effective June 30, 1999, the Company applied SFAS No. 101 to Reliant Energy HL&P's 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 effects that the Texas Electric Restructuring Law would have on the recovery of its generation related regulatory assets and liabilities. The Company determined that a pre-tax accounting loss of $282 million existed because it believes only the economic value of its generation related regulatory assets (as defined by the Texas Electric Restructuring Law) will be recovered. Therefore, the Company recorded a $183 million after-tax extraordinary loss in the fourth quarter of 1999. Pursuant to EITF Issue 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 Reliant Energy HL&P's regulatory assets, see Note 2(f).

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 $808 million of electric generation assets were impaired in 1999. Of this amount, $756 million related to the South Texas Project Electric Generating Station (South Texas Project) and $52 million related to two gas-fired generation plants. The Texas Electric Restructuring Law provides for recovery of this impairment through regulated cash flows during the transition period and through charges to transmission and distribution customers. As such, a regulatory asset was recorded for an amount equal to the impairment loss and was included on the Company's Consolidated Balance Sheets as a regulatory asset. The Company recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing SFAS No. 71 of $221 million in the third and fourth quarters of 1999, $329 million in 2000 and $258 million in 2001.

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 Texas Electric Restructuring Law) in a filing with the Texas Utility Commission. Any positive difference between the regulatory net book value and the fair market value of the generation assets (as defined by the Texas Electric Restructuring Law) will be collected through future charges. Any overmitigation of stranded costs may be refunded by a reduction in future 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.

In order to reduce potential exposure to stranded costs related to generation assets, Reliant Energy HL&P redirected $195 million and $99 million of depreciation in 1998 and for the six months ended June 30, 1999, respectively, from transmission and distribution related plant assets to generation assets for regulatory and financial reporting purposes (Redirected Depreciation). This redirection was in accordance with the Company's Transition Plan. Subsequent to June 30, 1999, Redirected Depreciation expense could no longer 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 six months ended December 31, 1999 and during 2000 and 2001, $99 million, $218 million and $230 million in

depreciation expense, respectively, was redirected from transmission and distribution for regulatory and financial reporting purposes and was established as an embedded regulatory asset included in transmission and distribution related plant and equipment balances. As of December 31, 2000 and 2001, the cumulative amount of Redirected Depreciation for regulatory purposes was $611 million and $841 million, respectively, prior to the effects of the October 3, 2001 order discussed below.

Additionally, as allowed by the Texas Utility Commission, in an effort to further reduce potential exposure to stranded costs related to generation assets, Reliant Energy recorded Accelerated Depreciation of $194 million and $104 million in 1998 and for the six months ended June 30, 1999, respectively, for regulatory and financial reporting purposes. Accelerated Depreciation expense was recorded in accordance with the Company's Transition Plan during this period. Subsequent to June 30, 1999, Accelerated Depreciation expense could no longer 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 six months ended December 31, 1999 and during 2000 and 2001, $179 million, $385 million and $264 million of Accelerated Depreciation was recorded for regulatory reporting purposes, reducing the regulatory book value of Reliant Energy HL&P's electric generation assets.

The Texas Utility Commission issued a final order on October 3, 2001 (October 3, 2001 Order) that established the transmission and distribution utility rates that became effective January 2002. In this Order, the Texas Utility Commission found that Reliant Energy HL&P had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the Transition Plan and Texas Electric Restructuring Law. As a result of the October 3, 2001 Order, Reliant Energy HL&P was required to reverse the $841 million embedded regulatory asset related to Redirected Depreciation, thereby reducing the net book value of transmission and distribution assets. Reliant Energy HL&P was required to record a regulatory liability of $1.1 billion related to Accelerated Depreciation. The October 3, 2001 Order requires this amount to be refunded through excess mitigation credits to certain retail electric customers during a seven year period beginning in January 2002. On appeal, a Texas District court upheld the Texas Utility Commission's order. An appeal may be taken to a Texas Court of Appeal, but no further appeal has yet been filed.

As of December 31, 2001, in contemplation of the True-up Proceeding, Reliant Energy HL&P has recorded a regulatory asset of $2.0 billion representing the estimated recovery of previously incurred stranded costs, which includes a regulatory liability of $1.1 billion plus the reversal of previously recorded Redirected Depreciation. This estimated recovery is based upon current projections of the market value of the Reliant Energy HL&P electric generation assets to be covered by the True-up Proceeding calculations. Because generally accepted accounting principles require the Company to estimate fair market values in advance of the final reconciliation, the financial impacts of the Texas Electric Restructuring Law with respect to the final determination of stranded costs in 2004 are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events were to occur that made the recovery of some of the remaining generation related regulatory assets no longer probable, the Company would write off the remaining balance of such assets as a charge against earnings. For additional discussion of potential future impairment of the assets of the Company's Texas generation business, see Note 2(e).

Other Accounting Policy Changes. As a result of discontinuing SFAS No. 71, effective July 1, 1999, allowance for funds used during construction is no longer accrued on generation related construction projects. Instead, interest is being 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 would be 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 these 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.

(b) BUSINESS SEPARATION PLAN

Restructuring of Regulated Entities and Distribution of Reliant Resources Stock. Pursuant to the Business Separation Plan, subject to receipt of an order from the Securities and Exchange Commission (SEC) described below, Reliant Energy will become a subsidiary of a new holding company, CenterPoint Energy, which initially will own the Company's (a) electric transmission and distribution operations, (b) natural gas distribution businesses, (c) electric generating assets in Texas that were formerly operated by Reliant Energy HL&P, (d) interstate pipelines, gas gathering and pipeline services operations, (e) interests in energy companies in Latin America (see Note 19) and (f) interests in Reliant Resources. In these Notes, references to Reliant Energy in connection with events occurring or the performance of agreements after the Restructuring generally refer to CenterPoint Energy.

Upon becoming a subsidiary of CenterPoint Energy, Reliant Energy will transfer the stock of its principal operating subsidiaries to a subsidiary of CenterPoint Energy and will transfer its electric generating assets in Texas that were formerly operated by Reliant Energy HL&P to Texas Genco. In January 2004, Reliant Resources will have the right to exercise an option to acquire Texas Genco, as further discussed below. As a result of the stock and asset transfers described above, Reliant Energy will become solely a transmission and distribution utility, with its other businesses becoming indirect subsidiaries of CenterPoint Energy, which will assume all of Reliant Energy's debt other than its first mortgage bonds. The indebtedness of certain wholly owned financing subsidiaries of Reliant Energy is expected to be refinanced by the regulated holding company by the end of 2002.

The Company anticipates that, upon completion of the Restructuring and subject to approval by the Company's board of directors, market and other conditions, CenterPoint Energy will distribute all of the stock it owns in Reliant Resources to CenterPoint Energy's shareholders, affecting the separation of its operations into two publicly traded corporations. The Company has obtained a private letter ruling from the IRS providing for the tax-free treatment of the Distribution that is predicated on the completion of the Distribution by April 30, 2002. The Company has requested an extension of this deadline. While there can be no assurance that the Company will receive the extension, the Company anticipates that it will receive an extension that allows it to proceed with the Distribution after April 30, 2002.

Reliant Energy has made and will continue to make internal asset and stock transfers intended to allocate the assets and liabilities of Reliant Energy in accordance with regulatory requirements and as contemplated by the Business Separation Plan. Forms of each of the intercompany agreements described below were prepared and entered into by Reliant Energy and Reliant Resources prior to the Offering.

The Restructuring as currently planned cannot be completed unless and until the SEC issues an order granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act). While the Company believes such an order will be received, and that both the Restructuring and Distribution will be completed during the summer of 2002, there can be no assurances that such will be the case. The Restructuring has been designed to enable the Company to meet all of the requirements of the Texas Electric Restructuring Law. The Company has not formulated an alternative restructuring plan that could be implemented were the SEC to refuse to grant the requested approvals for CenterPoint Energy.

Agreements Related to Texas Generating Assets. Pursuant to the Business Separation Plan, Reliant Energy expects to cause Texas Genco to conduct an initial public offering of approximately 20% of its capital stock by the end of 2002. If the initial public offering is not conducted, Reliant Energy may distribute approximately 20% of Texas Genco's capital stock to its stockholders in a transaction taxable both to it and its stockholders as part of the valuation of stranded costs. In connection with the separation of its unregulated businesses from its regulated businesses, Reliant Energy granted Reliant Resources an option, subject to the completion of the Distribution, to purchase all of the shares of capital stock of Texas Genco that will be owned by Reliant Energy after the initial public offering or distribution (Texas Genco Option). The Texas Genco Option may be exercised between January 10, 2004 and January 24, 2004. The per share exercise price under the option will be the average daily closing price on the national exchange for publicly held shares of common stock of Texas Genco for the 30 consecutive trading days with the highest average closing price during the 120 trading days immediately preceding January 10, 2004, plus a control premium, up to a maximum of 10%, to the extent a control premium is included in the valuation determination made by the Texas Utility Commission relating to the market value of Texas Genco's common stock equity. The exercise price is also subject to adjustment based on the difference between the cash dividends paid during the period there is a public ownership interest in Texas Genco and Texas Genco's earnings during that period. Reliant Resources has agreed that if it exercises the Texas Genco Option and purchases the shares of Texas Genco common stock, Reliant Resources will also purchase all notes and other receivables from Texas Genco then held by Reliant Energy, at their principal amount plus accrued interest. Similarly, if Texas Genco holds notes or receivables from the Company, Reliant Resources will assume those obligations in exchange for a payment to Reliant Resources by the Company of an amount equal to the principal plus accrued interest.

Exercise of the Texas Genco Option by Reliant Resources will be subject to various regulatory approvals, including Hart-Scott-Rodino antitrust clearance and United States Nuclear Regulatory Commission (NRC) license transfer approval. The option will be exercisable only if Reliant Energy or CenterPoint Energy distributes all of the shares of Reliant Resources common stock it owns to its shareholders.

At the time of the Restructuring, Texas Genco will become the beneficiary of the decommissioning trust that has been established to provide funding for decontamination and decommissioning of a nuclear electric generation station in which Reliant Energy owns a 30.8% interest (see Note 6). The master separation agreement provides that Reliant Energy will collect through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trust, and will pay the amounts to Texas Genco. Texas Genco will in turn be required to deposit these amounts received from Reliant Energy into the decommissioning trust. Upon decommissioning of the facility, in the event funds from the trust are inadequate, Reliant Energy or its successor will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to Reliant Energy's or its successor's ratepayers.

(c) RELIANT ENERGY HL&P REGULATORY FILINGS

As of December 31, 2000 and 2001, Reliant Energy HL&P was under-collected on fuel recovery by $558 million and $200 million, respectively. In two separate filings with the Texas Utility Commission in 2000, Reliant Energy HL&P received approval to implement fuel surcharges to collect the under-recovery of fuel expenses, as well as to adjust the fuel factor to compensate for significant increases in the price of natural gas. For additional information regarding this matter, see Note 2(f).

On March 15, 2001, Reliant Energy HL&P filed an application with the Texas Utility Commission to revise its fuel factor and address its undercollected fuel costs of $389 million, which was the accumulated amount from September 2000 through February 2001, plus estimates for March and April 2001. Reliant

Energy HL&P requested to revise its fixed fuel factor to be implemented with the May 2001 billing cycle and proposed to defer the collection of the $389 million until the 2004 stranded costs True-up Proceeding. On April 16, 2001, the Texas Utility Commission issued an order approving interim rates effective with the May 2001 billing cycle.

