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, 2000

OR

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

For the transition period from ______________ to _______________

Commission file number 1-3187

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

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

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

Commission file number 1-13265

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

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

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

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

Indicate by check mark whether the registrants: (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes X No
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As of August 4, 2000, Reliant Energy, Incorporated had 293,970,127 shares of common stock outstanding, including 8,899,489 ESOP shares not deemed outstanding for financial statement purposes and excluding 4,811,193 shares held as treasury stock. As of August 4, 2000, all 1,000 shares of Reliant Energy Resources Corp. common stock were held by Reliant Energy, Incorporated.

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

RELIANT ENERGY, INCORPORATED
AND RELIANT ENERGY RESOURCES CORP.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2000

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PART I. FINANCIAL INFORMATION

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	THREE MONTHS ENDED JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 1999	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 1999
REVENUES	$ 5,770,452	$ 3,657,828	$ 10,004,555	$ 6,300,732
EXPENSES:				
Fuel and cost of gas sold	2,934,993	1,637,219	5,275,184	3,069,595
Purchased power	1,407,588	924,481	2,192,522	1,252,988
Operation and maintenance	575,763	428,424	1,045,640	824,211
Taxes other than income taxes	115,721	119,173	227,226	227,157
Depreciation and amortization	235,969	257,409	417,470	447,994
Total	5,270,034	3,366,706	9,158,042	5,821,945
OPERATING INCOME	500,418	291,122	846,513	478,787
OTHER INCOME (EXPENSE):				
Unrealized (loss) gain on Time Warner investment	(1,320,755)	--	202,928	--
Unrealized gain (loss) on indexed debt securities	1,320,755	(68,628)	(202,870)	(399,939)
Other, net	23,793	12,563	43,606	26,028
Total	23,793	(56,065)	43,664	(373,911)
INTEREST AND OTHER CHARGES:				
Interest	187,506	126,320	350,491	252,583
Distribution on trust preferred securities	12,812	13,990	26,704	23,781
Total	200,318	140,310	377,195	276,364
INCOME (LOSS) BEFORE INCOME TAXES, EXTRAORDINARY ITEM AND PREFERRED DIVIDENDS	323,893	94,747	512,982	(171,488)
Income Tax Expense (Benefit)	107,407	19,985	163,343	(36,558)
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM AND PREFERRED DIVIDENDS	216,486	74,762	349,639	(134,930)
Extraordinary Item, net of tax	7,445	--	7,445	--
INCOME (LOSS) BEFORE PREFERRED DIVIDENDS	223,931	74,762	357,084	(134,930)
Preferred Dividends	98	98	195	195
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 223,833	$ 74,664	$ 356,889	$ (135,125)
BASIC EARNINGS (LOSS) PER SHARE	$ 0.79	$ 0.26	$ 1.26	$ (0.47)
DILUTED EARNINGS (LOSS) PER SHARE	$ 0.78	$ 0.26	$ 1.25	$ (0.47)

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	JUNE 30, 2000	DECEMBER 31, 1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 105,314	$ 89,078
Investment in Time Warner common stock	4,182,389	3,979,461
Accounts receivable, net	1,674,871	1,104,640
Accrued unbilled revenues	128,232	172,629
Fuel stock and petroleum products	164,451	152,292
Materials and supplies, at average cost	257,324	188,167
Price risk management assets	588,310	435,336
Prepayments and other current assets	91,937	131,666
Total current assets	7,192,828	6,253,269
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	22,751,998	20,126,330
Less accumulated depreciation and amortization	7,056,469	6,866,325
Property, plant and equipment, net	15,695,529	13,260,005
OTHER ASSETS:		
Goodwill and other intangibles, net	3,125,638	3,041,751
Equity investments and advances to unconsolidated subsidiaries	1,017,268	1,022,210
Regulatory assets	1,846,663	1,739,507
Price risk management assets	549,332	148,722
Other	829,223	755,472
Total other assets	7,368,124	6,707,662
Total Assets	$ 30,256,481	$ 26,220,936

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	JUNE 30, 2000	DECEMBER 31, 1999
CURRENT LIABILITIES:		
Short-term borrowings	$ 6,110,929	$ 2,879,211
Current portion of long-term debt	4,555,404	4,382,136
Accounts payable	1,590,470	1,036,839
Taxes accrued	322,292	227,058
Interest accrued	108,294	116,274
Dividends declared	110,383	110,811
Price risk management liabilities	551,715	431,135
Accumulated deferred income taxes	429,640	415,591
Business purchase obligation	--	431,570
Other	470,236	360,109
Total current liabilities	14,249,363	10,390,734
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	2,392,595	2,451,619
Unamortized investment tax credits	274,902	270,243
Price risk management liabilities	523,791	117,437
Benefit obligations	341,095	400,849
Business purchase obligation	--	596,303
Other	1,140,033	1,020,837
Total deferred credits and other liabilities	4,672,416	4,857,288
LONG-TERM DEBT	5,167,122	4,961,310
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 10)		
COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY	705,166	705,272
STOCKHOLDERS' EQUITY:		
Cumulative preferred stock	9,740	9,740
Common stock	3,209,401	3,182,751
Treasury stock	(120,602)	(93,296)
Unearned ESOP stock	(170,374)	(199,226)
Retained earnings	2,644,888	2,500,181
Accumulated other comprehensive loss	(110,639)	(93,818)
Total stockholders' equity	5,462,414	5,306,332
Total Liabilities and Stockholders' Equity	$ 30,256,481	$ 26,220,936

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

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

	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) attributable to common stockholders	$ 356,889	$ (135,125)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	417,470	447,994
Deferred income taxes	(15,039)	(182,876)
Investment tax credits	(9,142)	(50,951)
Unrealized gain on Time Warner investment	(202,928)	--
Unrealized loss on indexed debt securities	202,870	399,939
Undistributed net loss of unconsolidated subsidiaries	17,590	64,654
Impairment of marketable equity securities	22,185	--
Extraordinary item...	(7,445)	--
Changes in other assets and liabilities:		
Accounts receivable, net	(514,798)	70,899
Inventories	(8,669)	(8,693)
Accounts payable	542,048	(33,131)
Federal tax refund	52,817	--
Fuel cost under recovery	(261,094)	(12,915)
Restricted deposits	(125,084)	(51,035)
Other, net	75,938	47,241
Net cash provided by operating activities	543,608	556,001
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(827,136)	(441,296)
Business acquisitions	(3,102,101)	--
Investments and advances to unconsolidated subsidiaries	(54,893)	(20,458)
Proceeds from sale of debt securities............................	123,428	--
Other, net	54,163	7,980
Net cash used in investing activities	(3,806,539)	(453,774)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of trust preferred securities, net	--	362,994
Proceeds from long-term debt, net	92,098	215,023
Increase (decrease) in short-term borrowing, net	3,852,146	(6,725)
Restricted deposit for bond redemption	--	(200,000)
Payments of long-term debt	(462,145)	(208,354)
Payment of common stock dividends	(212,423)	(213,641)
Purchase of treasury stock	(27,306)	--
Other, net	27,278	(14,558)
Net cash provided by (used in) financing activities	3,269,648	(65,261)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	9,519	--
NET INCREASE IN CASH AND CASH EQUIVALENTS	16,236	36,966
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	89,078	29,673
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 105,314	$ 66,639

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	2000	1999
Cash Payments:		
Interest (net of amounts capitalized)	$ 374,015	$ 219,790
Income taxes	72,195	181,210

See Notes to the Company's Interim Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Included in this combined Quarterly Report on Form 10-Q (Form 10-Q) for Reliant Energy, Incorporated (Reliant Energy), together with its subsidiaries (the Company), and for Reliant Energy Resources Corp. (Resources Corp.) and its subsidiaries (collectively, Resources) are Reliant Energy's and Resources Corp.'s consolidated interim financial statements and notes (Interim Financial Statements) including such companies' wholly owned and majority owned subsidiaries. The Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the combined Annual Report on Form 10-K of Reliant Energy (Reliant Energy Form 10-K) and Resources Corp. (Resources Corp. Form 10-K) for the year ended December 31, 1999 and the combined First Quarter Report on Form 10-Q of Reliant Energy (Reliant Energy First Quarter 10-Q) and Resources Corp. (Resources Corp. First Quarter 10-Q) for the quarter ended March 31, 2000.

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

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

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

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

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

The Company recognizes repair and maintenance costs incurred in connection with planned major maintenance under the "accrual in advance" method for its non-rate regulated power generation operations. Under the accrual in advance method, the Company estimates the costs of planned major maintenance and accrues the related expense over the maintenance cycle. As of June 30, 2000 and December 31, 1999, the Company's maintenance reserve included in Other Deferred Credits and Other Liabilities in its Consolidated Balance Sheets was $92 million and $84 million, respectively.

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

In June 1999, the Texas legislature adopted the Texas Electric Choice Plan (Legislation). The Legislation substantially amends the regulatory structure governing electric utilities in Texas in order to allow retail competition. In June 2001, retail competition pilot projects for 5% of each utility's combined load of all customer classes will begin under the Legislation. Retail competition for all other customers will begin on January 1, 2002. In preparation for that competition, the Company expects to make significant changes in the electric utility operations conducted through Reliant Energy HL&P, an unincorporated division of Reliant Energy. By January 1, 2002, electric utilities in Texas such as Reliant Energy HL&P will restructure their businesses in order to separate power generation, transmission and distribution, and retail activities into different units. Pursuant to the Legislation, the Company submitted an amended plan on August 9, 2000 to accomplish the required separation of its regulated operations into separate units. See Note 12 for further information regarding the filing of an amended business separation plan. In addition, the Legislation requires the Public Utility Commission of Texas (PUC) to issue a number of new rules and determinations in implementing the Legislation. For additional information on the Legislation, see Note 3 of the Reliant Energy 10-K Notes.

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

The transmission and distribution (T&D) business of Reliant Energy HL&P will continue to be subject to cost-of-service rate regulation and will be responsible for the delivery of electricity to retail customers. Pursuant to the Legislation, on March 31, 2000, Reliant Energy HL&P filed proposed tariffs with the PUC, which are to be effective on January 1, 2002 for its transmission and distribution operations. The Company's final phase of the T&D rate case is not expected to be heard until January 2001.

(3) ACQUISITIONS

On May 12, 2000, a subsidiary of the Company purchased entities owning non-rate regulated power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having an annual average net generating capacity of approximately 4,300 megawatts (MW). With the exception of certain development entities which were sold to another subsidiary of the Company in July 2000, the assets are held by Reliant Energy Mid-Atlantic Power Holdings, LLC or its subsidiaries (collectively REMA), which are all indirect subsidiaries of Reliant Energy. The purchase price was approximately $2.1 billion. The Company accounted for the acquisition as a purchase with assets and liabilities of REMA reflected at their estimated fair values. On a preliminary basis, the Company's fair value adjustments related to the acquisition primarily included increases in property, plant and equipment, regulatory emission credits, materials and supplies inventory, major maintenance reserves and related deferred taxes. The Company expects to finalize these fair value adjustments prior to May 2001 and does not anticipate material additional modifications to the preliminary adjustments. Funds for the acquisition were made available through issuances of commercial paper supported by two bank facilities, one in the amount of $1.0 billion and another in the amount of $1.15 billion. The $1.0 billion facility expires in May 2001. The revolving commitment period for the $1.15 billion facility terminates in May 2001 and any outstanding borrowings at that time convert to a one-year term facility.

The Company's results of operations include the results of REMA only for the period beginning May 12, 2000. The following table presents certain pro forma information for the second quarter and first six months of 2000, as if the acquisition had occurred on January 1, 2000. Pro forma information has not been presented for REMA for the second quarter and first six months of 1999 due to the fact that the acquired assets and related operations did not constitute a business prior to November 24, 1999. Prior to November 24, 1999, the acquired entities' operations were fully integrated with, and their results of operations were consolidated into, the regulated electric utility operations of the former owner of the facilities. In addition, prior to November 24, 1999, the electric output of the facilities was sold based on rates set by regulatory authorities and are not indicative of REMA's future results.

PRO FORMA COMBINED RESULTS OF OPERATIONS

	JUNE 30, 2000	
	THREE MONTHS ENDED	SIX MONTHS ENDED
	(IN MILLIONS, EXCEPT PER SHARE DATA)	
Revenues	$ 5,830	$ 10,171
Net income attributable to common stockholders	222	344
Basic and diluted earnings per share	0.78	1.21

These 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 January 1, 2000. Purchase-related adjustments to the results of operations include the effects on depreciation, interest expense and income taxes.

Included in the REMA acquisition are partial undivided interests in the Conemaugh and Keystone generating stations (Conemaugh and Keystone, respectively), two jointly owned generation stations. Conemaugh and Keystone are each owned as a tenancy in common among their co-owners, with each owner retaining its undivided ownership interest in the generating units and the electrical output from those units. The Company's share of ownership interest in Conemaugh and Keystone is 16.45% and 16.67%, respectively. The Company bears a corresponding share of the capital and operating costs associated with these facilities. Reliant Energy Northeast Management Company, a subsidiary of REMA, operates and manages Conemaugh and Keystone under separate operating agreements which the owners have elected to terminate effective December 31, 2002. No decisions have been made as yet regarding operating arrangements subsequent to the termination date. The Company's net investment in Conemaugh and Keystone is $644 million as of June 30, 2000.

On March 1, 2000, the Company funded the remaining obligation of $987 million to purchase the shares of N.V. UNA (UNA), a Dutch power generation company. At December 31, 1999, the Company recorded the commitment for this purchase as a business purchase obligation in the Company's Consolidated Balance Sheet based on an exchange rate of 2.19 Dutch guilders (NLG) per U.S. dollar (the exchange rate on December 31, 1999). Effective October 1, 1999, the Company recorded 100% of the operating results of UNA. The Company accounted for the acquisition as a purchase with assets and liabilities of UNA reflected at their estimated fair values. The excess of the purchase price over the fair value of net assets acquired of approximately $840 million was recorded as goodwill and is being amortized over 35 years. On a preliminary basis, the Company's fair value adjustments related to the acquisition of UNA primarily included increases in property, plant and equipment, long-term debt, major maintenance reserves and related deferred taxes. The Company expects to finalize these fair value adjustments during 2000. The Company, however, does not anticipate that any additional adjustments will be material. For additional information regarding the acquisition of UNA, see Note 2 of the Reliant Energy 10-K Notes.

(4) DEPRECIATION AND AMORTIZATION

The Company's depreciation expense for the second quarter and first six months of 2000 was $99 million and $190 million, respectively, compared to $227 million and $366 million for the same periods in 1999. Goodwill amortization relating to acquisitions was $23 million and $44 million for the three and six months ended June 30, 2000, respectively, compared to $14 million and $28 million for the same periods in 1999. Other amortization expense, including amortization of regulatory assets, was $114 million and $183 million for the second quarter and first six months of 2000, respectively, compared to $16 million and $54 million for the same periods in 1999.

In June 1998, the PUC issued an order approving a transition to competition plan (Transition Plan) filed by Reliant Energy HL&P in December 1997. Pursuant to the Transition Plan, the Company recorded $76 million and $89 million of additional depreciation for the second quarter and first six months of 1999, respectively, and redirected $51 million and $102 million of transmission and distribution depreciation to generation assets for the second quarter and first six months of 1999, respectively. For information regarding the additional depreciation of electric utility generating assets and the redirection of transmission and distribution depreciation to generation assets under the Transition Plan, see Note 1(g) of the Reliant Energy 10-K Notes. The Legislation provides that depreciation expense for transmission and distribution related assets may be redirected to generation assets from

1999 through 2001 for regulatory purposes. Because the electric generation operations portion of Reliant Energy HL&P discontinued application of SFAS No. 71 effective June 30, 1999, such operations can no longer record additional or redirected depreciation for financial reporting purposes. However, for regulatory purposes, the Company continues to redirect transmission and distribution depreciation to generation assets. As of June 30, 2000 and December 31, 1999, the cumulative amount of redirected depreciation for regulatory purposes was $501 million and $393 million, respectively.

The Company reassessed the economic lives of Reliant Energy HL&P's generation plant and equipment in 1999 and certain prospective depreciation rates were revised due to changing economic circumstances as a result of the Legislation. This change in depreciation rates reduced depreciation expense for Reliant Energy HL&P's generation plant and equipment by $18 million and $36 million for the second quarter and first six months of 2000, respectively. The effect on basic and diluted earnings per share for the second quarter and first six months of 2000 is $0.04 and $0.08, respectively.

In 1999, the Company determined that approximately $800 million of Reliant Energy HL&P's electric generation assets were impaired. The Legislation provides for recovery of this impairment through regulated cash flows. Therefore, a regulatory asset was recorded for an amount equal to the impairment in the Company's Consolidated Balance Sheets. The Company amortizes this regulatory asset as it is recovered from regulated cash flows. During the second quarter and first six months of 2000, the Company recorded $95 million and $147 million, respectively, of amortization expense related to the recoverable impaired plant costs and other deferred debits created from discontinuing SFAS No. 71.

Pursuant to the Legislation, through securitization, the Company is allowed to recover generation-related regulatory assets and liabilities reported in the December 31, 1998 Reliant Energy Form 10-K. On May 31, 2000, the PUC issued a financing order to the Company authorizing the issuance of transition bonds in an amount not to exceed $740 million plus actual up-front qualified costs. The Company has discontinued amortizing certain generation-related regulatory assets effective January 1, 1999. For additional information regarding the discontinuance of SFAS No. 71 for electric generation operations, see Notes 1(d) and 3 of the Reliant Energy 10-K Notes.

(5) COMPREHENSIVE INCOME

The Company had total comprehensive income of $202 million and $340 million, respectively, for the second quarter and first six months of 2000, and total comprehensive income of $82 million and total comprehensive loss of $177 million, respectively, for the second quarter and first six months of 1999. The following table summarizes the components of total comprehensive income.

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS)			
Net income (loss)	$ 224	$ 75	$ 357	$ (135)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(23)	8	(33)	(43)
Unrealized gain (loss) on available for sale securities	1	(1)	2	1
Plus: Reclassification adjustment for impairment loss on available for sale securities realized in net income	--	--	14	--
Comprehensive income (loss)	$ 202	$ 82	$ 340	$ (177)

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

(a) Short-term Borrowings.

As of June 30, 2000, the Company had credit facilities, which included the facilities of several financing subsidiaries, UNA, Resources Corp. and Reliant Energy International, Inc., that provided for an aggregate of $7.4 billion in committed credit (including the Euro 600 million facility discussed below) of which $0.7 billion was unused. One of the credit facilities included a $65 million sub-facility under which letters of credit may be obtained. Letters of credit under the sub-facility aggregated $63 million as of June 30, 2000.

In February 2000, a financing subsidiary of the Company established a $650 million revolving credit facility that originally terminated on May 31, 2000. The $650 million revolving credit facility was extended and now terminates on the earlier of September 1, 2000 or the date on which a replacement credit facility is established. In February 2000, the Company established a $200 million revolving credit facility. In June 2000, all borrowings under the $200 million credit facility were repaid and the facility was terminated.

In April 2000, a subsidiary of the Company arranged for unsecured borrowings aggregating $54 million.

In connection with the REMA acquisition in May 2000, a financing subsidiary of the Company established two credit facilities aggregating $2.15 billion which support outstanding commercial paper in the amount of $2.15 billion. The $1.0 billion facility expires in May 2001. The revolving commitment period for the $1.15 billion facility terminates in May 2001, at which time outstanding borrowings under this facility convert to a one-year term facility. These facilities are subject to partial repayment and mandatory commitment reductions in the event that certain corporate transactions occur. See Note 3 for additional information regarding the acquisition of the REMA entities.

In June 2000, a financing subsidiary of the Company established $250 million credit facility which terminates on October 23, 2000. At June 30, 2000, $200 million of this facility was borrowed at an interest rate of 7.5%.

(b) Long-term Debt.

In February 2000, a subsidiary of the Company established a Euro 600 million term loan facility which terminates in March 2003. At June 30, 2000, $572 million (based on the exchange rate on June 30, 2000 of 0.9525 Euro per U.S. dollar) under this facility was outstanding at an interest rate of 6.65%. Borrowings under this facility have been classified as long-term debt based upon the expiration date of the committed credit facility and the Company's intent and ability to borrow under such facility for more than one year.

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

During the second quarter of 2000, UNA negotiated the repurchase of approximately $272 million in aggregate principal amount of its long-term debt for a total cost of approximately $14 million. The book value of the debt repurchased was approximately $293 million resulting in an extraordinary gain on the early extinguishment of long-term debt of approximately $7 million. Borrowings under a short-term banking facility and proceeds from sale of debt securities were used to finance the reacquisition of such debt.

