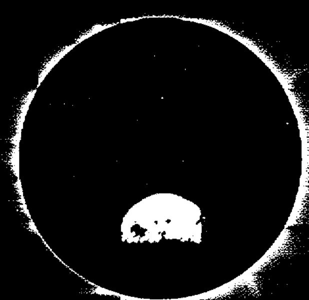
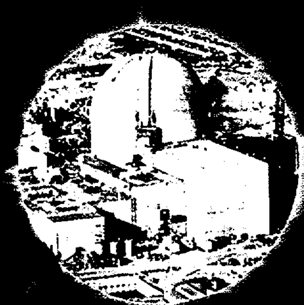
More Energy,

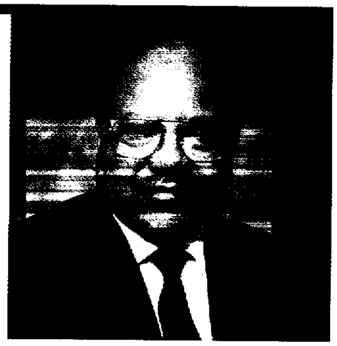
More Ways



For San Antonio.



City Public Service
Annual Report
1999-2000



Dedicated to Dr. Frank Bryant

Dr. Bryant, a former Board Member, died in December 1999. He was a respected physician, community leader and pioneer for minority and small business causes, who served as a City Public Service Trustee from 1988 to 1998. He provided leadership as Chairman of the Board for three years and Vice Chairman for more than four years.

CPS Board of Trustees

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Executive and Financial Management

BACK ROW: William C. Gunst – Senior Vice President - Energy Supply; Kenneth J. Fiedler – Senior Vice President - Electric Utility; V. Gary Schaub – Secretary - Treasurer and Director, Financial Services; Richard E. Williamson – Supervisor - Investments and Trust. FRONT ROW: Joe O. Trevino – Senior Vice President - Corporate and Energy Services; Jamie A. Rochelle – General Manager and CEO; Patricia M. Major, CPA – Assistant Secretary-Treasurer and Director, Corporate Accounting.

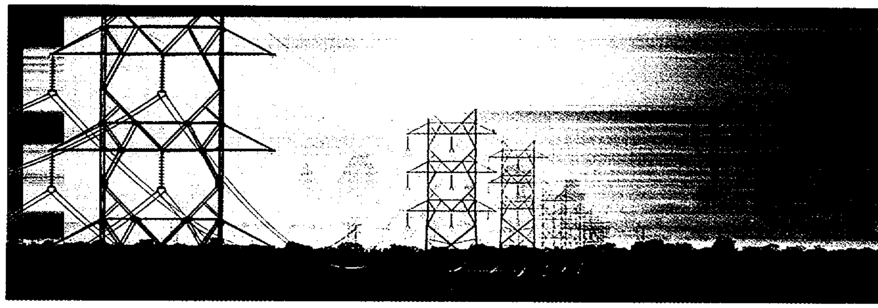
Printed on recycled paper

Message From The Chairman And CEO

Nelson W. Wolff, Board Chairman and Jamie A. Rochelle, General Manager and CEO.

We produce and deliver high-value energy related products and services to meet the changing needs of our customers in the growing marketplace.

City Public Service Mission Statement



CPS transmission lines shown against the backdrop of the City's skyline.

Our Best For Our Customers

Fiscal year 2000 will be remembered as a pivotal year for the utility industry in Texas and the dawning of a challenging new era of change for City Public Service (CPS). A major victory for all municipally owned utilities, Texas' landmark electric utility restructuring legislation, Senate Bill 7 (SB7), became law in June 1999. This bill provides clear protections for municipal utility customers and the owning cities.

Municipal utilities will be allowed to opt in to competition under conditions that will provide adequate protections. The CPS Board of Trustees, Senior Management, and the City of San Antonio actively supported this bill and applaud its various benefits to our ratepayers and owner. We at CPS will continue to actively participate in its implementation.

SB7 requires far-reaching changes by utilities to ensure a competitive environment. The separate code of conduct for municipally owned utilities, which has yet to be developed, will have a substantial effect on how we structure CPS' business operations. Other provisions of SB7 will affect CPS strategies to protect the environment. The utility is carefully assessing the impact of what the opt-in alternatives really mean to us, our customers, and the City. The entire company is preparing to be successful regardless of the decision about retail competition. We expect the road ahead to be interesting, but very challenging.

CPS enjoys an excellent legacy, and we have much with which to build a successful future. Cornerstones to success will include continued emphasis on benefitting the City of San Antonio, on striving to improve and enhance our customers' satisfaction, on sustaining growth in our varied functional businesses, and on maintaining our good reputation in the utility industry and financial community.

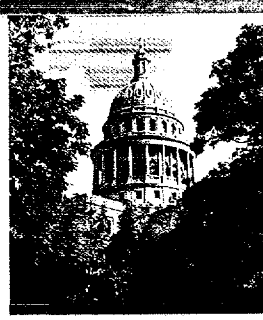
Since wholesale deregulation in 1997, CPS has used its strategic planning processes and decisions to become the largest net exporter of power among the Texas bulk power suppliers. When the new combined cycle gas-fueled power plant is operational in the summer of 2000, CPS will continue its pursuit of additional off-system sales and wholesale customers.

City Public Service traces its beginnings back to 1860. We have been serving the energy needs of the community and improving the quality of life for our customers for 140 years. The next few years promise to be the most volatile the utility industry has ever experienced, and we are ready to meet the challenge. CPS' blend of historic stability with a new focus for the future will assure that we remain the energy provider of choice for the new millennium.

Nelson W. Wolff
Chairman
February 1999 - January 2000

Jamie A. Rochelle
General Manager and CEO
Effective February 1, 1999

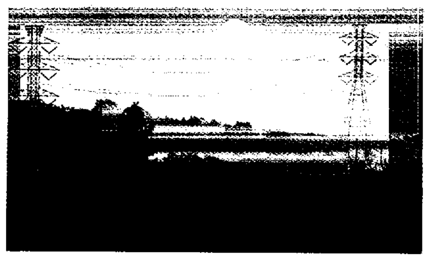
Utility Restructuring

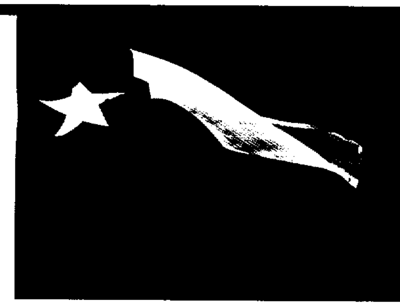


Texas Capitol, Austin, Texas; CPS recognizes State Representative John A. Longoria for his work on utility restructuring.

For you must remember; there is nothing more difficult to take in hand, more perilous to conduct nor more uncertain in its outcome than to take the lead in the establishment of a new order of things.

Niccolo Machiavelli,
The Prince





San Antonio skyline with CPS transmission facilities as backdrop; Texas State Flag

Utility Restructuring Changes The Way CPS Does Business

The years ahead will mark a significant change for the Texas utility industry in the wake of utility restructuring, deregulation, and the advent of competition. A comprehensive electric industry restructuring bill, Senate Bill 7 (SB7), was passed by the Texas Legislature during its 1999 session and signed by the Governor on June 18, 1999. The bill requires retail competition for electric energy in areas of the state served by investor-owned electric utilities starting in January 2002.

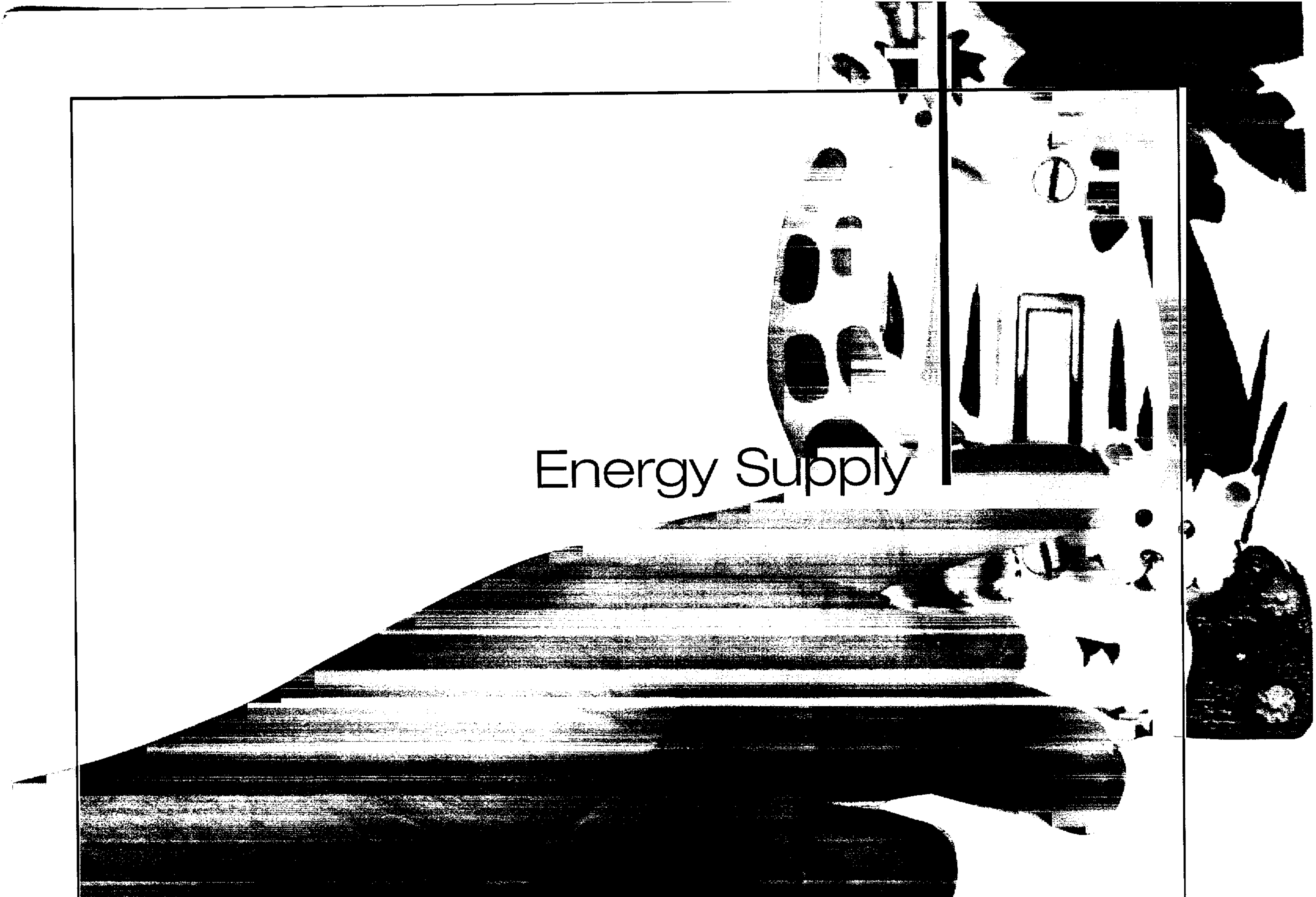
If the governing body of a municipal utility elects to participate in retail competition, then customers of the utility are free to choose other retail electric providers. The municipal utility itself would also be free to compete for new retail customers in areas where competition applies. A municipal utility choosing to participate in retail competition would continue to retain local control over its energy rates and over the distribution facilities access rates charged to other competitors. These rates must be nondiscriminatory and comparable to those charged by the municipality to itself or its affiliates.

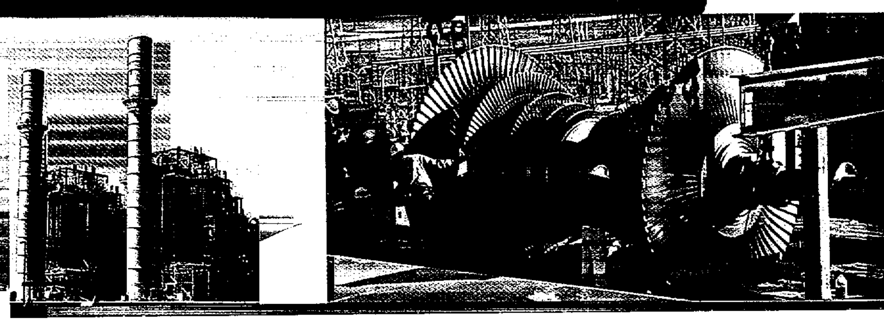
These and other favorable terms of the bill are the result of CPS' and other municipally owned utilities' active efforts in the months leading up to passage of this important piece of legislation. CPS' Governmental Affairs staff in Austin, Texas played a major role in state and federal legislative activities affecting the electric industry and municipal utilities.

At its annual meeting in August, the Texas Public Power Association (TPPA) presented Senator David Sibley of Waco with the 1999 TPPA Public Official Award as the primary author of SB7. Representative John A. Longoria of San Antonio and CPS Governmental Affairs Director Maryann Randall were named to the TPPA Honor Roll for their contributions to the electric restructuring bill.

CPS has embarked on a new strategic planning initiative that incorporates the SB7 results. A twelve-member executive committee is responsible for championing various project initiatives such as rate restructuring, technology replacement, risk management, and federal base privatization. CPS' plans are to be prepared to opt in to the competitive market – although no final decision or timeframe has been proposed.

Energy Supply

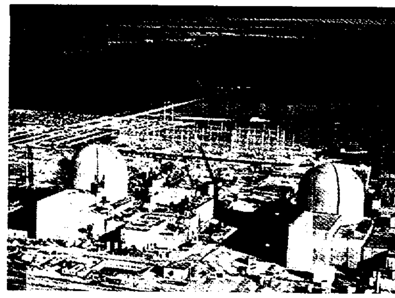
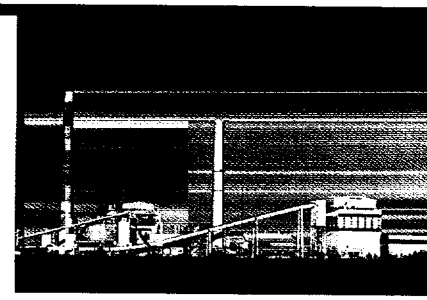




Heat recovery steam generator and low-pressure steam turbine at the Arthur von Rosenberg Combined Cycle Plant.

Unlike the situation in some other parts of the country, San Antonio has plenty of electricity to serve all present needs. City Public Service must, however, carefully plan for the future.

San Antonio Express-News,
1972

South Texas Nuclear Project; J. T. Deely and J. K. Spruce Coal Plants.

Generation Diversity

Despite a very mild summer and winter as compared to last year, growth in our electric customer base contributed to two new all-time usage records in fiscal year 1999-2000. On August 12, CPS set a new peak demand record of 3,729 megawatts (MW), exceeding the previous record of 3,684 MW established the prior year. The 99-degree temperature on that day also caused CPS to register a 24- hour energy usage record of 69,553 megawatt hours, slightly above last year's record.

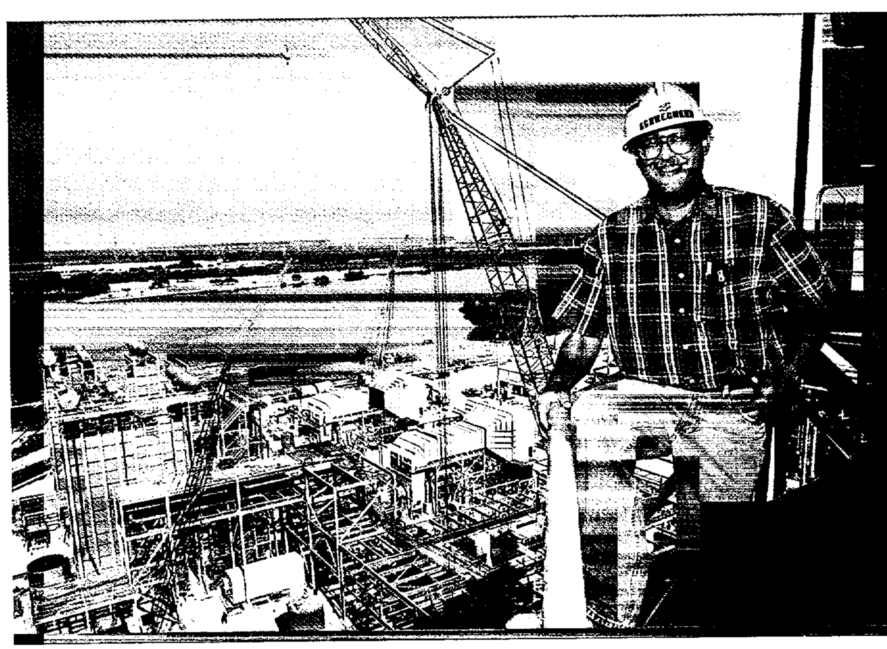
CPS utilizes power plants that burn a variety of fuels to generate electricity, resulting in low utility bills for our customers. In fiscal year 2000, the coal-fired units provided 49 percent of CPS' 17.5 billion kilowatts of energy requirements. Low-sulfur coal, an abundant, relatively inexpensive and environmentally clean natural resource from Wyoming, has proven to be an important component of the CPS fuel diversification program.