On June 21, 2001, Reliant Energy HL&P filed an application with the Texas Utility Commission to terminate the interim factor and return to the prior fuel factor due to the forecasted decline in natural gas prices. On July 20, 2001, the Texas Utility Commission issued an order of dismissal approving Reliant Energy HL&P's request that the interim rates approved on April 16, 2001, effective with Reliant Energy HL&P's May 2001 billing month, be terminated and Reliant Energy HL&P prospectively bill its customers using the prior fuel factor established in a previous order beginning with Reliant Energy HL&P's August billing month. The Texas Utility Commission also granted Reliant Energy HL&P a good cause exception in that Reliant Energy HL&P will not be required to refund amounts collected through the interim rates. Reliant Energy HL&P did not waive its right to collect any final fuel balance. The final fuel balance is subject to review, and the amount to be included in the 2004 stranded cost true-up will be determined during the final fuel reconciliation. The Texas Utility Commission currently has scheduled Reliant Energy HL&P to file its final fuel reconciliation in July 2002.

(d) ARKLA RATE CASE

On November 21, 2001, Arkla filed a rate case (Docket 01-243-U) with the Arkansas Public Service Commission seeking an increase in rates for its Arkansas customers of approximately $47 million on an annual basis. Arkla's last rate increase was authorized in 1995. In the rate filing, Arkla maintains that its rate base has grown by $183 million, and its operating expenses have increased from $93 million to $106 million on an annual basis and, therefore, Arkla's current rates for service to Arkansas customers do not provide a reasonable opportunity for Arkla to cover its operating costs and earn a fair return on its investment. A decision in the case is expected by the fourth quarter of 2002.

(5) DERIVATIVE FINANCIAL INSTRUMENTS

Effective January 1, 2001, the Company adopted SFAS No. 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement requires that derivatives be recognized at fair value in the balance sheet and that changes in fair value be recognized either currently in earnings or deferred as a component of other comprehensive income (loss), depending on the intended use of the derivative, its resulting designation and its effectiveness. If certain conditions are met, an entity may designate a derivative instrument as hedging (a) the exposure to changes in the fair value of an asset or liability (Fair Value Hedge), (b) the exposure to variability in expected future cash flows (Cash Flow Hedge) or (c) the foreign currency exposure of a net investment in a foreign operation. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs.

Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of $61 million and a cumulative after-tax increase in accumulated other comprehensive loss of $422 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by approximately $627 million, $67 million, $778 million, and $277 million, respectively, in the Company's Consolidated Balance Sheets. During the year ended December 31, 2001, $165 million of the initial after-tax transition adjustment recognized in other comprehensive income was recognized in net income.

The application of SFAS No. 133 is still evolving as the FASB clears issues previously submitted to the Derivatives Implementation Group for consideration. During the second quarter of 2001, an issue that applies exclusively to the electric industry and allows the normal purchases and normal sales exception for option-type contracts if certain criteria are met was approved by the FASB with an effective date of July 1, 2001. The

adoption of this cleared guidance had no impact on the Company's results of operations. Certain criteria of this previously approved guidance were revised in October and December 2001 and became effective on April 1, 2002. The Company is currently in the process of determining the effect of adoption of the revised guidance.

During the third quarter of 2001, the FASB cleared an issue related to application of the normal purchases and normal sales exception to contracts that combine forward and purchased option contracts. The effective date of this guidance is April 1, 2002, and the Company is currently assessing the impact of this cleared issue and does not believe it will have a material impact on the Company's consolidated financial statements.

The Company is exposed to various market risks. These risks arise from transactions entered into in the normal course of business and are inherent in the Company's consolidated financial statements. The Company utilizes derivative instruments such as futures, physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes in electricity, natural gas and fuel prices on its operating results and cash flows. The Company utilizes cross-currency swaps, forward contracts and options to hedge its net investments in and cash flows of its foreign subsidiaries, interest rate swaps to mitigate the impact of changes in interest rates and other financial instruments to manage various other market risks.

Trading and marketing operations often involve risk associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis. These risks fall into three different categories: price and volume volatility, credit risk of trading counterparties and adequacy of the control environment for trading. The Company routinely enters into Energy Derivatives to hedge purchase and sale commitments, fuel requirements and inventories of natural gas, coal, electricity, crude oil and products, emission allowances and other commodities and to minimize the risk of market fluctuations in its trading, marketing, power origination and risk management services operations.

Energy Derivatives primarily used by the Company are described below:

- Future contracts are exchange-traded standardized commitments to purchase or sell an energy commodity or financial instrument, or to make a cash settlement, at a specific price and future date.

- Physical forward contracts are commitments to purchase or sell energy commodities in the future.

- Swap agreements require payments to or from counterparties based upon the differential between a fixed price and variable index price (fixed price swap) or two variable index prices (variable price swap) for a predetermined contractual notional amount. The respective index may be an exchange quotation or an industry pricing publication.

- Option contracts convey the right to buy or sell an energy commodity, financial instrument at a predetermined price or settlement of the differential between a fixed price and a variable index price or two variable index prices.

(a) ENERGY TRADING, MARKETING, POWER ORIGINATION AND PRICE RISK MANAGEMENT ACTIVITIES

The Company offers energy price risk management services primarily related to natural gas, electric power and other energy related commodities. These activities also include the establishing of open positions in the energy markets, primarily on a short-term basis, and transactions intended to optimize the Company's power generation portfolio, but which do not qualify for hedge accounting. The Company provides these services by utilizing a variety of derivative instruments (Trading Energy Derivatives).

The Company applies mark-to-market accounting for all of its energy trading, marketing, power origination and price risk management services operations in North America and Europe, as well as to retail contracted sales to large commercial, industrial and institutional customers. Accordingly, these Trading Energy Derivatives are recorded at fair value with net realized and unrealized gains (losses) recorded as a

component of revenues. The recognized, unrealized balances are recorded as trading and marketing assets/liabilities.

	FAIR VALUE	
	ASSETS	LIABILITIES
	(IN MILLIONS)	
December 31, 2000		
Natural gas	$3,823	$3,818
Electricity	974	946
Oil and other	39	39
	$4,836	$4,803
December 31, 2001		
Natural gas	$1,389	$1,303
Electricity	648	517
Oil and other	21	20
	$2,058	$1,840

All of the fair values shown in the table above at December 31, 2000 and 2001 have been recognized in income. The fair values as of December 31, 2000 and 2001, are estimated using quoted prices where available, other valuation techniques when market data is not available, for example in illiquid markets, and other factors such as time value and volatility factor for the underlying commitment. The Company's alternative pricing methodologies include, but are not limited to, extrapolation of forward pricing curves using historically reported data from illiquid pricing points. These same pricing techniques are used to evaluate a contract prior to taking the position.

The fair values in the above table are subject to significant changes based on fluctuating market prices and conditions. Changes in the assets and liabilities from trading, power origination, marketing and price risk management services result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions and the timing of settlements. The most significant estimates include natural gas and power forward market prices, volatility and credit risk. For the contracted retail electric sales to large commercial, industrial and institutional customers, significant variables affecting contract values also include the variability in electricity consumption patterns due to weather and operational uncertainties (within contract parameters). Market prices assume a normal functioning market with an adequate number of buyers and sellers providing market liquidity. Insufficient market liquidity could significantly affect the values that could be obtained for these contracts, as well as the costs at which these contracts could be hedged.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum term of the trading portfolio is 17 years. These maximum and average terms 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.

(b) NON-TRADING ACTIVITIES

Cash Flow Hedges. To reduce the risk from market fluctuations in revenues and the resulting cash flows derived from the sale of electric power, natural gas and other commodities, the Company may enter into Energy Derivatives in order to hedge exposure to variability in cash flows (Non-trading Energy Derivatives).

The Non-trading Energy Derivative portfolios are managed to complement the physical transaction portfolio, reducing overall risks within authorized limits.

The Company applies hedge accounting for its Non-trading Energy Derivatives utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being 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% to 120% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied. During 2001, the amount of hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as Cash Flow Hedges was a gain of $8 million. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, the Company realizes in net income the deferred gains and losses recognized in accumulated other comprehensive income (loss). During the year ended December 31, 2001, there was a $3.6 million deferred loss recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur due to credit problems of a customer. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive income (loss) is reclassified and included in the Company's Statements of Consolidated Income under the captions (a) fuel expenses, in the case of natural gas purchase transactions, (b) purchased power, in the case of electric power purchase transactions and (c) revenues, in the case of electric power and natural gas sales transactions and financial electric power or natural gas derivatives. Cash flows resulting from these transactions in Non-trading Energy Derivatives are included in the Statements of Consolidated Cash Flows in the same category as the item being hedged. As of December 31, 2001, the Company's current non-trading derivative assets and liabilities and corresponding amounts in accumulated other comprehensive loss were expected to be reclassified into net income during the next twelve months.

The maximum length of time the Company is hedging its exposure to the variability in future cash flows for forecasted transactions excluding the payment of variable interest on existing financial instruments is eleven years.

In addition, as of December 31, 2001, the European Energy business segment had entered into transactions to purchase $271 million at fixed exchange rates in order to hedge future fuel purchases payable in U.S. dollars.

Interest Rate Swaps. During 2001, the Company entered into interest rate swaps with an aggregate notional amount of $1.8 billion to fix the interest rate applicable to floating rate short-term debt and interest rate swaps with a notional amount of $425 million to fix the interest rate applicable to floating rate long-term debt. At December 31, 2001, $225 million of the swaps relating to long-term debt had expired. The swaps relating to short-term debt do not qualify as cash flow hedges under SFAS No. 133, and are marked to market on the Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income. The swaps relating to long-term debt qualify for hedge accounting under SFAS No. 133 and the periodic settlements are recognized as an adjustment to interest expense in the Statements of Consolidated Income over the term of the swap agreement. During 2001, the Company entered into forward-starting interest rate swaps having an aggregate notional amount of $500 million to hedge the interest rate on a portion of a future offering of five-year notes. These swaps qualify as cash flow hedges under SFAS No. 133. Should the expected issuance of the debt no longer be probable, any deferred amount will be recognized immediately into income. The maximum length of time the Company is hedging its exposure to the payment of variable interest rates is four years.

Hedge of the Foreign Currency Exposure of Net Investment in Foreign Subsidiaries. The Company has substantially hedged the foreign currency exposure of its net investment in its European subsidiaries through a combination of Euro-denominated borrowings, foreign currency swaps and foreign currency forward contracts

to reduce the Company's exposure to changes in foreign currency rates. During the normal course of business, the Company reviews its currency hedging strategies and determines the hedging approach deemed appropriate based upon the circumstances of each situation.

The Company records the changes in the value of the foreign currency hedging instruments and Euro-denominated borrowings as foreign currency translation adjustments included as a component of accumulated other comprehensive loss. The effectiveness of the hedging instruments can be measured by the net change in foreign currency translation adjustments attributed to the Company's net investment in its European subsidiaries. These amounts generally offset amounts recorded in stockholders' equity as adjustments resulting from translation of the hedged investment into U.S. dollars. During 2001, the derivative and non-derivative instruments designated as hedging the net investment in the Company's European subsidiaries resulted in a gain of $31 million, which is included in the balance of the cumulative translation adjustment.