(7) 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, 2000	FOR THE THREE MONTHS ENDED JUNE 30, 1999	FOR THE SIX MONTHS ENDED JUNE 30, 2000	FOR THE SIX MONTHS ENDED JUNE 30, 1999
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Basic EPS Calculation:				
Income (loss) before extraordinary item and preferred dividends	$ 216,486	$ 74,762	349,639	(134,930)
Less: Preferred dividends	98	98	195	195
Net income (loss) before extraordinary item	216,388	74,664	349,444	(135,125)
Extraordinary item	7,445	--	7,445	--
Net income (loss) attributable to common stockholders	$ 223,833	$ 74,664	$ 356,889	$ (135,125)
Weighted average shares outstanding	284,238	285,474	283,658	285,222
Basic EPS:				
Net income (loss) before extraordinary item	$ 0.76	$ 0.26	$ 1.23	$ (0.47)
Extraordinary item	0.03	--	0.03	--
Net income (loss)	$ 0.79	$ 0.26	$ 1.26	$ (0.47)
Diluted EPS Calculation:				
Net income (loss) attributable to common stockholders	$ 223,833	$ 74,664	$ 356,889	$ (135,125)
Plus: Income impact of assumed conversions:				
Interest on 6 1/4% trust preferred securities	5	9	10	--
Total effect assuming dilution	$ 223,838	$ 74,673	$ 356,899	$ (135,125)
Weighted average shares outstanding	284,238	285,474	283,658	285,222
Plus: Incremental shares from assumed conversions (1)(2):				
Stock options	1,562	576	979	--
Restricted stock	753	740	753	--
6 1/4% trust preferred securities	15	27	15	--
Weighted average shares assuming dilution	286,568	286,817	285,405	285,222
Diluted EPS:				
Net income (loss) before extraordinary item	$ 0.75	$ 0.26	$ 1.22	$ (0.47)
Extraordinary item	0.03	--	0.03	--
Net income (loss)	$ 0.78	$ 0.26	$ 1.25	$ (0.47)

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(1) For the three months ended June 30, 2000, the computation of diluted EPS excludes purchase options for 52,307 shares of common stock that have exercise prices (ranging from $28.72 to $32.22 per share) greater than the $27.21 per share average market price. For the three months ended June 30, 1999, the computation of diluted EPS excludes purchase options for 23,334 shares of common stock that have exercise prices (ranging from $28.71 to $35.18 per share) greater than the $28.52 per share average market price for the period and would thus be anti-dilutive if exercised.

(2) For the six months ended June 30, 2000, the computation of diluted EPS excludes purchase options for 452,327 shares of common stock that have exercise prices (ranging from $25.81 to $32.22 per share) greater than the $24.74 per share average market price. Assumed conversions were not included in the computation of diluted earnings per share for the six months ended June 30, 1999 because additional shares outstanding would result in an anti-dilutive per share amount. The computation for the six months ended June 30, 1999 excludes 740,000 shares of restricted stock, 27,000 shares for assumed conversion of debentures and purchase options for 628,000 shares of common stock, which would be anti-dilutive if exercised.

(8) CAPITAL STOCK

(a) Common Stock.

Reliant Energy has 700,000,000 authorized shares of common stock. At June 30, 2000, 298,558,239 shares of Reliant Energy common stock were issued and 284,711,565 shares of Reliant Energy common stock were outstanding. At December 31, 1999, 297,612,478 shares of Reliant Energy common stock were issued and 283,308,371 shares of Reliant Energy common stock were outstanding. Outstanding common shares exclude (a) shares pledged to secure a loan to Reliant Energy's Employee Stock Ownership Plan (9,029,489 and 10,679,489 at June 30, 2000 and December 31, 1999, respectively) and (b) treasury shares (4,817,185 and 3,624,618 at June 30, 2000 and December 31, 1999, respectively). Reliant Energy declared dividends of $0.375 per share in each of the second quarters of 2000 and 1999. Also, Reliant Energy declared dividends totaling $0.750 per share in each of the six month periods ending June 30, 2000 and 1999.

During the first six months of 2000, Reliant Energy purchased 1,183,800 shares of Reliant Energy common stock at an average price of $23.07 per share or an aggregate purchase price of $27 million. As of June 30, 2000, Reliant Energy was authorized to purchase an additional $271 million of Reliant Energy common stock.

(b) Preference Stock.

Reliant Energy issued the following shares of preference stock now owned by one of its financing subsidiaries on the dates indicated:

DATE	PREFERENCE SERIES	NUMBER OF SHARES
February 2000	Series G	6,825
May 2000	Series H	12,100
May 2000	Series I	10,525
June 2000	Series J	2,100

Series G, H, I and J preference stock are not deemed outstanding for financial reporting purposes because the sole shareholder of each series is a wholly owned subsidiary of Reliant Energy.

(9) 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:

TRUST	AGGREGATE LIQUIDATION AMOUNT JUNE 30, 2000	AGGREGATE LIQUIDATION AMOUNT DECEMBER 31, 1999	DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
	(IN MILLIONS)				
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 previously issued to the public by statutory business trusts created by Reliant Energy, see Note 11 of the Reliant Energy 10-K Notes. The sole asset of each trust consists of junior subordinated debentures of Reliant Energy having interest rates and maturity dates corresponding to each issue of preferred or capital securities, and the principal amounts corresponding to the common and preferred or capital securities issued by that trust.

(b) Resources Corp.

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

TRUST	AGGREGATE LIQUIDATION AMOUNT (IN MILLIONS) JUNE 30, 2000	DECEMBER 31, 1999	DISTRIBUTION RATE/ INTEREST RATE	MANDATORY REDEMPTION DATE/ MATURITY DATE	JUNIOR SUBORDINATED DEBENTURES
Resources Trust	$ 1	$ 1	6.25%	June 2026	6.25% Convertible Junior Subordinated Debentures due 2026

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

(10) COMMITMENTS AND CONTINGENCIES

(a) Legal, Tax and Regulatory Proceedings

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

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

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

(b) Environmental Matters

The Company is a defendant in litigation arising out of the environmental remediation of a site in Corpus Christi, Texas. The suit was instituted by the State of Texas in an effort to recover money it expended in the oversight of the remedial work at the site performed by the Company and others. Third parties operated the site as a metals reclaiming operation. Although the Company neither operated nor owned the site, third parties may have delivered various transformers and other equipment originally sold by the Company to the site. The Company and others have remediated the site pursuant to a plan approved by appropriate state agencies and a federal court. On the basis of third party claims filed by the Company in the State's loss recovery action, the Company has recovered or has commitments to recover from other responsible parties $2.7 million of the approximately $3 million (including recoverable legal fees) it spent on remediation of the site.

Under the agreement to acquire REMA, the Company assumed liabilities associated with site contamination at certain of the acquired facilities in Pennsylvania and New Jersey. The Company has recorded accruals of approximately $24 million for these environmental liabilities as of June 30, 2000.

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

(11) REPORTABLE SEGMENTS

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

	AS OF AND FOR THE THREE MONTHS ENDED JUNE 30, 2000			
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
	(IN MILLIONS)			
Electric Operations	$ 1,421	$ --	$ 325	$ 10,235
Wholesale Energy	3,382	84	184	6,505
Natural Gas Distribution	705	16	(6)	3,369
Interstate Pipelines	27	52	28	2,002
Reliant Energy Europe (1)	136	--	24	2,937
Reliant Energy Latin America	10	--	(20)	1,153
Corporate	89	(7)	(35)	4,698
Reconciling Elimination	--	(145)	--	(643)
Consolidated	$ 5,770	$ --	$ 500	$ 30,256

	FOR THE SIX MONTHS ENDED JUNE 30, 2000		
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
	(IN MILLIONS)		
Electric Operations	$ 2,368	$ --	$ 527
Wholesale Energy	5,420	221	168
Natural Gas Distribution	1,619	16	97
Interstate Pipelines	61	92	56
Reliant Energy Europe (1)	286	--	57
Reliant Energy Latin America	31	--	(16)
Corporate	220	1	(42)
Reconciling Elimination	--	(330)	--
Consolidated	$ 10,005	$ --	$ 847

	FOR THE THREE MONTHS ENDED JUNE 30, 1999			AS OF DECEMBER 31, 1999
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)	TOTAL ASSETS
	(IN MILLIONS)			
Electric Operations	$ 1,167	$ --	$ 253	$ 9,941
Wholesale Energy	1,906	32	9	2,773
Natural Gas Distribution	475	--	1	3,683
Interstate Pipelines	27	39	27	2,212
Reliant Energy Europe (1)	--	--	--	3,247
Reliant Energy Latin America	43	--	15	1,156
Corporate	40	17	(14)	4,349
Reconciling Elimination	--	(88)	--	(1,140)
Consolidated	$ 3,658	$ --	$ 291	$ 26,221

	FOR THE SIX MONTHS ENDED JUNE 30, 1999		
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME (LOSS)
		(IN MILLIONS)	
Electric Operations	$ 2,017	$ --	$ 395
Wholesale Energy	2,845	101	10
Natural Gas Distribution	1,279	1	106
Interstate Pipelines	53	79	55
Reliant Energy Latin America	(8)	--	(63)
Corporate	115	36	(24)
Reconciling Elimination	--	(217)	--
Consolidated	$ 6,301	$ --	$ 479

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(1) Reliant Energy Europe was created in the fourth quarter of 1999.

Reconciliation of Operating Income to Net Income:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
		(IN MILLIONS)		
Operating income	$ 500	$ 291	$ 847	$ 479
Interest expense	188	126	350	253
Net unrealized loss on indexed debt securities and Time Warner investment	--	69	--	400
Distribution on trust preferred securities	13	14	27	24
Income tax expense (benefit)	107	20	163	(37)
Extraordinary gain, net of tax	(7)	--	(7)	--
Other income	(25)	(13)	(43)	(26)
Net income (loss) attributable to common stockholders ..	$ 224	$ 75	$ 357	$ (135)

(12) SUBSEQUENT EVENTS

On August 9, 2000, Reliant Energy filed an amended business separation plan with the PUC under which it would divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. For additional information regarding Reliant Energy's plan to file the amended business separation plan, see the Reliant Energy and Resources Corp. combined current report on Form 8-K dated July 27, 2000, which information is incorporated herein by reference. The amended plan actually filed follows the proposed plan described in the Form 8-K other than the cash payment that the unregulated company will receive from the regulated company in 2004 will have a "collar" placed on it such that the cash amount will not equal the market value of the regulated company's interest in the Texas regulated generation operations if the market value is outside of the collar. If the market value is above the collar, the cash amount will be less than the market value. If the market value is below the collar, the cash amount will be greater than the market value. The amended plan is subject to PUC approval.

On August 8, 2000, Reliant Energy International, Inc. (Reliant Energy International) and Reliant Energy Salvador Holding Company Ltd. (Salvador Holding) entered into an agreement to sell the interests held by Salvador Holding in El Salvador, subject to the satisfaction of certain conditions precedent provided for in the purchase agreement. The sale of the Company's interests held by Salvador Holding is not expected to have a material impact on the results of operations of the Company.

On July 6, 2000, Resources Corp. issued $325 million of notes having an interest rate of 8.125% and a maturity date of July 15, 2005. Resources Corp. used the proceeds from the sale of the notes for general corporate purposes, including the repayment of $200 million of Resources Corp.'s 7.5% notes that matured on August 1, 2000 and the repayment of a portion of its short-term indebtedness.

On July 1, 2000, the Company exercised its option and exchanged 37.9 million shares of Time Warner, Inc. common stock for satisfaction of the full maturity value (and its value at June 30, 2000), of $2.9 billion of its unsecured 7% Automatic Common Exchange Securities (ACES). For additional information regarding ACES, see Note 8 of the Reliant Energy 10-K notes.

In July 2000, a financing subsidiary of the Company borrowed an additional $50 million under a $250 million revolving credit facility that was established in June 2000. Proceeds were used by the financing subsidiary to purchase Series K Preference Stock of Reliant Energy. The Company used the proceeds for general corporate purposes.

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

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

The Company is a diversified international energy services and delivery company, providing energy and energy services in North America, Western Europe and Latin America. The Company operates one of the United States' largest electric utilities in terms of kilowatt-hour sales, and its three natural gas distribution divisions together form the United States' third largest natural gas distribution operation in terms of customers served. The Company's wholesale energy trading and marketing business ranks among the top five in the United States in combined electricity and natural gas volume sales and has a presence in most of the major power regions of the United States. It also has power generation and wholesale trading and marketing operations in Western Europe. The Company invests in international electric utility privatizations and the development of non-rate regulated domestic power generation projects. Additionally, the Company owns an interstate natural gas pipeline which provides gas transportation, supply, gathering and storage services.

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

In March 2000, the Company announced that it had retained an investment banking firm to assist it in evaluating strategic alternatives, including divestiture, for (a) two of its natural gas distribution divisions, Reliant Energy Arkla and Reliant Energy Minnegasco, (b) its Interstate Pipelines' operation and (c) its natural gas gathering and pipeline services operations. The evaluation has been completed and the Company has no current plans to sell or otherwise dispose of these businesses.

On August 9, 2000, Reliant Energy filed an amended business separation plan with the PUC under which it would divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. For additional information regarding the amended plan, see Note 12 to the Company's Interim Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS, EXCEPT PER SHARE DATA)			
Revenues	$ 5,770	$ 3,658	$ 10,005	$ 6,301
Operating Expenses	5,270	3,367	9,158	5,822
Operating Income	500	291	847	479
Other Income	24	13	43	26
Interest Expense and Other Charges	200	140	377	277
Net Unrealized Loss on Indexed Debt Securities and Time Warner Investment	--	69	--	400
Income Tax Expense (Benefit)	107	20	163	(37)
Extraordinary Gain, Net of Tax	7	--	7	--
Net Income (Loss) Attributable to Common Stockholders$	$ 224	$ 75	$ 357	$ (135)
Basic Earnings (Loss) Per Share	$ 0.79	$ 0.26	$ 1.26	$ (0.47)
Diluted Earnings (Loss) Per Share	$ 0.78	$ 0.26	$ 1.25	$ (0.47)

THREE MONTHS ENDED JUNE 30, 2000 COMPARED TO THREE MONTHS ENDED JUNE 30, 1999

The Company reported consolidated net income of $224 million ($0.79 per basic share) for the three months ended June 30, 2000 compared to consolidated net income of $75 million ($0.26 per basic share) for the same period in 1999. The 2000 results included an extraordinary gain of $7 million related to the early extinguishment of long-term debt. The 1999 results included a $45 million after-tax, non-cash, unrealized accounting loss on indexed debt securities and a $4 million after-tax, non-cash loss resulting from the effect of the devaluation of the Brazilian real on equity earnings of the Company's Brazilian investments.

The Company's consolidated net income, after adjusting for the charges described above, was $216 million ($0.76 per share) for the second quarter of 2000 compared to $123 million ($0.43 per share) for the second quarter of 1999. The $93 million increase in consolidated net income was primarily due to increased earnings from the Electric Operations and Wholesale Energy segments and additional earnings from the Reliant Energy Europe segment which was established in the fourth quarter of 1999 with the acquisition of UNA, a Dutch power generation company. Quarter-to-quarter earnings increases were slightly offset by lower earnings in 2000 versus 1999 of both the Reliant Energy Latin America and Corporate segments. For additional information on the acquisition of UNA, see Note 3 to the Company's Interim Financial Statements and Note 2 to the Reliant Energy 10-K.

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

Other income increased by approximately $11 million during the second quarter of 2000 compared to the same period in 1999 primarily due to a $15 million pre-tax gain on the sale of the Company's investment in one of its development stage, non-rate regulated electric generating project companies located in Rhode Island.

The Company incurred interest expense and other charges of $200 million and $140 million for the second quarters of 2000 and 1999, respectively. The 2000 increase was a result of increased levels of both short-term borrowings and long-term debt in the second quarter of 2000 compared to the same period in 1999. The increase in borrowings was associated with borrowings for funding the acquisition of shares of UNA in the fourth quarter of 1999 and the first quarter of 2000, the Company's additional investment in Time Warner common stock in the third quarter of 1999, the acquisition of the REMA entities in the second quarter of 2000, other acquisitions and capital expenditures.

The effective tax rate for the second quarter of 2000 and 1999 was 33% and 21%, respectively. After adjusting for the unrealized accounting loss on indexed debt securities and the loss due to the devaluation of the Brazilian real, previously discussed, the adjusted effective tax rate for the second quarter of 1999 was 26%. The increase in the effective tax rate for the second quarter of 2000 compared to the adjusted effective tax rate for the same period in 1999 was a result of a one-time adjustment to tax expense related to the reversal of amortization of generation-related regulatory tax assets incurred in the first half of 1999, partially offset by the effect of the tax holiday relating to the Dutch electric industry which applies to income earned by UNA. Pursuant to the Legislation, the Company is allowed to recover the amount of generation-related regulatory assets as of December 31, 1998. The reversal of amortization of generation-related regulatory tax assets recorded in the first half of 1999 and its resulting effect on tax expense was offset by additional depreciation pursuant to the Transition Plan. For more information regarding the Legislation, see Note 2 of the Company's Interim Financial Statements and Note 3 of the Reliant Energy 10-K Notes.

SIX MONTHS ENDED JUNE 30, 2000 COMPARED TO SIX MONTHS ENDED JUNE 30, 1999

The Company reported consolidated net income of $357 million ($1.26 per basic share) for the first six months of 2000 compared to a consolidated net loss of $135 million ($0.47 per basic share) for the first six months of 1999. The 2000 results included an extraordinary gain of $7 million related to the early extinguishment of long-term debt. The 1999 results included a $260 million after-tax, non-cash, unrealized accounting loss on indexed debt securities and a $95 million after-tax, non-cash loss resulting from the effect of the devaluation of the Brazilian real on equity earnings of the Company's Brazilian investments.

The Company's consolidated net income, after adjusting for the charges described above, was $349 million ($1.23 per basic share) for the first six months of 2000 compared to $220 million ($0.77 per basic share) for the first six months of 1999. The $129 million increase was primarily due to increased earnings from the Electric Operations and Wholesale Energy segments, and additional earnings from the Reliant Energy Europe segment which was established in the fourth quarter of 1999. Increases were offset by lower adjusted earnings in 2000 versus 1999 from the Reliant Energy Latin America and Corporate segments.

Other income increased by approximately $17 million during the first six months of 2000 compared to the same period in 1999 primarily due to the pre-tax gain on the sale of the Company's investment in one of its development stage, non-rate regulated electric generation project companies of $15 million, interest income on an IRS refund received in February 2000 of $26 million and distributions from corporate venture capital investments. The increase in other income was partially offset by an impairment loss of $22 million on marketable equity securities classified as "available for sale" recorded in 2000.

The Company incurred interest expense and other charges of $377 million and $277 million for the first six months of 2000 and 1999, respectively. The increase was primarily a result of increased levels of both short-term borrowings and long-term debt in the first six months of 2000 compared to 1999. Increased debt levels were associated in part with borrowings for the funding of the acquisition of shares of UNA in the fourth quarter of 1999 and the first quarter of 2000, the Company's additional investment in Time Warner common stock in the third quarter of 1999, the acquisition of the entities held by REMA in the second quarter of 2000, other acquisitions and capital expenditures.

The effective tax rate for the first six months of 2000 and 1999 was 32% and 21%, respectively. After adjusting for the unrealized accounting loss on indexed debt securities and the loss due to the devaluation of the Brazilian real (discussed above), the adjusted effective tax rate for the first six months of 1999 was 32%.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS)			
Electric Operations	$ 325	$ 253	$ 527	$ 395
Wholesale Energy	184	9	168	10
Natural Gas Distribution	(6)	1	97	106
Interstate Pipelines	28	27	56	55
Reliant Energy Europe (1)	24	--	57	--
Reliant Energy Latin America	(20)	15	(16)	(63)
Corporate	(35)	(14)	(42)	(24)
Total Consolidated	$ 500	$ 291	$ 847	$ 479

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

ELECTRIC OPERATIONS

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

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

	ELECTRIC OPERATIONS SEGMENT			
	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS)			
Operating Revenues:				
Base Revenues	$ 834	$ 788	$ 1,436	$ 1,356
Reconcilable Fuel Revenues	587	379	932	661
Total Operating Revenues	1,421	1,167	2,368	2,017
Operating Expenses:				
Fuel and Purchased Power	601	396	959	688
Operation and Maintenance	256	223	466	426
Depreciation and Amortization	144	203	243	339
Other Operating Expenses	95	92	173	169
Total Operating Expenses	1,096	914	1,841	1,622
Operating Income	$ 325	$ 253	$ 527	$ 395
Electric Sales Including Unbilled (MMWH):				
Residential	5,987	5,746	9,433	9,150
Commercial	4,497	4,246	8,235	7,809
Industrial	8,645	8,097	16,967	15,406
Other	306	652	1,026	1,669
Total Sales Including Unbilled	19,435	18,741	35,661	34,034
Average Cost of Fuel (Cents/MMBtu (1))	263.5	181.8	231.3	169.1

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(1) Million British thermal units.

2000 versus 1999

Electric Operations' operating income for the second quarter and first six months of 2000 increased $72 million and $132 million, respectively. For both periods, the primary contributors to the increase in operating income were strong customer growth, increased customer demand and decreased depreciation expense.

Electric Operations' base revenues increased $46 million and $80 million for the second quarter and first six months of 2000 due to both customer growth and increased customer demand.

Reconcilable fuel revenues and fuel and purchased power expenses for the second quarter and the first six months of 2000 increased as a result of the higher cost of natural gas ($3.59 and $2.28 per MMBtu in the second quarters of 2000 and 1999, respectively, and $3.24 and $2.16 per MMBtu for the first six months of 2000 and 1999, respectively), higher costs per unit for purchased power ($40.29 and $24.20 per megawatt hour (MWH) in the second quarter of 2000 and 1999, respectively, and $33.75 and $21.50 per MWH for the first six months of 2000 and 1999, respectively) and higher volumes due to customer growth and increased demand, which led to increased production.

Operation and maintenance expenses and other operating expenses for the second quarter and first six months of 2000 increased by $36 million and $44 million, respectively. The second quarter increase was largely due to increased labor costs and transmission costs. The six month increase was primarily due to increased labor, legal and transmission costs.