The South Texas Project nuclear plant provided 31 percent of the CPS system load in 1999-2000, which was slightly less than the prior year. Every eighteen months, two refuelings are scheduled as occurred this year. Unit 1 was refueled in the spring and included a ten-year in-service inspection. The aggressive target of refueling in 32 days was successfully accomplished. Unit 2 had its refueling in the fall of 1999, which also included a ten-year in-service inspection, lasting only 27 days. For this fiscal year, Units 1 and 2 operated at net capacity factors of 88 percent and 89 percent, respectively. These units have generated energy consistently since their restart after the extended outage in 1993.

As part of our continuing strategic resource planning, CPS contracted for construction of a new combined cycle gas-fueled 512-MW power plant in May 1998. The Arthur von Rosenberg Plant, currently under construction, is expected to be commercial by Summer 2000. The combined cycle plant uses about 30 percent less fuel than the older gas units because of the technological advancements. It produces less emissions than other fossil units. These benefits offset the fact that natural gas has been a more expensive generation fuel than coal. This new unit is designed to emit only about .03 pounds of NO_x per million BTU, as compared to the national average of .64 pounds for conventional fossil-fueled plants. This new generating facility will have the lowest air emission rate of any natural gas-fired plant in Texas. CPS is funding this $180 million generating unit with proceeds other than debt. In doing so, excess capacity may be readily sold in the open wholesale market, free from any private use restrictions.

Taking advantage of market opportunities now means continued low-cost energy for our customers and a return to our owner, the City of San Antonio. CPS has long-term agreements to sell electricity at wholesale rates to three municipal utility systems. During the year, CPS had several reserve contracts and made various other short-term off-system sales to other utilities and power marketers totaling 470.3 million kilowatt hours (kWh), which resulted in $26.5 million in added revenue.

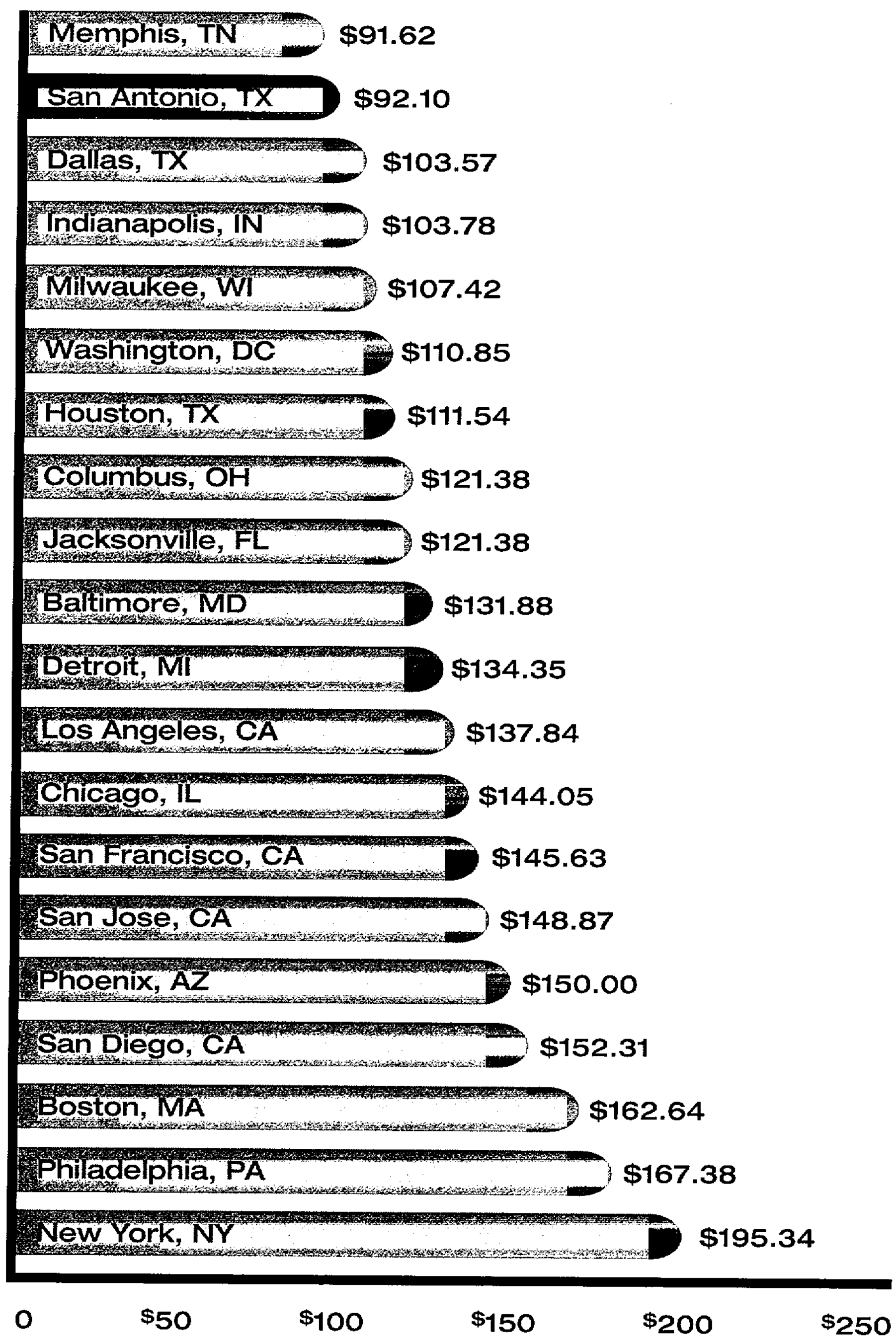
CPS and Reliant Energy, formerly Houston Lighting & Power (HL&P), entered into a 1997 agreement that resolved CPS' claims concerning the shutdown of the nuclear plant during the construction and early operating periods. The agreement also included an arrangement to jointly dispatch both utilities' generating plants, other than STP, to take advantage of plant efficiencies and favorable fuel costs. The joint operations agreement must result in at least $10 million in cumulative benefits per year, or Reliant Energy is obligated to compensate CPS for the deficit in cash. A similar payment to the utility will be made by Reliant Energy to ensure savings of $150 million during the ten-year term of the joint dispatching agreement. Pursuant to the agreement, CPS supplied 2.88 billion kWh of electricity to Reliant Energy during the fiscal year; energy transfers to date exceed 11.4 billion kWh. CPS has received cumulative savings of over $65 million through this year.



Jim Schwegmann, Project Manager for the Arthur von Rosenberg Power Plant at Braunig Lake.

Comparison of Residential Gas and Electric Bills for the 20 Largest U.S. Cities

Based on 1,000 kWh and 5 MCF



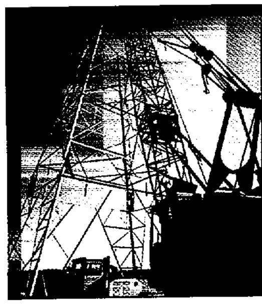
Average for Twelve Months Ending January 2000

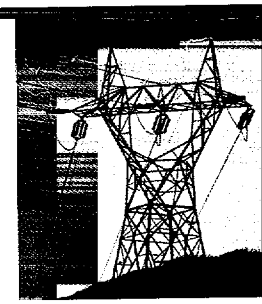
Transmission

Crewmen install transmission tower; Castle Hills Substation with aesthetic landscaping.

The great accomplishments of man have resulted from the transmission of ideas and enthusiasm.

Thomas J. Watson, Sr. (1874-1956),
U. S. business executive





Transmission tower under construction; Town hall meeting on siting and routing lines; New facilities design.

Transmission System

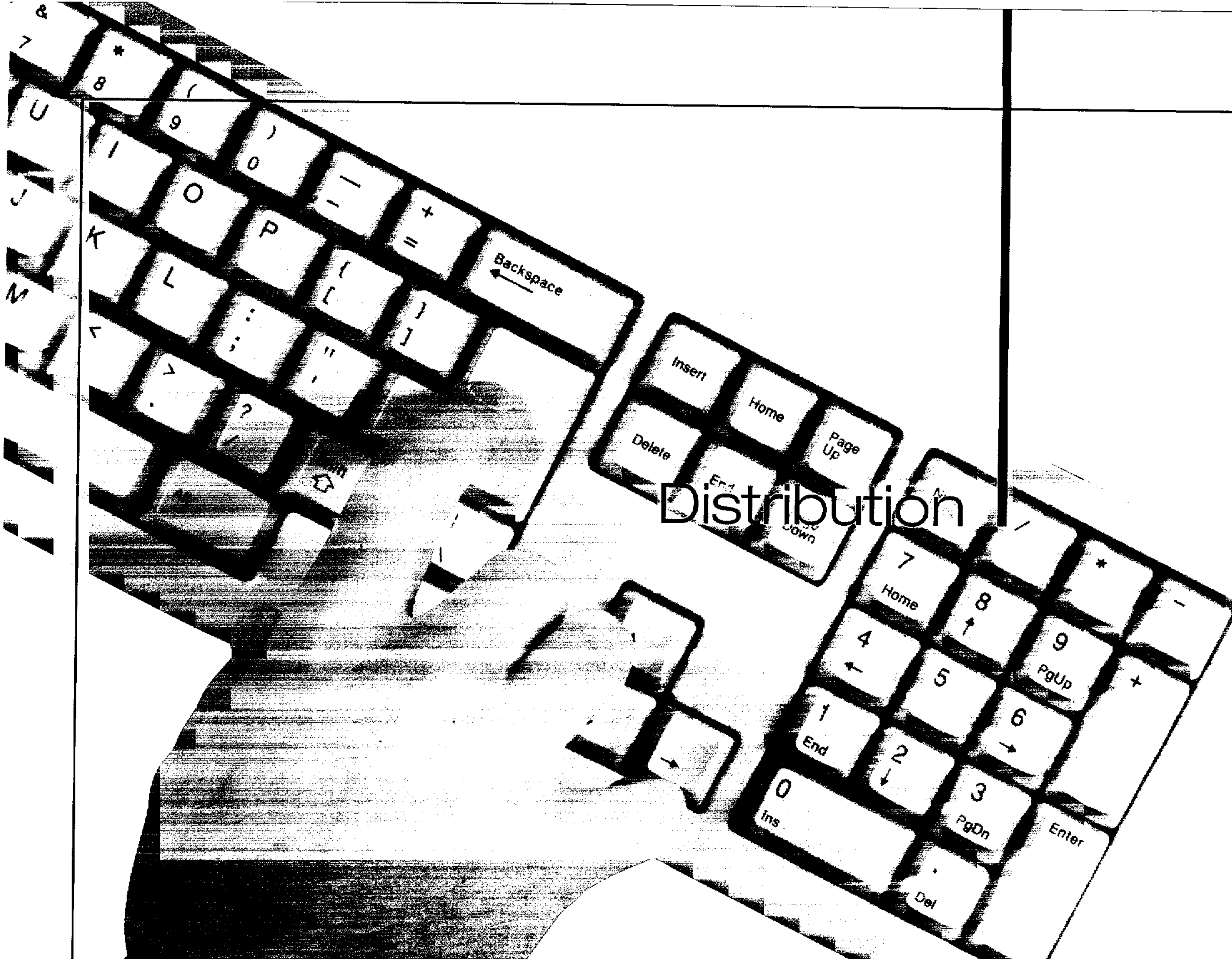
CPS maintains a transmission line network of 1,368 circuit miles for the movement of large blocks of power from the generating stations to the various parts of the service area and to transport power for neighboring utilities as required. This network is composed of high-voltage (kV) lines, including 786 miles at 138 kV and 582 miles at 345 kV. In addition, 8 high-voltage transformers and 3 switching stations provide the necessary flexibility in the movement of power within the network.

The system is integrated with approximately 66 other utilities, municipalities, and cooperatives as part of the Texas grid, which is managed by the Electric Reliability Council of Texas (ERCOT). The Texas Public Utility Commission (PUC) has designated ERCOT as the state's Independent System Operator (ISO) as required under the electric utility restructuring bill (SB7).

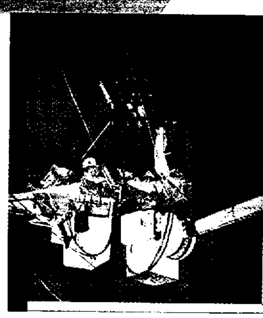
In 1996, the Texas Public Utility Commission adopted a rule that established a statewide average method for determining transmission price, called a "postage stamp" rate.

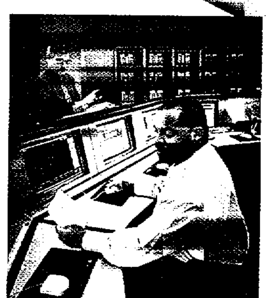
SB7 affirmed this pricing method and expanded its effect as of September 1, 1999. Lower cost utilities like CPS will have to collect additional amounts from customers to pay these transmission fees.

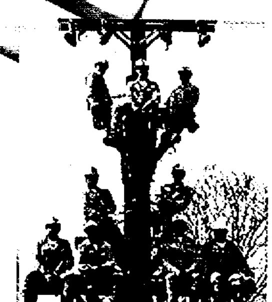
During the year, an environmental consultant assisted CPS staff and the Citizen Advisory Committee in developing new transmission line routing and substation siting guidelines. Four town hall meetings were held in November 1999 to provide citizens the opportunity to comment on the proposed guidelines. The guidelines address planning the transmission system infrastructure to practically and economically consider existing or planned commercial and residential developments. Also, these proposed guidelines continue to emphasize using existing right-of-ways to minimize environmental impacts.



Distribution



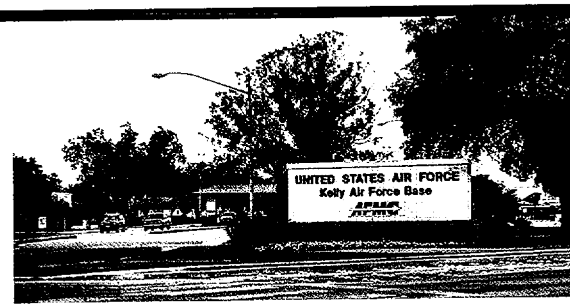




CPS crews work during storm; Electric and gas operations center; Apprentice linemen complete training.

Wisdom is like electricity. There is no permanently wise man, but men capable of wisdom, who become wise for a short time, as glasses rubbed acquire electric power for a while.

Ralph Waldo Emerson (1803-1882),
Society and Solitude, Clubs



Crewman inspects underground line for CableCure process; CPS acquired Kelly AFB utility systems.

Distribution System

The electric distribution system consists of approximately 6,217 miles of overhead lines and approximately 3,051 miles of underground lines. CPS has long-term planning processes for the electric distribution facilities that consider the planning and analysis for resource, energy supply, transmission, and related utility areas.

CPS is in the process of offering design alternatives for overhead lines and converting overhead lines to underground lines for aesthetic purposes. The Overhead Conversion Fund includes 1 percent of retail electric sales to convert some existing overhead service to underground for projects identified by the City of San Antonio and surrounding governmental jurisdictions. The effort for downtown San Antonio is being completed in phases over a three-year period and should be finished in the next fiscal year.