Other Derivatives. In December 2000, the Dutch parliament adopted legislation allocating to the Dutch generation sector, including REPGB, financial responsibility for various stranded costs contracts and other liabilities. The legislation became effective in all material respects on January 1, 2001. In particular, the legislation allocated to the Dutch generation sectors, including REPGB, financial responsibility to purchase electricity and gas under gas supply and electricity contracts. These contracts are derivatives pursuant to SFAS No. 133. As of December 31, 2001, the Company had recognized $369 million in short-term and long-term non-trading derivative liabilities for REPGB's portion of these stranded costs contracts. Future changes in the valuation of these stranded cost import contracts which remain an obligation of REPGB will be recorded as adjustments to the Company's Statements of Consolidated Income. The valuation of the contracts could be affected by, among other things, changes in the price of electric power, coal, low sulfur fuel oil and the value of the United States dollar and British pound relative to the Euro. For additional information regarding REPGB's stranded costs and the related indemnification by former shareholders of these stranded costs during 2001, see Note 14(h).

During 2001, Reliant Resources entered into two structured transactions which were recorded on the Consolidated Balance Sheets in non-trading derivative assets and liabilities involving a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003. The change in fair value of these derivative assets and liabilities must be recorded in the Statements of Consolidated Income for each reporting period. During 2001, $117 million of net non-trading derivative liabilities were settled related to these transactions, and a $1 million pre-tax unrealized gain was recognized. As of December 31, 2001, Reliant Resources has recognized $221 million of non-trading derivative assets and $103 million of non-trading derivative liabilities related to these transactions.

(c) CREDIT RISKS

In addition to the risk associated with price movements, credit risk is inherent in the Company's risk management activities and hedging activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. 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 contract. The Company enters into derivative instruments primarily with counterparties having at least a minimum investment grade credit rating (i.e. a minimum credit rating for such entity's senior unsecured debt of BBB- for Standard & Poor's and Fitch or Baa3 for Moody's). In addition, the Company seeks to enter into netting agreements that permit it to offset receivables and payables with a given counterparty. The Company also attempts to enter into agreements that enable the Company to obtain collateral from a counterparty or to terminate upon the occurrence of credit-related events. For long-term arrangements, the Company periodically reviews the financial condition of these counterparties in addition to monitoring the effectiveness of these financial contracts in achieving the Company's objectives. If the counterparties to these arrangements fail to perform, the Company would seek to compel performance at law or otherwise obtain compensatory damages.

The Company might be forced to acquire alternative hedging arrangements or be required to replace the underlying commitment at then-current market prices. In this event, the Company might incur additional losses to the extent of amounts, if any, already paid to the counterparties. For information regarding the provision related to energy sales in California, see Note 14(g). For information regarding the net provision recorded in 2001 related to energy sales to Enron, see Note 21.

The following tables show the composition of the trading and marketing assets of the Company as of December 31, 2000 and 2001 and the non-trading derivative assets as of December 31, 2001.

	DECEMBER 31, 2000		DECEMBER 31, 2001	
TRADING AND MARKETING ASSETS	INVESTMENT GRADE(2)	TOTAL	INVESTMENT GRADE(2)	TOTAL
	(IN MILLIONS)			
Energy marketers	$2,291	$2,481	$ 683	$ 757
Financial institutions	1,099	1,228	495	495
Gas and electric utilities	472	542	538	544
Oil and gas producers	474	566	135	176
Commercial, industrial and institutional customers	73	85	119	184
Total	$4,409	4,902	$1,970	2,156
Credit and other reserves		(66)		(98)
Trading and marketing assets		$4,836		$2,058

	DECEMBER 31, 2001	
NON-TRADING DERIVATIVE ASSETS	INVESTMENT GRADE(1)(2)	TOTAL
	(IN MILLIONS)	
Energy marketers	$371	$408
Financial institutions	76	76
Gas and electric utilities	89	90
Oil and gas producers	8	76
Commercial, industrial and institutional customers	7	8
Others	5	14
Total	$556	672
Credit and other reserves		(16)
Non-trading derivative assets		$656

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

(2) For unrated counterparties, the Company performs financial statement analysis, considering contractual rights and restrictions, and collateral, to create a synthetic credit rating.

(d) TRADING AND NON-TRADING -- GENERAL POLICY

The Company has established a Risk Oversight Committee comprised of corporate and business segment officers that oversees all commodity price, foreign currency and credit risk activities, including the Company's trading, marketing, power origination, risk management services and hedging activities. The committee's

duties are to approve 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 monitor compliance with the Company's risk management policies and procedures and trading limits established by the Company's board of directors.

The Company's policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

(8) INDEXED DEBT SECURITIES (ACES AND ZENS) AND AOL 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 which 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 $21 million in 1999 prior to the conversion. 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. Unrealized gains and losses resulting from changes in the market value of the TW Common (now AOL TW Common) are recorded in the Company's Statements of Consolidated Income.

(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 $1.052 billion and maturing July 1, 2000. The market value of ACES was indexed to the market value of TW Common. On the July 1, 2000 maturity date, the Company tendered 37.9 million shares of TW Common to fully settle its obligations in connection with its unsecured 7% ACES having a value of $2.9 billion.

(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 $1.0 billion. The original principal amount per ZENS will increase each quarter to the extent that the sum of the quarterly cash dividends and the interest paid during a quarter on the reference shares attributable to one ZENS is less than $.045, so that the annual yield to investors from the date the Company issued the ZENS to the date of computation of the contingent principal amount is not less than 2.309%. At December 31, 2001, the principal amount of the ZENS had increased $3 million as the reference shares no longer pay dividends. At maturity the holders of the ZENS will receive in cash the higher of the original principal amount of the ZENS (subject to adjustment as discussed above) or an amount based on the then-current market value of AOL TW

Common, or other securities distributed with respect to AOL TW Common (1.5 shares of AOL TW Common and such other securities, if any, are referred to as reference shares). Each ZENS has an original principal amount of $58.25, and is exchangeable at any time at the option of the holder for cash equal to 95% (100% in some 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 some 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, 2001, no interest payments on the ZENS had been deferred.

The Company used $537 million of the net proceeds from the offering of the ZENS to purchase 9.2 million shares of TW Common (now 13.8 million shares of AOL TW Common), which are classified as trading securities under SFAS No. 115. Prior to the purchase of additional shares of TW Common on September 21, 1999, the Company owned approximately 8 million shares of TW Common (now 12 million shares of AOL TW Common). The Company now holds 25.8 million shares of AOL TW Common that are expected to be held to facilitate the Company's ability to meet its obligation under the ZENS.

Prior to January 1, 2001, an increase above $58.25 (subject to some adjustments) in the market value per share of TW Common resulted in an increase in the Company's liability for the ZENS. However, as the market value per share of TW Common declined below $58.25 (subject to some adjustments), the liability for the ZENS did not decline below the original principal amount. The market value per share of TW Common was $52.24 as of December 31, 2000 and the market value per share of AOL TW Common was $32.10 as of December 31, 2001. Upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component (the holder's option to receive the appreciated value of AOL TW Common at maturity). The derivative component was valued at fair value and determined the initial carrying value assigned to the debt component ($121 million) as the difference between the original principal amount of the ZENS ($1.0 billion) and the fair value of the derivative component at issuance ($879 million). Effective January 1, 2001 the debt component was recorded at its accreted amount of $122 million and the derivative component is recorded at its current fair value of $788 million, as a current liability, resulting in a transition adjustment pre-tax gain of $90 million ($58 million net of tax). The transition adjustment gain was reported in the first quarter of 2001 as the effect of a change in accounting principle. Subsequently, the debt component will accrete through interest charges at 17.5% up to the minimum amount payable upon maturity of the ZENS in 2029, approximately $1.1 billion, and changes in the fair value of the derivative component will be recorded in the Company's Statements of Consolidated Income. During 2001, the Company recorded a $70 million loss on the Company's investment in AOL TW Common. During 2001, the Company recorded a $58 million gain associated with the fair value of the derivative component of the ZENS obligation. Changes in the fair value of the AOL TW Common held by the Company are expected to substantially offset changes in the fair value of the derivative component of the ZENS.

The following table sets forth summarized financial information regarding the Company's investment in AOL TW securities and the Company's ACES and ZENS obligations (in millions).

	AOL TW INVESTMENT	ACES	DEBT COMPONENT OF ZENS	DERIVATIVE COMPONENT OF ZENS
Balance at December 31, 1998	$ 990	$ 2,350	$ --	$ --
Issuance of indexed debt securities	--	--	1,000	--
Purchase of TW Common	537	--	--	--
Loss on indexed debt securities	--	388	241	--
Gain on TW Common	2,452	--	--	--
Balance at December 31, 1999	3,979	2,738	1,241	--
Loss (gain) on indexed debt securities	--	139	(241)	--
Loss on TW Common	(205)	--	--	--
Settlement of ACES	(2,877)	(2,877)	--	--
Balance at December 31, 2000	897	--	1,000	--
Transition adjustment from adoption of SFAS No. 133	--	--	(90)	--
Bifurcation of ZENS obligation	--	--	(788)	788
Accretion of debt component of ZENS	--	--	1	--
Gain on indexed debt securities	--	--	--	(58)
Loss on AOL TW Common	(70)	--	--	--
Balance at December 31, 2001	$ 827	$ --	$ 123	$730

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

	DECEMBER 31, 2000		DECEMBER 31, 2001	
	LONG-TERM	CURRENT(1)	LONG-TERM	CURRENT(1)
	(IN MILLIONS)			
Short-term borrowings:				
Commercial paper		$3,675		$2,502
Lines of credit		853		290
Receivables facility		350		346
Other(2)		126		297
Total short-term borrowings		$5,004		$3,435
Long-term debt:				
Reliant Energy				
ZENS(3)	$ --	$1,000	$ --	$ 123
Debentures 7.88% to 9.38% due 2002	100	250	--	100
First mortgage bonds 4.90% to 9.15% due 2002 to 2027	1,261	--	1,161	100
Pollution control bonds 4.70% to 5.95% due 2011 to 2030	1,046	--	1,046	--
Series 2001-1 Transition Bonds 3.84% to 5.63% due 2002 to 2013	--	--	736	13
Other	12	1	11	1
Financing Subsidiaries (directly or indirectly owned by Reliant Energy)				
Debentures 7.40% due 2002	300	225	--	300
Reliant Energy Power Generation, Inc.				
Notes payable various market rates due 2002 to 2024	260	--	295	2
REPGB(2)				
Debentures 6.00% to 8.94% due 2002 to 2006	66	1	38	22
Reliant Energy Capital Europe(2)				
Notes payable various market rates due 2003	565	--	534	--
RERC Corp.(4)				
Convertible debentures 6.00% due 2012	93	--	82	--
Debentures 6.38% to 8.90% due 2003 to 2011	1,285	--	1,833	--
Notes payable 8.77% to 9.23% paid 2001	--	146	--	--
Unamortized discount and premium	8	--	6	--
Total long-term debt	4,996	1,623	5,742	661
Total borrowings	$4,996	$6,627	$5,742	$4,096

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

(2) Includes borrowings at December 31, 2000 and 2001 which are denominated in Euros. As of December 31, 2000 and 2001, the assumed exchange rate was 1.06 Euros and 1.12 Euros per U.S. dollar, respectively.

(3) Upon adoption of SFAS No. 133 effective January 1, 2001, the Company's ZENS obligation was bifurcated into a debt component and an embedded derivative component. For additional information regarding ZENS, see Note 8(b). As ZENS are exchangeable for cash at any time at the option of the holders, these notes are classified as a current portion of long-term debt.