Depreciation and amortization expense in the second quarter and first six months of 2000 decreased $59 million and $96 million, respectively. For information regarding items that affect depreciation and amortization expense of Electric Operations pursuant to the Legislation and the Transition Plan, see Note 4 of the Company's Interim Financial Statements.

WHOLESALE ENERGY

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

Power Generation acquires, develops and operates non-rate regulated power generation facilities in key domestic market locations. On May 12, 2000, Power Generation purchased entities owning non-rate regulated power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having an annual average net generating capacity of approximately 4,300 MW. With the exception of certain development entities which were sold to another subsidiary of the Company in July 2000, the assets are held by REMA. The purchase price for these entities was approximately $2.1 billion. The Company expects that Power Generation will actively pursue the acquisition of additional generation assets, as well as the development of additional non-rate regulated generation projects and may incur substantial acquisition and development expenditures in the future.

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

	WHOLESALE ENERGY SEGMENT			
	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS)			
Operating Revenues	$ 3,466	$ 1,938	$ 5,641	$ 2,946
Operating Expenses:				
Natural Gas	1,938	1,038	3,362	1,758
Purchased Power	1,243	834	1,931	1,075
Operation and Maintenance	78	49	147	87
Depreciation and Amortization ...	19	6	27	12
Other Operating Expenses	4	2	6	4
Total Operating Expenses	3,282	1,929	5,473	2,936
Operating Income	$ 184	$ 9	$ 168	$ 10
Operations Data:				
Natural Gas (in Bcf (1)):				
Sales	551	528	1,124	884
Gathering	70	67	141	128
Total	621	595	1,265	1,012
Electricity (MMWH (2)):				
Wholesale Power Sales	36.1	23.5	64.5	33.8

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(1) Billion cubic feet.

(2) Million megawatt hours.

2000 versus 1999

Wholesale Energy's operating income increased $175 million and $158 million for the second quarter and first six months of 2000, respectively, primarily due to increased energy sales, higher prices for energy and ancillary services, and improved operating results from trading and marketing activity in the western U.S. market (primarily

California and Nevada), as well as expansion of operations into other regions including the Mid-Atlantic, Florida and Texas regions.

Wholesale Energy's operating revenues increased $1.5 billion and $2.7 billion for the second quarter and first six months of 2000, respectively. The increase was primarily due to an increase in gas and power sales volumes and commodity prices. Wholesale Energy's purchased natural gas costs increased $900 million and $1.6 billion in the second quarter and first six months of 2000, respectively, largely due to increased gas sales volume and a higher average cost of gas. Wholesale Energy's purchased power expense increased $409 million and $856 million in the second quarter and first six months of 2000, respectively, primarily due to higher power sales volumes and higher average cost of power. Operation and maintenance expenses for Wholesale Energy increased $29 million and $60 million in the second quarter and first six months of 2000, respectively, primarily due to costs associated with the maintenance of facilities acquired or placed into commercial operations after the second quarter of 1999, increased costs associated with developing new power generation projects and higher staffing levels to support increased sales and expanded marketing efforts. Depreciation and amortization expense for the second quarter and first six months of 2000 increased as a result of the acquisition of REMA and other generating facilities.

NATURAL GAS DISTRIBUTION

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

NATURAL GAS DISTRIBUTION SEGMENT

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS)			
Operating Revenues	$ 721	$ 475	$ 1,635	$ 1,280
Operating Expenses:				
Natural Gas	548	310	1,179	843
Operation and Maintenance	120	109	239	218
Depreciation and Amortization	38	32	73	65
Other Operating Expenses	21	23	47	48
Total Operating Expenses	727	474	1,538	1,174
Operating Income (Loss)	$ (6)	$ 1	$ 97	$ 106
Throughput Data (in Bcf):				
Residential and Commercial Sales ..	46	43	166	167
Industrial Sales	13	13	27	27
Transportation	11	10	27	23
Retail Major Account Sales	97	78	176	158
Total Throughput	167	144	396	375

2000 versus 1999

Natural Gas Distribution's operating income decreased for the second quarter and first six months of 2000 by $7 million and $9 million, respectively. Increases in revenues and natural gas expense for the second quarter and first six months of 2000 were due primarily to the increase in the price of natural gas. In addition, operating revenues for the first six months of 2000 included a $12 million gain from the effect of a financial hedge of Natural Gas Distribution earnings against unseasonably warm weather during peak gas heating months. The weather hedge expired in March 2000. For both periods, slightly increased operating margins (revenues less fuel costs) in 2000 were offset by higher operating expenses and higher depreciation expense in 2000. Operating expenses for both periods in 2000 increased primarily as a result of increased information system-related costs, employee benefit costs, depreciation expense and general and administrative expenses.

INTERSTATE PIPELINES

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

INTERSTATE PIPELINES SEGMENT

	THREE MONTHS ENDED JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 1999	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 1999
	(IN MILLIONS)			
Operating Revenues	$ 79	$ 66	$ 153	$ 132
Operating Expenses:				
Natural Gas	16	6	27	12
Operation and Maintenance	18	17	37	33
Depreciation and Amortization ...	13	12	25	24
Other Operating Expenses	4	4	8	8
Total Operating Expenses	51	39	97	77
Operating Income	$ 28	$ 27	$ 56	$ 55
Throughput Data (in MMBtu):				
Natural Gas Sales	3	4	7	7
Transportation	210	204	472	435
Elimination (1)	(3)	(4)	(6)	(6)
Total Throughput	210	204	473	436

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(1) Elimination of volumes both transported and sold.

Interstate Pipelines' operating income for the second quarter and the first six months of 2000 remained relatively consistent with those same periods in 1999. For both periods, slight increases in operating margins in 2000 were offset by slight increases in operating expenses in 2000.

RELIANT ENERGY EUROPE

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

RELIANT ENERGY EUROPE SEGMENT

	THREE MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 2000
	(IN MILLIONS)	
Operating Revenues	$ 136	$ 286
Operating Expenses:		
Fuel and Purchased Power	62	131
Operation and Maintenance and Other ..	31	59
Depreciation and Amortization	19	39
Total Operating Expenses	112	229
Operating Income	$ 24	$ 57

The decline in the second quarter of 2000 from the first quarter of 2000 was due primarily to the weakening of the exchange rate between the Dutch guilder and the U.S. dollar and to normal seasonal fluctuations in the sale of steam.

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

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

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

RELIANT ENERGY LATIN AMERICA

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

Reliant Energy continues to pursue its previously announced strategy to divest its interest in its Latin American investments in order to pursue business opportunities that are more in line with its strategies for the United States and Western Europe.

On August 8, 2000, Reliant Energy International and Salvador Holding entered into an agreement to sell the interests held by Salvador Holding in El Salvador, subject to the satisfaction of certain conditions precedent provided for in the purchase agreement. The sale of the Company's interests held by Salvador Holding is not expected to have a material impact on the results of operations of the Company.

	RELIANT ENERGY LATIN AMERICA SEGMENT			
	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS)			
Operating Revenues (Loss)	$ 10	$ 43	$ 31	$ (8)
Operating Expenses:				
Fuel	14	13	22	25
Operation and Maintenance	14	14	20	28
Depreciation and Amortization ...	2	1	5	2
Total Operating Expenses	30	28	47	55
Operating (Loss) Income	$ (20)	$ 15	$ (16)	$ (63)

2000 versus 1999

Reliant Energy Latin America had a decrease in operating income of $35 million for the second quarter of 2000 and a decrease in operating loss of $47 million for the first six months of 2000. The second quarter and first six months operating results for 1999 included after-tax, non-cash charges of $4 million and $95 million, respectively, related to the Company's share of foreign exchange losses incurred by its Brazilian affiliates, with respect to their non-local currency denominated borrowings. These devaluation losses were a result of the Brazilian government's January 1999 decision to allow the Brazilian real to float against other foreign currencies. Excluding the losses related to the real devaluation in 1999, operating income decreased by $39 million and $48 million for the second quarter and first six months of 2000, respectively. Decreased earnings from equity investments in Brazil and Colombia were the primary cause of reduced earnings in both periods.

CORPORATE

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

Corporate had operating losses of $35 million and $42 million for the second quarter and first six months of 2000, respectively, compared to operating losses of $14 million and $24 million for the same periods of 1999, respectively. The decline for both periods was primarily due to unregulated electric retail business, e-business and telecommunication business startup costs, partially offset by decreases in corporate expenses due to the timing of corporate billings for both periods. The startup costs of the unregulated electric retail business was primarily a result of increased operating expenses due to additional staffing, increased marketing support and other expenditures to prepare for entrance into the deregulated electricity market in Texas. Management expects to continue to make substantial capital investments in its unregulated electric retail, e-business and telecommunications businesses to fulfill its overall business strategy.

CERTAIN FACTORS AFFECTING FUTURE EARNINGS

CALIFORNIA MARKET PRICING CAPS

The California Independent System Operator (CAISO) board voted to lower its price cap in the California real-time electricity, day-ahead and hour-ahead ancillary services markets first from $750 per MWh to $500 per MWh and effective August 7, 2000, from $500 per MWh to $250 per MWh. These caps do not apply to replacement power ancillary service, which is capped at $100 per MWh. The latest reduction will remain in effect until at least October 15, 2000. These changes have been made in response to concerns that the current market structure is not functioning competitively.

The continued use of price caps in the California marketplace, as well as other market restructuring alternatives, is currently under review by the CAISO, the California Public Utility Commission and other state legislative and regulatory agencies. Future changes implemented as a result of such review, including the continued utilization of price caps could have an adverse impact on future earnings of the Company.

GENERAL

For information on other developments, factors and trends that may have an impact on the Company's future earnings, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company" in the Reliant Energy Form 10-K, which is incorporated herein by reference. For information regarding proposed tariffs filed by Reliant Energy HL&P relating to its transmission and distribution operations, see Note 2 of the Company's Interim Financial Statements. For additional information regarding the filing of an amended business separation plan with the PUC, see Note 12 of the Company's Interim Financial Statements.

FINANCIAL CONDITION

The following table summarizes the net cash provided by (used in) operating, investing and financing activities for the six months ended June 30, 2000 and 1999:

	SIX MONTHS ENDED JUNE 30,	
	2000	1999
	(IN MILLIONS)	
Cash provided by (used in):		
Operating activities	$ 544	$ 556
Investing activities	(3,807)	(454)
Financing activities	3,270	(65)

Net cash provided by operations in the six months ended June 30, 2000 decreased $12 million compared to the same period in 1999 primarily due to an increase in fuel cost under recovery and restricted deposits, offset by (a) a $78 million federal tax refund received in the first quarter of 2000, (b) increased sales at Electric Operations due to customer growth and increased customer usage, (c) improved operating results of Wholesale Energy's western market operations, (d) incremental cash flows provided by UNA (acquired in the fourth quarter of 1999) and REMA (acquired in the second quarter of 2000) and (e) other changes in working capital.

Net cash used in investing activities increased $3.4 billion in the six months ended June 30, 2000 compared to the same period in 1999 primarily due to the funding of the remaining purchase obligation of the 48% shares of UNA for $987 million on March 1, 2000, and the purchase of the operations held by REMA for $2.1 billion on May 12, 2000, as well as increased capital expenditures related to the construction of domestic non-rate regulated power generation projects by Wholesale Energy. Proceeds from the sale of debt securities by UNA partially offset these increases.

Cash flows provided by financing activities increased $3.3 billion in the six months ended June 30, 2000 compared to the same period in 1999 primarily due to an increase in cash received from short-term borrowings. An increase in payments of long-term debt including restricted deposits for bond redemption and purchases by Reliant Energy of Reliant Energy common stock during the first six months of 2000 partially offset the increase. The Company utilized the net borrowings incurred during the first six months of 2000 to fund the remaining purchase obligation of UNA, to fund the acquisition of REMA operations, to support increased capital expenditures by Wholesale Energy and for general corporate purposes, including the repayment of indebtedness. The Company obtained the funds for the remaining UNA purchase obligation on March 1, 2000, in part from a Euro 600 million (approximately $584 million) term loan facility which expires in March 2003 and through short-term borrowings and excess operating cash flows. Funds for the acquisition of the operations held by REMA were made available through issuances of commercial paper supported by two bank facilities, one in the amount of $1.0 billion and one in the amount of $1.15 billion. The $1.0 billion facility expires in May 2001. The revolving commitment period for the $1.15 billion facility terminates in May 2001 and any outstanding borrowings at that time convert to a one-year term facility.

FUTURE SOURCES AND USES OF CASH FLOWS

Credit Facilities. As of June 30, 2000, the Company had credit facilities, including the facilities of Resources Corp., several financing subsidiaries, UNA and Reliant Energy International, which provided for an aggregate of $7.4 billion in committed credit (including the Euro 600 million facility discussed above). As of June 30, 2000, $6.7 billion was outstanding under these facilities, including commercial paper of $4.7 billion. Unused credit facilities totaled $0.7 billion as of June 30, 2000.

Shelf Registrations. As of June 30, 2000, the Company had shelf registration statements providing for the issuance of $230 million aggregate liquidation value of its preferred stock, $580 million aggregate principal amount of its debt securities and $125 million of trust preferred securities and related junior subordinated debt securities. In addition, the Company has a shelf registration for 15 million shares of common stock, which would have been worth approximately $443 million as of June 30, 2000 based on the closing price of the common stock as of such date.

Securitization. On May 31, 2000 Reliant Energy HL&P received a financing order from the PUC authorizing the issuance of transition bonds relating to Reliant Energy HL&P's generation-related regulatory assets by a special purpose entity organized by the Company, pursuant to the Legislation. The financing order authorizes the issuance of transition bonds in an amount not to exceed $740 million plus actual up-front qualified costs. The offering and sale of the transition bonds will be registered under the Securities Act of 1933 and are expected to be consummated in 2001, or if conditions permit, late 2000.

Reliant Energy Latin America Capital Contributions and Advances. As of June 30, 2000, Reliant Energy Latin America expects to make capital contributions or advances during the second half of 2000 totaling approximately $12 million as a result of debt service payments and operating cash flow shortfalls at certain of its affiliates. Capital contributions of $51 million were made during the first six months of 2000. The Company expects that capital contributions will be paid from proceeds from the sale of certain investments.

Fuel Filing. Through June 2000, Reliant Energy HL&P was undercollected on fuel recovery by $278 million. This is primarily the result of significant increases in the price of natural gas since the end of the first quarter of 2000. On June 9, 2000, Reliant Energy HL&P filed to implement a fuel surcharge to collect this under recovery and adjust the fuel factor to compensate for this increased cost of natural gas. On August 1, 2000, a unanimous settlement was filed with the State Office of Administrative Hearings (SOAH) to put a surcharge into place to collect this under recovery over the period of time from September 2000 through December 2001. In addition, the parties agreed to increase the fuel factor beginning with the September 2000 billing month which begins on August 18, 2000. On August 7, 2000, the Administrative Law Judge with SOAH approved the settlement on an interim basis. It is expected that the PUC will rule on this settlement at its Open Meeting on August 24, 2000.

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

NEW ACCOUNTING ISSUES

Effective January 1, 2001, the Company is required to adopt SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. This pronouncement requires classification of derivatives as either assets or liabilities on the balance sheet and measurement of those instruments at fair value. The Company is in the process of determining the effect of adoption of SFAS No. 133 on its consolidated financial statements.

Staff Accounting Bulletin 101, "Revenue Recognition" (SAB 101), was issued by the SEC on December 3, 1999 which summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. On June 26, 2000, the SEC staff announced that they are delaying the required implementation date for SAB 101 no later than a registrants fourth fiscal quarter of their fiscal year beginning after December 15, 1999. The Company believes the adoption of SAB 101 will not have a material effect on its results of operations.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK OF THE COMPANY

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

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

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
REVENUES	$ 4,009,727	$ 2,430,890	$ 7,109,064	$ 4,258,954
EXPENSES:				
Natural gas and purchased power	3,738,533	2,165,735	6,443,483	3,624,430
Operation and maintenance	181,700	144,473	341,804	283,375
Depreciation and amortization	53,364	48,096	105,486	98,114
Taxes other than income taxes	24,304	27,637	55,656	57,909
Total	3,997,901	2,385,941	6,946,429	4,063,828
OPERATING INCOME	11,826	44,949	162,635	195,126
OTHER INCOME (EXPENSE):				
Interest expense, net	(29,383)	(30,191)	(61,157)	(59,853)
Distribution on trust preferred securities	(7)	(98)	(15)	(197)
Other, net	3,977	3,727	(13,128)	6,758
Total	(25,413)	(26,562)	(74,300)	(53,292)
(LOSS) INCOME BEFORE INCOME TAXES	(13,587)	18,387	88,335	141,834
Income Tax (Benefit) Expense	(90)	12,431	46,696	64,905
NET (LOSS) INCOME	$ (13,497)	$ 5,956	$ 41,639	$ 76,929

See Notes to Resources' Interim Financial Statements

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

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)
(UNAUDITED)

ASSETS

	JUNE 30, 2000	DECEMBER 31, 1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 67,016	$ 81,347
Accounts and notes receivable, principally customer	1,542,645	980,560
Unbilled revenue	103,453	150,961
Materials and supplies, at average cost	36,601	35,121
Fuel, gas and petroleum products	64,172	80,135
Price risk management assets	588,310	435,336
Prepayments and other current assets	41,282	46,666
Total current assets	2,443,479	1,810,126
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment	3,395,328	3,291,088
Less accumulated depreciation and amortization	404,143	324,596
Property, plant and equipment, net	2,991,185	2,966,492
OTHER ASSETS:		
Goodwill, net	1,973,505	1,990,394
Prepaid pension asset	100,867	110,626
Price risk management assets	549,332	148,722
Other	296,471	186,437
Total other assets	2,920,175	2,436,179
TOTAL ASSETS	$ 8,354,839	$ 7,212,797

See Notes to Resources' Interim Financial Statements

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

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

LIABILITIES AND STOCKHOLDER'S EQUITY

	JUNE 30, 2000	DECEMBER 31, 1999
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 339,863	$ 223,451
Short-term borrowings	566,679	534,584
Accounts payable, principally trade	1,213,818	776,546
Accounts and notes payable - affiliated companies, net	173,078	95,601
Interest accrued	28,628	27,965
Taxes accrued	42,452	48,266
Customer deposits	31,667	33,255
Price risk management liabilities	551,715	431,135
Other	157,422	119,111
Total current liabilities	3,105,322	2,289,914
DEFERRED CREDITS AND OTHER LIABILITIES:		
Accumulated deferred income taxes	562,937	532,725
Payable under capacity lease agreement	41,000	41,000
Benefit obligations	127,929	161,144
Price risk management liabilities	523,791	117,437
Other	174,516	187,473
Total deferred credits and other liabilities	1,430,173	1,039,779
LONG-TERM DEBT	1,099,542	1,220,631
COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 7)		
RESOURCES OBLIGATED MANDATORILY REDEEMABLE CONVERTIBLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF RESOURCES	640	967
STOCKHOLDER'S EQUITY:		
Common stock	1	1
Paid-in capital	2,463,831	2,463,831
Retained earnings	256,511	214,872
Accumulated other comprehensive loss	(1,181)	(17,198)
Total stockholder's equity	2,719,162	2,661,506
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 8,354,839	$ 7,212,797

See Notes to Resources' Interim Financial Statements

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

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

	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 41,639	$ 76,929
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	105,486	98,114
Deferred income taxes	13,481	28,027
Impairment of marketable equity securities	22,185	--
Changes in other assets and liabilities:		
Accounts and notes receivable	(514,577)	67,832
Accounts receivable/payable, affiliates	99,311	12,707
Inventories	14,483	17,300
Other current assets	5,384	(54,479)
Accounts payable	437,272	17,646
Interest and taxes accrued	(5,151)	(9,802)
Other current liabilities	36,723	(44,346)
Net price risk management assets	(26,650)	(16,734)
Restricted deposits	(125,084)	(51,035)
Other, net	(1,466)	16,447
Net cash provided by operating activities	103,036	158,606
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(123,387)	(135,467)
Other, net	763	5,752
Net cash used in investing activities	(122,624)	(129,715)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	--	(12,042)
Increase in short-term borrowings, net	32,095	--
Decrease in notes with affiliates, net	(21,834)	(21,300)
Other, net	(5,004)	(7,677)
Net cash provided by (used in) financing activities	5,257	(41,019)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(14,331)	(12,128)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	81,347	26,576
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	$ 67,016	$ 14,448
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Payments:		
Interest (net of amounts capitalized)	$ 64,260	$ 46,359
Income taxes	31,844	62,606

See Notes to Resources' Interim Financial Statements

RELIANT ENERGY RESOURCES CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

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

Resources' Interim Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to present fairly the financial position and results of operations for the respective periods. Amounts reported in Resources' Statements of Consolidated Operations are not necessarily indicative of amounts expected for a full year period due to the effects of, among other things, (a) seasonal variations in energy consumption, (b) timing of maintenance and other expenditures and (c) acquisitions and dispositions of assets and other interests. In addition, certain amounts from the prior year have been reclassified to conform to Resources' presentation of financial statements in the current year. These reclassifications do not affect earnings of Resources. Resources Interim Financial Statements are unaudited, omit certain financial statement disclosures and should be read with the combined Annual Report on Form 10-K of Reliant Energy (Reliant Energy Form 10-K) and Resources Corp. (Resources Corp. Form 10-K) for the year ended December 31, 1999 and the combined First Quarter Report on Form 10-Q of Reliant Energy (Reliant Energy First Quarter 10-Q) and Resources Corp. (Resources Corp. First Quarter 10-Q) for the quarter ended March 31, 2000.