Progress continued this year on other overhead conversion work, including the Mission Trails Project to enhance the corridors between the Alamo and the other Missions. The total estimated cost of this project is $10.2 million, and it was 85 percent complete at year-end.

CPS also has approximately 1,200 miles of buried cable being considered for upgrade or replacement. By replacing about 80 to 100 miles of cable per year as planned, CPS will continue to improve the reliability of the underground residential distribution system.

CPS plans to continue using the CableCure process over the next several years to improve service reliability. The unique technology involves injecting cable with a silicone-based fluid that will extend the life of the cable for an estimated 20 years, with a guarantee against cable failure.

CPS And KellyUSA: A Winning Combination

The military sector has been a major component of San Antonio's economy for many years. Although the realignment of Kelly Air Force Base in 1995 ended an important chapter in San Antonio's history, the current efforts to transform the military installation to a modern commercial business park offer tremendous opportunities for the economy of the Alamo City.

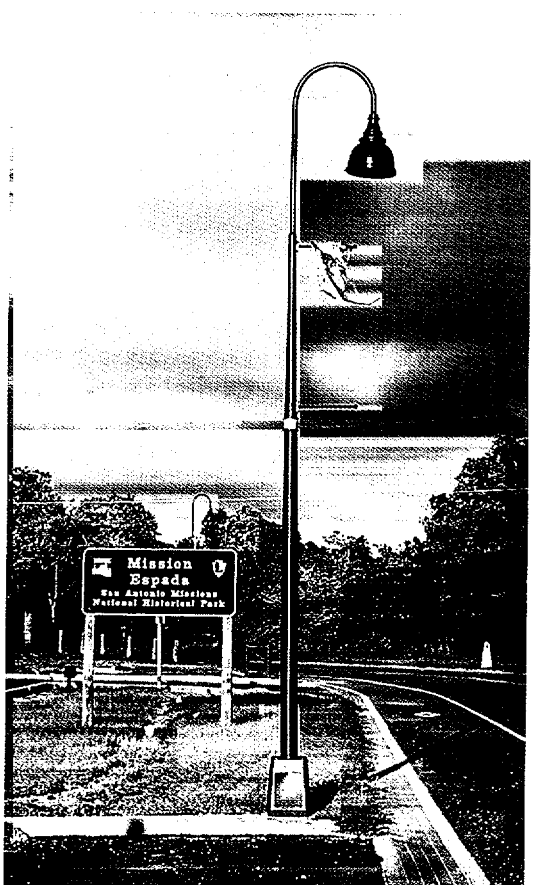
In September 1999, CPS and KellyUSA, formerly the Greater Kelly Development Authority – the agency charged with transferring the property from federal hands to the local community – signed a Memorandum of Understanding between the two organizations for the purchase and future operation by CPS of the realigned and commercialized electric and gas facilities. The U. S. Air Force, KellyUSA and CPS finalized the transaction in January 2000.

The utility systems transferred at Kelly AFB are the largest the U. S. Department of Defense has ever conveyed, and are a model for other military base realignments.

KellyUSA has attracted such major firms as The Boeing Company, Pratt & Whitney, EG&G and General Electric, who are creating thousands of new, high-tech jobs and 24-hour energy usage for the local economy. As of January 2000, KellyUSA had leased out more than half of the properties originally conveyed to it by the U. S. Air Force.

A 20-year development plan projects spending $374 million on infrastructure investments. KellyUSA is using its strategic South Texas location to promote importing and exporting by land, air, and sea through NAFTA and agreements with the Port of Corpus Christi and Union Pacific Railroad. If this development plan is implemented, KellyUSA would add 21,000 high-tech jobs to the Bexar County area economy by 2006.

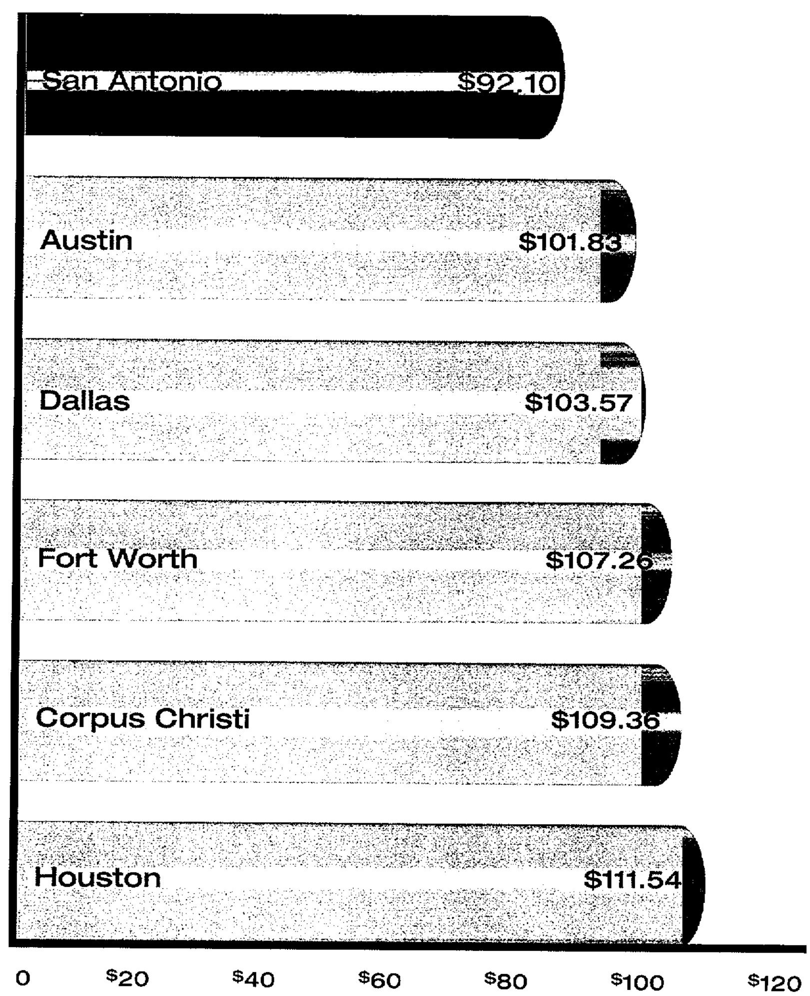
CPS is committed to ensuring continuous, reliable and cost-effective gas and electricity services to KellyUSA and its tenants.



New "candy cane" streetlights run along Mission Trails Project.

Comparison of Residential Gas and Electric Bills for Texas Cities

Based on 1,000 kWh and 5 MCF



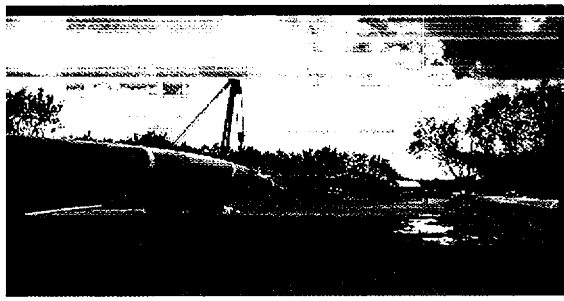
Average for Twelve Months Ending January 2000

Gas System

Crews construct new South Gate Gas Supply Line.

Today's generation accustomed to natural gas at the burner tip … must be reminded that in 1922, there were only a couple of dozen drill-on-purpose gas wells in this territory, now the second largest natural gas producer in the nation.

San Antonio Express-News,
1962



South Gate Gas Supply Line installation; Gas operations serviceman inspecting meter.

Gas System

A major part of CPS' strategy for the gas system this year has been construction of a new 59-mile gas supply pipeline. Begun in July 1999, the project should be completed early next year. Initially, the pipeline will fuel the new combined cycle gas-generating plant at the Braunig Lake site. When the combined cycle plant is operational, natural gas requirements are expected to increase by almost 28 billion cubic feet annually.

Senate Bill 7 requires that 50 percent of new electric generation capacity additions in Texas after 1999 be fueled by natural gas. The Arthur von Rosenberg Plant will help meet this requirement since commercial operation will occur next summer.

Besides providing gas for the new plant, the South Gate Gas Pipeline will create a gateway to other gas supply pipelines in South Texas. This strategic access to additional gas suppliers for CPS should ensure competitively priced natural gas in the future. The expected construction costs of about $57 million should be recovered within eight years.

Protecting the environment while laying the new gas supply line has been a priority. Work includes environmental surveys to identify wetlands, endangered species and archaeological sites, proper disposal of any excess dirt or debris, reseeding, and erosion protection until vegetation is restored.

Use of a new state-of-the-art drilling technique called Horizontal Directional Drilling, or HDD, to install the pipeline resulted in a practically undisturbed environment. With HDD, the entire length of pipe is rolled into an entry hole in the ground and then pulled through to an exit hole at its destination, which may be on the other side of a highway or lake. This technique allowed crews to install thousands of feet of pipe with only ten horizontal directional drillings used to construct the entire South Gate Gas Pipeline.

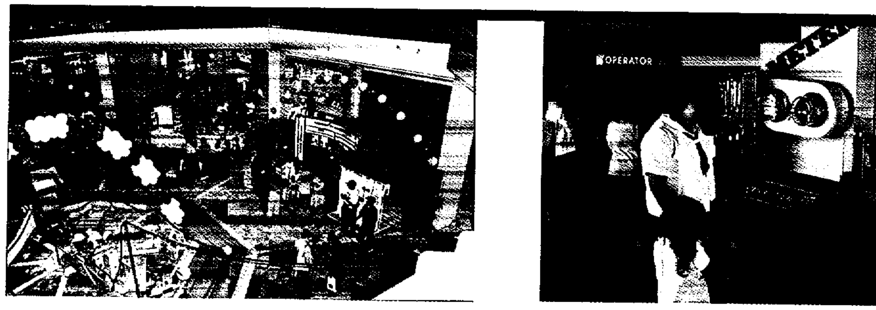
CPS' environmental commitment was further demonstrated by contracting with a gas treatment and processing plant under construction at Nelson Garden Landfill. This agreement will allow delivery to CPS of up to 4 million cubic feet per day commencing in the summer of fiscal year 2001.

Customer And Energy Services

CPS marketing executives Mike Kotara and Rhonda Krisch review J. D. Power report; Customer Appreciation Day in fall.

It takes as much energy to wish as it does to plan.

Eleanor Roosevelt (1884-1962)
U. S. First Lady, Social Reformer



Town hall meeting at Windsor Park Mall; Customers at Southside Energy Education Center.

Our Customers Define Our Business

In order to provide fresh insight into our customers' perceptions, to identify improvement opportunities and to benchmark with other electric utilities, CPS became a charter member of the Spring 1999 J. D. Power & Associates Electric Utility Residential Customer Satisfaction Study. As part of this study, 26,000 residential customers of the top 100 electric utilities in the United States were asked to rate their utility in areas such as billing, price and value, reliability, customer service and image. Results released in July showed that CPS scored above the average for the industry and ranked fifth, in a tie with four other utilities, among 21 major utilities in the Southern Region. CPS used results of the study to help define new customer initiatives.

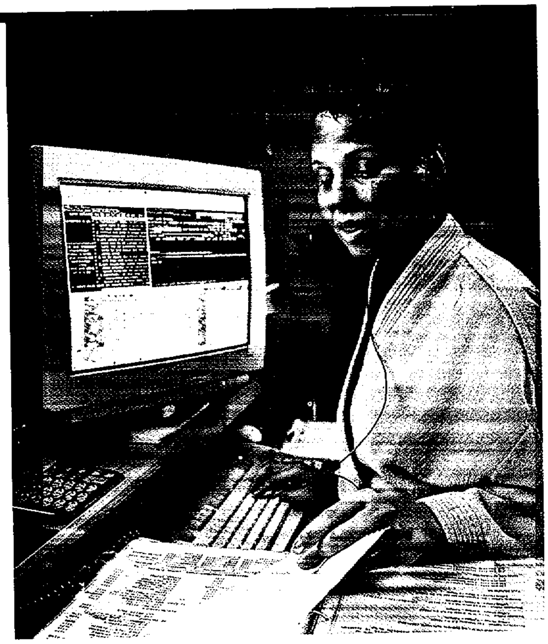
Development began for a renewable energy retail program to be introduced early next fiscal year. In January, CPS employees were asked to suggest a name for the new program. The program will initially include the availability of energy generated from wind. Future offerings anticipated include renewable energy sources such as solar and biomass. This is another step in the diversification of CPS' generation sources and a first step toward customer choice in electricity supply.

CPS' new marketing initiatives are to define what customers need and want, and then develop proposed business plans for products and services designed to meet those needs. The Key Account Group continues to focus on long-term service contracts with large commercial and industrial customers as part of CPS' strategy to tailor programs to meet our retail customers' needs.

Technology And Communication For Better Customer Service

In May, a new high-tech Automatic Call Distribution System was implemented that more effectively routes calls to assure that all customers receive timely assistance. The new system offers many new reporting and monitoring tools, including e-mail capability through the telephone system.

Another initiative implemented this year was a project to replace the utility's business information systems with the latest software and hardware technology. If CPS is to excel in customer service, it is critical that the utility's information systems provide appropriate access to business and operational data. Transforming this



CPS Home Agent Renette C. Gaskin answers customer calls.

data into usable information will result in the highest standards of energy service delivery while driving down costs. System enhancements will be scheduled over a three-year period. These improvements will allow utility customers to reap the benefits of leveraged information technology marked by exemplary levels of customer service.

CPS and the City of San Antonio jointly undertook the planning of a Metropolitan Area Network that would utilize CPS' fiber optic assets to establish communication links throughout the city. Fiber routing designs to connect the International Airport with downtown City of San Antonio facilities will be part of the first functional component of the Metropolitan Area Network. The City of San Antonio will use a portion of CPS' fiber optic system for its new radio system. Future extensions of the network will connect CPS to other governmental agencies, in addition to providing high-speed networking capabilities for the delivery of emerging energy products and services throughout our service area.

Customer Service Is Key

City Public Service held town hall meetings as a means of communicating with our customers in February 1999. Three meetings designed to help customers learn more about CPS programs, services, environmental initiatives, and the utility's many contributions to the community were held in major San Antonio shopping malls during February. In turn, CPS used customers' feedback in efforts to enhance customer service and education. Neighborhood outreach efforts continued during the year as a CPS coordinator attended monthly neighborhood meetings throughout the city.

Opening a state-of-the-art Southside Energy Education Center in March marked the beginning of a new era to advance communications between CPS and our customers. The center provides information about fossil fuels, power production, alternative fuel sources, safety, and environmental protection in easy-to-understand presentations using colorful graphics, photographs and three-dimensional interactive exhibits.

The center has a modern theater that seats up to 90 with the capability to project data and voice from a personal computer or any source of video, including VCR or Digital Video Disk (DVD). The purpose of this facility is to supplement the energy education curriculum in San Antonio area schools, to educate the general population about the locally owned utility operations, and to enhance community awareness of CPS.

In October, CPS earned a 1999 Star of Excellence award from the International Teleworking Association and Council (ITAC) as the government agency that most clearly and efficiently demonstrated the importance of teleworking to benefit the community, the organization, and its employees. The practices that ITAC considered in determining this award were

CPS' Home Agent Program, the updated Call Center System, and the installation of a new telephone system.

In the fall, hours were extended at the three satellite service centers to allow customers more convenient times to pay bills, request extensions, or talk to customer service representatives. Customers were also honored at CPS' Customer Appreciation Day, held at the CPS Southside Energy Education Center at the end of Public Power Week in October. In January, CPS acquired property for a future satellite service center on the northside of San Antonio.