(4) Debt acquired in business acquisitions is adjusted to fair market value as of the acquisition date. Included in long term debt is additional unamortized premium related to fair value adjustments of long-term debt of $12 million and $9 million at December 31, 2000 and 2001, respectively, which is being amortized over the respective remaining term of the related long-term debt.

(b) LONG-TERM DEBT

Maturities. The Company's maturities of long-term debt and sinking fund requirements, excluding the ZENS obligation, are $538 million in 2002, $1.2 billion in 2003, $90 million in 2004, $390 million in 2005 and $218 million in 2006. The 2002 and 2003 amounts are net of sinking fund payments that can be satisfied with bonds that had been acquired and retired as of December 31, 2001.

Liens. At December 31, 2001, substantially all physical assets used in the conduct of the business and operations of the Electric Operations business segment are subject to liens securing the First Mortgage Bonds. After the Restructuring, only the assets of the transmission and distribution utility are expected to be 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, 2000 and 2001 have been satisfied by certification of property additions. The replacement fund requirement to be satisfied in 2002 is $334 million.

RERC Corp. Debt Issuance. In February 2001, RERC Corp. issued $550 million of unsecured notes that bear interest at 7.75% per year and mature in February 2011. Net proceeds to RERC Corp. were $545 million. RERC Corp. used the net proceeds from the sale of the notes to pay a $400 million dividend to Reliant Energy, and for general corporate purposes. Reliant Energy used the $400 million proceeds from the dividend for general corporate purposes, including the repayment of short-term borrowings.

Securitization. For a discussion of the securitization financing completed in October 2001, see Note 4(a).

Purchase of Convertible Debentures. At December 31, 2000 and 2001, RERC Corp. had issued and outstanding $98 million and $86 million, respectively, aggregate principal amount ($93 million and $82 million, respectively, carrying 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. After the Restructuring, each Subordinated Debenture will be convertible into 0.65 shares of CenterPoint Energy common stock and $14.24 in cash. After the Distribution, each Subordinated Debenture will be convertible into an increased number of CenterPoint Energy shares based on a formula as provided in the relevant indenture and $14.24 in cash. During 2001, RERC Corp. purchased $11 million aggregate principal amount of its Subordinated Debentures.

TERM Notes. RERC Corp.'s $500 million aggregate principal amount of 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) provide an investment bank with a call option, which gives it the right to have the TERM Notes redeemed from the investors on November 1, 2003 and then remarketed if it chooses to exercise the option. The TERM Notes are unsecured obligations of RERC 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 call option premium will be amortized over the stated term of the securities. If the option is not exercised by the investment bank, RERC 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 RERC Corp., within the 52-week period beginning November 1, 2003. During this period and prior to remarketing, the TERM Notes will bear interest at rates, adjusted weekly, based on an index selected by RERC 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 RERC Corp.'s applicable credit spread at the time of such remarketing.

Extinguishments of Debt. During the second quarter of 2000, REPGB negotiated the repurchase of $272 million aggregate principal amount of its long-term debt for a total cost of $286 million, including $14 million in expenses. The book value of the debt repurchased was $293 million, resulting in an extraordinary gain on the early extinguishment of long-term debt of $7 million. Borrowings under a short-term

banking facility and proceeds from the sale of trading securities by REPGB were used to finance the debt repurchase.

During 1999, the Company's regulated operations recorded losses from the extinguishment of debt of $22 million. There were no losses recorded from the early extinguishment of debt in 2000 and 2001. 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 4(a).

(11) TRUST PREFERRED SECURITIES

In February 1997, two Delaware statutory business trusts created by Reliant Energy (HL&P Capital Trust I and HL&P Capital Trust II) issued to the public (a) $250 million aggregate amount of preferred securities and (b) $100 million aggregate amount of capital securities, respectively. In February 1999, a Delaware statutory business trust created by Reliant Energy (REI Trust I) issued $375 million aggregate amount of preferred securities to the public. Reliant Energy accounts for REI Trust I, HL&P Capital Trust I and HL&P Capital Trust II as wholly owned consolidated subsidiaries. Each of the trusts used the proceeds of the offerings to purchase junior subordinated debentures issued by Reliant Energy having interest rates and maturity dates that correspond to the distribution rates and the mandatory redemption dates for each series of preferred securities or capital securities.

The junior subordinated debentures are the trusts' sole assets and their entire operations. Reliant Energy considers its obligations under the Amended and Restated Declaration of Trust, Indenture, Guaranty Agreement and, where applicable, Agreement as to Expenses and Liabilities, relating to each series of preferred securities or capital securities, taken together, to constitute a full and unconditional guarantee by Reliant Energy of each trust's obligations with respect to the respective series of preferred securities or capital securities.

The preferred securities and capital securities are mandatorily redeemable upon the repayment of the related series of junior subordinated debentures at their stated maturity or earlier redemption. Subject to some limitations, Reliant Energy has the option of deferring payments of interest on the junior subordinated debentures. During any deferral or event of default, Reliant Energy may not pay dividends on its capital stock. As of December 31, 2001, no interest payments on the junior subordinated debentures had been deferred.

In June 1996, a Delaware statutory business trust created by RERC Corp. (RERC Trust) issued $173 million aggregate amount of convertible preferred securities to the public. RERC Corp. accounts for RERC Trust as a wholly owned consolidated subsidiary. RERC Trust used the proceeds of the offering to purchase convertible junior subordinated debentures issued by RERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities. The convertible junior subordinated debentures represent RERC Trust's sole assets and its entire operations. RERC Corp. considers its obligation under the Amended and Restated Declaration of Trust, Indenture and Guaranty Agreement relating to the convertible preferred securities, taken together, to constitute a full and unconditional guarantee by RERC Corp. of RERC 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 2000 and 2001, convertible preferred securities of $0.3 million and $0.04 million,

respectively, were converted. As of December 31, 2000 and 2001, $0.4 million liquidation amount of convertible preferred securities were outstanding. Subject to some limitations, RERC Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, RERC Corp. may not pay dividends on its common stock to Reliant Energy. As of December 31, 2001, no interest payments on the convertible junior subordinated debentures had been deferred.

The outstanding aggregate liquidation amount, distribution rate and mandatory redemption date of each series of the preferred securities, convertible preferred securities or capital securities of the trusts and the identity and similar terms of each related series of junior subordinated debentures are as follows:

TRUST	AGGREGATE LIQUIDATION AMOUNTS AS OF DECEMBER 31, 2000 AND 2001	DISTRIBUTION RATE/INTEREST RATE	MANDATORY REDEMPTION DATE/MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
	(IN MILLIONS)			
REI Trust I	$375	7.20%	March 2048	7.20% Junior Subordinated Debentures due 2048
HL&P Capital Trust I	$250	8.125%	March 2046	8.125% Junior Subordinated Deferrable Interest Debentures Series A
HL&P Capital Trust II	$100	8.257%	February 2037	8.257% Junior Subordinated Deferrable Interest Debentures Series B
RERC Trust	$ 1	6.25%	June 2026	6.25% Convertible Junior Subordinated Debentures due 2026

(13) INCOME TAXES

The components of income before taxes are as follows:

	YEAR ENDED DECEMBER 31, 1999	2000	2001
	(IN MILLIONS)		
United States	$2,535	$578	$1,302
Foreign	29	180	117
Income before income taxes	$2,564	$758	$1,419

Tax Refunds. In 2000, the Company received refunds from the IRS totaling $126 million in taxes and interest following audits of tax returns and refund claims for Reliant Energy's 1985, 1986 and 1990 through 1995 tax years, and RERC Corp.'s 1979 through 1993 tax years. The pre-tax income statement effect of $40 million ($26 million after-tax) was recorded in 2000 in other income in the Company's Statements of Consolidated Income. Of the refunds, $26 million was recorded as a reduction in goodwill. Reliant Energy's consolidated federal income tax returns have been audited and settled through the 1996 tax year. All

of RERC Corp.'s consolidated federal income tax returns for tax years ending on or prior to Reliant Energy's acquisition of RERC Corp. have been audited and settled.

(14) COMMITMENTS AND CONTINGENCIES

(a) COMMITMENTS AND GUARANTEES

The following information is presented separately for the Company's regulated and unregulated businesses:

RELIANT ENERGY (TO BECOME CENTERPOINT ENERGY SUBSEQUENT TO THE RESTRUCTURING)

Capital and Environmental Commitments. Reliant Energy anticipates investing up to $397 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance. Reliant Energy anticipates expenditures to be as follows (in millions):

Year	Amount
2002	$234
2003	132
2004	28
2005	3
2006	--
Total	$397

Fuel and Purchased Power. Fuel commitments include several long-term coal, lignite and natural gas contracts related to Texas power generation operations, which have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities or trading and marketing assets and liabilities in the Company's Consolidated Balance Sheets as of December 31, 2001 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" (see Note 5) or do not meet the definition of a derivative. Minimum payment obligations for coal and transportation agreements that extend through 2009 are approximately $199 million in 2002, $129 million in 2003, $133 million in 2004, $137 million in 2005 and $141 million in 2006. Purchase commitments related to lignite mining and lease agreements, natural gas purchases and storage contracts, and purchased power are not material to Reliant Energy's operations. Prior to January 1, 2002, the Electric Operations business segment was allowed recovery of these costs through rates for electric service. As of December 31, 2001, some of these contracts are above market. Reliant Energy anticipates that stranded costs associated with these obligations will be recoverable through the stranded cost recovery mechanisms contained in the Texas Electric Restructuring Law. For information regarding the Texas Electric Restructuring Law, see Note 4(a).

Reliant Energy's other long-term fuel supply commitments which have various quantity requirements and durations are not considered material either individually or in the aggregate to its results of operations or cash flows.

RELIANT RESOURCES -- UNREGULATED BUSINESSES

As of December 31, 2001, the Wholesale Energy business segment had entered into commitments associated with various non-rate regulated electric generating projects, including commitments for the purchase of combustion turbines, aggregating $440 million. In addition, the Wholesale Energy business segment has options to purchase additional generating equipment for a total estimated cost of $42 million for future generation projects. Reliant Resources is actively attempting to remarket this equipment.

Reliant Resources is a party to several fuel supply contracts, commodity transportation contracts, and purchase power and electric capacity contracts, that have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities or trading and marketing assets and liabilities in the Consolidated Balance Sheets as of December 31, 2001 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" (see Note 5) or do not meet the definition of a derivative. The maximum duration of any of these commitments is 21 years. Minimum purchase commitment obligations under these agreements are as follows for the next five years, as of December 31, 2001 (in millions):

	PURCHASED POWER AND ELECTRIC AND TRANSPORTATION GAS CAPACITY FUEL COMMITMENTS COMMITMENTS COMMITMENTS		
2002	$105	$ 45	$315
2003	39	84	119
2004	45	101	61
2005	45	101	61
2006	45	101	61
Total	$279	$432	$617

The maximum duration under any individual fuel supply contract and transportation contract is 18 years and 21 years, respectively.

Reliant Resources' aggregate electric capacity commitments, including capacity auction products, are for 7,496 MW, 1,800 MW, 1,000 MW, 1,000 MW and 1,000 MW for 2002, 2003, 2004, 2005 and 2006, respectively. The maximum duration under any individual commitment is five years. Included in the above purchase power and electric capacity commitments are amounts to be acquired from Texas Genco in 2002 and 2003 of $213 million and $57 million, respectively.