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

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

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

(2) DEPRECIATION AND AMORTIZATION

Resources' depreciation expense for the second quarter and first six months of 2000 was $38 million and $75 million, respectively, compared to $35 million and $71 million for the same periods in 1999. Amortization expense, primarily relating to goodwill amortization, was $15 million and $30 million for the second quarter and first six months of 2000 compared to $13 million and $27 million for the same periods in 1999.

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

(4) COMPREHENSIVE INCOME

Resources had a total comprehensive loss of $12 million for the second quarter of 2000 and total comprehensive income of $58 million for the first six months of 2000, and total comprehensive income of $5 million and $78 million in the second quarter and first six months of 1999, respectively. The following table summarizes the components of total comprehensive income.

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS)			
Net (loss) income	$ (13)	$ 6	$ 42	$ 77
Other comprehensive income:				
Unrealized gain (loss) on available for sale securities	1	(1)	2	1
Plus: Reclassification adjustment for impairment loss on available for sale securities realized in net income	--	--	14	--
Comprehensive (loss) income	$ (12)	$ 5	$ 58	$ 78

(5) RELATED PARTY TRANSACTIONS

Reliant Energy Services supplies natural gas to, purchases electricity for resale from, and provides marketing and risk management services to unregulated power plants in deregulated markets. These power plants are owned and operated by Power Generation or its subsidiaries. For the three months ended June 30, 2000 and 1999, the sales and services to Reliant Energy and its affiliates totaled $140 million and $32 million, respectively. Purchases from Reliant Energy and its affiliates were $97 million and $8 million for the second quarter of 2000 and 1999, respectively. For the six months ended June 30, 2000 and 1999, the sales and services to Reliant Energy and its affiliates totaled $184 million and $43 million, respectively. Purchases from Reliant Energy and its affiliates were $126 million and $11 million for the six months ended June 30, 2000 and 1999, respectively.

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

Net borrowings from Reliant Energy and its subsidiaries, which are not owned by Resources, included in accounts and notes payables-affiliated companies, totaled $40 million and $62 million at June 30, 2000 and December 31, 1999, respectively. Interest income/expense on such receivables/borrowings was nominal for the six months ended June 30, 2000 and 1999. As of June 30, 2000 and December 31, 1999, net accounts payable to Reliant Energy and its subsidiaries, which are not owned by Resources, were $133 million and $34 million, respectively.

(6) REPORTABLE SEGMENTS

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

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

	AS OF AND FOR THE THREE MONTHS ENDED JUNE 30, 2000			
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME	TOTAL ASSETS
	(IN MILLIONS)			
Wholesale Energy	$ 3,382	$ 84	$ 184	$ 6,505
Natural Gas Distribution	705	16	(6)	3,369
Interstate Pipelines	27	52	28	2,002
Reliant Energy Europe (1)	136	--	24	2,937
Corporate	89	(7)	(35)	4,698
Reconciling Elimination	--	(145)	--	(643)
Elimination of Non-Resources Operations	(329)	--	(183)	(10,513)
Consolidated	$ 4,010	$ --	$ 12	$ 8,355

	FOR THE SIX MONTHS ENDED JUNE 30, 2000		
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME
	(IN MILLIONS)		
Wholesale Energy	$ 5,420	$ 221	$ 168
Natural Gas Distribution	1,619	16	97
Interstate Pipelines	61	92	56
Reliant Energy Europe (1)	286	--	57
Corporate	220	1	(42)
Reconciling Elimination	--	(330)	--
Elimination of Non-Resources Operations	(497)	--	(173)
Consolidated	$ 7,109	$ --	$ 163

	FOR THE THREE MONTHS ENDED JUNE 30, 1999			AS OF DECEMBER 31, 1999
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME	TOTAL ASSETS
	(IN MILLIONS)			
Wholesale Energy	$ 1,906	$ 32	$ 9	$ 2,773
Natural Gas Distribution	475	--	1	3,683
Interstate Pipelines	27	39	27	2,212
Reliant Energy Europe (1)	--	--	--	3,247
Corporate	40	17	(14)	4,349
Reconciling Elimination	--	(88)	--	(1,140)
Elimination of Non-Resources Operations	(17)	--	22	(7,911)
Consolidated	$ 2,431	$ --	$ 45	$ 7,213

	FOR THE SIX MONTHS ENDED JUNE 30, 1999		
	REVENUES FROM NON-AFFILIATES	INTERSEGMENT REVENUES	OPERATING INCOME
	(IN MILLIONS)		
Wholesale Energy	$ 2,845	$ 101	$ 10
Natural Gas Distribution	1,279	1	106
Interstate Pipelines	53	79	55
Corporate	115	36	(24)
Reconciling Elimination	--	(217)	--
Elimination of Non-Resources Operations	(33)	--	48
Consolidated	$ 4,259	$ --	$ 195

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(1) Reliant Energy Europe was created in the fourth quarter of 1999.

(7) ENVIRONMENTAL MATTERS AND LEGAL PROCEEDINGS

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

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

At June 30, 2000 and December 31, 1999, Resources had accrued $18.4 million and $18.8 million, respectively, for remediation of the Minnesota sites. At June 30, 2000, Resources estimated the range of possible remediation costs to be $10.0 million to $49.0 million. The low end of the range was determined based on only those sites presently owned or known to have been operated by Resources, assuming use of Resources' proposed remediation methods. The upper end of the range was determined based on the sites once owned by Resources, whether or not operated by Resources. The cost estimates of the FMGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties, if any, and the remediation methods used.

Other Minnesota Matters. At June 30, 2000 and December 31, 1999, Resources had recorded accruals of approximately $1.2 million (with a maximum estimated exposure of approximately $13.0 million), for other environmental matters for which remediation may be required.

In its 1995 rate case, Reliant Energy Minnegasco was allowed to recover approximately $7 million annually for remediation costs. In 1998, Reliant Energy Minnegasco received approval to reduce its annual recovery rate to zero. Remediation costs are subject to a true-up mechanism whereby any over or under recovered amounts, net of certain insurance recoveries, plus carrying charges, are deferred for recovery or refund in the next rate case. At both June 30, 2000 and December 31, 1999, Reliant Energy Minnegasco had recovered approximately $13.0 million, including insurance recoveries. At June 30, 2000 and December 31, 1999, Reliant Energy Minnegasco had recorded a liability of $19.6 million and $20.0 million, respectively, to cover the cost of future remediation. Reliant Energy Minnegasco expects that approximately 40% of its accrual as of June 30, 2000 will be expended within the next five years. The remainder will be expended on an ongoing basis for an estimated 40 years. In accordance with the provisions of SFAS No. 71, Resources recorded a regulatory asset equal to the liability accrued. Resources believes the difference between any cash expenditures for these costs and the amount recovered in rates during any year will not be material to Resources' financial position, results of operations or cash flows.

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

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

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

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

(8) SUBSEQUENT EVENTS

On August 9, 2000, Reliant Energy filed an amended business separation plan with the PUC under which it would divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. As part of this separation, the trading and marketing operations of Resources, as well as certain unregulated retail operations, will be transferred to the unregulated business. For additional information regarding Reliant Energy's plan to file the amended business separation plan, see the Reliant Energy and Resources Corp. combined current report on Form 8-K dated July 27, 2000, which information is incorporated herein by reference. The amended plan actually filed follows the proposed plan described in the Form 8-K other than the cash payment that the unregulated company will receive from the regulated company in 2004 will have a "collar" placed on it such that the cash amount will not equal the market value of the regulated company's interest in the Texas regulated generation operations if the market value is outside of the collar. If the market value is above the collar, the cash amount will be less than the market value. If the market value is below the collar, the cash amount will be greater than the market value. The amended plan is subject to PUC approval.

On July 6, 2000, Resources Corp. issued $325 million of notes having an interest rate of 8.125% and a maturity date of July 15, 2005. Resources Corp. used the proceeds from the sale of the notes for general corporate purposes, including the repayment of $200 million of Resources Corp.'s 7.5% notes due 2000 that matured on August 1, 2000 and the repayment of a portion of its short-term indebtedness.

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

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

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

On August 9, 2000, Reliant Energy filed an amended business separation plan with the PUC under which it would divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. For additional information regarding the amended plan, See Note 12 to Reliant Energy's Interim Financial Statements and Note 8 to Resources Corp.'s Interim Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
	(IN MILLIONS)			
Operating Revenues	$ 4,010	$ 2,431	$ 7,109	$ 4,259
Operating Expenses	3,998	2,386	6,946	4,064
Operating Income, Net	12	45	163	195
Interest Expense	(29)	(30)	(61)	(60)
Other Income/(Expense), Net	4	3	(13)	7
Income Tax Expense	--	(12)	(47)	(65)
Net (Loss) Income	$ (13)	$ 6	$ 42	$ 77

For the second quarter 2000, Resources net loss was $13 million compared to net income of $6 million for the same period in 1999. The decrease was primarily a result of decreases in operating income of the Natural Gas Distribution segment and the unregulated gas retail business of the Corporate segment, coupled with startup cost of the European trading and marketing operations and increased staffing costs to support expanded sales and marketing efforts of the trading and marketing business of the Wholesale Energy segment.

For the first six months of 2000, Resources net income was $42 million compared to $77 million for the same period in 1999. The decrease was primarily a result of the same factors discussed above, as well as, a decrease in other income of $20 million which was primarily caused by a 2000 after-tax impairment loss of $14 million on equity marketable securities classified as "available for sale."

Resources' revenue increased $1.6 billion and $2.9 billion for the second quarter and first six months of 2000, respectively, compared to the same periods in 1999. The increase for both periods was primarily a result of an increase in sales volumes of natural gas and electricity and a higher average price for both commodities. Total operating expenses increased by $1.6 billion and $2.9 billion for the second quarter and first half of 2000 as compared to those same periods in 1999. The increase was primarily a result of increased natural gas and purchased power usage to support the increase in sales volumes, as well as an increase in the average cost of those commodities. In addition, Resources experienced increased levels of operations and maintenance costs as a result of (a) increased sales and marketing efforts to support the trading and marketing business of the Wholesale Energy segment, (b) startup cost of the European trading and marketing operations and (c) increased information technology costs to support the Natural Gas Distribution segment. The increase in depreciation expense for the second quarter and first half of 2000 as compared to those same periods in 1999 was primarily related to the capital expenditures at the Natural Gas Distribution segment. Weather had very little effect on the second quarter earnings of the Natural Gas Distribution segment; however, after giving effect to a partial weather hedge gain of $12 million, weather had a positive effect of approximately $8 million on the first six months earnings of 2000 as compared to the same period in 1999. The weather hedge expired in March 2000.

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

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

For a discussion of certain other factors that may affect Resources' future earnings see "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company -- Certain Factors Affecting Future Earnings of the Company -- Competition -- Other Operations," "--Environmental Expenditures" and "-- Other Contingencies " in the Reliant Energy Form 10-K.

NEW ACCOUNTING ISSUES

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Reliant Energy:

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

Resources Corp.:

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

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

Reliant Energy:

At the annual meeting of the Company's shareholders held on May 3, 2000, 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 four nominees for Class I directors were elected to serve three-year terms expiring 2003:

	For	Withheld
Robert J. Kruikshank	246,778,396	5,224,545
Linnet F. Deily	247,087,647	4,915,294
T. Milton Honea	246,950,198	5,052,743
Laree E. Perez	246,691,005	5,311,936

The following nominee for Class III director was elected to serve a two-year term expiring in 2002:

	For	Withheld
Lee W. Hogan	246,691,000	5,311,936

The proposal to adopt the Reliant Energy, Incorporated Annual Incentive Compensation Plan, including provisions relating to performance-based compensation necessary to satisfy requirements under Section 162(m) of the Internal Revenue Code was approved with 234,128,902 votes for, 14,078,428 votes against and 3,795,602 abstentions.

The ratification of the appointment of Deloitte & Touche LLP as independent accountants and auditors for the Company for 2000 was approved with 247,579,319 for, 2,304,149 votes against and 2,040,672 abstentions.

There were no broker non-votes.

Resources Corp.:

Omitted pursuant to Instruction H(2)(b).

ITEM 5. OTHER INFORMATION.

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

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

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

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

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

(a) Exhibits.

Reliant Energy:

Exhibit 3(a)	Statement of Resolution Establishing Series of Shares designated Series H Preference Stock.
Exhibit 3(b)	Statement of Resolution Establishing Series of Shares designated Series I Preference Stock.
Exhibit 3(c)	Statement of Resolution Establishing Series of Shares designated Series J Preference Stock.
Exhibit 10	Employment Agreement dated as of July 30, 2000, between Reliant Energy Europe, Inc. and G.L.M.A. van Lanschot.
Exhibit 12	Ratio of Earnings to Fixed Charges and Preferred Dividends.
Exhibit 27	Financial Data Schedule.
Exhibit 99(a)	Items incorporated by reference from the Reliant Energy Form 10-K: Item 3 "Legal Proceedings," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company," Item 7A "Quantitative and Qualitative Disclosures About Market Risk" and Notes 1(d) (Regulatory Assets), 1(m) (Foreign Currency Adjustments), 2 (Business Acquisitions), 3 (Texas Electric Choice Plan and Discontinuance of SFAS No. 71 for Electric Generation Operations), 4 (Transition Plan), 5 (Derivative Financial Instruments), 6 (Jointly Owned Electric Utility Plant), 7 (Equity Investments and Advances to Unconsolidated Subsidiaries), 8 (Indexed Debt Securities (ACES and ZENS) and Time Warner Securities) and 14 (Commitments and Contingencies) of the Reliant Energy 10-K Notes.

Exhibit 99(b) Combined Form 8-K of Reliant Energy and Resources Corp. filed July 27, 2000, regarding the proposed restructuring of the Company.

Resources Corp.:

Exhibit 12 Ratio of Earnings to Fixed Charges.

Exhibit 27 Financial Data Schedule.

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

Exhibit 99(b) Combined Form 8-K of Reliant Energy and Resources Corp. filed July 27, 2000, regarding the proposed restructuring of the Company.

(b) Reports on Form 8-K.

Reliant Energy:

Combined Form 8-K of Reliant Energy and Resources Corp. filed July 27, 2000, regarding the proposed restructuring of the Company.

Resources Corp.:

Combined Form 8-K of Reliant Energy and Resources Corp. filed July 27, 2000, regarding the proposed restructuring of the Company.

SIGNATURE

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

RELIANT ENERGY, INCORPORATED
(Registrant)

By: /s/ Mary P. Ricciardello

Mary Ricciardello
Senior Vice President and Chief
Accounting Officer

Date: August 14, 2000

SIGNATURE

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

RELIANT ENERGY RESOURCES CORP.
(Registrant)

By: /s/ Mary P. Ricciardello

Mary Ricciardello
Senior Vice President and Chief
Accounting Officer

Date: August 14, 2000

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
Reliant Energy:	
Exhibit 3(a)	Statement of Resolution Establishing Series of Shares designated Series H Preference Stock.
Exhibit 3(b)	Statement of Resolution Establishing Series of Shares designated Series I Preference Stock.
Exhibit 3(c)	Statement of Resolution Establishing Series of Shares designated Series J Preference Stock.
Exhibit 10	Employment Agreement dated as of July 30, 2000, between Reliant Energy Europe, Inc. and G.L.M.A. van Lanschot.
Exhibit 12	Ratio of Earnings to Fixed Charges and Preferred Dividends.
Exhibit 27	Financial Data Schedule.
Exhibit 99(a)	Items incorporated by reference from the Reliant Energy Form 10-K: Item 3 "Legal Proceedings," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company," Item 7A "Quantitative and Qualitative Disclosures About Market Risk" and Notes 1(d) (Regulatory Assets), 1(m) (Foreign Currency Adjustments), 2 (Business Acquisitions), 3 (Texas Electric Choice Plan and Discontinuance of SFAS No. 71 for Electric Generation Operations), 4 (Transition Plan), 5 (Derivative Financial Instruments), 6 (Jointly Owned Electric Utility Plant), 7 (Equity Investments and Advances to Unconsolidated Subsidiaries), 8 (Indexed Debt Securities (ACES and ZENS) and Time Warner Securities) and 14 (Commitments and Contingencies) of the Reliant Energy 10-K Notes.
Exhibit 99(b)	Combined Form 8-K of Reliant Energy and Resources Corp. filed July 27, 2000, regarding the proposed restructuring of the Company.
Resources Corp.:	
Exhibit 12	Ratio of Earnings to Fixed Charges.
Exhibit 27	Financial Data Schedule.
Exhibit 99(a)	Items incorporated by reference from the Reliant Energy and Resources Form 10-K: Item 3 "Legal Proceedings," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company - Certain Factors Affecting Future Earnings of the Company and its Subsidiaries" and Item 7A "Quantitative and Qualitative Disclosures About Market Risk." Items incorporated by reference from the Resources Corp. 10-K: Item 7 "Management's Narrative Analysis of the Results of Operations of Reliant Energy Resources Corp. and its Consolidated Subsidiaries" and Notes 1(c) (Regulatory Assets and Regulation), 2 (Derivative Financial Instruments) and 8 (Commitments and Contingencies) of the Resources 10-K Notes.
Exhibit 99(b)	Combined Form 8-K of Reliant Energy and Resources Corp. filed July 27, 2000, regarding the proposed restructuring of the Company.

EXHIBIT 3(a)

STATEMENT OF RESOLUTION ESTABLISHING SERIES OF SHARES

designated

SERIES H PREFERENCE STOCK

of

RELIANT ENERGY, INCORPORATED

Pursuant to Article 2.13D of
the Texas Business Corporation Act

Pursuant to the provisions of Article 2.13D of the Texas Business Corporation Act, the undersigned corporation submits the following statement for the purpose of establishing and designating a series of shares of its Preference Stock, without par value, designated "Series H Preference Stock" and fixing and determining the relative rights and preferences thereof:

1. The name of the corporation is RELIANT ENERGY, INCORPORATED (the "Company").

2. The following resolution establishing and designating a series of shares and fixing and determining the relative rights and preferences thereof, was duly adopted by all necessary action on the part of the Company on May 5, 2000:

> RESOLVED, that pursuant to the authority vested in the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently, by the Board of Directors of this Company in accordance with the provisions of the Restated Articles of Incorporation, a series of Preference Stock, without par value, of the Company be and hereby is created, and that the designation and number of shares thereof and the preferences, limitations and relative rights, including voting rights, of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

SERIES H PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series H Preference Stock," and the number of shares constituting such series shall be 12,100. Such number of shares may be increased or decreased by resolution of the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently; provided, however, that no decrease shall reduce the number of shares of Series H Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

2. Certain Defined Terms.

Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Senior A Credit Agreement (the "Credit Agreement") to be entered into among Houston Industries FinanceCo, LP, a Delaware limited partnership to be the initial Borrower thereunder, the Company, the lenders parties thereto and The Chase Manhattan Bank, as the Administrative Agent thereunder on or after May 10, 2000. In addition, the following terms are used herein as defined below:

(i) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the indebtedness for borrowed money of the Borrower from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(ii) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(iii) "Dividend" means the dividend on the Series H Preference Stock declared by the Company's Board of Directors with respect to a Dividend Interval Period.

(iv) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(v) "Dividend Declaration Date" means the date on which Dividends on the Series H Preference Stock are declared (or would have been declared but for the fact that the amount of the Dividend determined in accordance herewith would have been zero) during a Dividend Interval Period by the Company's Board of Directors.

(vi) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(vii) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(viii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the indebtedness for borrowed money of the Borrower during such period.

(ix) "Other Sources Reconciliation Amount" means the sum of (a) to the extent applied to pay interest on the indebtedness for borrowed money of the Borrower or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by the Borrower from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), and (b) the cash proceeds of new borrowings under the Credit Agreement or any other Permitted Facility that are utilized to pay interest on outstanding borrowings thereunder, from the Determination Date occurring in the Prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(x) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xi) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the indebtedness for borrowed money of the Borrower from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xii) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Company to the Borrower from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

3. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series H Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series H Preference Stock, in preference to the holders of shares of any class or series of stock of the Company ranking junior to the Series H Preference Stock, shall be entitled to receive the amounts set forth below, when, as and if declared by the Board of Directors in the manner described below out of assets of the Company legally available for the purpose:

(i) On every regularly scheduled meeting of the Company's Board of Directors while any shares of Series H Preference Stock remain outstanding, the Board of Directors shall declare an aggregate Dividend (if a positive amount) equal to the lesser of (a) the Dividend Declaration Amount or (b) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(ii) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Company's Board of Directors is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend

Declaration Amount for such period. The Dividend for such succeeding Dividend Interval Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(iii) The aggregate Dividends paid on the shares of Series H Preference Stock in accordance with this Section 3(A) shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(B) Accrued but unpaid dividends shall not bear interest. The Board of Directors may fix a record date for the determination of holders of shares of Series H Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

4. Voting Rights. Except as otherwise required by law or the Restated Articles of Incorporation of the Company or as otherwise provided herein, the holders of shares of Series H Preference Stock shall have no voting rights.

5. Certain Restrictions. At any time when dividends or distributions payable on the Series H Preference Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series H Preference Stock outstanding shall have been paid in full, the Company shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series H Preference Stock; or

(ii) declare dividends on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series H Preference Stock, except dividends declared ratably on the Series H Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled.

6. Reacquired Shares. Any shares of Series H Preference Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

7. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series H Preference Stock unless, prior thereto, the holders of shares of Series H Preference Stock shall have received $100,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series H Liquidation Preference"). Following the payment of the full amount of the Series H Liquidation Preference, no additional distributions shall be made to the holders of shares of Series H Preference Stock.