In Touch With The Community

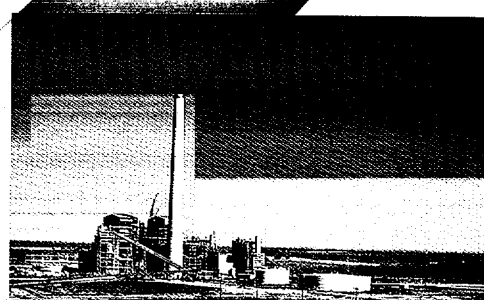
The first-year anniversary of the Citizen Advisory Committee (CAC) was held in August. This 15-member committee was established as a forum to improve communications with the community on important issues regarding CPS operations. The committee together with CPS staff developed a new planning process for locating transmission lines and substations that includes citizen input. An environmental consultant assisted CPS in the formulation of new guidelines, which take into consideration growth patterns, project cost and quality of life issues. Citizens were provided the opportunity to comment on proposed guidelines for new transmission facility siting and routing at town hall meetings held in November in the four quadrants of the CPS service area.

Through monthly meetings, the CAC not only provides City Public Service the opportunity to share information on our activities with the community, but also provides the San Antonio community the chance to relay their input and concerns on these issues.

Citizen Advisory Committee

BACK ROW: Dominick A. Dina, Jon Gary Herrera, Louis E. Rowe, Raymond Aguillon, Jr. FRONT ROW: Reynaldo Nieto, Juretta Marshall, Harold E. Tillman. NOT PICTURED: Susan Hughes, Jesse F. Jenkins, Lee J. Rosenberg, Gary G. Candy, Eddie De La Garza, Verna Eskridge, Manuel R. Garcia, III, David Garza.

Corporate Services



J. T. Deely Power Plant; CPS Purchasing and Supplier Diversity offices work with local small businesses.

... in the past 20 years costs of other necessities are up from 50 to 100% while the price of gas and electricity has decreased 7½%.

J. T. Deely, Former General Manager, 1962

Corporate mascots Wattson and Gaston at town hall meetings; Employee FunDay in May of 1999.

Doing Our Share For The Environment

Full compliance with laws and regulations is the standard of environmental performance at City Public Service. Our power plants are among the cleanest in the state and the nation. Their emissions of criteria pollutants per unit of electricity generated are less than the national average and less than the Texas-wide average for fossil fuels. A recent study of power plant emission rates by the Natural Resource Defense Council (NRDC) ranked CPS as the fourth lowest emitter of nitrogen oxide and the second lowest emitter of sulfur dioxide of the top 50 generating companies in the eastern half of the United States.

Senate Bill 7 contains specified emissions reduction requirements for certain older electric generating units that would otherwise be exempt from the Texas Natural Resource Conservation Commission's (TNRCC's) permitting program by virtue of their grandfathered status. Five of CPS' generating stations, comprised of 12 gas-fired units, have grandfathered status and will be affected by the program. When these guidelines become effective January 2005, Texas emissions limits will be the most stringent in the U.S.

As one of approximately 52 stakeholders in the Alamo Area Clean Cities Coalition, CPS received a certificate in November formally recognizing it as a leader in improving air quality, strengthening the local economy, and enhancing public awareness of alternative fuels through its commitment to and participation in the U.S. Department of Energy's Clean Cities Program. This recognition stemmed from CPS supporting alternative fuels, such as reformulated gasoline and compressed natural gas, and from enhancing public area awareness of air quality. As a further effort to reduce ozone depleting levels in San Antonio, CPS altered its working hours for employees in September to reduce traffic during the heavy commuter hours.

CPS sponsored the second annual "Mow Down Smog" program. Customers exchanged gasoline-powered equipment for electric-powered equipment and received a rebate from CPS. The "Wash Right" program was continued this year by CPS, the San Antonio Water System (SAWS) and BexarMet for customers purchasing resource-efficient washing machines. Customers received a $100 rebate from CPS on their bill and a matching amount from either

SAWS or BexarMet. The program was marketed to appliance dealers, who advertised to their customers. The program was a great success with CPS having issued a total of $281,600 in rebates since the inception of the program in October 1998.

In the fall, CPS was awarded local and state 1999 Environmental Vision Awards for its outstanding efforts during more than half a century in recycling utility equipment and material. CPS' entry was judged first in the categories of Government and of Recycling and Waste Minimization. CPS has saved approximately $12 million in disposal costs while preserving nearly 2.2 million cubic feet of landfill space.

In an effort to protect San Antonio's precious water supply, CPS was one of the first utilities in the nation to use treated wastewater for power plant cooling. CPS provided a grant this year to the Texas Parks and Wildlife Department Inland Fisheries Division to maintain and promote the fisheries at the Braunig and Calaveras Reservoirs.

City Public Service is second to none in its concern about clean air, clean water and the wise use of natural resources. This concern is reflected in the quality and extent of our environmental programs.

Our Suppliers Are Diverse

CPS established a Supplier Diversity Program in 1989 to foster the development of small, minority and woman-owned businesses through various programs as a means of illustrating our commitment to the community. CPS staff and representatives from seven other intergovernmental agencies hosted the opening in March of the new South Central Texas Regional Certification Agency, which is designed to consolidate the certification process of minority and woman-owned businesses into one office. It also serves as a clearinghouse for various other forms of minority and woman-owned business advocacy programs.

CPS also enjoys solid partnerships with the various Chambers of Commerce throughout the City. This endeavor is designed to assist in the economic development of the City by supporting business forums, technology seminars and other special programs that will allow all small businesses to contribute to maintaining a strong economy for the City.

A Mentoring/Protégé Program is offered by CPS to give small business owners and managers the essential tools they need to be successful in the local business arena. Initiated in July 1998, 20 small, minority and woman-owned local businesses have participated in the protégé program to date. The program offers guidance in areas like marketing, finance, employee development, communication and many other related fields.

The success of these programs is evident by the fact that in fiscal year 1999-2000 CPS awarded $106 million in purchases to small, minority, and woman-owned businesses. CPS' Supplier Diversity Program has helped foster the development of many local businesses that offer the various types of commodities and services used in the utility industry. Each year of this program has also provided for partnerships between CPS and public, private and federal contracting agencies. Along with other City governmental agencies, CPS has supported numerous studies, surveys and even commissioned special consultants to examine new methodologies for increasing the contracting activity of all local small businesses.

Our Employees Are Our Number One Resource

Last year, CPS implemented a new incentive plan that rewards employees for achieving company goals. CPS management and salaried personnel received the benefits of this program in March by the distribution of $3.9 million for fiscal year 1998-99 results. The incentive performance measures are tied to customer satisfaction, residential energy price, operating and maintenance costs, sales growth, reliability, and safety. This program was extended to wage-scale employees for fiscal year 1999-2000.

In March, salaried and wage-scale employees received almost $700,000 from the newly implemented wellness incentive program for fiscal year 1998-99. Both incentive programs are self-funding and resulted in savings from improved performance.

Our Employees Light Up The Community

City Public Service's spirit of giving was probably best exemplified by employees donating a record-breaking amount of $573,099 to United Way during the Fall 1999 campaign, substantially exceeding the goal. As a United Way pacesetter, CPS took on a leadership role in starting United Way's 1999 Citywide Campaign, whose theme this year was, "Together, we light up the community."

Community service has long been a tradition for CPS employees. Since its implementation in 1989, the Volunteers in Public Service (VIPS) continue to make strides in San Antonio. The program targets health care, child development and education, the elderly, the homeless, and the environment. VIPS set unprecedented records last year when 1,282 employees, retirees and family members volunteered 16,026 community–service hours in support of 53 agencies.

VIPS touched the lives of hundreds of people throughout the year. On May 1, VIPS hosted their tenth annual FunDay, which included food, entertainment and sporting competition among CPS employees. This event provided the funds for the Project Learn to Read program, which focuses on combating illiteracy. In December, VIPS sponsored its annual volley-

BACK ROW: United Way Chairman Peter Holt, S.A. Spur Malik Rose and CPS Director of Human Resources Anthony C. Edwards. FRONT ROW: CPS General Manager and CEO Jamie A. Rochelle, CPS United Way Coordinators Sharon Luther-Minor, Angie Huntington, & Sara Lance.

ball fund-raiser to assist Child Protective Services' Family Holiday Meal Program. CPS employees shared the true spirit of giving by mentoring elementary school students, visiting a nursing home on a monthly basis, donating blood, and distributing holiday gifts to the needy for Christmas.

Safety Is Paramount

CPS joined with four government agencies to host spring and fall Student Safety Seminars at the Energy Education Center. More than 3,000 students met CPS mascots Wattson and Gaston, viewed a natural gas combustion chamber, and learned about electric and natural gas safety. CPS' message was further promoted through the printing of student safety calendars.

For the fifth consecutive year, CPS sponsored an annual Electrical and Natural Gas Safety Poster Contest. The winning posters, selected from 300 entries, are featured in widely distributed calendars, bookmarks, and bookcovers promoting utility safety. CPS also works in partnership with local schools to promote safety education through presentations, curriculum supplements and a library of videotapes. Area schools have the opportunity to learn about the utility industry through the CPS website, now in its second year of operation.

Efforts to communicate safety to contractors, as well as commercial and industrial employers and their employees, continued at the 1999 City Public Service Contractor Safety Seminar held in October. CPS provided safety presentations to local businesses upon request throughout the year.

Successful Transition To The Year 2000

Our efforts over the last four years were successful as the millennium arrived with no Y2K-related problems reported. CPS developed a corporate plan to address the major areas of impact on the utility. A project team with over 30 members representing business units in these major impact areas was formed for tracking and reporting to senior management and the CPS Board progress of major milestones. On July 30, 1999, CPS declared that all of its mission-critical systems had been determined to be Y2K-ready. CPS also completed, as of this date, development of mission-critical contingency plans to address problems that might not be foreseen. Furthermore, CPS contracted with a recognized consulting firm to perform a complete assessment of the Year 2000 efforts. A verification process was completed with all critical suppliers.

The utility participated in national and regional compliance and contingency planning and testing efforts, such as the Year 2000 Simulation Drills held on April 9 and September 9. Sponsored by the Electric Reliability Council of Texas (ERCOT), a voluntary statewide interconnected network of 66 utilities, and the North American Electric Reliability Council, its national counterpart, the drill was the first of its kind industry-wide. CPS confirmed that it was ready for the Year 2000 after performing successfully in both drills by being able to sustain reliable operations under four different scenarios, including the loss of voice and data communications, adverse weather conditions, loss of communication among neighboring utilities and the deployment of personnel to verify the operation of substations and gas gates.

Through its participation in the Greater San Antonio Y2K Coalition and the City's Emergency Management Team, CPS also helped to prepare San Antonio, as a whole, for the Year 2000.

Financial Review

Revenue and Sales

Gross revenue for each of the last four consecutive years has exceeded $1 billion, and for fiscal year 1999-2000 gross revenue was essentially comparable to the prior year. Revenue from the electric and gas systems increased by $16.8 million, or 1.6 percent, this year. Nearly 86 percent of CPS' gross revenue was derived from electric system operations. Record total sales of 16.4 billion kilowatt hours (kWh) slightly surpassed last year's record. The majority of CPS' electric customer base is residential, accounting for nearly 40 percent of electric sales in 1999-2000. Customer energy requirements were influenced by weather conditions as the relatively mild summer during this fiscal year led to decreased customer use of electricity for cooling. The customer base rose 12,171 to total over 563,000 electric customers at year-end, of which a substantial number were residential.

Sales made to utilities and power markets outside of the CPS service area amounted to 470 million kWh. Due to greater demand within the ERCOT region, off-system sales were up by 16.2 million kWh, or 3.6 percent, from last year. Electric revenue increased due to greater off-system sales and to higher fuel and power cost recoveries this year.

Gas system revenue of $107 million declined by $7.2 million, or 6.3 percent, from last fiscal year. Over 1,100 new gas customers, mainly residential, were added during fiscal year 1999-2000, with total gas customers of almost 303,900 at year end. Gas sales totaling 21.3 billion cubic feet were 12.1 percent below last year. Milder winter weather this year again resulted in less customer consumption, especially for the residential class.

Non-operating income of $39.3 million declined 31.7 percent from a year ago. This reduction was anticipated as CPS used bond reserve fund assets for the debt restructuring and cash defeasance of debt in 1998-99.

Expenditures

Operating expenses of $686.1 million were primarily for electric fuel and purchased power, distribution gas, South Texas Project non-fuel costs, CPS non-fuel costs, regulatory assessments, and depreciation. Operating expenses increased $18.3 million, or 2.7 percent, from 1998-99. Increases occurred in electric fuel and purchased power costs, STP non-fuel costs and CPS other operating and maintenance costs.

Costs for electric fuel and purchased power increased by $6.1 million, or 3.1 percent, to $206.2 million. Fluctuations in energy costs generally result from changes in the cost of fuel and the mix between gas, coal and nuclear generation. Although approximately the same percentage of gas was used for generation this fiscal year, the average unit fuel cost per megawatt hour (MWh) was up 2.7 percent compared to fiscal year 1998-99. In addition, slightly more coal and less nuclear fuel was used for generation this year. Coal is typically more expensive than nuclear fuel.

Distribution gas costs were $53.3 million, or 3.8 percent less than the prior year. Reduced customer requirements due to a milder winter this fiscal year resulted in 10 percent lower gas purchase volumes, thus less expense.

South Texas Project nuclear plant non-fuel operating and maintenance expenses were $80.9 million, a $10.4 million or 14.8% higher level than the prior year. Fiscal year 1999-2000 included two refuelings, which occur every eighteen months. Costs related to a special ten-year in-service inspection program were part of each refueling in fiscal 2000.

CPS non-fuel operating and maintenance expenses of $178.5 million were about $10 million higher for the period. This increased level of spending reflects costs associated with various strategic initiatives. Staffing was added throughout CPS, especially in the customer and energy services areas. Increased costs were incurred for customer education, sales and product promotions in preparation for utility restructuring. Year 2000 transition efforts required additional expenditures to convert, test, inventory and document remediation or backup actions.

In fiscal year 1999-2000, the regulatory assessment for transmission pricing by the Public Utility Commission (PUC) expensed was about $2 million, essentially the same as last year. A provision of SB7, implemented as of September 1, 1999, replaced the PUC transmission pricing and access rule with a 100% "postage stamp" rate. This provision will cause CPS to pay substantially above its costs to subsidize other ERCOT members. CPS deferred a portion of the assessment this year. A monthly pass-through to customers as part of their bills for this deferral will begin early next year.

Depreciation expense amounted to $165.2 million and was slightly less this year. Operating income totaled $354.6 million, essentially unchanged from last year. Debt service related costs were significantly lower due to savings from the debt restructuring program in 1998-1999. The credit for interest capitalized as part of construction costs, AFUDC, was larger this year due mainly to the new generating plant, its related transmission facilities, and the gas facilities to supply the plant.

This year, CPS did not have any extraordinary costs related to debt defeasance. Accordingly, income before operating transfers rose 12.3 percent to $232.8 million.

A new record payment to the City of San Antonio of $145.5 million exceeded the prior year's level. Since the City of San Antonio purchased CPS in 1942, more than $2.5 billion has been paid for benefits and services. The transfer of earnings for the fiscal year 1999-2000 represents about 27 percent of the City's General Fund Budget and provides services such as fire and police protection, parks and recreation, libraries, and street and drainage projects. In addition, the City's equity in CPS rose to over $2 billion by year end.

Construction, Net Removal Costs, and Nuclear Fuel Purchases

A total of $431.6 million was expended during the current fiscal year for new construction, replacements and improvements to the electric and gas systems, nuclear fuel purchases, and net removal or dismantling costs net of salvage costs. This was $139.1 million above expenditures for 1998-99.

The most significant project in 1999-2000 was construction of the Arthur von Rosenberg Power Plant, which is a gas-fueled 512-MW power plant. The new plant is anticipated to cost $180 million and to be in commercial operation by next summer. During the fiscal year, $104.4 million was expended for this project, which was funded from the Repair and Replacement Account, joint operations agreement savings proceeds, and other non-debt proceeds.

In conjunction with this project, another $45.9 million was spent for construction of the 59-mile South Gate Gas Station and Pipeline, which will fuel the new von Rosenberg Plant. Scheduled for completion in early spring, the pipeline will allow CPS access to additional South Texas gas suppliers to ensure competitively priced natural gas in the future.