As of December 31, 2001, Reliant Resources has commitments, including electric energy and capacity sale contracts and district heating contracts (see Note 14(h)) which are not classified as non-trading derivative assets and liabilities or trading and marketing assets and liabilities in the Consolidated Balance Sheets as these contracts meet the SFAS No. 133 exception to be classified as "normal sales contracts" or do not meet the definition of a derivative. The estimated minimum sale commitments under these contracts are $450 million, $211 million, $194 million, $174 million and $159 million in 2002, 2003, 2004, 2005 and 2006, respectively.

In addition, in January 2002, Reliant Resources began providing retail electric services to approximately 1.5 million residential and small commercial customers previously served by Reliant Energy's electric utility division. Within Reliant Energy's electric utility division's territory, prices that may be charged to residential and small commercial customers by this retail electric service provider are subject to a fixed, specified price (price to beat) at the outset of retail competition. The Texas Utility Commission's regulations allow this retail electric provider to adjust its price to beat fuel factor based on a percentage change in the price of natural gas. In addition, the retail electric provider may also request an adjustment as a result of changes in its price of purchased energy. The retail electric provider may request that its price to beat be adjusted twice a year.

Reliant Resources will not be permitted to sell electricity to residential and small commercial customers in the incumbent's traditional service territory at a price other than the price to beat until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers is committed to be served by other retail electric providers.

Reliant Resources guarantees the performance of certain of its subsidiaries' trading and hedging obligations. As of December 31, 2001, the fixed maximum amount of such guarantees was $4.7 billion. In addition, Reliant Resources has issued letters of credit totaling $51 million in connection with its trading activities. Reliant Resources does not consider it likely that it would be required to perform or otherwise incur any losses associated with these guarantees.

In addition to the above discussions, Reliant Resources' other commitments have various quantity requirements and durations and are not considered material either individually or in the aggregate to its results of operations or cash flows.

(b) LEASE COMMITMENTS

In August 2000, the Company, entered into separate sale-leaseback transactions with each of three owner-lessors covering the subsidiaries' respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, acquired in the REMA acquisition. As lessee, the Company leases an interest in each facility from each owner-lessor under a facility lease agreement. The equity interests in all the subsidiaries of REMA are pledged as collateral for REMA's lease obligations. In addition, the subsidiaries have guaranteed the lease obligations. The lease documents contain restrictive covenants that restrict REMA's ability to, among other things, make dividend distributions unless REMA satisfies various conditions. The covenant restricting dividends would be suspended if the direct or indirect parent of REMA, meeting specified criteria, including having a rating on REMA's long-term unsecured senior debt of at least BBB from Standard and Poor's and Baa2 from Moody's, guarantees the lease obligations. The Company will make lease payments through 2029. The lease term expires in 2034. As of December 31, 2001, REMA had $167 million of restricted funds that are available for REMA's working capital needs and to make future lease payments, including a lease payment of $55 million which was made in January 2002.

In the first quarter of 2001, Reliant Resources entered into tolling arrangements with a third party to purchase the rights to utilize and dispatch electric generating capacity of approximately 1,100 MW extending through 2012. This electricity will be generated by two gas-fired, simple-cycle peaking plants, with fuel oil backup which are being constructed by a tolling partner. Reliant Resources anticipates construction to be completed by the summer of 2002, at which time Reliant Resources will commence tolling payments. The tolling arrangements qualify as operating leases.

In February 2001, the Company entered into a lease for office space for Reliant Resources in a building under construction. The lease agreement was assigned by the Company to Reliant Resources by an assignment and assumption agreement in June 2001. The lease term, which commences in the second quarter 2003, is 15 years with two five-year renewal options. Reliant Resources has the right to name the building.

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2001, which primarily relate to the REMA leases mentioned above. Other non-cancelable, long-term operating leases for Reliant Energy and Reliant Resources principally

consist of tolling arrangements, as discussed above, rental agreements for building space, data processing equipment and vehicles, including major work equipment.

	REMA SALE-LEASE OBLIGATION	RELIANT RESOURCES OTHER	RELIANT ENERGY OTHER	TOTAL
		(IN MILLIONS)		
2002	$ 136	$ 52	$ 14	$ 202
2003	77	72	12	161
2004	84	87	7	178
2005	75	89	6	170
2006	64	90	5	159
2007 and beyond	1,124	469	66	1,659
Total	$1,560	$859	$110	$2,529

Total lease expense for all operating leases was $39 million, $62 million and $112 million during 1999, 2000 and 2001, respectively. During 2001, the Company made lease payments related to the REMA lease of $259 million. As of December 31, 2001, the Company had recorded a prepaid lease obligation related to the REMA sale-leaseback of $59 million and $122 million in other current assets and other long-term assets, respectively.

(c) CROSS BORDER LEASES

During the period from 1994 through 1997, under cross border lease transactions, REPGB leased several of its power plants and related equipment and turbines to non-Netherlands based investors (the head leases) and concurrently leased the facilities back under sublease arrangements with remaining terms as of December 31, 2001 of 1 to 23 years. REPGB utilized proceeds from the head lease transactions to prepay its sublease obligations and to provide a source for payment of end of term purchase options and other financial undertakings. The initial sublease obligations totaled $2.4 billion of which $1.6 billion remained outstanding as of December 31, 2001. These transactions involve REPGB providing to a foreign investor an ownership right in (but not necessarily title to) an asset, with a leaseback of that asset. The net proceeds to REPGB of the transactions were recorded as a deferred gain and are currently being amortized to income over the lease terms. At December 31, 2000 and 2001, the unamortized deferred gain on these transactions totaled $77 million and $68 million, respectively. The power plants, related equipment and turbines remain on the financial statements of REPGB and continue to be depreciated.

REPGB is required to maintain minimum insurance coverages, perform minimum annual maintenance and, in specified situations, post letters of credit. REPGB's shareholder is subject to some restrictions with respect to the liquidation of REPGB's shares. In the case of early termination of these contracts, REPGB would be contingently liable for some payments to the sublessors, which at December 31, 2001, are estimated to be $272 million. Starting in March 2000, REPGB was required by some of the lease agreements to obtain standby letters of credit in favor of the sublessors in the event of early termination. The amount of the required letters of credit was $272 million as of December 31, 2001. Commitments for these letters of credit have been obtained as of December 31, 2001.

(d) NAMING RIGHTS TO HOUSTON SPORTS COMPLEX

In October 2000, Reliant Resources acquired the naming rights for the new football stadium for the Houston Texans, the National Football League's newest franchise. In addition, the naming rights cover the entertainment and convention facilities included in the stadium complex. The agreement extends for 32 years. In addition to naming rights, the agreement provides Reliant Resources with significant sponsorship rights.

The aggregate cost of the naming rights will be approximately $300 million. During the fourth quarter of 2000, Reliant Resources incurred an obligation to pay $12 million in order to secure the long-term commitment and for the initial advertising of which $10 million was expensed in the Statement of Consolidated Income in 2000. Starting in 2002, when the new stadium is operational, Reliant Resources will pay $10 million each year through 2032 for annual advertising under this agreement.

(e) TRANSPORTATION AGREEMENT

A subsidiary of RERC Corp. had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) that contemplated that this subsidiary would transfer to ANR an interest in some of RERC Corp.'s pipeline and related assets. As of December 31, 2000 and 2001, the Company had recorded $41 million in other long-term liabilities in the Company's Consolidated Balance Sheets to reflect the Company's obligation to ANR for the use of 130 million cubic feet (Mmcf)/day of capacity in some of the Company's 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 $36 million.

(f) LEGAL, ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Legal Matters

Reliant Energy HL&P Municipal Franchise Fee Lawsuits. In February 1996, the cities of Wharton, Galveston and Pasadena filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy HL&P's service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of Reliant Energy) alleging underpayment of municipal franchise fees. Plaintiffs claim that they are entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. Because the franchise ordinances at issue affecting Reliant Energy HL&P expressly impose fees only on its own receipts and only from sales of electricity for consumption within a city, the Company regards all of plaintiffs' allegations as spurious and is vigorously contesting the case. The plaintiffs' pleadings asserted that their damages exceeded $250 million. The 269th Judicial District Court for Harris County granted partial summary judgment in favor of Reliant Energy dismissing all claims for franchise fees based on sales tax collections. Other motions for partial summary judgment were denied. A six-week jury trial of the original claimant cities (but not the class of cities) ended on April 4, 2000 (Three Cities case). Although the jury found for Reliant Energy on many issues, they found in favor of the original claimant cities on three issues, and assessed a total of $4 million in actual and $30 million in punitive damages. However, the jury also found in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began.

The trial court in the Three Cities case granted most of Reliant Energy's motions to disregard the jury's findings. The trial court's rulings reduced the judgment to $1.7 million, including interest, plus an award of $13.7 million in legal fees. In addition, the trial court granted Reliant Energy's motion to decertify the class and vacated its prior orders certifying a class. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

The Three Cities case has been appealed. The Company believes that the $1.7 million damage award resulted from serious errors of law and that it will be set aside by the Texas appellate courts. In addition, the Company believes that because of an agreement between the parties limiting fees to a percentage of the damages, reversal of the award of $13.7 million in attorneys' fees in the Three Cities case is probable.

The extent to which issues in the Three Cities case may affect the claims of the other cities served by Reliant Energy HL&P cannot be assessed until judgments are final and no longer subject to appeal. However, the trial court's rulings disregarding most of the jury's findings are consistent with Texas Supreme Court

opinions over the past decade. The Company estimates the range of possible outcomes for the plaintiffs to be between zero and $18 million inclusive of interest and attorneys' fees.

California Wholesale Market. Reliant Energy, Reliant Energy Services, REPG and several other subsidiaries of Reliant Resources, as well as three officers of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(c)), Reliant Resources has agreed to indemnify Reliant Energy for any damages arising under these lawsuits and may elect to defend these lawsuits at its own expense. Three of these lawsuits were filed in the Superior Court of the State of California, San Diego County; two were filed in the Superior Court in San Francisco County; and one was filed in the Superior Court of Los Angeles County. While the plaintiffs allege various violations by the defendants of state antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity, costs of suit and attorneys' fees. The cases were initially removed to federal court and were then assigned to Judge Robert H. Whaley, United States District Judge, pursuant to the federal procedures for multi-district litigation. On July 30, 2000, Judge Whaley remanded the cases to state court. Upon remand to state court, the cases were assigned to Superior Court Judge Janis L. Sammartino pursuant to the California state coordination procedures. On March 4, 2002, Judge Sammartino adopted a schedule proposed by the parties that would result in a trial beginning on March 1, 2004. On March 8, 2002, the plaintiffs filed a single, consolidated complaint naming numerous defendants, including Reliant Energy Services and other Reliant Resources' subsidiaries, that restated the allegations described above and alleged that damages against all defendants could be as much as $1 billion.

Plaintiffs have voluntarily dismissed Reliant Energy from two of the three class actions in which it was named as a defendant. The ultimate outcome of the lawsuits cannot be predicted with any degree of certainty at this time. However, the Company believes, based on its analysis to date of the claims asserted in these lawsuits and the underlying facts, that resolution of these lawsuits will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

On March 11, 2002, the California Attorney General filed a civil lawsuit in San Francisco Superior Court naming Reliant Energy, Reliant Resources, Reliant Energy Services, REPG, and several other subsidiaries of Reliant Resources as defendants. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(c)), Reliant Resources has agreed to indemnify Reliant Energy for any damages arising under these lawsuits and may elect to defend these lawsuits at its own expense. The Attorney General alleges various violations by the defendants of state laws against unfair and unlawful business practices arising out of transactions in the markets for ancillary services run by the California Independent System Operator (Cal ISO). In addition to injunctive relief, the Attorney General seeks restitution and disgorgement of alleged unlawful profits for sales of electricity, and civil penalties. The ultimate outcome of this lawsuit cannot be predicted with any degree of certainty at this time.