(B) In the event that there are not sufficient assets available to permit payment in full of the Series H Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series H Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Company into or with another corporation nor the merger or consolidation of any other corporation into or with the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7, but the sale, lease or conveyance of all or substantially all of the Company's assets shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7.

8. Redemption.

(A) The Company, at its option, may redeem shares of the Series H Preference Stock in whole at any time and in part from time to time, at a redemption price equal to $100,000 per share plus, in the event all outstanding shares of the Series H Preference Stock are to be redeemed, unpaid accumulated dividends to the date of redemption.

(B) In the event that fewer than all the outstanding shares of the Series H Preference Stock are to be redeemed, (i) the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(C) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the shares of Series H Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Company. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series H Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series H Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(D) The shares of Series H Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series H Preference Stock shall rank junior to all series of the Company's Preferred Stock and pari passu with all other series of the Company's Preference Stock (other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series H Preference Stock are outstanding, the Restated Articles of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series H Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series H Preference Stock, voting separately as a class.

11. Fractional Shares. Series H Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series H Preference Stock.

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IN WITNESS WHEREOF, RELIANT ENERGY, INCORPORATED has caused this Statement to be executed on its behalf by the undersigned officer this 8th day of May, 2000.

RELIANT ENERGY, INCORPORATED

/s/ MARC KILBRIDE

Name: Marc Kilbride

Title: Treasurer

EXHIBIT 3(b)

STATEMENT OF RESOLUTION ESTABLISHING SERIES OF SHARES

designated

SERIES I PREFERENCE STOCK

of

RELIANT ENERGY, INCORPORATED

Pursuant to Article 2.13D of
the Texas Business Corporation Act

Pursuant to the provisions of Article 2.13D of the Texas Business Corporation Act, the undersigned corporation submits the following statement for the purpose of establishing and designating a series of shares of its Preference Stock, without par value, designated "Series I Preference Stock" and fixing and determining the relative rights and preferences thereof:

1. The name of the corporation is RELIANT ENERGY, INCORPORATED (the "Company").

2. The following resolution establishing and designating a series of shares and fixing and determining the relative rights and preferences thereof, was duly adopted by all necessary action on the part of the Company on May 5, 2000:

> RESOLVED, that pursuant to the authority vested in the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently, by the Board of Directors of this Company in accordance with the provisions of the Restated Articles of Incorporation, a series of Preference Stock, without par value, of the Company be and hereby is created, and that the designation and number of shares thereof and the preferences, limitations and relative rights, including voting rights, of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

SERIES I PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series I Preference Stock," and the number of shares constituting such series shall be 10,525. Such number of shares may be increased or decreased by resolution of the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently; provided, however, that no decrease shall reduce the number of shares of Series I Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

2. Certain Defined Terms.

Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Senior B Credit Agreement (the "Credit Agreement") to be entered into among Houston Industries FinanceCo LP, a Delaware limited partnership to be the Borrower thereunder, the Company, the lenders parties thereto and The Chase Manhattan Bank, as the Administrative Agent thereunder on or after May 10, 2000. In addition, the following terms are used herein as defined below:

(i) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the indebtedness for borrowed money of the Borrower from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(ii) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(iii) "Dividend" means the dividend on the Series I Preference Stock declared by the Company's Board of Directors with respect to a Dividend Interval Period.

(iv) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(v) "Dividend Declaration Date" means the date on which Dividends on the Series I Preference Stock are declared (or would have been declared but for the fact that the amount of the Dividend determined in accordance herewith would have been zero) during a Dividend Interval Period by the Company's Board of Directors.

(vi) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(vii) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(viii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the indebtedness for borrowed money of the Borrower during such period.

(ix) "Other Sources Reconciliation Amount" means the sum of (a) to the extent applied to pay interest on the indebtedness for borrowed money of the Borrower or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by the Borrower from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), and (b) the cash proceeds of new borrowings under the Credit Agreement or any other Permitted Facility that are utilized to pay interest on outstanding borrowings thereunder, from the Determination Date occurring in the Prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(x) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xi) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the indebtedness for borrowed money of the Borrower from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xii) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Company to the Borrower from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

3. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series I Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series I Preference Stock, in preference to the holders of shares of any class or series of stock of the Company ranking junior to the Series I Preference Stock, shall be entitled to receive the amounts set forth below, when, as and if declared by the Board of Directors in the manner described below out of assets of the Company legally available for the purpose:

(i) On every regularly scheduled meeting of the Company's Board of Directors while any shares of Series I Preference Stock remain outstanding, the Board of Directors shall declare an aggregate Dividend (if a positive amount) equal to the lesser of (a) the Dividend Declaration Amount or (b) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(ii) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Company's Board of Directors is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend Declaration Amount for such period. The Dividend for such succeeding Dividend Interval

Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(iii) The aggregate Dividends paid on the shares of Series I Preference Stock in accordance with this Section 3(A) shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(B) Accrued but unpaid dividends shall not bear interest. The Board of Directors may fix a record date for the determination of holders of shares of Series I Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

4. Voting Rights. Except as otherwise required by law or the Restated Articles of Incorporation of the Company or as otherwise provided herein, the holders of shares of Series I Preference Stock shall have no voting rights.

5. Certain Restrictions. At any time when dividends or distributions payable on the Series I Preference Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series I Preference Stock outstanding shall have been paid in full, the Company shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series I Preference Stock; or

(ii) declare dividends on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series I Preference Stock, except dividends declared ratably on the Series I Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled.

6. Reacquired Shares. Any shares of Series I Preference Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

7. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series I Preference Stock unless, prior thereto, the holders of shares of Series I Preference Stock shall have received $100,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series I Liquidation Preference"). Following the payment of the full amount of the Series I Liquidation Preference, no additional distributions shall be made to the holders of shares of Series I Preference Stock.

(B) In the event that there are not sufficient assets available to permit payment in full of the Series I Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series I Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Company into or with another corporation nor the merger or consolidation of any other corporation into or with the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7, but the sale, lease or conveyance of all or substantially all of the Company's assets shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7.

8. Redemption.

(A) The Company, at its option, may redeem shares of the Series I Preference Stock in whole at any time and in part from time to time, at a redemption price equal to $100,000 per share plus, in the event all outstanding shares of the Series I Preference Stock are to be redeemed, unpaid accumulated dividends to the date of redemption.

(B) In the event that fewer than all the outstanding shares of the Series I Preference Stock are to be redeemed, (i) the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(C) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the shares of Series I Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Company. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series I Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series I Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price.

If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(D) The shares of Series I Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series I Preference Stock shall rank junior to all series of the Company's Preferred Stock and pari passu with all other series of the Company's Preference Stock (other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series I Preference Stock are outstanding, the Restated Articles of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series I Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series I Preference Stock, voting separately as a class.

11. Fractional Shares. Series I Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series I Preference Stock.

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IN WITNESS WHEREOF, RELIANT ENERGY, INCORPORATED has caused this Statement to be executed on its behalf by the undersigned officer this 8th day of May, 2000.

RELIANT ENERGY, INCORPORATED

/s/ MARC KILBRIDE

Name: Marc Kilbride
Title: Treasurer

EXHIBIT 3(c)

STATEMENT OF RESOLUTION ESTABLISHING SERIES OF SHARES

designated

SERIES J PREFERENCE STOCK

of

RELIANT ENERGY, INCORPORATED

Pursuant to Article 2.13D of
the Texas Business Corporation Act

Pursuant to the provisions of Article 2.13D of the Texas Business Corporation Act, the undersigned corporation submits the following statement for the purpose of establishing and designating a series of shares of its Preference Stock, without par value, designated "Series J Preference Stock" and fixing and determining the relative rights and preferences thereof:

1. The name of the corporation is RELIANT ENERGY, INCORPORATED (the "Company").

2. The following resolution establishing and designating a series of shares and fixing and determining the relative rights and preferences thereof, was duly adopted by all necessary action on the part of the Company on June 21, 2000:

> RESOLVED, that pursuant to the authority vested in the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently, by the Board of Directors of this Company in accordance with the provisions of the Restated Articles of Incorporation, a series of Preference Stock, without par value, of the Company be and hereby is created, and that the designation and number of shares thereof and the preferences, limitations and relative rights, including voting rights, of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

SERIES J PREFERENCE STOCK

1. Designation and Amount. There shall be a series of Preference Stock that shall be designated as "Series J Preference Stock," and the number of shares constituting such series shall be 2,630. Such number of shares may be increased or decreased by resolution of the Finance Committee and the Preference Stock Committee, acting separately and/or concurrently; provided, however, that no decrease shall reduce the number of shares of Series J Preference Stock to less than the number of shares then issued and outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Company.

2. Certain Defined Terms.

Capitalized terms not otherwise defined herein shall have the respective meanings ascribed to them in that certain Interim Senior Credit Agreement (the "Credit Agreement") to be entered into among Houston Industries FinanceCo, LP, a Delaware limited partnership to be the initial Borrower thereunder, the Company, the lenders parties thereto and Bank of America, N.A., as the Administrative Agent thereunder on or after June 22, 2000. In addition, the following terms are used herein as defined below:

(i) "Computed Dividend Portion" means, within any Dividend Interval Period, an amount equal to the interest expense accrued on the indebtedness for borrowed money of the Borrower from the prior Dividend Payment Date to the Determination Date for the current Dividend Interval Period.

(ii) "Determination Date" means the date occurring five Business Days prior to a Dividend Declaration Date.

(iii) "Dividend" means the dividend on the Series J Preference Stock declared by the Company's Board of Directors with respect to a Dividend Interval Period.

(iv) "Dividend Declaration Amount" means, as of any Determination Date, the Preliminary Dividend Amount, less the sum of (a) the Interest Reconciliation Amount, (b) the Support Agreement Reconciliation Amount, and (c) the Other Sources Reconciliation Amount. The Dividend Declaration Amount may be greater than or less than the Preliminary Dividend Amount.

(v) "Dividend Declaration Date" means the date on which Dividends on the Series J Preference Stock are declared (or would have been declared but for the fact that the amount of the Dividend determined in accordance herewith would have been zero) during a Dividend Interval Period by the Company's Board of Directors.

(vi) "Dividend Interval Period" means the period beginning on a Dividend Payment Date and extending to the next Dividend Payment Date.

(vii) "Dividend Payment Date" means the date occurring five Business Days after a Dividend Declaration Date.

(viii) "Interest Reconciliation Amount" means an amount equal to (a) the Preliminary Dividend Amount computed for the prior Dividend Interval Period, less (b) the actual interest expense accrued on the indebtedness for borrowed money of the Borrower during such period.

(ix) "Other Sources Reconciliation Amount" means the sum of (a) to the extent applied to pay interest on the indebtedness for borrowed money of the Borrower or available in cash on the current Determination Date therefor, the amount of income or cash proceeds received by the Borrower from sources other than pursuant to the Support Agreement (including, without limitation, interest received on loans to Affiliates), and (b) the cash proceeds of new borrowings under the Credit Agreement or any other Permitted Facility that are utilized to pay interest on outstanding borrowings thereunder, from the Determination Date occurring in the Prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

(x) "Preliminary Dividend Amount" means the sum of the Computed Dividend Portion and the Projected Dividend Portion.

(xi) "Projected Dividend Portion" means, within any Dividend Interval Period, an amount equal to the projected interest expense that will be accrued on the indebtedness for borrowed money of the Borrower from the Determination Date for such Dividend Interval Period to the Dividend Payment Date.

(xii) "Support Agreement Reconciliation Amount" means the amount of cash payments made pursuant to the Support Agreement by the Company to the Borrower from the Determination Date occurring in the immediately prior Dividend Interval Period to the Determination Date occurring in the current Dividend Interval Period.

3. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of (i) any shares of any series of Preference Stock ranking prior and superior to the shares of Series J Preference Stock with respect to dividends and (ii) any shares of Preferred Stock, the holders of shares of Series J Preference Stock, in preference to the holders of shares of any class or series of stock of the Company ranking junior to the Series J Preference Stock, shall be entitled to receive the amounts set forth below, when, as and if declared by the Board of Directors in the manner described below out of assets of the Company legally available for the purpose:

(i) On every regularly scheduled meeting of the Company's Board of Directors while any shares of Series J Preference Stock remain outstanding, the Board of Directors shall declare an aggregate Dividend (if a positive amount) equal to the lesser of (a) the Dividend Declaration Amount or (b) the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date with respect to the then current Dividend Interval Period.

(ii) If, with respect to any Dividend Interval Period, the aggregate Dividend declared by the Company's Board of Directors is less than the Dividend Declaration Amount for such Dividend Interval Period because the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date is less than the Dividend Declaration Amount, the amount of such deficiency shall be added to the Dividend Declaration Amount computed for the next Dividend Interval Period and such aggregate amount shall become the Dividend

Declaration Amount for such period. The Dividend for such succeeding Dividend Interval Period shall equal the Dividend Declaration Amount unless such amount would exceed the Excess Cash Flow projected to be available as of the applicable Dividend Payment Date, in which case the Dividend shall be the amount of the projected Excess Cash Flow.

(iii) The aggregate Dividends paid on the shares of Series J Preference Stock in accordance with this Section 3(A) shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(B) Accrued but unpaid dividends shall not bear interest. The Board of Directors may fix a record date for the determination of holders of shares of Series J Preference Stock entitled to receive payment of a dividend or distribution declared thereon.

4. Voting Rights. Except as otherwise required by law or the Restated Articles of Incorporation of the Company or as otherwise provided herein, the holders of shares of Series J Preference Stock shall have no voting rights.

5. Certain Restrictions. At any time when dividends or distributions payable on the Series J Preference Stock as provided in Section 3 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series J Preference Stock outstanding shall have been paid in full, the Company shall not:

(i) declare dividends on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series J Preference Stock; or

(ii) declare dividends on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series J Preference Stock, except dividends declared ratably on the Series J Preference Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled.

6. Reacquired Shares. Any shares of Series J Preference Stock purchased or otherwise acquired by the Company in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preference Stock and may be reissued as part of a new series of Preference Stock to be created by resolution or resolutions of the Board of Directors, subject to any conditions and restrictions on issuance set forth herein.

7. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Company, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series J Preference Stock unless, prior thereto, the holders of shares of Series J Preference Stock shall have received $100,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series J Liquidation Preference"). Following the payment of the full amount of the Series J Liquidation Preference, no additional distributions shall be made to the holders of shares of Series J Preference Stock.

(B) In the event that there are not sufficient assets available to permit payment in full of the Series J Liquidation Preference and the liquidation preferences of all other series of Preference Stock, if any, that rank on a parity with the Series J Preference Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences.

(C) Neither the merger or consolidation of the Company into or with another corporation nor the merger or consolidation of any other corporation into or with the Company shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7, but the sale, lease or conveyance of all or substantially all of the Company's assets shall be deemed to be a liquidation, dissolution or winding up of the Company within the meaning of this Section 7.

8. Redemption.

(A) The Company, at its option, may redeem shares of the Series J Preference Stock in whole at any time and in part from time to time, at a redemption price equal to $100,000 per share plus, in the event all outstanding shares of the Series J Preference Stock are to be redeemed, unpaid accumulated dividends to the date of redemption.

(B) In the event that fewer than all the outstanding shares of the Series J Preference Stock are to be redeemed, the number of shares to be redeemed shall be determined by the Board of Directors and the shares to be redeemed shall be determined by lot or pro rata as may be determined by the Board of Directors or by any other method that may be determined by the Board of Directors in its sole discretion to be equitable.

(C) Except to the extent notice is waived in accordance with applicable law, notice of any such redemption shall be given by mailing to the holders of the shares of Series J Preference Stock to be redeemed a notice of such redemption, first class postage prepaid, not later than the twentieth day and not earlier than the sixtieth day before the date fixed for redemption, at their last address as the same shall appear upon the books of the Company. Each such notice shall state: (i) the redemption date; (ii) the number of shares to be redeemed and, if fewer than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price; and (v) that dividends on the shares to be redeemed will cease to accrue on the close of business on such redemption date. Any notice that is mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the shareholder received such notice, and failure duly to give such notice by mail, or any defect in such notice, to any holder of Series J Preference Stock shall not affect the validity of the proceedings for the redemption of any other shares of Series J Preference Stock that are to be redeemed. On or after the date fixed for redemption as stated in such notice, each holder of the shares called for redemption shall surrender the certificate evidencing such shares to the Company at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. If fewer than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares.

(D) The shares of Series J Preference Stock shall not be subject to the operation of any purchase, retirement or sinking fund.

9. Ranking. The Series J Preference Stock shall rank junior to all series of the Company's Preferred Stock and pari passu with all other series of the Company's Preference Stock (other than any such series of Preference Stock the terms of which shall provide otherwise) in respect to dividend and liquidation rights and shall rank senior to the Common Stock as to such matters.

10. Amendment. At any time that any shares of Series J Preference Stock are outstanding, the Restated Articles of Incorporation of the Company shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series J Preference Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series J Preference Stock, voting separately as a class.

11. Fractional Shares. Series J Preference Stock may be issued in fractions of a share that shall entitle the holder, in proportion to such holder's fractional shares, to exercise any voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series J Preference Stock.

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IN WITNESS WHEREOF, RELIANT ENERGY, INCORPORATED has caused this Statement to be executed on its behalf by the undersigned officer this 22nd day of June, 2000.

RELIANT ENERGY, INCORPORATED

/s/ MARC KILBRIDE

Name: Marc Kilbride

Title: Treasurer

EXHIBIT 10

EMPLOYMENT AGREEMENT

THE UNDERSIGNED:

1. RELIANT ENERGY EUROPE, INC., a Delaware corporation registered in the Netherlands as a Dutch branch, having its corporate seat at 1111 Louisiana, Houston, Texas 77002, and its registered address in the Netherlands at Strawinskylaan 2001, 1077 ZZ Amsterdam, hereinafter referred to as: "the Company"; for this reason duly represented by Robert W. Harvey;

and

2. MR G.L.M.A. VAN LANSCHOT, residing at Tapijtweg 1 NL-2591 KG Den Haag, hereinafter referred to as: "the Executive".

WHEREAS

- The Executive will be employed as President of the Company and will perform services for the Company in its Dutch branch.

- The Executive will be appointed by the general meeting of shareholders ("de algemene vergadering van aandeelhouders") of Reliant Energy Trading & Marketing B.V., a private company with limited liability, incorporated under the law of the Netherlands, having its corporate seat at Siriusdreef 32, 2132 WT Hoofddorp, the Netherlands and its registered address at the Netherlands, hereinafter referred to as: "RETM", as chairman of the Board of Managing Directors of RETM ("Voorzitter van de Raad van Bestuur") at its first meeting after August 1, 2000.

o The Executive in his position as President of the Company and chairman of the Board of Managing Directors of RETM will be responsible for the business unit Reliant Energy Europe. At the date of signing this agreement the position entails oversight over N.V. UNA and RETM. Over time it is expected that business will be expanded to other countries within Europe which will fall under his responsibility as well.

HEREBY AGREE AS FOLLOWS:

ARTICLE 1: TASKS AND DUTIES

1.1. The Company hereby employs the Executive as President of the Company and as chairman of the Board of Managing Directors of RETM ("Voorzitter van de Raad van Bestuur") and the Executive hereby accepts such employment, upon the terms and conditions as set forth in this Agreement. The Executive's initial responsibilities are generally described in the job description set forth in Annex A, provided that the Company may alter the Executive's duties and the Company's organizational structure in its discretion from time to time, so long as the Executive's duties and responsibilities are not materially reduced.

1.2. The Executive shall, as President of the Company and chairman of the Board of Managing Directors of RETM, have all the rights and obligations associated with such position with the Company and in accordance with the articles of association of RETM ("statuten"). The Executive agrees to devote at all times his best efforts, attentions and abilities to the business and to the affairs of the Company, RETM and their affiliates and to the business unit Reliant Energy Europe.

1.3. The Executive shall not undertake any other paid or time consuming unpaid duties or activities without the previous consent of the Chairman of the Board of Directors of the Company.

ARTICLE 2: DURATION OF THE AGREEMENT AND TERMINATION

2.1. This Agreement shall last for an indefinite period of time. The effective date of this Agreement is 1 August 2000. This Agreement shall terminate by operation of law when the Executive has reached the age of 62 years.

2.2. Subject to the limitations set forth in Article 2.3, each party can terminate the Agreement by giving the other party written notice of the termination. The Company shall observe a notice period of at least 4 months. The Executive shall observe a notice period of at least 2 months.

If the Company provides the Executive written notice of termination pursuant to this article (for reasons other than urgent cause ("dringende reden") within the meaning of articles 7:677, section 1 and 7:678 of the Dutch Civil Code) after August 1, 2001, then the Executive shall continue to receive only his base salary as provided in Article 3 and the emoluments set forth in Articles 6, 7, and 8 of this Agreement during the notice period until the date of termination of the Agreement, and, upon termination of the Agreement, the Executive shall receive a lump sum payment equal to the sum of (i) his gross annual base salary as provided in Article 3 and in effect at the time of termination, (ii) his target annual bonus as provided in Article 4 (67% of gross annual base salary) in effect at the time of termination and (iii) for each whole year of employment that has elapsed since August 1, 2000, two months of gross base salary as provided in Article 3 and in effect at the time of termination. Notwithstanding the foregoing, the number of months of gross base salary that will be paid to the Executive under subparagraph (iii) above shall not be less than 8 months and shall not be more than 20 months; provided, however, that the number of months of base salary payable under subparagraph (iii) above shall not exceed the number of months between the date of termination of the Agreement and the date the

Executive will reach age 62. In addition, if the Company's written notice of termination is given after August 1, 2001 and before December 1, 2001, then the Executive shall also receive a lump sum payment equal to a month of gross base salary as provided in Article 3 for each whole month between the date of the written notice of termination and December 1, 2001.