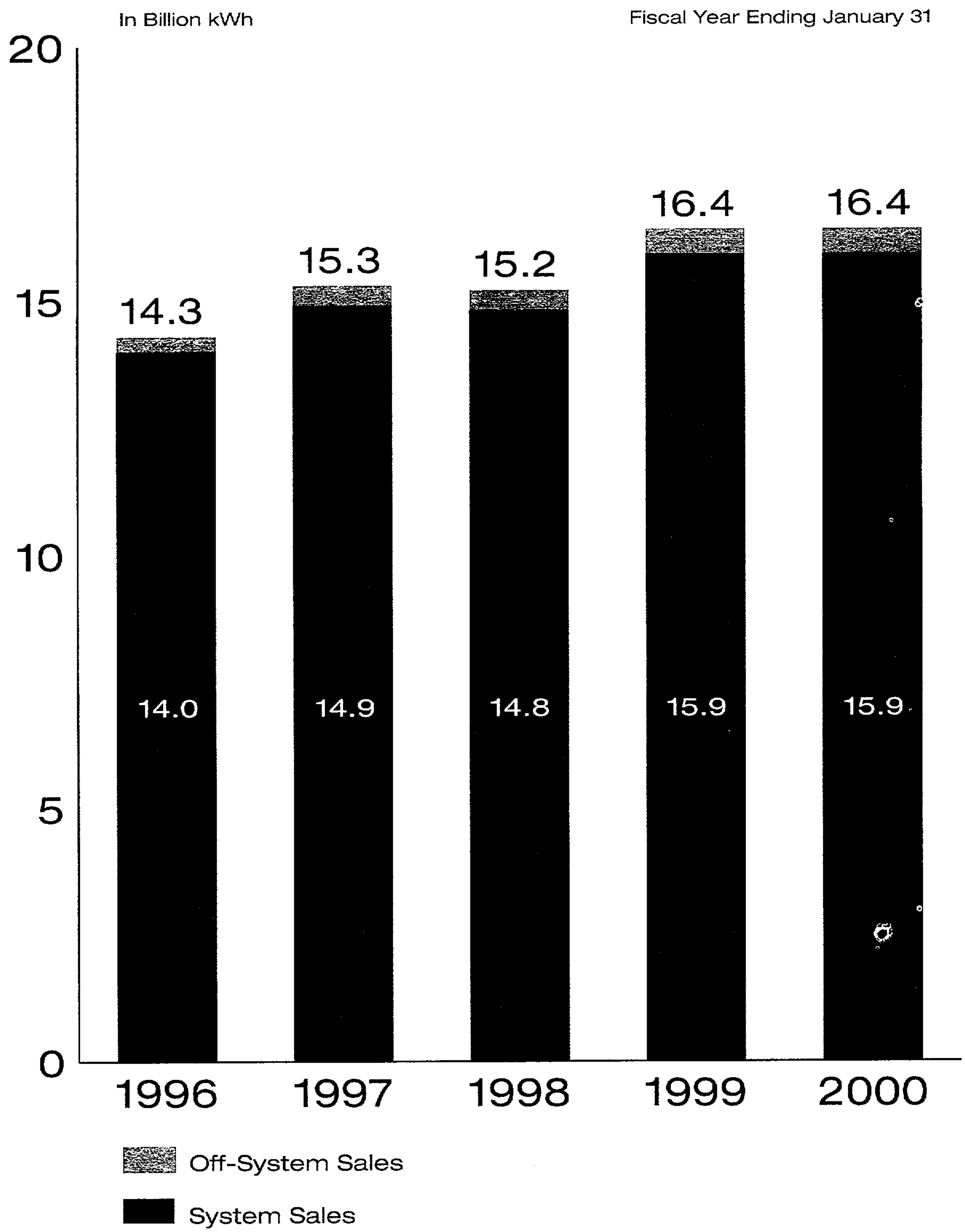
Transmission facilities costing $5.1 million were also constructed this year to serve the new generating plant. Another $17.3 million was spent on other transmission related projects and system improvements.

Other major capital additions, about $14.8 million, included the Fort Sam Houston Harris Heights gas distribution facilities acquired in September 1999, and the Kelly AFB realigned gas and electric distribution system facilities purchased in January 2000. This year's overhead conversion and beautification project expenditures totaled almost $7.5 million.

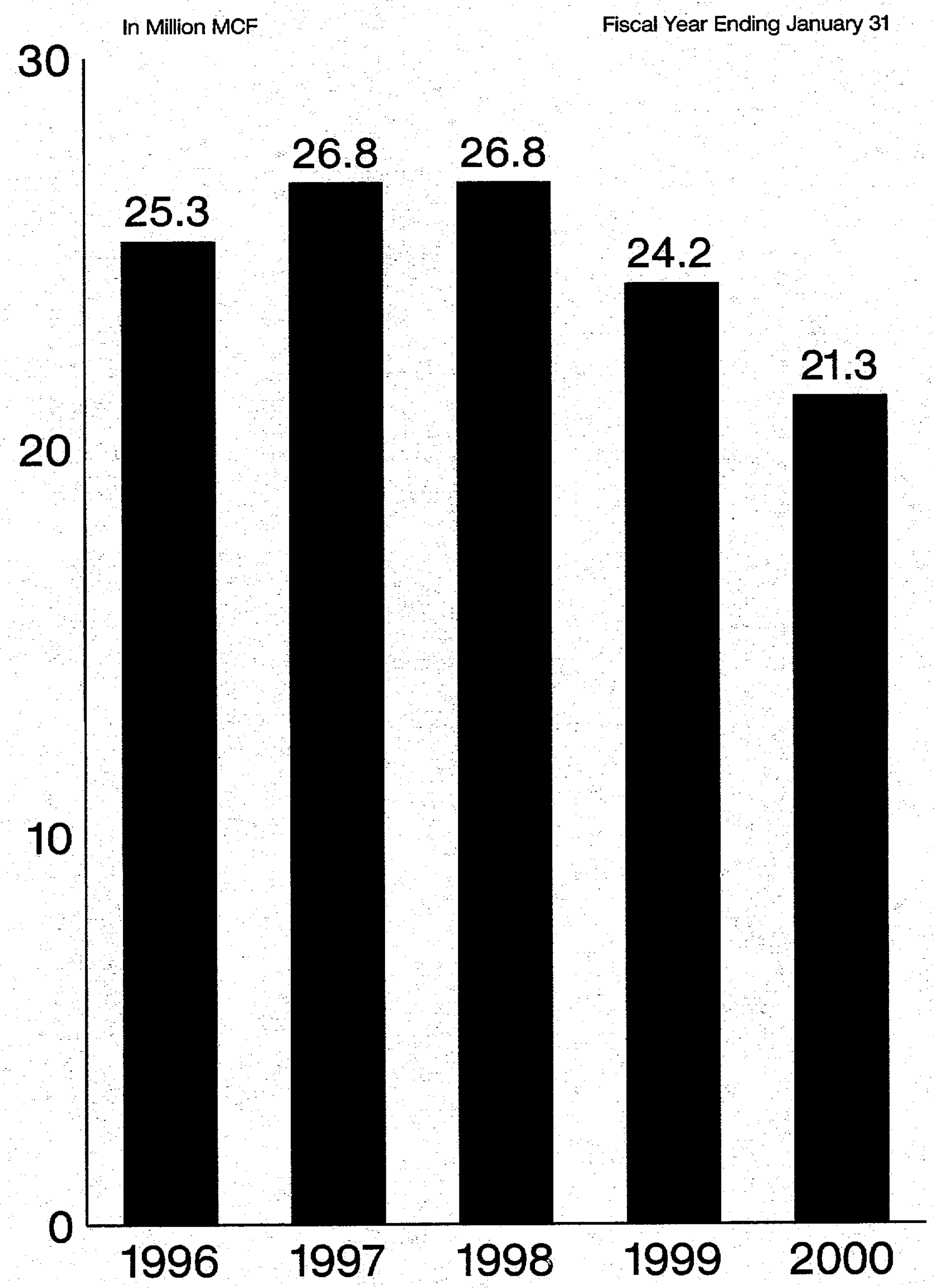
Expenditures increased during the year for new electric and gas customer extensions, while both electric and gas systems improvement construction were at the same level of spending as in the prior year. General property, communications and computer systems expenditures rose due to added staffing, replacement of the telephone system and other electronic technology upgrades and enhancements. Higher STP capital costs were also incurred during the year in preparation for the steam generator replacements for Unit 1 next spring. In addition, nuclear fuel purchases of $20.8 million were up substantially from a year ago.

Proceeds from revenue bonds and commercial paper were used to fund 22.1 percent of total construction requirements for the fiscal year. Other construction funding sources included the Repair and Replacement Account, which contributed 65.6 percent, while the joint operations agreement, litigation proceeds, customer contributions, and other sources provided the remaining 12.3 percent.

Electric Sales

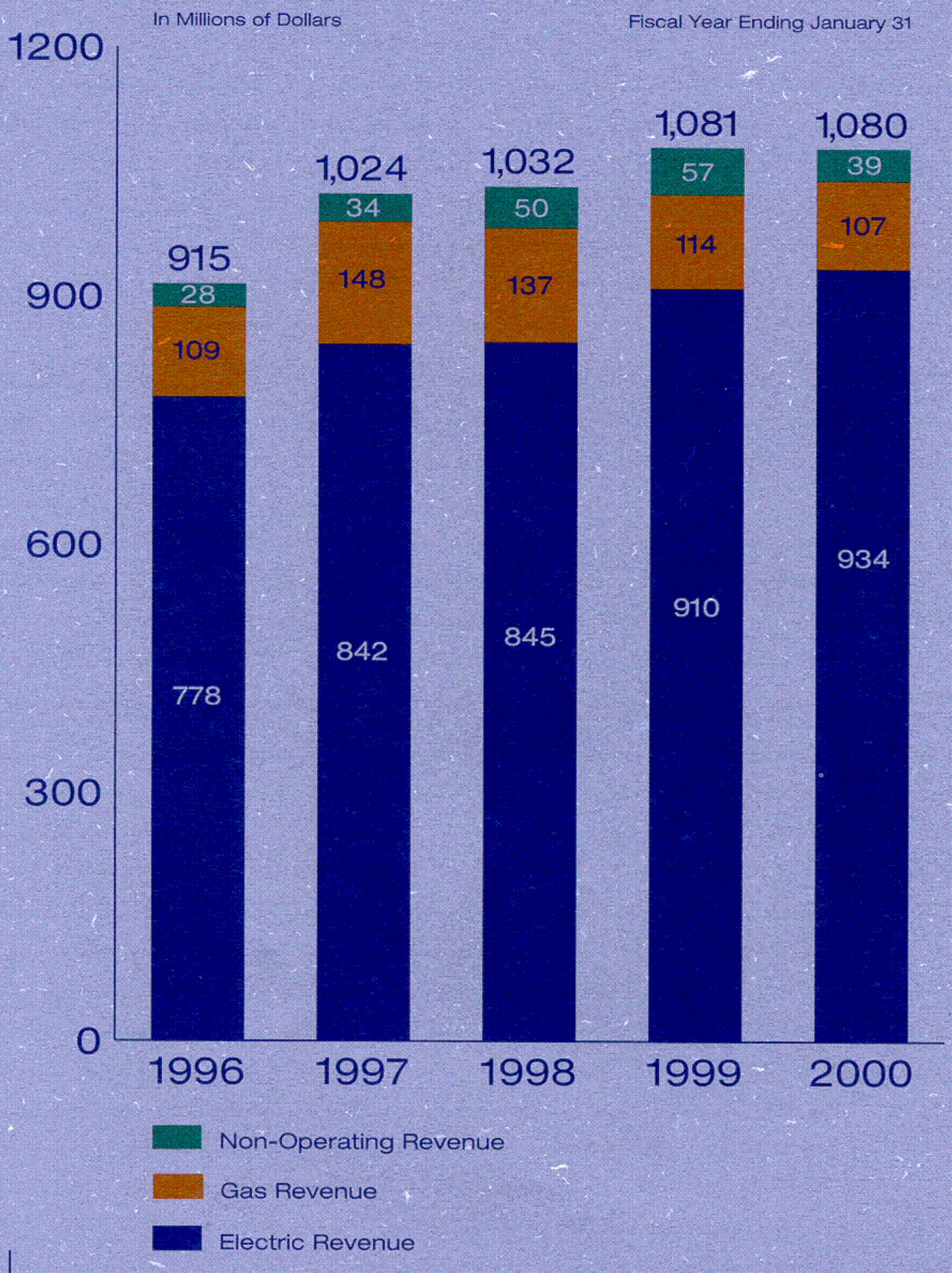


Gas Sales

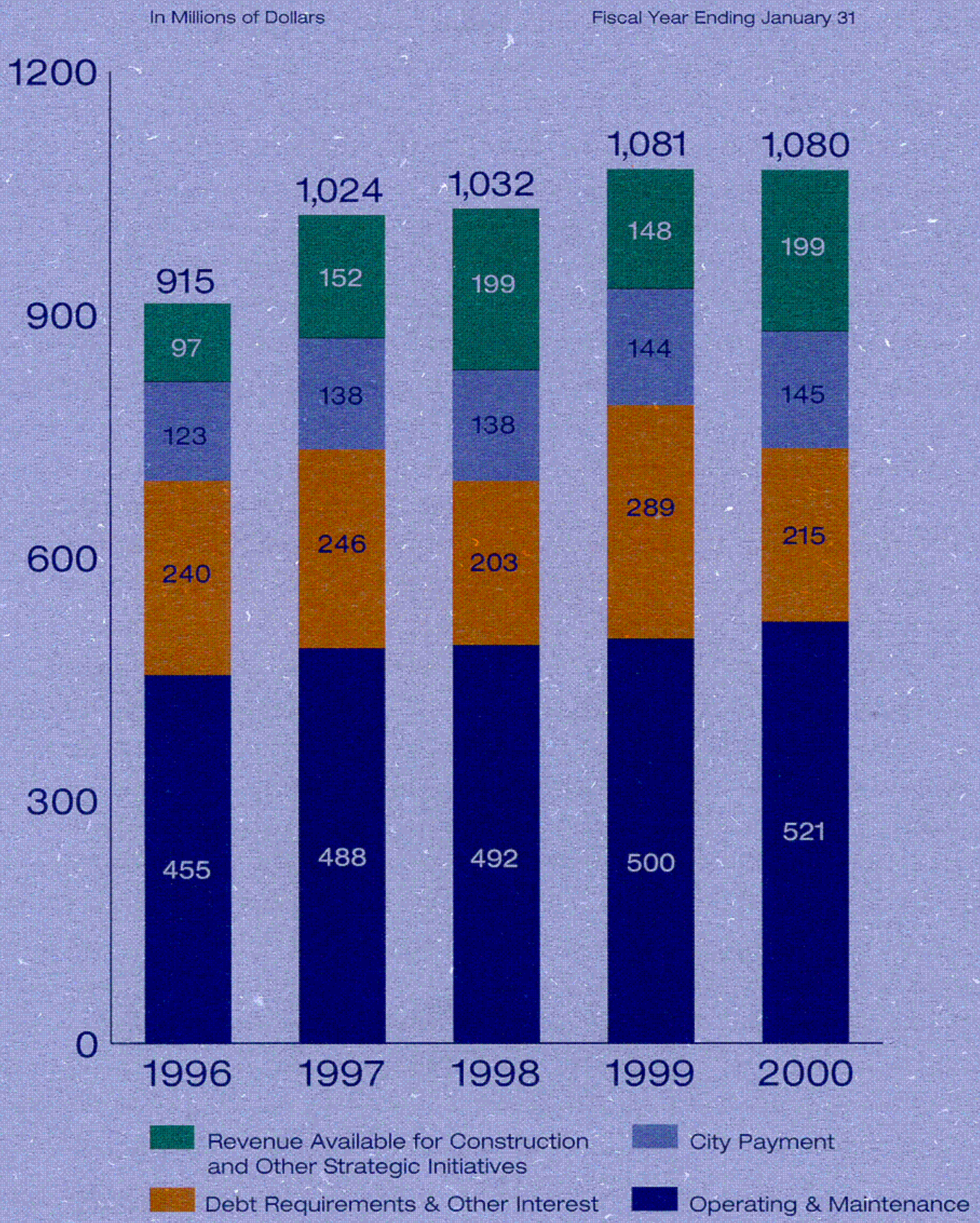


In Million MCF
Fiscal Year Ending January 31
30
20
10
0
25.3
26.8
26.8
24.2
21.3
1996
1997
1998
1999
2000