On March 19, 2002, the California Attorney General filed a complaint with the FERC naming Reliant Energy Services and "all other public utility sellers" in California as defendants. The complaint alleges that sellers with market-based rates have violated their tariffs by not filing with the FERC transaction-specific information about all of their sales and purchases at market-based rates. The California Attorney General argues that, as a result, all past sales should be subject to refund if found to be above just and reasonable levels. The ultimate outcome of this complaint proceeding cannot be predicted with any degree of certainty at this time. However, the Company believes, based on its analysis to date of the claims asserted in the complaint, the underlying facts, and the relevant statutory and regulatory provisions, that resolution of this

lawsuit will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Natural Gas Measurement Lawsuits. In 1997, a suit was filed under the Federal False Claim Act against RERC and certain of its subsidiaries alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the U.S. District Court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case was consolidated, together with the other similar False Claim Act cases filed and transferred to the District of Wyoming. Motions to dismiss were denied. The defendants intend to vigorously contest this case.

In addition, RERC, REGT, REFS and MRT have been named as defendants in a class action filed in May 1999 against approximately 245 pipeline companies and their affiliates. The plaintiffs in the case purport to represent a class of natural gas producers and fee royalty owners who allege that they have been subject to systematic gas mismeasurement by the defendants, including certain Reliant Energy entities, for more than 25 years. The plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees. The action is currently pending in state court in Stevens County, Kansas. Plaintiffs initially sued Reliant Energy Services, but that company was dismissed without prejudice on June 8, 2001. Other Reliant Energy entities that were misnamed or duplicative have also been dismissed. MRT and REFS have filed motions to dismiss for lack of personal jurisdiction and are currently responding to discovery on personal jurisdiction. All four Reliant Energy defendants have joined in a motion to dismiss.

The defendants plan to raise significant affirmative defenses based on the terms of the applicable contracts, as well as on the broad waivers and releases in take or pay settlements that were granted by the producer-sellers of natural gas who are putative class members.

Environmental Matters

Clean Air Standards. The Company has participated in a lawsuit against the Texas Natural Resource Conservation Commission (TNRCC) regarding the limitation of the emission of oxides of nitrogen (NOx) in the Houston area. A settlement of the lawsuit was reached with the TNRCC in the second quarter of 2001 and revised emissions limitations were adopted by the TNRCC in the third quarter of 2001. The revised limitations provide for an increase in allowable NOx emissions, compared to the original TNRCC requirements, through 2004. Further emission reduction requirements may or may not be required through 2007, depending upon the outcome of further investigations of regional air quality issues. To achieve the TNRCC NOx reduction requirements, the Company anticipates investing up to $721 million in capital and other special project expenditures by 2004, including costs incurred through December 31, 2001, and potentially up to an additional $88 million between 2004 and 2007. The Texas Electric Restructuring Law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company, Inc., Reliant Energy Pipeline Services, Inc., RERC, Reliant Energy Services, Inc., other Reliant Energy entities and third parties (Docket No. 460, 916-Div. "B"), in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented five times. As of March 11, 2002, there were 628 plaintiffs, a majority of whom are Louisiana residents who live near the Wilcox Aquifer. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts.

The suit alleges that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer which lies beneath property owned or leased by the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility." This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution. This site was originally leased and operated by predecessors of Reliant Energy Gas Transmission Company in the late 1940s and was operated until Arkansas Louisiana Gas Company ceased operations of the plant in the late 1970s.

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or dimunition of value of their property, and in addition seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of December 31, 2001, the Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in this matter.

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

At December 31, 2000 and 2001, RERC had accrued $18 million and $23 million, respectively, for remediation of the Minnesota sites. At December 31, 2001, the estimated range of possible remediation costs was $11 million to $49 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used.

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

Other Minnesota Matters. At December 31, 2000 and 2001, RERC had recorded accruals of $4 million and $5 million, respectively for other environmental matters in Minnesota for which remediation may be required. At December 31, 2001 the estimated range of possible remediation costs was $4 million to $8 million.

Mercury Contamination. The Company's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by the Company 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 may exist and that remediation costs may be incurred for these sites. Although the total

amount of these costs cannot be known at this time, based on experience by the Company and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, the Company believes that the costs of any remediation of these sites will not be material to the Company's financial position, results of operations or cash flows.

REMA Ash Disposal Site Closures and Site Contaminations. Under the agreement to acquire REMA (see Note 3(a)), the Company became responsible for liabilities associated with ash disposal site closures and site contamination at the acquired facilities in Pennsylvania and New Jersey prior to a plant closing, except for the first $6 million of remediation costs at the Seward Generating Station. A prior owner retained liabilities associated with the disposal of hazardous substances to off-site locations prior to November 24, 1999. As of December 31, 2000 and 2001, REMA has liabilities associated with six future ash disposal site closures and six current site investigations and environmental remediations. The Company has recorded its estimate of these environmental liabilities in the amount of $36 million as of December 31, 2000 and 2001. The Company expects approximately $16 million will be paid over the next five years.

REPGB Asbestos Abatement and Soil Remediation. Prior to the Company's acquisition of REPGB (see Note 3(b)), REPGB had a $25 million obligation primarily related to asbestos abatement, as required by Dutch law, and soil remediation at six sites. During 2000, the Company initiated a review of potential environmental matters associated with REPGB's properties. REPGB began remediation in 2000 of the properties identified to have exposed asbestos and soil contamination, as required by Dutch law and the terms of some leasehold agreements with municipalities in which the contaminated properties are located. All remediation efforts are to be fully completed by 2005. As of December 31, 2000 and 2001, the recorded estimated undiscounted liability for this asbestos abatement and soil remediation was $24 million and $18 million, respectively.

Other. From time to time the Company has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. The Company has from time to time received notices from regulatory authorities regarding alleged noncompliance with environmental regulatory requirements. In addition, the Company has been named as a defendant in litigation related to allegedly contaminated 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.

Other Matters

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

(g) CALIFORNIA WHOLESALE MARKET UNCERTAINTY.

Receivables. During portions of 2000 and 2001, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreased net electric imports and limitations on supply as a result of maintenance and other outages. The resulting supply and demand imbalance disproportionately impacted California utilities that relied too heavily on short-term power markets to meet their load requirements. Although wholesale prices increased, California's deregulation legislation kept retail rates frozen at 10% below 1996 levels for two of California's public utilities, Pacific Gas and Electric (PG&E) and Southern California Edison Company (SCE), until rates were raised by the California Public Utilities Commission (CPUC) early in 2001.

Due to the disparity between wholesale and retail rates, the credit ratings of PG&E and SCE fell below investment grade. Additionally, PG&E filed for protection under the bankruptcy laws on April 6, 2001. As a result, PG&E and SCE are no longer considered creditworthy and since January 17, 2001 have not directly purchased power from third-party suppliers through the Cal ISO to serve their net short load. Pursuant to emergency legislation enacted by the California Legislature, the California Department of Water Resources (CDWR) has negotiated and purchased power through short and long-term contracts on behalf of PG&E and SCE to meet their net short loads. In December 2001, the CDWR began making payments to the Cal ISO for real-time transactions. The CDWR has now made payment through the Cal ISO for most real-time energy deliveries subsequent to January 17, 2001.

In addition, certain contracts intended to serve as collateral for sales to the California Power Exchange (Cal PX) were seized by California Governor Gray Davis in February 2001. The Ninth Circuit Court of Appeals subsequently ruled that Governor Davis' seizure of these contracts was wrongful. The Company has filed a lawsuit, currently pending in California, to require the state of California to compensate it for the seizure of these contracts. Although SCE made a payment on March 1, 2002 to the Cal PX that included amounts it owed to the Company under these contracts, the Company is still seeking to recover the market value of the contracts at the time they were seized by Governor Davis, which was significantly higher than the contract value, and to collect amounts owed as a result of payment defaults by PG&E under the contracts. The timing and ultimate resolution of these claims is uncertain at this time.

On September 20, 2001, PG&E filed a Plan of Reorganization and an accompanying disclosure statement with the bankruptcy court. Under this plan, PG&E would pay all allowed creditor claims in full, through a combination of cash and long-term notes. Components of the plan will require the approval of the FERC, the SEC and the Nuclear Energy Regulatory Commission, in addition to the bankruptcy court. PG&E has stated it seeks to have this plan confirmed by December 31, 2002. A number of parties are contesting PG&E's reorganization plan, including a number of California parties and agencies. The bankruptcy judge in the PG&E case has ordered that the CPUC may file a competing plan. The details of the CPUC's proposal are unknown at this time. The ability of PG&E to have its reorganization plan confirmed, including the provision providing for the payment in full of unsecured creditors, is uncertain at this time.

On October 5, 2001, a federal district court in California entered a stipulated judgment approving a settlement between SCE and the CPUC in an action brought by SCE regarding the recovery of its wholesale power costs under the filed rate doctrine. Under the stipulated judgment, a rate increase approved earlier in 2001 will remain in place until the earlier of SCE recovering $3.3 billion or December 31, 2002. After that date, the CPUC will review the sufficiency of retail rates through December 31, 2005. A consumer organization has appealed the judgment to the Ninth Circuit Court of Appeals, and no hearing has been held to date. Under the stipulated judgment, any settlement with SCE's creditors that is entered into after March 1, 2002 must be approved by the CPUC. The Company has appealed this provision of the judgment. On March 1, 2002, SCE made a payment to the Cal PX that included amounts it owed the Company. The Company has made a filing with FERC seeking an order providing for the disbursement of the funds owed to

the suppliers. The FERC and the bankruptcy court governing the Cal PX bankruptcy proceedings are considering how to dispense this money and it remains uncertain when those funds will be paid over to the Company.

As of December 31, 2000, the Company was owed a total of $282 million by the Cal PX and the Cal ISO. As of December 31, 2001, the Company was owed a total of $302 million by the Cal ISO, the Cal PX, the CDWR, and California Energy Resources Scheduling for energy sales in the California wholesale market during the fourth quarter of 2000 through December 31, 2001. From January 1, 2002 through March 26, 2002, the Company has collected $45 million of these receivable balances. As of December 31, 2001, the Company had a pre-tax provision of $68 million against receivable balances related to energy sales in the California market, including $39 million recorded in 2000 and $29 million recorded in 2001. Management will continue to assess the collectability of these receivables based on further developments affecting the California electricity market and the market participants described herein.

FERC Market Mitigation. In response to the filing of a number of complaints challenging the level of wholesale prices, the FERC initiated a staff investigation and issued a number of orders implementing a series of wholesale market reforms. Under these orders, and subject to review and adjustment based on the pending refund proceeding described below, the Company may face an as yet undetermined amount of refund liability. See "-- FERC Refunds" below. Under these orders, for the period January 1, 2001 through June 19, 2001, approximately $20 million of the $149 million charged by the Company for sales in California to the Cal ISO and the Cal PX were identified as being subject to possible refunds. During the second quarter of 2001, the Company accrued refunds of $15 million, $3 million of which had been previously expensed during the first quarter of 2001.