If the Executive provides the Company written notice of termination pursuant to this article, then the Executive shall continue to receive only his base salary as provided in Article 3 and the emoluments set forth in Articles 6, 7, and 8 of this Agreement until the date of termination of the Agreement; provided that the Executive shall be entitled to receive payment of any bonus for which the applicable bonus period has been completed prior to the date that notice is given.

Should the Executive be removed from his position as President of the Company and chairman of the Board of Managing Directors of RETM, the Executive shall not be entitled to any annual bonus payments pursuant to Article 4.1 nor any new long-term incentive awards or payments, and any outstanding option shall be treated as provided in the applicable option plan and agreement; provided that the Executive shall be entitled to receive payment of any bonus for which the applicable bonus period has been completed prior to the date that notice is given.

The Executive waives his rights to other or higher payments, entitlements or benefits during the term of notice or in connection with the termination, except as provided in Article 2.5 in connection with a Change in Control. In no event shall the Executive be entitled to both the benefits provided in this Article 2.2 and the benefits provided in Article 2.5.

2.3. The Company cannot terminate or have the Agreement terminated before August 1, 2001 other than on the basis of an urgent cause ("dringende reden") within the meaning of articles 7:677, section 1 and 7:678 of the Dutch Civil Code.

2.4. Within 90 days after August 1, 2002, the Company and the Executive shall enter into negotiations about a possible improvement of the terms and conditions of employment.

2.5. If the Agreement is terminated by or at the initiative of the Executive after August 1, 2000 or by or at the initiative of the Company after August 1, 2001, and such termination of employment (i) occurs within one year after a Change in Control (as defined in Annex B) and (ii) is preceded by, or occurs in combination with, a Change in Employment (as defined in Annex B), the Executive shall be entitled to a fixed severance payment of 2.0 times the sum of (A) the Executive's fixed gross annual base salary as provided in Article 3 and in effect at the time of termination and (B) the Executive's target annual bonus as stated in Article 4 (67% of gross annual base salary) in effect at the time of the termination of the Agreement. The Executive waives his rights to other or higher severance payments, indemnities or compensations. In case of conflict, the provisions of this Article 2.5 shall prevail over those of Article 2.2, but without prejudice to Article 2.2 if the circumstances set forth in this Article 2.5 do not occur.

2.6. Payments to which the Executive may be entitled in accordance with Articles 2.2. or 2.5 are to be paid by the Company as soon as practicable after the day on which this Agreement terminates in a manner to be specified by the Executive, so long as it is not 'contra legem'. In accordance with the Ruling, as defined in Article 3.2, the Company and the Executive will jointly request that the tax authorities approve that an amount equivalent to 35% (thirty-five percent) of the Executive's payments pursuant to Articles 2.2 or 2.5 shall be deemed to be a tax-exempt reimbursement of additional expenses incurred by the Executive in relation to his employment in the Netherlands, provided that the Company is not required to incur any substantial expenses in assisting with this request.

ARTICLE 3: SALARY

3.1. The Executive shall be entitled to a fixed gross annual base salary (hereafter: "the gross annual base salary") of $475,000, to be paid in 12 equal monthly installments at the end of each calendar month. Payment will be made according to the instructions of the Executive as long as this is not `contra legem'. The aforementioned gross annual base salary includes an 8% holiday allowance. Gross annual base salary will be reviewed periodically by the Company and may be increased in the Company's discretion.

3.2. In accordance with the Decree of the Deputy Minister of Finance, number DB95/119M, of 29 May 1995, the Company and the Executive will jointly request that the tax authorities approve that an amount equivalent to 35% (thirty-five percent) of the Executive's remuneration (the gross annual base salary referred to in Article 3 plus the bonus and incentives referred to in Article 4) shall be deemed to be a tax-exempt reimbursement of additional expenses incurred by the Executive in relation to his employment in the Netherlands (the "Ruling"); provided, however, that the application of the Ruling shall not reduce the Executive's pensionable salary. The Company shall assist the Executive in the preparation and submission of documentation necessary to obtain an extension of the Ruling.

3.3. The gross annual base salary payments shall be subject to normal statutory withholdings such as taxes and social security contributions, but taking into account the Ruling.

3.4. The base salary and annual bonus amounts denominated in U.S. dollars in this Agreement will be payable to the Executive in EUROs. Prior to August 1, 2003, the conversion rate for converting U.S. dollar amounts to EUROs will be 0.95 USD/EURO. Effective August 1, 2003, the exchange rate for salary and bonus payments under the contract from each August 1 to July 31 shall be based on the average of the conversion rates determined by the Company for the five business days immediately prior to each August 1. Notwithstanding the foregoing, amounts payable in EUROs pursuant to the preceding sentences before January 1, 2002 may be paid to the Executive in Dutch Guilders.

ARTICLE 4: BONUS AND INCENTIVES

4.1. The Executive shall be eligible for an annual bonus at a target level of 67% of gross annual base salary. For the first year of his employment, a bonus of $318,250, or 67% of gross annual base salary is guaranteed (hereafter: the "initial guaranteed bonus"). The first portion of this initial guaranteed bonus over the period from entering into employment of the Company through December 31, 2000 will be payable in March 2001 and shall be at least $132,604. The remainder of the initial guaranteed bonus ($185,646, the bonus for the period from January 1, 2001 through July 31, 2001) will be included in the bonus over the year 2001, which bonus will be payable in March 2002.

For the second and third years of the Executive's employment, a bonus of $225,000 per year is guaranteed (hereafter: the "secondary guaranteed bonus") so long as the Executive remains employed and in his position performing his duties through the applicable bonus period described below. The first portion of this secondary guaranteed bonus over the period from August 1, 2001 through December 31, 2001 will be included in the bonus over the year 2001, which bonus will be payable in March 2002 and shall be at least $93,750. Thus, combining the initial guaranteed bonus and secondary guaranteed bonus, the bonus over the year 2001 will be no less than $279,396. The second portion of this secondary guaranteed bonus (the bonus for the year 2002) will be payable in March 2003, and shall be at least $225,000. The final portion of this secondary guaranteed bonus ($131,250, the bonus for the period from January 1, 2003 through July 31, 2003) will be included in the bonus over the year 2003, which bonus will be payable in March 2004. For years after 2003 any bonuses over a particular calendar year will be paid in March of the subsequent year.

The annual bonus target is 67% of annual gross base salary but can range from 0 - 134% of the then applicable annual gross base salary depending on performance, except for the first year of employment (during which it can range between 67% - 134% of the applicable gross annual base salary: $475,000) and the second and third years of employment (during which it can range between $225,000 and 134% of the applicable gross annual base salary). The annual bonus payout will depend on achievement of overall business objectives, business unit objectives and individual performance. The percentage of the bonus will be determined at the sole discretion of the Chairman of the Board of Directors of the Company and will be dependent on the performances of REI (as defined below), the business unit Reliant Energy Europe, the Company and the Executive.

4.2. The Executive shall be eligible for a long term incentive in the form of a annual grant of a certain amount of options to purchase shares of common stock of Reliant Energy, Incorporated, a Texas corporation (hereafter: "REI"), as approved by the Special Stock Award Committee of REI (or other appropriate committee as determined by the Board of REI) (hereafter: "the Committee") from time to time, or such other form of award as may be determined by the Committee. The granting of these awards is at the sole discretion of the Committee and is dependent on the performances of REI, the Company and the Executive, and the terms of such awards will be determined by the Committee at the time of grant. The long-term incentive target shall be based on 44% of Executive's gross annual base salary.

The long-term incentive grant for the calendar year 2000 shall be made in the form of immediately exercisable options to purchase 38,000 shares of common stock of REI. This option grant will be made effective as of the date specified in a Stock Option Agreement to be entered into by the Company and the Executive. The Company and the Executive will use all best efforts to enter into a Stock Option Agreement and take all other actions necessary to effectuate the grant of options as soon as possible.

4.3. All payments shall be subject to the normal statutory withholdings such as tax on wages and social security contributions.

ARTICLE 5: ILLNESS

In the event that the Executive is unable to perform his duties due to illness or disability, the Company shall continue to pay 100% of the fixed gross annual base salary and the emoluments set forth in Articles 6, 7, and 8 of this Agreement for a period of the first 52 weeks following the day on which the Executive ceased to perform his duties due to illness. Notwithstanding the provisions of Article 4.1, if the Executive is unable to perform his duties due to illness or disability for a period of less than 3 consecutive months, he will remain eligible for annual bonus payments covering such period of illness or disability. For this purpose, two periods of absence separated by a period of two weeks or less shall be considered one consecutive period.

ARTICLE 6: MEDICAL COVERAGE AND ALLOWANCE

RETM has a group medical plan with NVS, which will provide medical coverage on the basis of the NVS policy with surplus supplement, at class 2b level without own risk deductible. The contribution of the Company to the NVS policy will be 50% of the premium for the Executive and the Executive's family. Should the Executive decide not to make use of the NVS policy the Company will contribute to the Executive's private medical plan up to the maximum amount the Company would have contributed with NVS. The Executive will have 30 days after signing of this Agreement to inform the Company which policy he will elect.

ARTICLE 7: DISABILITY ALLOWANCE

7.1. RETM has established a disability plan with Amev, the insurer of the pension plan. This will provide cover on gross annual base salary up to EURO 158,823 without medical evidence of good health.

The disability plan comprises two parts:

- WAO Gap insurance

- Long term disability

7.2. WAO GAP

The Company will pay 50% of the premium payable for the WAO-gap insurance taken out with Amev. The remaining 50% of the premium will be paid by the Executive.

7.3. LONG TERM DISABILITY

The RETM long term disability policy provides coverage on annual salary in excess of EURO 37,789 (WAO ceiling--year 2000). The RETM long term disability plan will provide on full disability, 70% of excess salary up to an annual salary cap of EURO 158,823, with proportional amounts for partial disability. This will be paid for entirely by the Company.

The Company will also provide to the Executive 70% cover on the Executive's full gross annual base salary exceeding EURO 158,823, on the condition that an insurer is willing to cover this risk, up to a maximum premium of EURO 25 per EURO 454 insured disability benefit with proportional amounts per partial disability.

In case the insurer is not willing to cover the risk or should the Executive decide to insure the whole benefit elsewhere, the Company's contribution to that policy will be limited to a maximum premium of EURO 25 per EURO 454 insured disability benefit. The Executive will have until the earlier of (i) 90 days after signing of this Agreement or (ii) 30 days after the receipt of a completely documented quotation from an insurance company to inform the Company whether he will decide to insure the whole benefit elsewhere or not.

ARTICLE 8: PENSION ALLOWANCE

8.1. A pension contribution will be paid by the Company over the gross annual base salary as per January 1 of each year as far as the gross annual base salary is payable in The Netherlands, less an offset of EURO 13,908 (indexed annually to CPI all households), and the annual bonus (as stated in article 3.2), as described in the separate letter agreement between the Company and the Executive regarding pension issues (the "Pension Letter"). The contribution will be based on the age-bracketed table percentages shown below. Such amounts will be paid dependent on the election of the Executive either into RETM's group pension plan insured with Amev (hereafter: the "RETM Pension Plan"), or a qualified individual C Policy selected by the Executive.

The Executive will have until the earlier of (i) 90 days after signing of this Agreement or (ii) 30 days after the receipt of a completely documented quotation from an insurance company to inform the Company which policy he will elect. Amounts will be paid annually in advance, as soon as administratively feasible after January 1 of each year.

Should the Executive leave during the course of the year he will ensure that pro rata contributions paid in advance will be refunded to the Company.

Age	Base pensionable salary	Bonus
50 - 54	13%	7%
55 - 59	14%	9%
60 - 64	15%	12%

The above contributions are deemed to be sufficient to cover retirement, death and waiver of premium on disability benefits. Upon the termination of this Agreement, Company contributions to the RETM Pension Plan (or Executive's own C Policy) shall cease, and Executive's retirement benefit shall be determined in accordance with the terms of the RETM Pension Plan (or Executive's own C Policy), and Executive shall not be entitled to compensation for the termination of this Agreement prior to the Executive attaining the target retirement age set forth in the Pension Letter (other than as specifically set forth in Article 2).

8.2. Should the Executive decide to elect his own C Policy rather than the RETM Pension Plan, the Executive waives any rights or entitlement he or his dependants, or survivors, may have to benefits under the RETM Pension Plan. Should the Executive decide to participate in the RETM Pension Plan, all provisions of the RETM Pension Plan are deemed applicable (summary hereof see Annex C).

ARTICLE 9: COMPANY LEASE CAR

The Company will make available a company lease car with a catalogue value of approximately NLG 125,000, inclusive of VAT, as well as a driver for business purposes. The Company will provide the Executive with a company car lease arrangement that specifies the terms and conditions under which the company car will be made available. Subject to the terms and conditions of this Agreement, the Executive has entered, or will enter into, a company car user agreement, a copy of which will be made available to the Executive. The Executive may use the company car for private purposes. The Company shall reimburse all costs (including the costs for private purposes) incurred by the Executive concerning the use of the company car but shall not reimburse the Executive for the flat rate charge referred to in Section 42 of the Wet op de inkomstenbelasting 1964 (the so-called fictitious motor vehicle cost).

ARTICLE 10: EXPENSE REIMBURSEMENTS

10.1. The Company shall reimburse all expenses (including mobile phone expenses) incurred by the Executive with respect to the performance of his duties hereunder on a monthly basis upon provision of relevant receipts. These expenses also cover private telephone expenses.

10.2. Furthermore, the Company shall pay a monthly allowance of EURO 400 for representation expenses.

10.3. Notwithstanding the foregoing, the expenses reimbursed in this Article 10 will be paid to the Executive only to the extent the reimbursements are tax-deductible to the Company or an affiliate.

ARTICLE 11: HOLIDAYS

The Executive shall annually be entitled to 30 holidays (public holidays excluded). Holidays shall be taken in mutual consultation between the Executive and the Chairman of the Board of Directors of the Company.

ARTICLE 12: CONFIDENTIALITY AND RETURN OF COMPANY PROPERTY

12.1. The Executive agrees during the employment and thereafter to maintain the confidentiality of all Confidential Information (as hereinafter defined) that he obtains or develops in the course of his employment with the Company or any of its affiliates. Confidential Information shall mean for purposes of this Agreement any non-public, proprietary or commercially sensitive information relating to or pertaining to Company or any of its affiliates within the business unit Reliant Energy Europe or customers, including but not limited to, information about business and commercial affairs, business plans, forecasts, economic models, credit policies, labor relations, governmental relations, compensation programs, condition of assets and liabilities, acquisitions, mergers or other transactions, business relationships, trading policies (including option and hedge strategies utilized in the business and operations of trading and marketing operations of the Company or any of its affiliates within the business unit Reliant Energy Europe) and/or any other aspect of the business and operations the Company or any of its affiliates within the business unit Reliant Energy Europe.

12.2. When leaving the Company, the Executive shall return to the Company in their entirety, all objects belonging to the Company and/or its affiliates which are still in his possession, as well as all documents concerning matters of the aforementioned companies specifically, documents, printed matter, notes, drafts, sketches, samples as well as all copies, carbon copies or other copies. The Executive has no right to withhold such objects and documents.

12.3. If the Executive violates the obligations pursuant to Article 12.1 and 12.2, the Company shall have the option of either requiring that the Executive to pay to the Company a penalty of EURO 100,000 as liquidated damages for each violation of the obligations contained in this Article 12 or recovering through judicial proceedings, in lieu of such liquidated damages, the amount representing any direct or indirect damages incurred by the Company as a result of such breach.

12.4. The Executive shall treat all items of the Company such as books, documents, computer floppy disks, other information carriers, resolutions, drawings, computations and similar material as well as his business notes as property of the Company, and he will keep such materials and documents as well as the copies thereof locked away. The Executive will not use any item in an other way or keep any item longer than necessary for the proper performance of his duties.

ARTICLE 13: NON-COMPETITION

13.1. During the term of this Agreement and for a period of one year after the date that the Company or the Executive gives notice of intent to terminate the Agreement pursuant to Article 2.2 (or, if no such notice has been given, the date that the Agreement has come to an end), the Executive will not, without the prior written consent of the Company, engage in any activities in competition with the Company, or any of its affiliates in the business unit Reliant Energy Europe as described in Annex A, including without limitation, accepting employment with or performing services for a firm, company, partnership or group of individuals engage in activities that are in competition with the business of the Company or any of its affiliates in the business unit Reliant Energy Europe as described in Annex A.

13.2. If the Executive violates the obligations pursuant to Article 13.1 the Company shall have the option of either requiring that the Executive pay to the Company a penalty of EURO 100,000 as liquidated damages for each violation of the obligations contained in this Article 13 or recovering through judicial proceedings, in lieu of such liquidated damages, an amount representing any direct or indirect damages incurred by the Company as a result of such breach.

13.3. The Executive shall not at any time, whether during or after the termination of his employment, except at the explicit request or after having obtained the prior written consent of the Company, use, disclose or permit others to disclose to any third party any technical, commercial and financial information, directly or indirectly related to the business of the Company or information with respect to any affiliate within the business unit Reliant Energy Europe, including information related to suppliers, customers or other relations, or any other details relating thereto, which he knows or reasonably can assume to be secret or confidential, or of which he reasonably can assume to be harmful to the Company or any affiliate within the business unit Reliant Energy Europe, unless and to the extent that disclosure is necessary in the performance of the Executive's duties, or is required by law.

ARTICLE 14: INDEMNIFICATION

The Company (or RETM, as determined in the Company's discretion) shall take out a managing director's liability policy on behalf of the Executive in consultation with the Executive. The annual premium for this insurance policy shall be paid by the Company. In addition and to the extent not covered by the director's liability policy or otherwise, the Company shall compensate the Executive for taxes owed by the Company for which the Executive becomes liable solely by reason of his position as an executive of the Company, provided and to the extent that the Executive substantiates that the Company's nonpayment is not the result of the Executive's misconduct.

ARTICLE 15: GUARANTEE BY RELIANT ENERGY POWER GENERATION, INC. AND RETM

All obligations of the Company under this Agreement are unconditionally and irrevocably guaranteed by RETM and by Reliant Energy Power Generation, Inc. a Delaware corporation ("REPG") which is a subsidiary of REI. Notwithstanding the foregoing, the Company may substitute any other related credit-worthy party as the guarantor of the Company's obligations under this Agreement, subject to the consent of the Executive, which consent shall not be unreasonably withheld.

ARTICLE 16: GENERAL

16.1. This Agreement contains the entire agreement between the parties relating to the subject matter thereof and supersedes all prior agreements and understandings whether oral or written between all parties.

16.2. This Agreement is in substitution for all previous contracts of employment or service agreements between the Executive and the Company or any associated company, which shall be deemed to have been terminated by mutual consent as from the date on which this contract is executed.

16.3. The expiration or termination of this Agreement, howsoever arising shall not operate to affect such of the provisions of this Agreement as are expressed or have effect thereafter.

16.4. Neither this Agreement nor any term thereof may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

16.5. The Executive acknowledges that, by signing this Agreement or otherwise, he is not nor will he become an employee of REI, REPG, RETM or any of their respective affiliates (other than the Company), and that nothing in this Agreement will entitle the Executive to benefits under any employee benefit plan or arrangement offered or sponsored by REI, REPG, RETM or any of their respective affiliates (other than the Company), other than as specifically provided with respect to certain benefits outlined in Article 6, 7 and 8.

ARTICLE 17: GOVERNING LAW

This Agreement shall be governed by and construed in accordance with Dutch law.

ARTICLE 18: COMPETENT COURT

All conflicts arising with regard to this Agreement will be submitted to the competent Dutch court.

This Agreement is signed in twofold by the parties, the 30th day of July, 2000.

ON BEHALF OF RELIANT ENERGY EUROPE, INC.

/s/ ROBERT HARVEY	/s/ G.L.M.A. van LANSCHOT
MR. R.W. HARVEY	MR. G.L.M.A. VAN LANSCHOT

ON BEHALF OF RELIANT ENERGY POWER GENERATION, INC.

/s/ ROBERT HARVEY
- -------------------------------
MR. R.W. HARVEY

ON BEHALF OF RELIANT ENERGY TRADING AND MARKETING, B.V.

/s/ ROBERT HARVEY
- -------------------------------

ANNEX A

POSITION DESCRIPTION
PRESIDENT & CHIEF OPERATING OFFICER
RELIANT ENERGY EUROPE

Principal operating officer for Reliant Energy's business presence in Europe, currently styled "Reliant Energy Europe".

Key member of Reliant Energy's overall management team, with membership on the Reliant Energy Executive Committee.

Reporting directly to the Office of the CEO of REI, with direct access to the Chairman, President & CEO (R. Steve Letbetter), and day-to-day oversight from and consultation with a vice chairman (R. Harvey).

Responsible for developing and executing a strategy for building Reliant's overall presence in Europe in a manner that contributes near-term operating profits, earnings growth, and shareholder value. The general strategic focus is on establishing a "wholesale energy merchant" position across much of Europe, complete with requisite assets, trading and marketing skills, and commercial relationships.

All operating units in Europe report directly or indirectly to this position, as do all staff functions physically located in Europe (with the exception, currently, of risk control and legal). Also, most staff functions would retain a "dotted line" (i.e., secondary) reporting relationship to functional leadership at corporate. These include financial and accounting, and human resources.