Gross Revenue

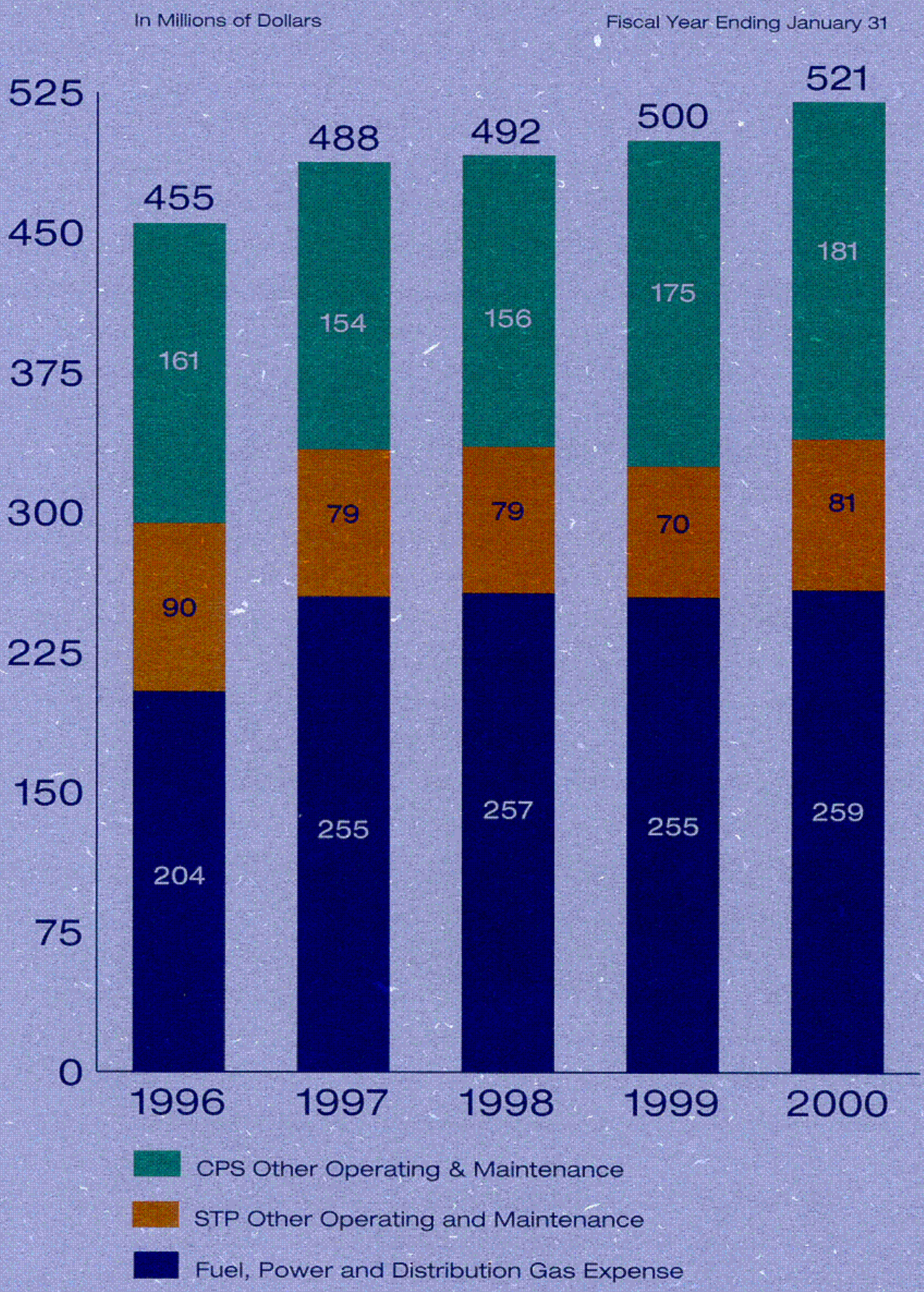


Application of Revenue



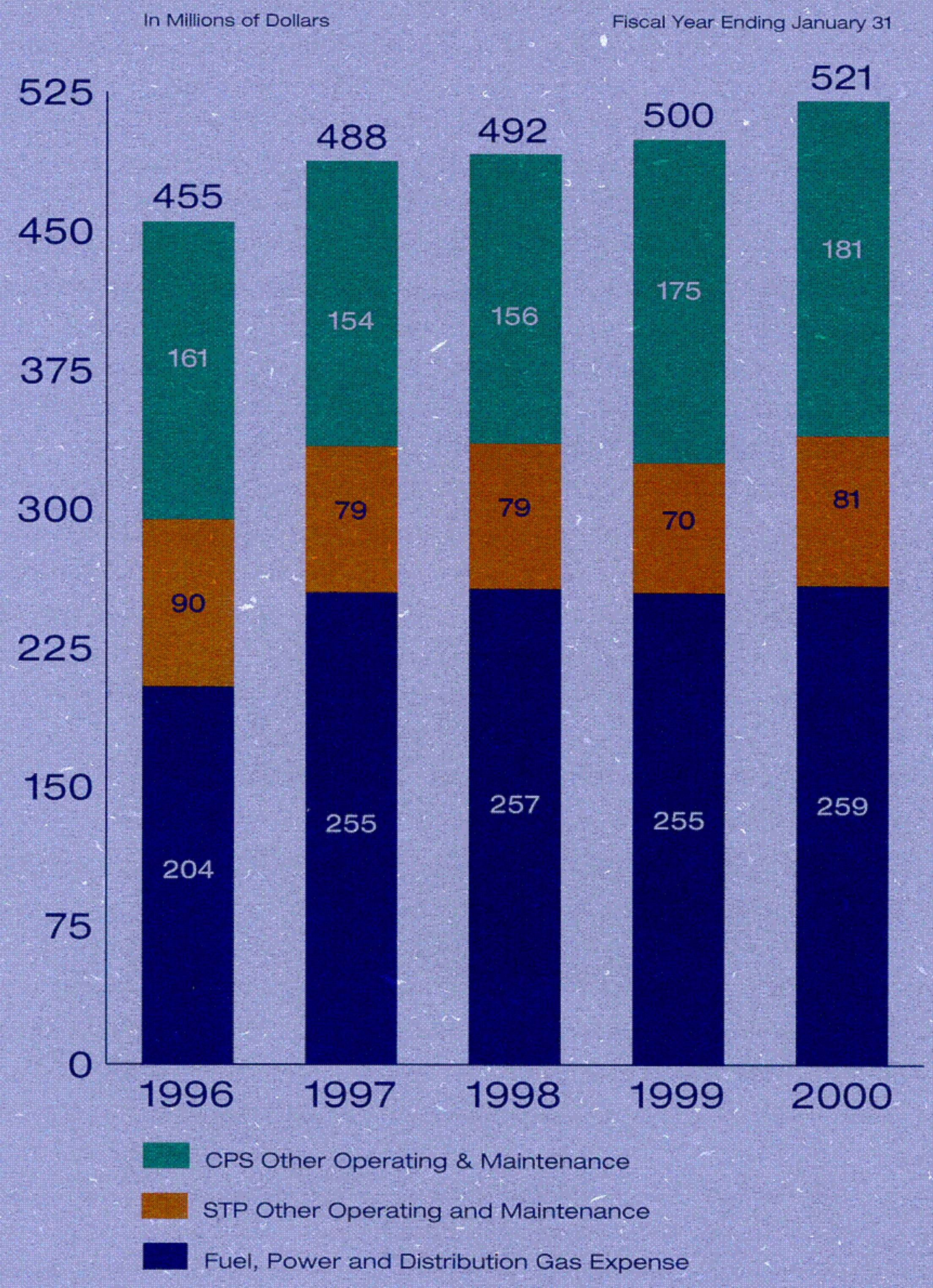
c-2

Operating & Maintenance (O&M) Expenses



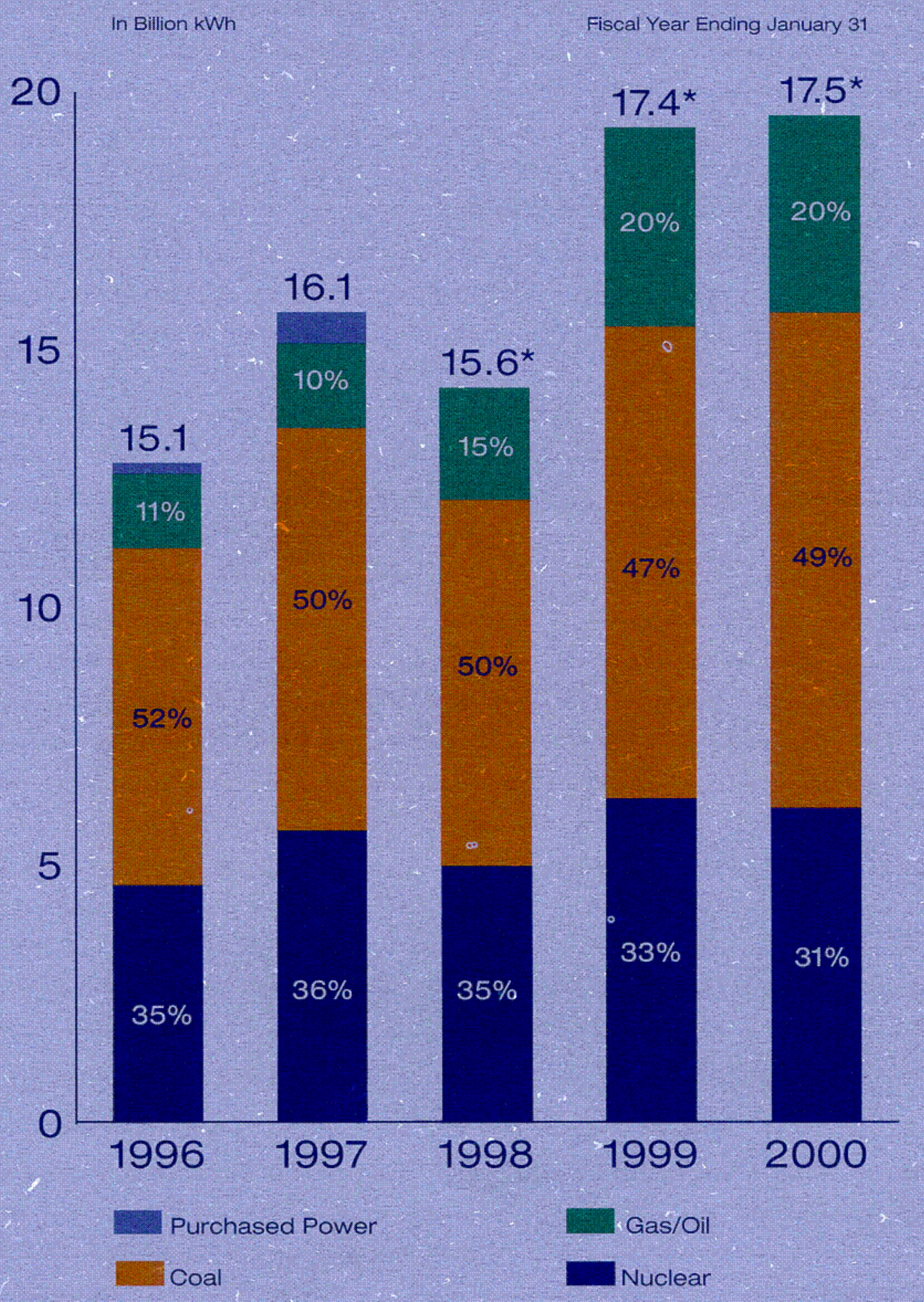
C-3

Operating & Maintenance (O&M) Expenses



C-3

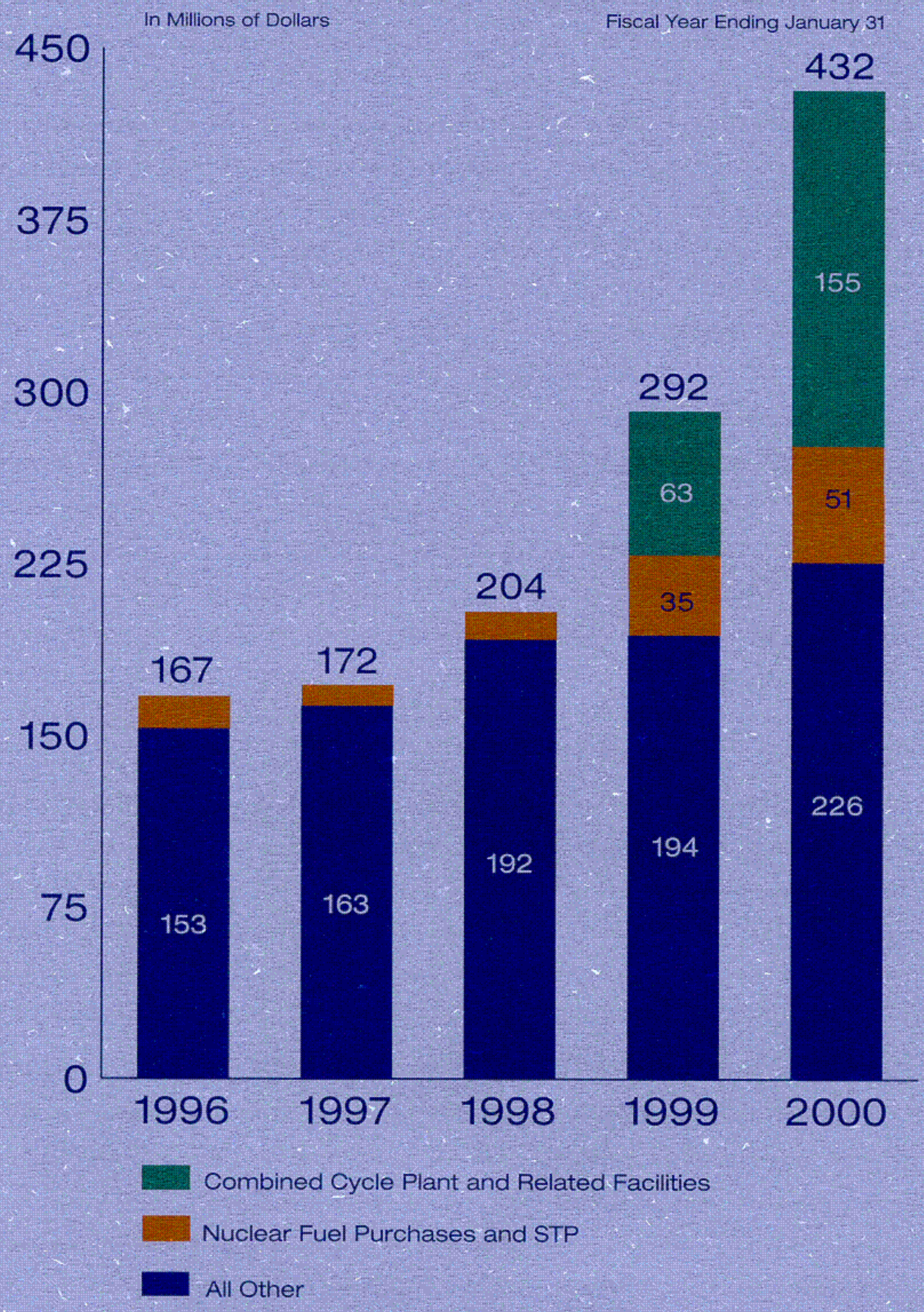
Electric Generation & Purchased Power



*Excludes joint system operations generation

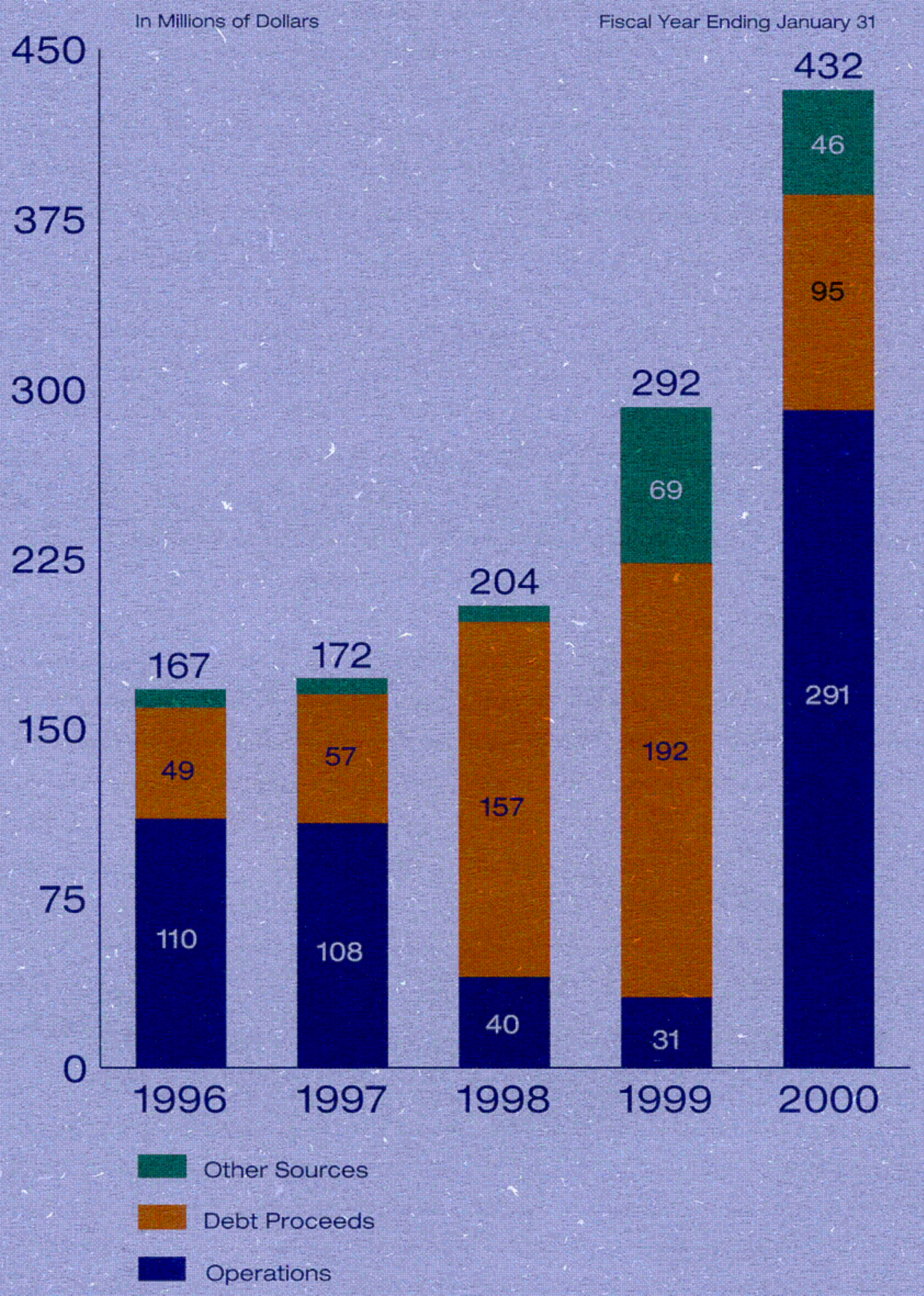
C-4

Construction, Net Removal Costs & Nuclear Fuel Purchases Expenditures Summary



C·5

Construction, Net Removal Costs & Nuclear Fuel Purchases Funding Summary



Five Year Highlights – UNAUDITED *(Dollars In Thousands)*

For Year Ended January 31,	2000	1999	1998	1997	1996
OPERATIONS					
Gross revenue, per ordinances	**$ 1,079,969**	$ 1,081,404	$ 1,032,202	$ 1,024,315	$ 914,850
Operating & maintenance expenses	**520,915**	500,083	491,813	488,352	454,714
Available for debt service	**559,054**	581,321	540,389	535,963	460,136
Payments to City of San Antonio	**145,474**	144,555	138,543	137,588	122,922
Net income	**87,360**	62,807	64,384	72,653	15,212
UTILITY PLANT					
Net book value	**4,134,207**	3,929,705	3,900,755	3,866,063	3,853,576
Depreciation expense	**165,177**	167,686	153,407	146,559	142,102
Additions to plant, nuclear fuel & net removal costs	**431,563**	292,450	204,201	172,126	167,273
FUNDING FOR NEW CONSTRUCTION, NET REMOVAL COSTS & NUCLEAR FUEL PURCHASES					
Bond proceeds	**88,762**	192,029	152,754	57,157	16,109
Commercial paper proceeds	**6,500**	0	4,500	0	33,299
Repair & Replacement Account	**283,158**	26,312	37,966	106,667	109,432
Overhead Conversion Fund	**7,420**	5,051	1,589	1,374	672
Litigation settlement proceeds	**34,206**	61,900	—	—	—
Customer contributions	**11,517**	7,158	7,392	6,928	7,761
OTHER BALANCE SHEET DATA					
STP Decommissioning Trust Net Assets	**95,493**	89,465	72,783	70,964	56,265
Repair and Replacement Account	**330,984**	424,494	291,748	134,572	93,305
Total Assets [(1)]	**5,005,769**	4,920,277	5,105,373	4,685,748	4,633,229
City of San Antonio's Equity	**2,048,534**	1,961,174	1,898,367	1,833,983	1,761,330
DEBT					
Outstanding					
Bonds	**2,730,575**	2,794,295	2,582,638	2,456,343	2,545,043
Commercial Paper	**134,800**	128,300	450,000	277,800	295,100
Weighted-Average Interest Rate					
Bonds	**5.24%**	5.23%	5.53%	5.61%	5.61%
Commercial Paper	**3.69%**	3.09%	3.69%	3.48%	3.67%
Debt Service					
Bonds	**208,925**	185,044	193,626	218,227	211,618
Commercial Paper	**4,709**	15,474	15,841	22,975	23,746
Debt Service Coverage - Bonds	**2.68x**	3.14x	2.79x	2.47x	2.18x
Ratings - Bonds/Commercial Paper					
Fitch IBCA, Inc.	**AA+/F-1+**	AA+/F-1+	AA+/F-1+	AA+/F-1+	AA+/F-1+
Moody's Investor Service, Inc.	**Aa1/P-1**	Aa1/P-1	Aa1/P-1	Aa1/P-1	Aa1/P-1
Standard & Poor's Ratings Group	**AA/A-1+**	AA/A-1+	AA/A-1+	AA/A-1+	AA/A-1+
RELIABILITY INDICES [(2)]					
System Average Incident Duration Index (SAIDI)	**0.728**	0.886	0.842	—	—
System Average Incident Frequency Index (SAIFI)	**1.162**	0.919	1.130	—	—

(1) All years include the CPS STP Decommissioning Trust Net Assets.
(2) Available for the past three fiscal years.

Five Year Operations Review – UNAUDITED

For Year Ended January 31,	2000	1999	1998	1997	1996
OPERATING REVENUE (In thousands)					
Electric:					
Residential	**$ 428,450**	$ 428,482	$ 392,889	$ 398,061	$ 360,484
Commercial and industrial	**353,055**	344,064	329,241	322,595	304,090
Street lighting	**11,977**	11,655	11,404	11,073	10,762
Public authorities	**94,475**	90,182	87,198	85,488	80,812
Sales for resale	**12,581**	11,818	11,731	11,268	9,966
Off-system sales	**26,499**	17,147	6,667	6,828	5,580
Miscellaneous	**6,592**	6,291	5,718	6,386	5,963
Total	**$ 933,629**	$ 909,639	$ 844,848	$ 841,699	$ 777,657
Gas:					
Residential	**$ 59,748**	$ 66,142	$ 79,791	$ 87,362	$ 65,668
Commercial and industrial	**39,425**	39,756	47,547	50,360	36,305
Public authorities	**6,694**	7,391	9,197	9,284	5,763
Miscellaneous	**1,153**	948	1,058	974	889
Total	**$ 107,020**	$ 114,237	$ 137,593	$ 147,980	$ 108,625
SALES (In thousands)					
Electric kWh:					
Residential	**6,492,199**	6,571,130	5,990,225	6,142,014	5,606,699
Commercial and industrial	**6,928,944**	6,850,843	6,467,755	6,409,608	6,090,667
Street lighting	**100,534**	99,919	97,775	97,339	95,428
Public authorities	**2,108,671**	2,059,882	1,972,320	1,946,948	1,854,042
Sales for resale	**327,277**	320,986	287,996	290,265	261,325
Off-system sales	**470,335**	454,114	351,745	381,331	347,129
Total	**16,427,960**	16,356,874	15,167,816	15,267,505	14,255,290
Gas MCF:					
Residential	**10,027**	11,925	13,607	13,752	12,902
Commercial and industrial	**9,485**	10,196	10,875	10,963	10,683
Public authorities	**1,762**	2,074	2,293	2,071	1,718
Total	**21,274**	24,195	26,775	26,786	25,303
ELECTRIC GENERATION (In thousands)					
Total kWh(1)	**17,457,003**	17,373,503	15,738,497	15,659,321	14,764,596
Capacity, kW (Gas)	**2,430,000**	2,430,000	2,430,000	2,430,000	2,430,000
Capacity, kW (Coal)	**1,385,000**	1,385,000	1,385,000	1,385,000	1,385,000
Capacity, kW (Nuclear)	**700,000**	700,000	700,000	700,000	700,000
ENERGY PURCHASES (In thousands)					
Electric kWh	**14,835**	0	0	52,450	345,107
Distribution Gas MCF	**21,664**	23,998	26,308	27,673	25,927
ELECTRIC PEAK DEMAND kW	**3,729,000**	3,684,000	3,448,000	3,356,000	3,249,000
NUMBER OF CUSTOMERS					
Electric	**563,127**	550,956	539,400	528,739	519,269
Gas	**303,871**	302,719	301,181	300,185	299,167
RESIDENTIAL AVERAGES					