On April 26, 2001, the FERC issued an order replacing the previous price review procedures and establishing a market monitoring and mitigation plan, effective May 29, 2001, for the California markets. The plan establishes a cap on prices during periods when power reserves fall below 7% in the Cal ISO (reserve deficiency periods). The Cal ISO is instructed to use data submitted confidentially by gas-fired generators in California and daily indices of natural gas and emissions allowance costs to establish the market-clearing price in real-time based on the marginal cost of the highest-cost generator called to run. The plan also requires generators in California to offer all their available capacity for sale in the real-time market, and conditions sellers' market-based rate authority such that sellers engaging in certain bidding practices will be subject to increased scrutiny by the FERC, potential refunds and even revocation of their market-based rate authority.

On June 19, 2001, the FERC issued an order modifying the market monitoring and mitigation plan adopted in its April 26 order, to apply price controls to all hours, instead of just hours of low operating reserve, and to extend the mitigation measures to other Western states in addition to California, including Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. The FERC set July 2, 2001 as the refund effective date for sales subject to the price mitigation plan throughout the West region. This means that transactions after that date may be subject to refund if found to be unjust or unreasonable. The proxy market clearing price calculated by the Cal ISO will apply during periods of reserve deficiency to all sales in the Cal ISO and Western spot markets. In non-reserve deficiency hours in California, the maximum price in California and the other Western states will be capped at 85% of the highest Cal ISO hourly market clearing price established during the most recent reserve deficiency period. Sellers other than marketers will be allowed to bid higher than the maximum prices, but such bids are subject to justification and potential refund. Justification of higher prices is limited to establishing higher actual gas costs than the proxy calculation averages and making a showing that conditions in natural gas markets changed significantly. The modified monitoring and mitigation plan went into effect June 20, 2001, and will terminate on September 30, 2002, covering two summer peak seasons, or approximately 16 months.

On December 19, 2001, the FERC issued a series of orders on price mitigation in California and the West region. These orders largely maintained existing mitigation mechanisms, but did make a temporary modifica-

tion to the way that mitigated market clearing prices will be set during the winter months, allowing the maximum prices to rise if gas prices rise. The FERC removed the requirement that non-reserve deficiency prices be limited to 85% of the most recent reserve deficiency prices, allowing prices to rise to a mitigated clearing price of $108/MWh (above which price transactions must be justified as described above). In addition, the FERC determined that if gas prices in California rise by 10%, the mitigated price may be revised to take that change into account. The formula will then track subsequent cumulative changes of at least 10%, but may not fall below a maximum price of $108/MWh. This modification is effective December 20, 2001 through April 30, 2002, at which point the previous mitigation formula is reinstated.

Also, the December 19 orders affirm the June 19 order's requirement that generators must offer all available capacity for sale in the real-time market. As a result of this requirement, the Company's opportunity to sell ancillary services in the West region in the future may be reduced. During 2001, the Company recorded $42 million in revenues related to ancillary services in the West region.

In addition to the impact on ancillary services sales, certain aspects of the December 19, 2001 orders may have retroactive application that may affect prices charged in the West region since June 21, 2001. Because the precise application of the December 19, 2001 order is not known at this time, the Company cannot anticipate the resulting impact on earnings.

The Company believes that while the mitigation plan will reduce volatility in the market, the Company will nevertheless be able to profitably operate its facilities in the West. Additionally, as noted above, the mitigation plan allows sellers, such as the Company, to justify prices above the proxy price. However, previous efforts by the Company to justify prices above the proxy price have been rejected by the FERC and there is no certainty that the FERC will allow for the recovery of costs above the proxy price. Finally, any adverse impacts of the mitigation plan on the Company's operations would be mitigated, in part, by the Company's forward hedging activities.

FERC Refunds. The FERC issued an order on July 25, 2001 adopting a refund methodology and initiating a hearing schedule to determine (1) revised mitigated prices for each hour from October 2, 2000 through June 20, 2001; (2) the amount owed in refunds by each supplier according to the methodology (these amounts may be in addition to or in place of the refund amounts previously determined by the FERC); and (3) the amount currently owed to each supplier. The amounts of any refunds will be determined by the FERC after the conclusion of the hearing process. On December 19, 2001, the FERC issued an order modifying the methodology to be used to determine refund amounts. The schedule currently anticipates that the Administrative Law Judge will make his refund amount recommendations to the FERC in October 2002. However, the Company does not know when the FERC will issue its final decision. The Company has not reserved any amounts for potential future refund liability resulting from the FERC refund hearing, nor can it currently predict the amount of these potential refunds, if any, because the methodology used to calculate these refunds is not final and will depend on information that is still subject to review and challenge in the hearing process. Any refunds that are determined in the FERC proceeding will likely be offset against unpaid amounts owed, if any, to the Company for its prior sales.

On November 20, 2001, the FERC instituted an investigation under Section 206 of the Federal Power Act regarding the tariffs of all sellers with market-based rates authority, including the Company. In this proceeding, the FERC conditions the market-based rate authority of all sellers on their not engaging in anti-competitive behavior. Such condition will apply upon a further order from FERC establishing a refund effective date. This condition allows the FERC, if it determines that a seller has engaged in anti-competitive behavior subsequent to the start of the refund effective period, to order refunds back to the date of such behavior. The FERC invited comments regarding this proposal, and the Company has filed comments in opposition to the proposal. On March 11, 2002, the FERC's Staff held a conference with market participants to discuss the comments FERC has received, and possible modification of the proposed conditions to address concerns raised in the comments while protecting consumers against anticompetitive behavior. The timing of

further action by FERC is uncertain. If the FERC does not modify or reject its proposed approach for dealing with anti-competitive behavior, the Company's future earnings may be affected by the open-ended refund obligation.

On February 13, 2002, the FERC issued an order initiating a staff investigation into potential manipulation of electric and natural gas prices in the Western region for the period January 1, 2000 forward. While this order does not propose any action against the Company, if the investigation results in findings that markets were dysfunctional during this period, those findings may be used in support of existing or future claims by the FERC or others that prices in the Company's long-term contracts entered into after January 1, 2000 for sales in the West region should be altered.

Other Investigations. In addition to the FERC investigation discussed above, several state and other federal regulatory investigations and complaints have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action. In California, the California State Senate and the California Office of the Attorney General have separate ongoing investigations into the high prices and their causes. Although these investigations have not been completed and no findings have been made in connection with either of them, the California Attorney General has filed a civil lawsuit in San Francisco Superior Court alleging that the Company has violated state laws against unfair and unlawful business practices and a complaint with the FERC alleging the Company violated the terms of its tariff with the FERC (see Note 14(f)). Adverse findings or rulings could result in punitive legislation, sanctions, fines or even criminal charges against the Company or its employees. The Company is cooperating with both investigations and has produced a substantial amount of information requested in subpoenas issued by each body. The Washington and Oregon attorneys general have also begun similar investigations.

Legislative Efforts. Since the inception of the California energy crisis, various pieces of legislation, including tax proposals, have been introduced in the U.S. Congress and the California Legislature addressing several issues related to the increase in wholesale power prices in 2000 and 2001. For example, a bill was introduced in the California legislature that would have created a "windfall profits" tax on wholesale electricity sales and would subject exempt wholesale generators, such as the Company's subsidiaries that own generation facilities in California, to regulation by the CPUC as "public utilities." To date, only a few energy-related bills have passed and the Company does not believe that the legislation that has been enacted to date on these issues will have a material adverse effect on the Company. However, it is possible that legislation could be enacted on either the state or federal level that could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

(h) INDEMNIFICATION OF STRANDED COSTS

Background. In January 2001, the Dutch Electricity Production Sector Transitional Arrangements Act (Transition Act) became effective and, among other things, allocated to REPGB and the three other large-scale Dutch generation companies, a share of the assets, liabilities and stranded cost commitments of NEA. Prior to the enactment of the Transition Act, NEA acted as the national electricity pooling and coordinating body for the generation output of REPGB and the three other large-scale national Dutch generation companies. REPGB and the three other large-scale Dutch generation companies are shareholders of NEA.

The Transition Act and related agreements specify that REPGB has a 22.5% share of NEA's assets, liabilities and stranded cost commitments. NEA's stranded cost commitments consisted primarily of various uneconomical or stranded cost investments and commitments, including a gas supply and three power contracts entered into prior to the liberalization of the Dutch wholesale electricity market. REPGB's stranded cost obligations also include uneconomical district heating contracts which were previously administrated by NEA prior to deregulation of the Dutch power market.

The gas supply contract expires in 2016 and provides for gas imports aggregating 2.283 billion cubic meters per year. Prior to December 31, 2001, one of the stranded cost power contracts was settled. The two remaining stranded cost power contracts have the following capacities and terms: (a) 300 MW through 2005, and (b) 600 MW through March 2002 and 750 MW through 2009. Under the Transition Act, REPGB can either assume its 22.5% allocated interest in the contracts or, subject to the terms of the contracts, sell its interests to third parties. The district heating obligations relate to three heating water supply contacts entered into with various municipalities and expire from 2013 through 2015. Under the district heating contracts, the municipal districts are required to take annually a combined minimum of 5,549 terajoules (TJ) increasing annually to 7,955 TJ over the life of the contracts.

The Transition Act also authorized the government to purchase from NEA at least a majority of the shares in the Dutch national transmission grid company which was sold to the Dutch government on October 25, 2001 for approximately NLG 2.6 billion (approximately $1.05 billion based on an exchange rate of 2.48 NLG per U.S. dollar as of December 31, 2001).

Prior to December 31, 2001, the former shareholders agreed pursuant to a share purchase agreement to indemnify REPGB for up to NLG 1.9 billion in stranded cost liabilities (approximately $766 million). The indemnity obligation of the former shareholders and various provincial and municipal entities (including the city of Amsterdam), was secured by a NLG 900 million escrow account (approximately $363 million).

The Transition Act provided that, subject to the approval of the European Commission, the Dutch government will provide financial compensation to the Dutch generation companies, including REPGB, for liabilities associated with (a) long-term district heating contracts and (b) an experimental coal facility. In July 2001, the European Commission ruled that under certain conditions the Dutch government can provide financial compensation to the generation companies for the district heating contracts. To the extent that this compensation is not ultimately provided to the generation companies by the Dutch government, REPGB was to collect its compensation directly from the former shareholders as further discussed below.

In January 2001, the Company recognized an out-of-market, net stranded cost liability for its gas and electric contracts and district heating commitments. At such time, the Company recorded a corresponding asset of equal amount for the indemnification of this obligation from REPGB's former shareholders and the Dutch government, as applicable. Pursuant to SFAS No. 133, the gas and electric contracts are marked-to-market (see Note 5). As of December 31, 2001, the Company has recorded a liability of $369 million for its stranded cost gas and electric commitments in non-trading derivative liabilities and a liability of $206 million for its district heating commitments in current and non-current other liabilities. As of December 31, 2001, the Company has recorded an indemnification receivable from the Dutch government for the district heating stranded cost liability of $206 million. The settlement of the indemnification related to gas and electric contract commitments in December 2001 is discussed below.

Settlement of Stranded Cost Indemnification. In December 2001, REPGB and its former shareholders entered into a settlement agreement immediately resolving the former shareholders of their stranded cost indemnity obligations related to the gas supply and power contracts under the original share purchase agreement, and provides conditional terms for the possible settlement of their stranded cost indemnity obligation related to district heating obligations under certain conditions. The settlement agreement was approved in December 2001 by the Ministry of Economic Affairs of the Netherlands.