Note: some corporate services are provided from the corporate headquarters in Houston and report, solid-line, to Reliant corporate management in Houston. These include, for example, Information Technology, Purchasing, Corporate Security, Accounts Payable, and Cash Management functions.

Currently, the position entails oversight of two key operating units, NV UNA (the Dutch generating company) and RETM BV (Reliant's trading and marketing unit for Europe). Over time, the business is expected to expand to other countries in Europe, with both assets (principally generation, possibly including electric transmission or distribution, gas transmission and storage) and trading/commercial presence. If the expansion of the business so requires, the Executive may be offered a position as a director of a company or branch in any of the other countries in the discretion of the Company.

Strategic and operating plans are developed by the unit in consultation with, and ultimately with the approval of, the Office of the CEO. Capital budgets are also developed in a similar fashion. Major capital transactions and/or other corporate commitments require the approval of the Office of the CEO.

NOTE: major "corporate transactions" are typically developed and executed from corporate with participation from the business unit (in this case Reliant Energy Europe) as appropriate.

ANNEX B

A "Change of Control" shall be deemed to have occurred if Reliant Energy, Incorporated, or any successor corporation ("Reliant Energy"), shall:

1. Sell all or substantially all of the assets of its business unit known as Reliant Energy Europe in connection with, or pursuant to, a general discontinuation of the business operations of Reliant Energy in Europe; or

2. Effect a sale of the capital stock of, or a merger of, any subsidiary of Reliant Energy that owns all or substantially all of the assets of Reliant Energy Europe to, or with, a third party; provided, however, that a "Change of Control" shall not be deemed to have occurred if the assets and operations of the business unit are sold or transferred to, or merged with, a corporation, partnership, joint venture or other entity in which Reliant Energy retains a majority or controlling ownership interest.

A "Change in Employment" shall mean any one or more of the following events which occurs without the consent of the Executive after or in connection with a Change in Control:

1. A material and significant reduction in the duties or responsibilities of Executive from those applicable to him immediately prior to the date on which a Change in Control occurs; or

2. Any significant reduction in Executive's total remuneration (including salary, bonus, retirement benefits, welfare benefits and any other executive benefits) from that provided to Executive immediately prior to the date on which a Change in Control occurs; provided, however, that a diminution of or reduction in retirement benefits and/or welfare benefits which is of general application and which uniformly and contemporaneously reduces or diminishes the benefits of all covered executives shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph 2.

ANNEX C

DESCRIPTION OF PENSION PLAN

DUTCH PENSION PLAN SUMMARY

FOR

RELIANT ENERGY TRADING AND MARKETING, B.V.

Type of Plan	: Flexible defined contribution plan
Insurer	: Amev

GENERAL TERMS

Eligibility	: All employees of (Client) who have attained the age of 21, and have a contract for a period that exceeds 6 months. Eligibility commences on the first day of the month in which age 21 is attained or actual date of joining if later.
Normal Retirement Date	: First day of the month in which the (former) participant reaches the age of 65.
Flexible Retirement Date	: The individual employee may elect for a retirement date between age 55 and 65.

DEFINITIONS

Annual Salary	: 12 times fixed monthly salary at the key date, increased with holiday allowance.
Pensionable Salary	: Annual salary less an offset NLG 30,649 in 2000. Thereafter this offset will rise in line with the CPI, adjusted per 1 January reflecting the price index increase over the preceding year (CPI all households period Dec till Dec).
Bonus	: The total of fluctuating emoluments received over the 12 months preceding the key date
Key Date	: January 1 or date of entry in first year.

Credited Service : Years and full months of service between the date of entry into the plan and normal retirement date. Partial months will be ignored.

Defined Contribution Table :

AGE RANGE	EMPLOYER CORE	EMPLOYEE CONTRIBUTION RANGE	EMPLOYER MATCH	TOTAL RANGE
21 - 29	2.0%	0% - 2.0%	0% - 2.0%	6.0% of PS
30 - 34	2.5%	0% - 2.5%	0% - 2.5%	7.5% of PS
35 - 39	3.5%	0% - 3.5%	0% - 3.5%	10.5% of PS
40 - 44	4.5%	0% - 4.5%	0% - 4.5%	13.5% of PS
45 - 49	5.5%	0% - 5.5%	0% - 5.5%	16.5% of PS
50 - 54	6.5%	0% - 6.5%	0% - 6.5%	19.5% of PS
55 - 59	7.0%	0% - 7.0%	0% - 7.0%	21.0% of PS
60 - 65	7.5%	0% - 7.5%	0% - 7.5%	22.5% of PS

Defined contribution table over bonus:

AGE RANGE	EMPLOYEE CONTRIBUTION RANGE	MULTIPLE FOR MATCH	EMPLOYER MATCH	TOTAL RANGE
21 - 29	0% - 1%	2	0% - 2.0%	3.0% of Bonus
30 - 34	0% - 1%	2	0% - 2.0%	3.0% of Bonus
35 - 39	0% - 1.5%	2	0% - 3.0%	4.5% of Bonus
40 - 44	0% - 2%	2	0% - 4.0%	6.0% of Bonus
45 - 49	0% - 2.5%	2	0% - 5.0%	7.5% of Bonus
50 - 54	0% - 3.5%	2	0% - 7.0%	10.5% of Bonus
55 - 59	0% - 4.5%	2	0% - 9.0%	13.5% of Bonus
60 - 65	0% - 6%	2	0% - 12%	18% of Bonus

Comment:

- Should an employee fail to make a choice the maximum contribution will be assumed.
- The age of all employees, both existing and new, will be assessed per the key date to determine the contribution payable.
- In the event of new entrants who join mid-month a partial contribution will be paid, whereby all months are assumed to be 30 days.
- Contributions paid over the bonus and pensionable salary will be invested in separate accounts over which differing investment choices can apply.

BENEFITS

Retirement Benefit	:	The accumulated value of all contributions will be used to purchase retirement pension (and - if desired - survivors pension)
Death in Service Benefit	:	For married and cohabiting employees a death-in-service benefit is insured on a risk premium basis, of 1.4% of the pensionable salary plus the average bonus received over the preceding three years, at date of death per year of potential service (max 35). Orphan's pension amounts per child to 0.28% of the pensionable salary plus the average bonus received over the preceding three years, per year of potential service (max 35) Note: cohabiting partners (same sex/different sex) are only covered if there is a co-habitation agreement in place, or if the co-habitation period is longer than five years.

The risk premiums necessary to finance this benefit are deducted from the defined contribution.

Death after Retirement	:	The employee is free to choose whether or not to apply part of the accumulated capital for post retirement dependant's benefits.
Disability Benefit	:	* For all employees a waiver of premium will be insured. The cost of the premium waiver will be deducted from the defined contribution. * For all employees a so-called WAO-Shortfall insurance is provided. This insurance supplements the state WAO benefit to secures a continuation of income of up to 70% of last salary up to a maximum salary NLG 83,275 in 2000 (State ceiling) * For employees with an annual salary above the State ceiling an additional disability pension of up to 70% of the excess salary is provided.
Preliminary coverage	:	For employees who do not fulfil the eligibility requirements temporary death-in-service risk coverage is provided. Additionally if candidate employees have a contract for an indefinite period disability coverage will be provided.

CONTRIBUTIONS

Employee Contributions	:	1. Voluntary defined contribution expressed in the table. 2. Half of the premium for the WAO-Shortfall insurance.
Employer Contributions	:	Total premium excluding employee contributions. This includes the cost of supplemental disability pension that will be paid in addition to the DC table.
Additional Voluntary Contributions	:	Encouraged. Level dependent on individual circumstances and chosen retirement date, subject to fiscal restrictions.

MISCELLANEOUS

Investment	:	The defined contribution plus additional voluntary contributions are invested in the investment fund of the employee's choice. All investment returns are credited to the employees accrued capital.
Early Leavers	:	Benefits vest immediately. The invested capital will continue to grow in line with investment returns over the period from leaving to retirement. The employee may chose to continue the policy on an individual basis or transfer the accumulated value to the new employers pension plan. Upon leaving the death in service and disability cover will lapse. The employee may however, elect to convert his capital to a form with restitution on death.
Wage Savings Plan:	:	A wage savings plan will be established alongside the pension plan. An employee may save annually from gross salary NLG 1,736 in 2000. The saved amounts may be de-blocked and applied to the company pension plan so long as legislation facilitates this.

EXHIBIT 12

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

(THOUSANDS OF DOLLARS)

	SIX MONTHS ENDED JUNE 30, 2000	TWELVE MONTHS ENDED JUNE 30, 2000
Income from continuing operations	$ 349,639	$ 2,150,300
Income taxes for continuing operations	163,343	1,099,018
Capitalized interest	(18,848)	(33,802)
	494,134	3,215,516
Fixed charges, as defined:		
Interest	350,491	609,382
Capitalized interest	18,848	33,802
Distribution on trust preferred securities	26,704	54,143
Interest component of rentals charged to operating expense	6,670	14,137
Total fixed charges	402,713	711,464
Earnings, as defined	$ 896,847	$ 3,926,980
Ratio of earnings	2.23	5.52

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

0000048732
RELIANT ENERGY, INCORPORATED
1,000

3-MOS
DEC-31-2000
JUN-30-2000
PER-BOOK
9,311,473
7,401,324
7,192,828
6,350,856
0
30,256,481
2,918,425
0
2,534,249
5,452,674
705,166
9,740
5,155,241
0
1,385,184
4,725,745
4,554,116
0
11,881
1,288
8,255,446
30,256,481
10,004,555
163,343
9,158,042
9,158,042
846,513
24,405
870,918
350,491
357,084
195
356,889
212,182
313,658
543,608
1.26
1.25

TOTAL ANNUAL INTEREST CHARGES ON ALL BONDS IS AS OF YEAR-TO-DATE 06/30/00.

EXHIBIT 99.a

RELIANT ENERGY INCORPORATED
Items Incorporated by Reference

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

o ITEM 3. LEGAL PROCEEDINGS

(a) Reliant Energy.

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

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

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

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

COMPETITION AND RESTRUCTURING OF THE TEXAS ELECTRIC UTILITY INDUSTRY

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

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

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

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

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

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

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

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

COMPETITION -- RELIANT ENERGY EUROPE OPERATIONS

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

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

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

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

COMPETITION -- OTHER OPERATIONS

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

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

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

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

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

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

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

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

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

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

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

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

IMPACT OF THE YEAR 2000 ISSUE AND OTHER SYSTEM IMPLEMENTATION ISSUES

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

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

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

ENTRY INTO THE EUROPEAN MARKET

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

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

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

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

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

RISK OF OPERATIONS IN EMERGING MARKETS

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

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

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

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

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

ENVIRONMENTAL EXPENDITURES

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

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

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

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

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

OTHER CONTINGENCIES

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

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

INTEREST RATE RISK

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

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

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

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

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

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

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

EQUITY MARKET RISK

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

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

FOREIGN CURRENCY EXCHANGE RATE RISK

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

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

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

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

ENERGY COMMODITY PRICE RISK

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

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

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

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

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

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

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

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

o (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(d) Regulatory Assets.

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

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

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

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

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

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

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

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

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

(m) Foreign Currency Adjustments.

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

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

(2) BUSINESS ACQUISITIONS

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

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

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

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

	YEAR ENDED DECEMBER 31,					
	1999		1998		1997	
	ACTUAL	PRO FORMA (UNAUDITED)	ACTUAL	PRO FORMA (UNAUDITED)	ACTUAL	PRO FORMA (UNAUDITED)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

o (4) TRANSITION PLAN

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

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

o (5) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Price Risk Management and Trading Activities.

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Non-Trading Activities.

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

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

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

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

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

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

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

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

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

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

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

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

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

o (6) JOINTLY OWNED ELECTRIC UTILITY PLANT

(a) Investment in South Texas Project.

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

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

(b) Nuclear Insurance.

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

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

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

(c) Nuclear Decommissioning.

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

o (7) EQUITY INVESTMENTS AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES

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

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

(a) Reliant Energy Latin America.

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

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

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

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

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

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

(b) Wholesale Energy Domestic.

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

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

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

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

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

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

(a) Original investment in Time Warner Securities.

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

(b) ACES.

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

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

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

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

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

(c) ZENS.

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

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

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

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

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

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

o (14) COMMITMENTS AND CONTINGENCIES

(a) Commitments.

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

(b) Fuel and Purchased Power.

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

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

(c) Operations Agreement with City of San Antonio.

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

(d) Transportation Agreement.

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

(e) Lease Commitments.

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

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

(f) Letters of Credit.

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

(g) Cross Border Leases.

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

(h) Environmental Matters.

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

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

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

(i) Other.

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

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): JULY 27, 2000

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

TEXAS	1-3187	74-0694415
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1111 LOUISIANA HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip Code)

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

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

DELAWARE	1-13265	76-0511406
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1111 LOUISIANA HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip Code)

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

This combined current report on Form 8-K is separately filed by Reliant Energy, Incorporated (Reliant Energy) and Reliant Energy Resources Corp. (Resources Corp.). Information contained herein relating to Resources Corp. is filed by Reliant Energy and separately by Resources Corp. on its own behalf. Resources Corp. makes no representation as to information relating to Reliant Energy (except as it may relate to Resources Corp.) and its subsidiaries, or any other affiliate of Reliant Energy. References herein to the businesses and operations of Reliant Energy include the businesses and operations of Reliant Energy's subsidiaries, including Resources Corp.

ITEM 5. OTHER EVENTS.

On July 27, 2000, Reliant Energy announced that it plans to file a business separation plan with the Texas Public Utility Commission under which it would divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. Upon receipt of necessary regulatory approvals, Reliant Energy plans an initial public offering (IPO) of approximately 20 percent of the common stock of a subsidiary that will hold its unregulated operations late this year or early in 2001, assuming market conditions remain favorable. Reliant Energy expects the IPO to be followed by a distribution to Reliant Energy's shareholders of the remaining stock of the unregulated company within twelve months after the IPO.

The unregulated company is expected to own Reliant Energy's:

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

- retail electric, telecommunications and internet services businesses, and

- European power generation and energy trading and marketing operations.

These businesses are expected to include the trading and marketing and certain electric and gas retail operations of Resources Corp., which are expected to be merged into wholly owned subsidiaries of the unregulated company. The business separation plan also contemplates that in 2004 the unregulated company will receive from the regulated company cash equal to the market value of the regulated company's interest in its Texas regulated generation operations. In addition, the unregulated company will have an option to purchase the regulated company's interest in these operations at a price equal to the market value.

Under the business separation plan, Reliant Energy would restructure its regulated operations into a holding company structure in which a new corporate entity would be formed as the parent with Reliant Energy's regulated businesses as subsidiaries. The regulated company is expected to own Reliant Energy's:

- electric transmission and distribution operations, its natural gas distribution businesses and, initially, its regulated electric generating assets in Texas,

- U.S. interstate pipelines and gas gathering operations, and

. interests in energy distribution companies in Latin America.

In connection with the formation of the new holding company for regulated businesses, Reliant Energy would transfer the stock of all of its subsidiaries to the new holding company and would transfer its regulated electric generating assets in Texas to a separate subsidiary of the new holding company until the stranded costs associated with those assets are valued in 2004. At that time, the unregulated company will have the right to exercise the option discussed above. As a result of the stock and asset transfers described above, Reliant Energy would become solely a transmission and distribution company, with its other businesses transferred to separate subsidiaries of the new holding company. Reliant Energy expects that the regulated holding company would be required to assume all of Reliant Energy's debt other than its first mortgage bonds, which would remain with Reliant Energy. The indebtedness of Reliant Energy's FinanceCo financing subsidiaries is expected to initially remain in place and be refinanced by the regulated holding company by the end of 2002.

For additional information, please refer to Reliant Energy's press release filed with this current report as Exhibit 99.1 and the simplified organizational chart of the proposed business separation plan filed with this current report as Exhibit 99.2, which press release and organizational chart are incorporated herein by reference.

The IPO and ultimate distribution of the stock of the unregulated company are subject to the development of definitive separation terms, further corporate approvals, market and other conditions, and government actions, including approval of the business separation plan by the Texas Public Utility Commission and receipt of a favorable Internal Revenue Service ruling that the distribution of stock would be tax-free to Reliant Energy and its shareholders for U.S. federal income tax purposes, as applicable. Aspects of the restructuring of Reliant Energy's regulated businesses would be subject to the approval of Reliant Energy's shareholders and approvals from the Securities and Exchange Commission under the Public Utility Holding Company Act and from the Nuclear Regulatory Commission. There can be no assurance that the IPO, the separation of Reliant Energy's unregulated and regulated businesses or the ultimate restructuring of Reliant Energy's regulated businesses will be completed as described or within the time periods outlined above.

The IPO of Reliant Energy's unregulated businesses will be registered under the Securities Act of 1933 and such shares of common stock will only be offered and sold by means of a prospectus. This current report does not constitute an offer to sell or the solicitation of any offer to buy any securities of Reliant Energy's unregulated businesses, nor will there be any sale of any such securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

This current report includes forward-looking statements. Actual events and results may differ materially from those projected. Factors that could affect actual results include the timing and impact of future regulatory and legislative decisions, changes in Reliant Energy's business plans, financial market conditions and other factors discussed in Reliant Energy's filings with the Securities and Exchange Commission.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

The following exhibits are filed herewith:

99.1 Press Release issued July 27, 2000

99.2 Simplified Organizational Chart of Reliant Energy's proposed Business Separation Plan

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 hereunto duly authorized.

RELIANT ENERGY, INCORPORATED

Date: July 27, 2000 By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Senior Vice President and
Chief Accounting Officer

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 hereunto duly authorized.

RELIANT ENERGY RESOURCES CORP.

Date: July 27, 2000 By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Senior Vice President

EXHIBIT INDEX

Exhibit Number	Exhibit Description
99.1	Press Release issued July 27, 2000
99.2	Simplified Organizational Chart of Reliant Energy's proposed Business Separation Plan

Exhibit 99.1

FOR FURTHER INFORMATION: (Media) Sandy Fruhman (713) 207-3123
(Investors) Randy Burkhalter (713) 207-3115

FOR IMMEDIATE RELEASE: Thursday, July 27, 2000

RELIANT ENERGY ANNOUNCES FILING OF BUSINESS SEPARATION PLAN

(Houston, TX) -- Reliant Energy announced today that it plans to file with the Texas Public Utility Commission a business separation plan under which it would divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. Upon receipt of necessary regulatory approvals, the company plans an initial public offering (IPO) of approximately 20 percent of the common stock of its unregulated operations late this year or early in 2001, assuming market conditions remain favorable. The company expects the IPO to be followed by a distribution to shareholders of the remaining stock of the unregulated company within 12 months. The remaining businesses which are predominantly regulated will be structured as a holding company.

The initiative is intended to satisfy regulatory requirements under Texas restructuring legislation, to enhance shareholder value, to highlight the specific investment appeals of each resulting entity, and to permit the individual units to focus on their respective business and market opportunities.

The unregulated company will own Reliant Energy's unregulated power generation and related energy trading and marketing operations, its unregulated retail businesses, which currently include energy, telecommunications and internet services and the company's European electric generating and trading/marketing operations. The plan also contemplates that in 2004 the unregulated company will receive from the regulated company cash equal to the market value of the regulated company's interest in its Texas regulated generation operations. In addition, the unregulated company will have an option to purchase the regulated company's interest in these operations at a price equal to the market value.

The regulated company will include Reliant Energy's electricity and natural gas companies, which serve about four million customers in the U.S. and include Reliant Energy HL&P/Entex, Reliant Energy Arkla, Reliant Energy Entex and Reliant Energy Minnegasco. Other operations in the entity will include its U.S. interstate pipelines, its interests in Latin America and, initially, its Texas regulated generation.

"Reliant Energy has undergone a fundamental transformation from a Texas-based utility into a leading energy services company," said Steve Letbetter, chairman, president and CEO. "In addition to our successful regulated energy delivery operations, we now have sizeable and very attractive growth businesses operating in competitive markets. Our primary business objective is to create shareholder value while also providing high-quality service to our customers. The restructuring initiative we are announcing today is another step in meeting that objective.

"Our growth businesses appeal to a different set of investors than do our regulated activities," Letbetter explained. "We expect the regulated company to be very similar to the company we have been for most of our history, and it should appeal to our traditional type of investor. "As a growth company, the new unregulated entity will be able to capitalize on existing and future investment opportunities more effectively, and should appeal to investors who are more growth-oriented and tolerant of risk," Letbetter continued. "Overall, this restructuring will allow us to better align our businesses with the interests of investors and allow the market to more effectively reflect the overall value of Reliant Energy's expanded business portfolio."

Letbetter added that Reliant Energy is committed to maintaining its current annual dividend of $1.50 per share until the time of the separation.

In addition to advancing shareholder interests, the initiative will satisfy competitive market and restructuring requirements of the Texas electric restructuring legislation, which calls for the Texas electric market to open to full competition on January 1, 2002. The new structure is an integral part of a separation plan which Reliant Energy HL&P will file in August for approval of the Public Utility Commission of Texas.

"As businesses that will remain regulated, Reliant Energy's electricity and natural gas distribution companies will continue to focus on providing reliable service at a reasonable cost, as we have been doing for more than 100 years," Letbetter said.