Electric:					
Revenue per customer	**$ 874.10**	$ 892.38	$ 833.89	$ 862.33	$ 799.26
kWh per customer	**13,245**	13,685	12,714	13,306	12,431
Revenue per kWh	**6.60¢**	6.52¢	6.56¢	6.48¢	6.43¢
Gas:					
Revenue per customer	**$ 211.34**	$ 235.00	$ 284.93	$ 313.44	$ 237.20
MCF per customer	**35.5**	42.4	48.6	49.3	46.6
Revenue per MCF	**$ 5.96**	$ 5.55	$ 5.86	$ 6.35	$ 5.09
NUMBER OF EMPLOYEES	**3,810**	3,639	3,475	3,427	3,565

(1) Excludes joint systems operating generation.

City Public Service Board of San Antonio, Texas

Financial Statements
Years ended January 31, 2000 and 1999

(With Independent Auditors' Report Thereon)

Audited Financial Statements

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Independent Auditors' Report

The Board of Trustees
City Public Service Board of San Antonio, Texas:

We have audited the accompanying balance sheets of the City Public Service Board of San Antonio, Texas (City Public Service), a component unit of the City of San Antonio, Texas, as of January 31, 2000 and 1999, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of City Public Service's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of City Public Service Employees' Pension Plan or City Public Service Decommissioning Master Trust for the South Texas Project. The financial information related to the City Public Service Employees' Pension Plan is included in footnote 6 of the notes to financial statements. The assets of the City Public Service Master Decommissioning Trust for the South Texas Project of $95,493,000 and $89,465,000 as of January 31, 2000 and 1999, respectively, were combined with City Public Service as a blended component unit. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the City Public Service financial statements, insofar as it relates to the amounts and disclosures included for the City Public Service Employees' Pension Plan and the City Public Service Master Decommissioning Trust for the South Texas Project, is based on the reports of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of City Public Service as of January 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

KPMG LLP   Robert Williams CPA   Leal & Carter, P.C.

March 17, 2000

Balance Sheets

	January 31, 2000	January 31, 1999
Assets	(In thousands)	
UTILITY PLANT, at cost *(Notes 1, 9, 10, and 13)*:		
Plant in service –		
Electric	$ 4,886,513	$ 4,762,550
Gas	413,847	374,438
General	226,509	210,764
Total plant in service	5,526,869	5,347,752
Less-accumulated depreciation	1,808,877	1,670,394
Plant in service, net	3,717,992	3,677,358
Construction work in progress	345,751	184,361
Utility property leased	18,713	0
Held for future use	12,599	31,384
Nuclear fuel, less accumulated amortization of $207,991 in 2000 and $189,779 in 1999	39,152	36,602
Utility plant, net	4,134,207	3,929,705
RESTRICTED CASH AND INVESTMENTS *(Notes 1, 2, and 3)*:		
South Texas nuclear project restated decommissioning master trust *(Notes 1 and 9)*	95,493	89,465
Bond construction fund	0	88,762
New series bonds debt service requirements	90	139
Repair and replacement account	330,984	424,494
Electric overhead conversion fund	38,732	37,409
Cash restricted for customer service deposits	25,757	25,548
Other	28,268	27,483
Total restricted cash and investments	519,324	693,300
CURRENT ASSETS:		
Cash and temporary investments *(Notes 1 and 2)*	116,177	85,641
Customer accounts receivable, less allowance for doubtful accounts of $975 in 2000 and $1,432 in 1999	70,953	81,808
Other receivables	37,666	26,519
Inventories and supplies, at average cost –		
Materials and supplies	66,977	63,491
Fuel stock	33,634	18,761
Prepayments and other	11,097	7,077
Total current assets	336,504	283,297
OTHER ASSETS AND DEFERRED COSTS *(Note 1)*	15,734	13,975
TOTAL ASSETS	$ 5,005,769	$ 4,920,277

The accompanying notes are an integral part of these financial statements.

Equity and Liabilities	January 31, 2000	1999
	(In thousands)	
LONG-TERM DEBT:		
New series bonds *(Notes 3 and 4)*	$ 2,663,360	$ 2,730,575
Unamortized discount on new series bonds	(17,675)	(19,540)
Unamortized costs of bond reacquisition	(191,830)	(212,163)
New series requirements, net	2,453,855	2,498,872
Commercial paper *(Note 5)*	134,800	128,300
Long-term debt, net	2,588,655	2,627,172
EQUITY:		
Reserved retained earnings *(Note 3)* –		
New series bonds debt service requirements	0	72
Repair and replacement account	330,984	424,494
Electric overhead conversion fund *(Note 1)*	38,732	37,409
Total reserved retained earnings	369,716	461,975
Unreserved retained earnings invested in or designated for plant and working capital	1,678,818	1,499,199
Total equity	2,048,534	1,961,174
CURRENT LIABILITIES:		
Current maturities of revenue bonds *(Note 4)*	67,215	63,720
Accounts payable and accrued liabilities	122,537	107,558
Total current liabilities	189,752	171,278
OTHER LIABILITIES AND DEFERRED CREDITS:		
Payable from restricted assets –		
Customer service deposits	25,757	25,548
South Texas nuclear project restated decommissioning master trust *(Notes 1 and 10)*	95,493	89,465
Other *(Note 1)*	24,862	23,891
Customer advances for construction *(Note 1)*	16,745	14,715
Other liabilities and credits *(Note 1)*	15,971	7,034
Total other liabilities and deferred credits	178,828	160,653
COMMITMENTS AND CONTINGENCIES *(Notes 3, 6, 7, 8, 9 and 12)*	—	—
TOTAL EQUITY AND LIABILITIES	$ 5,005,769	$ 4,920,277

The accompanying notes are an integral part of these financial statements.