Under the settlement agreement, the former shareholders paid to REPGB NLG 500 million ($202 million) in January and February 2002. The payment represents a settlement of the obligations of the former shareholders to indemnify REPGB for all stranded cost liabilities other than those relating to the district heating contracts. The full amount of this payment was placed into an escrow account in the name of REPGB to fund its stranded cost obligations related to the gas and electric import contracts. Any remaining escrow funds as of January 1, 2004 will be distributed to REPGB.

Under the settlement agreement, the former shareholders will continue to indemnify REPGB for the stranded cost liabilities relating to district heating contracts. The terms of the indemnity are as follows:

- The settlement agreement acknowledges that the Netherlands is finalizing regulations for compensation of stranded cost associated with district heating projects. Within 21 days after the date these compensation rules take effect, REPGB can elect to receive one of two forms of indemnification under the settlement agreement.

- If the compensation to be paid by the Netherlands under these rules is at least as much as the compensation to be paid under the original indemnification agreement, REPGB can elect to receive a one-time payment of NLG 60 million ($24 million). In addition, unless the decree implementing the new compensation rules provides for compensation for the lifetime of the district heating projects, REPGB can receive an additional cash payment of NLG 15 million ($6 million).

- If the compensation rules do not provide for compensation at least equal to that provided under the original indemnification agreement, REPGB can claim indemnification for stranded cost losses up to a maximum of NLG 700 million ($282 million) less the amount of compensation provided by the new compensation rules and certain proceeds received from arbitrations.

- If no new compensation rules have taken effect on or prior to December 31, 2003, REPGB is entitled, but not obligated, to elect to receive indemnification under the formula described above.

Under the terms of the original indemnification agreement, the former shareholders were entitled to receive any and all distributions and dividends above NLG 125 million ($51 million) paid by NEA. Under the settlement agreement, the former shareholders waived all rights under the original indemnification agreement to claim distributions of NEA.

Reliant Resources recognized a net gain of $37 million for the difference between the sum of (a) the cash settlement payment of $202 million and the additional rights to claim distributions of Reliant Resources' NEA investment recognized of $248 million and (b) the amount recorded as stranded cost indemnity receivable related to the stranded cost gas and electric commitments of $369 million and claims receivable related to stranded cost incurred in 2001 of $44 million both previously recorded in the Consolidated Balance Sheets.

Investment in NEA. During the second quarter of 2001, Reliant Resources recorded a $51 million pre-tax gain (NLG 125 million) recorded as equity income for the preacquisition gain contingency related to the acquisition of REPGB for the value of its equity investment in NEA. This gain was based on Reliant Resources' evaluation of NEA's financial position and fair value. The fair value of Reliant Resources' investment in NEA is dependent upon the ultimate resolution of its existing contingencies and proceeds received from liquidating its remaining net assets. Prior to the settlement agreement discussed above, pursuant to the purchase agreement of REPGB, as amended, REPGB was entitled to a NLG 125 million dividend from NEA with any remainder owing to the former shareholders. As mentioned above, REPGB entered into an agreement with its former shareholders to settle the original indemnification agreement and the former shareholders waived all rights to distributions of NEA. Accordingly, as a component of the net gain recognized from the settlement of the stranded cost indemnity, Reliant Resources recorded a $248 million increase in its investment in NEA. As of December 31, 2001, Reliant Resources has recorded $299 million in equity investments of unconsolidated subsidiaries for its investment in NEA.

(i) 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. In January 2000, the contract term was extended for three years and is expected to terminate in 2009. 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 up to a total cumulative savings of $150 million over the term of the agreement. The cumulative obligation was met in the first quarter of 2001. In 1999, 2000 and 2001, savings generated for CPS' account were $14 million, $60 million and $65 million, respectively. Through December 31, 2001, cumulative savings generated for CPS' account were $189 million.

(j) 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.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $9.3 billion as of December 31, 2001. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. 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.

(k) NUCLEAR DECOMMISSIONING

The Company contributed $14.8 million per year in 1999, 2000 and 2001 to a trust established to fund its share of the decommissioning costs for the South Texas Project. Pursuant to the October 3, 2001 Order, beginning in 2002, the Company will contribute $2.9 million per year to this trust. There are various investment restrictions imposed upon the Company by the Texas Utility Commission and the NRC relating to the Company's nuclear decommissioning trust. Additionally, the Company's board of directors has appointed the Nuclear Decommissioning Trust Investment Committee to establish the investment policy of the trust and oversee the investment of the trusts' assets. The securities held by the trust for decommissioning costs had an estimated fair value of $169 million as of December 31, 2001, of which approximately 46% were fixed-rate debt securities and the remaining 54% were equity securities. For a discussion of the accounting treatment for the securities held in the Company's nuclear decommissioning trust, see Note 2(l). In July 1999, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $363 million. While the current 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 Texas Electric Restructuring Law, 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 charge to transmission and distribution customers. For information regarding the effect of the Business Separation Plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

(l) CONSTRUCTION AGENCY AGREEMENT AND EQUIPMENT FINANCING STRUCTURE

In 2001, Reliant Resources, through several of its subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power

generation projects. The special purpose entities are not consolidated by the Company. The special purpose entities have an aggregate financing commitment from equity and debt participants (Investors) of $2.5 billion of which the last $1.1 billion is currently available only if the cash is collateralized. The availability of the commitment is subject to satisfaction of various conditions, including the obligation to provide cash collateral for the loans and letters of credit outstanding on November 27, 2004. Reliant Resources, through several of its subsidiaries, acts as construction agent for the special purpose entities and is responsible for completing construction of these projects by December 31, 2004, but Reliant Resources has generally limited its risk during construction to an amount not in excess of 89.9% of costs incurred to date, except in certain events. Upon completion of an individual project and exercise of the lease option, Reliant Resources' subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If Reliant Resources does not exercise its option to lease any project upon its completion, Reliant Resources must purchase the project or remarket the project on behalf of the special purpose entities. Reliant Resources' ability to exercise the lease option is subject to certain conditions. Reliant Resources must guarantee that the Investors will receive an amount at least equal to 89.9% of their investment in the case of a remarketing sale at the end of construction. At the end of an individual project's initial operating lease term (approximately five years from construction completion), Reliant Resources' subsidiary lessees have the option to extend the lease with the approval of Investors, purchase the project at a fixed amount equal to the original construction cost, or act as a remarketing agent and sell the project to an independent third party. If the lessees elect the remarketing option, they may be required to make a payment of an amount not to exceed 85% of the project cost, if the proceeds from remarketing are not sufficient to repay the Investors. Reliant Resources has guaranteed the performance and payment of its subsidiaries' obligations during the construction periods and, if the lease option is exercised, each lessee's obligations during the lease period. At any time during the construction period or during the lease, Reliant Resources may purchase a facility by paying an amount approximately equal to the outstanding balance plus costs.

Reliant Resources, through its subsidiary, REPG, has entered into an agreement with a bank whereby the bank, as owner, entered or will enter into contracts for the purchase and construction of power generation equipment and REPG, or its subagent, acts as the bank's agent in connection with administering the contracts for such equipment. Under the agreement, the bank has agreed to provide up to a maximum aggregate amount of $650 million. REPG and its subagents must cash collateralize their obligation to administer the contracts. This cash collateral is approximately equivalent to the total payments by the bank for the equipment, interest and other fees. As of December 31, 2001, the bank had assumed contracts for the purchase of eleven turbines, two heat recovery steam generators and one air-cooled condenser with an aggregate cost of $398 million. REPG, or its designee, has the option at any time to purchase, or, at equipment completion, subject to certain conditions, including the agreement of the bank to extend financing, to lease the equipment, or to assist in the remarketing of the equipment under terms specified in the agreement. All costs, including the purchase commitment on the turbines, are the responsibility of the bank. The cash collateral is deposited by REPG or an affiliate into a collateral account with the bank and earns interest at LIBOR less 0.15%. Under certain circumstances, the collateral deposit or a portion of it, will be returned to REPG or its designee. Otherwise, it will be retained by the bank. At December 31, 2001, REPG and its subsidiary had deposited $230 million into the collateral account. The bank's payments for equipment under the contracts totaled $227 million as of December 31, 2001. In January 2002, the bank sold to the parties to the construction agency agreements discussed above, equipment contracts with a total contractual obligation of $258 million, under which payments and interest during construction totaled $142 million. Accordingly, $142 million of Reliant Resources' collateral deposits were returned to Reliant Resources. As of December 31, 2001, there were equipment contracts with a total contractual obligation of $140 million under which payments during construction totaled $83 million. Currently this equipment is not designated for current planned power generation construction projects. Therefore, the Company anticipates that it will either purchase the equipment, assist in the remarketing of the equipment or negotiate to cancel the related contracts.

(21) BANKRUPTCY OF ENRON CORP. AND ITS AFFILIATES

During the fourth quarter of 2001, Enron filed a voluntary petition for bankruptcy. Accordingly, the Company recorded an $85 million provision, comprised of provisions against 100% of receivables of $88 million and net non-trading derivative balances of $52 million, offset by the Company's net trading and marketing liabilities to Enron of $55 million.

The non-trading derivatives with Enron were designated as Cash Flow Hedges (see Note 5). The net gain on these derivative instruments previously reported in other comprehensive income will remain in accumulated other comprehensive loss and will be reclassified into earnings during the period in which the originally designated hedged transactions occur.

(22) SUBSEQUENT EVENTS

(a) ORION POWER HOLDINGS, INC.

In February 2002, Reliant Resources acquired all of the outstanding shares of Orion Power for $26.80 per share in cash for an aggregate purchase price of $2.9 billion. Reliant Resources funded the Orion Power acquisition with a term loan supported by a $2.9 billion credit facility and $41 million of cash on hand. Interest rates on the term loan are based on LIBOR plus a margin or a base rate. The term loan must be repaid within one year from the date on which it was funded. As a result of the acquisition, Reliant Resources' consolidated net debt obligations also increased by the amount of Orion Power's net debt obligations. As of February 19, 2002, Orion Power's debt obligations were $2.4 billion ($2.1 billion net of cash acquired some of which is restricted pursuant to debt covenants). Orion Power is an independent electric power generating company formed in March 1998 to acquire, develop, own and operate power-generating facilities in certain deregulated wholesale markets throughout North America. As of February 28, 2002, Orion Power had 81 power plants in operation with a total generating capacity of 5,644 MW and an additional 804 MW in construction or in various stages of development.

(b) FACTORING AGREEMENT

In the first quarter of 2002, RERC reduced its trade receivables facility from $350 million to $150 million. Borrowings under the receivables facility aggregating $196 million were repaid in January 2002 with proceeds from the issuance of commercial paper under RERC's $350 million revolving credit facility and from the liquidation of short-term investments.

(c) INTEREST RATE SWAPS

In the first quarter of 2002, the Company entered into interest rate swaps with an aggregate notional amount of $1.25 billion. Swaps with a notional amount of $250 million were entered into for the purpose of fixing rates on short-term debt subject to interest rate fluctuations and do not qualify as cash flow hedges under SFAS No. 133. The swaps with a notional amount of $1 billion were entered into to hedge the interest rate on a future offering of five-year fixed rate notes. These swaps qualify as cash flow hedges under SFAS No. 133.