Reliant Energy (NYSE: REI), based in Houston, Texas, is an international energy delivery and energy services company with more than $15 billion in annual revenue and assets totaling $30 billion. The company has a wholesale energy trading and marketing business that ranks among the top five in the U.S. in combined electricity and natural gas volumes and has a presence in most of the major power regions of the U.S. It also has power generation and wholesale trading and marketing operations in Western Europe. The company has nearly 27,000 megawatts of power generation in operation in the U.S. and Western Europe and has announced development projects that will add another 5,000 megawatts. Reliant Energy also has marketing and distribution operations serving nearly four million electricity and natural gas customers in the U.S., has significant interests in power distribution operations serving more than 10 million customers in Latin America and has a telecommunications business serving the Houston area.

The IPO of the company's unregulated businesses will be registered under the Securities Act of 1933 and such shares of common stock will only be offered and sold by means of a prospectus. This news release does not constitute an offer to sell or the solicitation of any offer to buy any securities of the Company's unregulated businesses, nor will there be any sale of any such securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

This news release includes forward-looking statements. Actual events and results may differ materially from those projected. Factors that could affect actual results include the timing and impact of future regulatory and legislative decisions, changes in Reliant Energy's business plans, financial market conditions and other factors discussed in Reliant Energy's filings with the Securities and Exchange Commission.

EXHIBIT 99.2

EXISTING STRUCTURE
(simplified)

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                                              ______________________________
                                             |             REI              |
                                             |                              |
                                             |        HL&P Division:        |
                                             |  Generation ("ERCOT Genco")  |
                                             |   Distribution ("WiresCo")   |
                                             |            Retail            |
                                             |______________________________|
                                                            |
          _____________________________________________________________________________________________________
          |                                 |                          |                 |                   |
          |                                 |                          |                 |                   |
 __________________________           ______________           _____________      _____________      ___________
|                          |         |   Telecom    |         | FinanceCos  |    |  Resources  |    |  Latin    |
|          (REPG)          |         |      &       |         |             |    |  (Formerly  |    |  America  |
|  Unregulated Generation  |         |  E-Business  |         |             |    |   NorAm)    |    |           |
|__________________________|         |______________|         |_____________|    |_____________|    |___________|
                         |                                                              |
        ______________________________________                                          |
        |               |                    |                                          |
 ____________     _____________        ______________                            _____________
|   Other    |   |  Wholesale  |      |   RE Mid     |                          |    (RES)    |
|  Merchant  |   |   Europe    |      |  Atlantic    |                          |   Trading   |
|   Plants   |   |             |      |   (Sithe)    |                          |      &      |
|            |   |             |      |              |                          |  Marketing  |
|____________|   |_____________|      |______________|                          |_____________|
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PROPOSED BUSINESS SEPARATION PLAN
(simplified)

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                                                                                  _______________________________________
                                                                                 |        Regulated Holding Company      |
                                                                                 |                                       |
                          ________________________________                       |   (Will assume all former non-FMB     |
                         |   Unregulated Holding Company  |                      |        debt of REI and HL&P)          |
                         |________________________________|                      |_______________________________________|
                                       |                                                             |
        _____________________________________________________                        _____________________________________
        |                  |                |            |                           |        |        |                |
 _______________     _____________    _____________   ___________               _________     |   _____________     ___________
|   (REPG)      |   |   Telecom   |  |    (RES)    | |  Retail   |             |  ERCOT  |    |  |  Resources  |   |   Latin   |
|  Unregulated  |   |      &      |  |   Trading   | | Electric  |             |  Genco  |    |  |  (formerly  |   |  America  |
|  Generation   |   | E-Business  |  |      &      | | Provider  |  -----------|         |    |  |   NorAm)    |   |           |
|               |   |             |  |  Marketing  | |           |  |          |         |    |  |             |   |           |
|_______________|   |_____________|  |_____________| |___________|  |          |_________|    |  |_____________|   |___________|
        |                                                            |                        |
        ___________________________________________________          |                        |
        |               |               |              |             |                        |
 ____________     _____________    ____________    -----------------------    __________________________    ___________________________
|   Other    |   |  Wholesale  |  |   RE Mid   |  |     ERCOT Genco     |  |       REI (WiresCo)      |  |        FinanceCos          |
|  Merchant  |   |   Europe    |  |  Atlantic  |  | (option exercisable |  |                          |  |                            |
|   Plants   |   |             |  |  (Sithe)   |  |      in 2004)       |  |  Remaining debt: FMBs    |  |  (Debt is expected to      |
|____________|   |_____________|  |____________|  -----------------------   | (including obligations   |__|  be refinanced at the      |
                                                                            |  under FMBs securing     |  |   Regulated Holding        |
                                                                            |    PCBs and MTNs)        |  |      Company by            |
                                                                            |                          |  |     December 2002)         |
                                                                            |__________________________|  |____________________________|
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Definitions: FMBs: First Mortgage Bonds
PCBs: Pollution Control Bonds
MTNs: Medium Term Notes

EXHIBIT 12

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

(THOUSANDS OF DOLLARS)

	SIX MONTHS ENDED JUNE 30, 2000	TWELVE MONTHS ENDED JUNE 30, 2000
Income from continuing operations	$ 41,639	$ 64,911
Income taxes for continuing operations	46,696	70,562
	88,335	135,473
Fixed charges, as defined:		
Interest expense	61,157	120,796
Distribution on trust preferred securities	15	175
Interest component of rentals charged to operating expense	5,358	11,796
Total fixed charges	66,530	132,767
Earnings, as defined	$ 154,865	$ 268,240
Ratio of earnings to fixed charges	2.33	2.02

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

0001042773
RELIANT ENERGY RESOURCES CORP.
1,000

6-MOS
DEC-31-2000
JUN-30-2000
PER-BOOK
1,485,025
1,506,160
2,443,479
2,920,175
0
8,354,839
1
2,463,831
255,330
2,719,162
640
0
1,099,542
350,000
0
216,679
339,863
0
0
0
3,628,953
8,354,839
7,109,064
46,696
0
6,946,429
162,635
(13,143)
149,492
61,157
41,639
0
41,639
0
46,689
103,036
0.00
0.00

TOTAL ANNUAL INTEREST CHARGES ON ALL BONDS IS AS OF YEAR-TO-DATE 6/30/00.

EXHIBIT 99.a

RELIANT ENERGY RESOURCES CORP.
Items Incorporated by Reference

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

o Item 3. LEGAL PROCEEDINGS

(b) Resources Corp.

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

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

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

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

COMPETITION AND RESTRUCTURING OF THE TEXAS ELECTRIC UTILITY INDUSTRY

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

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

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

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

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

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

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

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

COMPETITION -- RELIANT ENERGY EUROPE OPERATIONS

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

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

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

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

COMPETITION -- OTHER OPERATIONS

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

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

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

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

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

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

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

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

FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

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

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

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

IMPACT OF THE YEAR 2000 ISSUE AND OTHER SYSTEM IMPLEMENTATION ISSUES

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

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

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

ENTRY INTO THE EUROPEAN MARKET

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

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

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

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

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

RISK OF OPERATIONS IN EMERGING MARKETS

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

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

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

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

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

ENVIRONMENTAL EXPENDITURES

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

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

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

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

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

OTHER CONTINGENCIES

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

o ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

INTEREST RATE RISK

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

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

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

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

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

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

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

EQUITY MARKET RISK

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

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

FOREIGN CURRENCY EXCHANGE RATE RISK

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

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

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

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

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

ENERGY COMMODITY PRICE RISK

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

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

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

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

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

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

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

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

o (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(c) Regulatory Assets and Regulation.

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

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

o (2) DERIVATIVE FINANCIAL INSTRUMENTS

(a) Price Risk Management and Trading Activities.

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Non-Trading Activities.

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

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

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

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

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

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

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

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

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

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

o (8) COMMITMENTS AND CONTINGENCIES

(a) Lease Commitments.

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

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

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

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

(b) Indemnity Provisions.

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

(c) Transportation Agreement.

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

(d) Environmental Matters.

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

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

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

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

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

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

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

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

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

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): JULY 27, 2000

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

TEXAS	1-3187	74-0694415
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1111 LOUISIANA HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip Code)

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

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

DELAWARE	1-13265	76-0511406
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1111 LOUISIANA HOUSTON, TEXAS	77002
(Address of principal executive offices)	(Zip Code)

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

This combined current report on Form 8-K is separately filed by Reliant Energy, Incorporated (Reliant Energy) and Reliant Energy Resources Corp. (Resources Corp.). Information contained herein relating to Resources Corp. is filed by Reliant Energy and separately by Resources Corp. on its own behalf. Resources Corp. makes no representation as to information relating to Reliant Energy (except as it may relate to Resources Corp.) and its subsidiaries, or any other affiliate of Reliant Energy. References herein to the businesses and operations of Reliant Energy include the businesses and operations of Reliant Energy's subsidiaries, including Resources Corp.

ITEM 5. OTHER EVENTS.

On July 27, 2000, Reliant Energy announced that it plans to file a business separation plan with the Texas Public Utility Commission under which it would divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. Upon receipt of necessary regulatory approvals, Reliant Energy plans an initial public offering (IPO) of approximately 20 percent of the common stock of a subsidiary that will hold its unregulated operations late this year or early in 2001, assuming market conditions remain favorable. Reliant Energy expects the IPO to be followed by a distribution to Reliant Energy's shareholders of the remaining stock of the unregulated company within twelve months after the IPO.

The unregulated company is expected to own Reliant Energy's:

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

- retail electric, telecommunications and internet services businesses, and

- European power generation and energy trading and marketing operations.

These businesses are expected to include the trading and marketing and certain electric and gas retail operations of Resources Corp., which are expected to be merged into wholly owned subsidiaries of the unregulated company. The business separation plan also contemplates that in 2004 the unregulated company will receive from the regulated company cash equal to the market value of the regulated company's interest in its Texas regulated generation operations. In addition, the unregulated company will have an option to purchase the regulated company's interest in these operations at a price equal to the market value.

Under the business separation plan, Reliant Energy would restructure its regulated operations into a holding company structure in which a new corporate entity would be formed as the parent with Reliant Energy's regulated businesses as subsidiaries. The regulated company is expected to own Reliant Energy's:

- electric transmission and distribution operations, its natural gas distribution businesses and, initially, its regulated electric generating assets in Texas,

- U.S. interstate pipelines and gas gathering operations, and

. interests in energy distribution companies in Latin America.

In connection with the formation of the new holding company for regulated businesses, Reliant Energy would transfer the stock of all of its subsidiaries to the new holding company and would transfer its regulated electric generating assets in Texas to a separate subsidiary of the new holding company until the stranded costs associated with those assets are valued in 2004. At that time, the unregulated company will have the right to exercise the option discussed above. As a result of the stock and asset transfers described above, Reliant Energy would become solely a transmission and distribution company, with its other businesses transferred to separate subsidiaries of the new holding company. Reliant Energy expects that the regulated holding company would be required to assume all of Reliant Energy's debt other than its first mortgage bonds, which would remain with Reliant Energy. The indebtedness of Reliant Energy's FinanceCo financing subsidiaries is expected to initially remain in place and be refinanced by the regulated holding company by the end of 2002.

For additional information, please refer to Reliant Energy's press release filed with this current report as Exhibit 99.1 and the simplified organizational chart of the proposed business separation plan filed with this current report as Exhibit 99.2, which press release and organizational chart are incorporated herein by reference.

The IPO and ultimate distribution of the stock of the unregulated company are subject to the development of definitive separation terms, further corporate approvals, market and other conditions, and government actions, including approval of the business separation plan by the Texas Public Utility Commission and receipt of a favorable Internal Revenue Service ruling that the distribution of stock would be tax-free to Reliant Energy and its shareholders for U.S. federal income tax purposes, as applicable. Aspects of the restructuring of Reliant Energy's regulated businesses would be subject to the approval of Reliant Energy's shareholders and approvals from the Securities and Exchange Commission under the Public Utility Holding Company Act and from the Nuclear Regulatory Commission. There can be no assurance that the IPO, the separation of Reliant Energy's unregulated and regulated businesses or the ultimate restructuring of Reliant Energy's regulated businesses will be completed as described or within the time periods outlined above.

The IPO of Reliant Energy's unregulated businesses will be registered under the Securities Act of 1933 and such shares of common stock will only be offered and sold by means of a prospectus. This current report does not constitute an offer to sell or the solicitation of any offer to buy any securities of Reliant Energy's unregulated businesses, nor will there be any sale of any such securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

This current report includes forward-looking statements. Actual events and results may differ materially from those projected. Factors that could affect actual results include the timing and impact of future regulatory and legislative decisions, changes in Reliant Energy's business plans, financial market conditions and other factors discussed in Reliant Energy's filings with the Securities and Exchange Commission.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

The following exhibits are filed herewith:

99.1 Press Release issued July 27, 2000

99.2 Simplified Organizational Chart of Reliant Energy's proposed Business Separation Plan

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 hereunto duly authorized.

RELIANT ENERGY, INCORPORATED

Date: July 27, 2000

By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Senior Vice President and
Chief Accounting Officer

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 hereunto duly authorized.

RELIANT ENERGY RESOURCES CORP.

Date: July 27, 2000 By: /s/ Mary P. Ricciardello

Mary P. Ricciardello
Senior Vice President

EXHIBIT INDEX

Exhibit Number	Exhibit Description
99.1	Press Release issued July 27, 2000
99.2	Simplified Organizational Chart of Reliant Energy's proposed Business Separation Plan

Exhibit 99.1

FOR FURTHER INFORMATION: (Media) Sandy Fruhman (713) 207-3123
(Investors) Randy Burkhalter (713) 207-3115

FOR IMMEDIATE RELEASE: Thursday, July 27, 2000

RELIANT ENERGY ANNOUNCES FILING OF BUSINESS SEPARATION PLAN

(Houston, TX) -- Reliant Energy announced today that it plans to file with the Texas Public Utility Commission a business separation plan under which it would divide into two publicly traded companies in order to separate its unregulated businesses from its regulated businesses. Upon receipt of necessary regulatory approvals, the company plans an initial public offering (IPO) of approximately 20 percent of the common stock of its unregulated operations late this year or early in 2001, assuming market conditions remain favorable. The company expects the IPO to be followed by a distribution to shareholders of the remaining stock of the unregulated company within 12 months. The remaining businesses which are predominantly regulated will be structured as a holding company.

The initiative is intended to satisfy regulatory requirements under Texas restructuring legislation, to enhance shareholder value, to highlight the specific investment appeals of each resulting entity, and to permit the individual units to focus on their respective business and market opportunities.

The unregulated company will own Reliant Energy's unregulated power generation and related energy trading and marketing operations, its unregulated retail businesses, which currently include energy, telecommunications and internet services and the company's European electric generating and trading/marketing operations. The plan also contemplates that in 2004 the unregulated company will receive from the regulated company cash equal to the market value of the regulated company's interest in its Texas regulated generation operations. In addition, the unregulated company will have an option to purchase the regulated company's interest in these operations at a price equal to the market value.

The regulated company will include Reliant Energy's electricity and natural gas companies, which serve about four million customers in the U.S. and include Reliant Energy HL&P/Entex, Reliant Energy Arkla, Reliant Energy Entex and Reliant Energy Minnegasco. Other operations in the entity will include its U.S. interstate pipelines, its interests in Latin America and, initially, its Texas regulated generation.

"Reliant Energy has undergone a fundamental transformation from a Texas-based utility into a leading energy services company," said Steve Letbetter, chairman, president and CEO. "In addition to our successful regulated energy delivery operations, we now have sizeable and very attractive growth businesses operating in competitive markets. Our primary business objective is to create shareholder value while also providing high-quality service to our customers. The restructuring initiative we are announcing today is another step in meeting that objective.

"Our growth businesses appeal to a different set of investors than do our regulated activities," Letbetter explained. "We expect the regulated company to be very similar to the company we have been for most of our history, and it should appeal to our traditional type of investor. "As a growth company, the new unregulated entity will be able to capitalize on existing and future investment opportunities more effectively, and should appeal to investors who are more growth-oriented and tolerant of risk," Letbetter continued. "Overall, this restructuring will allow us to better align our businesses with the interests of investors and allow the market to more effectively reflect the overall value of Reliant Energy's expanded business portfolio."

Letbetter added that Reliant Energy is committed to maintaining its current annual dividend of $1.50 per share until the time of the separation.

In addition to advancing shareholder interests, the initiative will satisfy competitive market and restructuring requirements of the Texas electric restructuring legislation, which calls for the Texas electric market to open to full competition on January 1, 2002. The new structure is an integral part of a separation plan which Reliant Energy HL&P will file in August for approval of the Public Utility Commission of Texas.

"As businesses that will remain regulated, Reliant Energy's electricity and natural gas distribution companies will continue to focus on providing reliable service at a reasonable cost, as we have been doing for more than 100 years," Letbetter said.

Reliant Energy (NYSE: REI), based in Houston, Texas, is an international energy delivery and energy services company with more than $15 billion in annual revenue and assets totaling $30 billion. The company has a wholesale energy trading and marketing business that ranks among the top five in the U.S. in combined electricity and natural gas volumes and has a presence in most of the major power regions of the U.S. It also has power generation and wholesale trading and marketing operations in Western Europe. The company has nearly 27,000 megawatts of power generation in operation in the U.S. and Western Europe and has announced development projects that will add another 5,000 megawatts. Reliant Energy also has marketing and distribution operations serving nearly four million electricity and natural gas customers in the U.S., has significant interests in power distribution operations serving more than 10 million customers in Latin America and has a telecommunications business serving the Houston area.

The IPO of the company's unregulated businesses will be registered under the Securities Act of 1933 and such shares of common stock will only be offered and sold by means of a prospectus. This news release does not constitute an offer to sell or the solicitation of any offer to buy any securities of the Company's unregulated businesses, nor will there be any sale of any such securities in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state.

This news release includes forward-looking statements. Actual events and results may differ materially from those projected. Factors that could affect actual results include the timing and impact of future regulatory and legislative decisions, changes in Reliant Energy's business plans, financial market conditions and other factors discussed in Reliant Energy's filings with the Securities and Exchange Commission.

EXHIBIT 99.2

EXISTING STRUCTURE
(simplified)

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                                              ______________________________
                                             |             REI              |
                                             |                              |
                                             |        HL&P Division:        |
                                             |  Generation ("ERCOT Genco")  |
                                             |   Distribution ("WiresCo")   |
                                             |            Retail            |
                                             |______________________________|
                                                           |
         ___________________________________________________________________________________________________
        |                                 |                          |                 |                   |
        |                                 |                          |                 |                   |
 __________________________         ______________         _____________     _____________     ___________
|                          |       |   Telecom    |       | FinanceCos  |   |  Resources  |   |  Latin    |
|          (REPG)          |       |      &       |       |             |   |  (Formerly  |   |  America  |
|  Unregulated Generation  |       |  E-Business  |       |             |   |   NorAm)    |   |           |
|__________________________|       |______________|       |_____________|   |_____________|   |___________|
                         |                                                         |
       _______________________________________                                     |
       |               |                     |                                     |
 ____________     _____________      _____________                           _____________
|   Other    |   |  Wholesale  |    |   RE Mid    |                         |    (RES)    |
|  Merchant  |   |   Europe    |    |  Atlantic   |                         |   Trading   |
|   Plants   |   |             |    |   (Sithe)   |                         |      &      |
|            |   |             |    |             |                         |  Marketing  |
|____________|   |_____________|    |_____________|                         |_____________|
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PROPOSED BUSINESS SEPARATION PLAN
(simplified)

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                                                                           ______________________________________
                                                                          |       Regulated Holding Company      |
                                                                          |                                      |
                        __________________________________                |    (Will assume all former non-FMB   |
                       |    Unregulated Holding Company   |               |        debt of REI and HL&P)         |
                       |__________________________________|               |______________________________________|
                                      |                                                       |
         _________________________________________________                  ___________________________________
         |                  |                |            |                 |        |          |                |
 ________________    ______________    ______________    ___________        _________  |  _____________     ___________
|     (REPG)     |  |   Telecom    |  |    (RES)     |  |  Retail   |      |  ERCOT  | | |  Resources  |   |  Latin    |
|   Unregulated  |  |      &       |  |   Trading    |  | Electric  |      |  Genco  | | |  (formerly  |   |  America  |
|   Generation   |  |  E-Business  |  |      &       |  | Provider  |  --------|       | | |   NorAm)    |   |           |
|                |  |              |  |  Marketing   |  |           |  |      |         | | |             |   |           |
|________________|  |______________|  |______________|  |___________|  |      |_________| | |_____________|   |___________|
       |                                                               |                  |
        _____________________________________________________          |                  |
       |              |                |                    |          |                  |
 ____________    _____________    ____________    -----------------------    __________________________    __________________________
|   Other    |  |  Wholesale  |  |   RE Mid   |  |      ERCOT Genco      |  |       REI (WiresCo)      |  |        FinanceCos        |
|  Merchant  |  |   Europe    |  |  Atlantic  |   (option exercisable      |                          |  |                          |
|   Plants   |  |             |  |  (Sithe)   |  |      in 2004)         |  |   Remaining debt: FMBs   |  | (Debt is expected to     |
|____________|  |_____________|  |____________|   -----------------------   | (including obligations   |__|  be refinanced at the    |
                                                                            |   under FMBs securing    |  |   Regulated Holding      |
                                                                            |     PCBs and MTNs)       |  |     Company by           |
                                                                            |                          |  |    December 2002)        |
                                                                            |__________________________|  |__________________________|
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Definitions: FMBs: First Mortgage Bonds
                 PCBs: Pollution Control Bonds
                 MTNs: Medium Term Notes