Statements of Revenues, Expenses and Changes in Retained Earnings

	Years Ended January 31, 2000	1999
	(In thousands)	
OPERATING REVENUE *(Note 1)*:		
Electric	$ 933,629	$ 909,639
Gas	107,020	114,237
Total operating revenue	1,040,649	1,023,876
OPERATING EXPENSES *(Note 1)*:		
Fuel, purchased power and distribution gas	259,477	255,457
Other operating and general	178,075	161,657
Maintenance	81,339	77,328
Regulatory assessments *(Note 12)*	2,024	2,083
Survey and investigation costs – lignite mine site	0	3,557
Depreciation	165,177	167,686
Total expenses	686,092	667,768
OPERATING INCOME	354,557	356,108
NONOPERATING INCOME (EXPENSE) *(Note 1)*:		
Interest and other income	39,320	57,528
Interest expense	(151,470)	(148,214)
Accreted discount on capital appreciation bonds	0	(17,181)
Amortization of debt reacquisition, issuance, discount and other costs	(22,859)	(21,695)
Allowance for funds used during construction	13,286	5,716
INCOME BEFORE EXTRAORDINARY COSTS FOR CASH DEFEASANCE OF DEBT	232,834	232,262
Extraordinary costs for cash defeasance of debt *(Note 4)*	0	(24,900)
INCOME BEFORE OPERATING TRANSFERS	232,834	207,362
Payments to the City's General Fund	(145,474)	(144,555)
NET INCOME	87,360	62,807
ACCUMULATED RETAINED EARNINGS AT BEGINNING OF YEAR	1,961,174	1,898,367
ACCUMULATED RETAINED EARNINGS AT END OF YEAR	$ 2,048,534	$ 1,961,174

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

	Years Ended January 31, 2000	1999
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income	$ 354,557	$ 356,108
Noncash items included –		
Depreciation expense	165,177	167,686
Nuclear fuel amortization	18,212	22,266
Other	(70)	3,557
Changes in current assets and liabilities:		
(Increase) decrease in customer accounts receivable	10,855	(17,662)
(Increase) decrease in other receivables	(11,325)	(2,912)
(Increase) decrease in inventories and supplies	(18,359)	(3,668)
(Increase) decrease in prepayments and other	(4,020)	1,400
Increase (decrease) in accounts payable and accrued liabilities	14,651	18,626
Changes in other assets, deferred costs, other liabilities, and deferred credits:		
(Increase) decrease in other assets	513	3,192
Increase (decrease) in customer service deposits payable	209	(211)
Increase (decrease) in decommissioning trust liability	6,028	16,682
Increase (decrease) in other liabilities and deferred credits	2,990	9,551
Net cash provided (used) by operating activities	539,418	574,615
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash paid for additions to utility plant and net removal costs	(389,545)	(269,753)
Cash paid for nuclear purchases	(20,762)	(14,617)
Joint operations agreement proceeds to be used for construction	15,239	18,062
Litigation settlement proceeds to be used for construction	18,975	12,109
Contributions in aid and customer advances for construction	11,477	6,887
Proceeds from issuance of commercial paper	6,500	—
Principal payments on revenue bonds	(63,720)	(215,118)
Interest paid	(151,470)	(180,082)
Commercial paper redeemed	—	(34,900)
Costs for cash defeasance of debt	—	(11,842)
Net cash provided (used) by capital and related financing activities	(573,306)	(689,254)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Payments to the City's General Fund	(145,474)	(144,555)
Other	538	—
Net cash provided (used) by non-capital financing activities	(144,936)	(144,555)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(948,862)	(1,408,237)
Proceeds from sales and maturities of investments	1,056,753	1,571,655
Net increase in nuclear decommissioning trust	(8,057)	(15,503)
Interest, non-operating income and other	36,145	53,082
Net cash provided (used) by investing activities	135,979	200,997
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(42,845)	(58,197)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	49,583	107,780
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 6,738	$ 49,583
Reconciliation of Cash and Investments:		
Restricted Cash and Investments:		
Cash and cash equivalents	$ 757	$ 45,082
Investments	518,567	648,218
Total	519,324	693,300
Current Assets:		
Cash and cash equivalents	5,981	4,501
Investments	110,196	81,140
Total	116,177	85,641
Total Restricted and Current Assets:		
Cash and cash equivalents	6,738	49,583
Investments	628,763	729,358
Total	$ 635,501	$ 778,941

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS JANUARY 31, 2000 AND 1999

1. Significant Accounting Policies

ORGANIZATION — City Public Service Board of San Antonio (CPS), a municipal utility owned by the City of San Antonio (the City), provides electricity and natural gas to San Antonio and surrounding areas. As a municipal utility, CPS is exempt from payment of income taxes, state franchise and sales taxes, and real and personal property taxes. CPS provides certain payments and benefits to the City as required by bond ordinances.

BASIS OF ACCOUNTING — The financial statements of CPS are presented in accordance with generally accepted accounting principles for proprietary funds of governmental entities. Accounting records generally follow the Uniform System of Accounts for Electric and Gas Utilities issued by the National Association of Regulatory Utility Commissioners.

CPS has elected not to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, which is an alternative of the Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.

FISCAL YEAR — The fiscal year ended January 31, 2000, is referred to herein as 2000; the fiscal years ended January 31, 1999, January 31, 1998, and January 31, 1997, are referred to herein as 1999, 1998, and 1997, respectively.

REVENUE AND EXPENSES — Revenue is recognized as billed on a cycle basis. Rate schedules include fuel and gas cost adjustment clauses that permit recovery of fuel and gas costs in the month incurred. CPS reports fuel and distribution gas costs on the same basis as it recognizes revenue.

CPS amortizes its share of nuclear fuel for the South Texas Project (STP) to fuel expense on a unit-of-production method. Under the Nuclear Waste Policy Act of 1982, the federal government assumed responsibility for the permanent disposal of spent nuclear fuel. CPS is charged a fee for disposal of spent nuclear fuel, which is based upon CPS' share of the STP generation that is available for sale to CPS customers. This charge is included in fuel expense monthly. For further discussion regarding the STP, see Note 9.

UTILITY PLANT — Utility plant is stated at the cost of construction, including costs of contracted services, direct equipment material and labor, indirect costs, including general engineering, labor, equipment, and material overhead, and an allowance for funds used during construction (AFUDC). CPS computes AFUDC using rates which approximate the cost of borrowed funds, or the short-term investment rate for other funds used for construction. AFUDC is applied to projects estimated to cost in excess of $250,000 and to require thirty days or more to complete.

Proceeds from customers to partially fund construction expenditures are credited against the costs for the projects. Retirements of utility plant, together with removal costs less salvage, are recorded to accumulated depreciation. The maintenance of property, as well as replacements and renewals of items determined to be less than a unit of property, are charged to maintenance expense. General utility plant assets consist of land, buildings, and equipment for general and administrative purposes that are used commonly in electric and gas operations.

CPS computes depreciation using the straight-line method over the estimated service lives of the various classes of depreciable property. Depreciation as a percentage of average depreciable plant was 3.00 percent in 2000 and 3.16 percent in 1999.

RESTRICTED CASH AND INVESTMENTS — These funds are generally for uses other than current operations. They may be designated or segregated to acquire or construct non-current assets. Funds consist primarily of customer service deposits, unspent bond issue proceeds, debt service required for the New Series Bonds and commercial paper, and funds for future construction or contingencies. This category also includes customer assistance programs and funds appropriated for insurance retentions.

The CPS Board authorized that funds be designated for converting overhead electric facilities to underground. One percent of the prior fiscal year's electric revenue from cities and unincorporated areas served by CPS are appropriated for this program.

CPS reports the STP Decommissioning Trust Investments at fair value since they mature more than one year from date of purchase. All other investments are stated at amortized cost, which approximates fair value. These investments will mature within one year from their purchase date. The specific identification method is used to determine cost in computing gain or loss on sales of securities. Amortization of premium and accretion of discount are recorded over the terms of the investments.

OTHER ASSETS AND DEFERRED COSTS — Other non-current assets consist of unamortized debt issuance expenses, which are amortized over the period of the outstanding bonds.

Non-current deferred costs also include a special assessment fee by the Department of Energy (DOE) for decommissioning of U.S. nuclear fuel enrichment facilities. CPS recorded this in fiscal 1994 to be amortized over a 15-year period to nuclear fuel expense.

CPS completed an agreement with San Antonio Water Systems (SAWS) conveying water rights on CPS property in Bastrop and Lee Counties, Texas and certain rights to water produced in the lignite mining process. SAWS has paid CPS $1.2 million to date, including imputed interest for the receivable. The discounted present value of the remaining amount due from SAWS was $3.2 million on January 31, 2000 and is included in other assets and deferred costs.

OTHER LIABILITIES AND DEFERRED CREDITS — At January 31, 2000 and 1999 these amounts included nuclear fuel assessment fee which is paid in annual installments to DOE as enrichment facilities decontamination and decommissioning. Also recorded are customer assistance program contributions and customer advances for construction and retentions for property insurance and liability programs.

As of January 2000, CPS has recorded estimated liabilities with a net present value of $8 million for acquisition of electric and gas infrastructures acquired from local military bases. The amounts are payable monthly and annually based upon future utility revenue from these facilities. The payments will continue until the $8 million net present value is paid or 20 years of payments are made, whichever is sooner.

STATEMENT OF CASH FLOWS — For purposes of reporting cash flows, CPS considers all highly liquid debt instruments purchased with a maturity of approximately three months or less to be cash equivalents.

There was a material noncash capital and related financing activity in 2000 related to the acquisition of utility infrastructure facilities from the military, see Other Liabilities and Deferred Credits. A material noncash financing transaction involving a refunding bond issue occurred during 1999. For further discussion, see Note 4.

2. Cash and Investments

CPS' cash deposits at January 31, 2000, and 1999, were entirely insured or collateralized by banks for the account of CPS. For deposits that were collateralized, the securities were U.S. Government or Government Agency or U.S. Government guaranteed obligations held in book entry form by the Federal Reserve Bank in CPS' name. CPS' cash book values were approximately $6.7 million at January 31, 2000 and $5.0 million at January 31, 1999. CPS' bank balances were $12.3 million at January 31, 2000 and $22.6 million at January 31, 1999.

At January 31, 2000 and 1999, CPS' investments excluding the Decommissioning Trust, were all in U.S. Government or Government Agency obligations and were held in book entry form by the Federal Reserve Bank in the name of the safekeeping depository. CPS Board Resolution and Policy, Bond Ordinances, and State Law generally limit CPS' investments to U.S. Government or Government Agency or U.S. Government guaranteed obligations. Investments carried at amortized cost were $537.4 million with a fair value of $536.8 million at January 31, 2000, and were $696.9 million with a market value of $686.8 million at January 31, 1999.

At January 31, 2000 and 1999, CPS' investments in the Decommissioning Trust were held by an independent trustee. Trust investments are generally limited to U.S. Government or Government Agency or U.S. Government guaranteed obligations by CPS Board Resolution and Policy, Trust Agreement, and State Law. Investment securities were carried at fair values of $94.6 million for 2000 and $88.8 million for 1999. These funds included U.S. Treasury Strips, purchased with the intent of holding until maturity, with a fair value of $35.2 million and $37.6 million respectively for 2000 and 1999. They are subject to market risk and their market value will vary as interest rates fluctuate. This could affect the value at which these securities are recorded.

3. Revenue Bond Ordinance Requirements

As of January 31, 2000, the Bond Ordinances for New Series bonds issued on and after August 6, 1992 contain, among others, the following provisions:

Gross Revenue is applied as follows: (a) for maintenance and operating expenses of the systems, (b) for payments of the New Series Bonds, (c) for the payment of any obligations inferior in lien to the New Series

Bonds which may be issued, (d) for an amount equal to 6 percent of the gross revenues of the systems to be deposited in the Repair and Replacement Account, (e) for cash payments and benefits to the City not to exceed 14 percent of the gross revenues of the systems, and (f) any remaining net revenues in the General Account to the Repair and Replacement Account.

4. Revenue Bonds

A summary of revenue bonds is as follows:

	Maturities	Weighted-Average Interest Rate on Outstanding Bonds at January 31, 2000	January 31 2000	1999
			(In thousands)	
Tax-Exempt New Series Bonds, 1992 – 1998	2001 – 2021	5.190%	$2,631,965	$2,694,680
Taxable New Series Bonds, 1998	2001 – 2020	6.296%	98,610	99,615
Total new series bonds outstanding		5.236%	2,730,575	2,794,295
Less: Current maturities of bonds			67,215	63,720
Total new series bonds outstanding, net of current maturities			$2,663,360	$2,730,575

Principal and interest amounts due (in thousands) for each of the next five years and thereafter to maturity are:

Year	Principal	Interest	Total
2001	$ 67,215	$ 142,193	$ 209,408
2002	70,530	138,929	209,459
2003	76,515	135,508	212,023
2004	103,435	131,944	235,379
2005	123,180	126,645	249,825
Thereafter to maturity	2,289,700	980,507	3,270,207
Total	$ 2,730,575	$ 1,655,726	$ 4,386,301

There were no bond financing transactions in 2000. In 1999, CPS issued $885.1 million of New Series 1998 Bonds which consisted of $785.5 million in New Series 1998A Tax-Exempt Bonds at an average interest rate of 4.92 percent and $99.6 million in Taxable New Series 1998B Bonds at an average interest rate of 6.34 percent. The New Series 1998A Bonds refunded $439.7 million in certain outstanding New Series Bonds and $244.3 million in Tax-Exempt Commercial Paper (TECP), while the Taxable New Series 1998B Bonds refunded $45.7 million in certain outstanding New Series Bonds and $42.5 million in TECP. In addition to the refunding, $161.3 million of certain New Series Bonds were legally defeased with cash resources.

The New Series 1998 Bonds and the cash defeasance fully defeased all bonds issued prior to August 6, 1992, thereby allowing the New Series Bond Reserve to be replaced with a surety policy, which was done in conjunction with the issuance of the New Series 1998 Bonds and the cash defeasance. The surety policy provides a reserve requirement equal to the highest average annual principal and interest requirement of the New Series Bonds outstanding as of January 31, 2000. Of the funds available from the assets in the New Series Bond Reserve in December 1998, $155 million was used to fund the cash defeasance; $52.5 million was transferred to the Bond Construction Fund; and the remainder of the funds were transferred to the Repair and Replacement Account. The cash defeasance transaction resulted in an accounting loss of $24.9 million that is reflected in the statement of revenue, expenses and changes in retained earnings for 1999.

The par value of the New Series 1998 Bonds issued was $16.1 million more than the amount of debt refunded. Cash flow savings of $39.7 million, which is equivalent to a present value savings of $23.6 million, resulted from this bond transaction.

5. Commercial Paper

In 1988, the City Council of San Antonio, Texas (City Council) adopted an ordinance authorizing the issuance of up to $300 million in Tax-Exempt Commercial Paper (TECP). This ordinance as amended provides for funding to assist in the financing of eligible projects, including fuel acquisition and capital improvements to the utility systems (the Systems), and to refinance or refund any outstanding obligations which are secured by and payable from a lien on and/or a pledge of net revenues of the Systems. The program's scheduled maximum maturities will not extend beyond November 1, 2028.

The TECP has been classified as long-term in accordance with the refinancing terms under a revolving credit agreement with a consortium of banks which supports the commercial paper. Under the terms of the agreement, CPS may borrow up to an aggregate amount not to exceed $350 million for the purpose of paying amounts due under the TECP. The credit agreement has a term of two years, currently extended until November 1, 2001, and may be renewed for additional periods.

To date, there have been no borrowings under the credit agreement. The TECP is secured by the net revenues of the Systems. Such pledge of net revenues is subordinate and inferior to the pledge securing payment of the New Series bonds and any New Series Bonds to be issued in the future.
A summary of TECP is as follows:

	January 31	
	2000	1999
TECP outstanding (In thousands)	$134,800	$128,300
Weighted-average interest rate of outstanding TECP, approximate	3.69%	3.09%
Average life of outstanding TECP approximate number of days	86	110

6. Benefit Plans

The City Public Service Pension Plan is a self-administered, single-employer, defined-benefit contributory pension plan (Plan) covering substantially all employees who have completed one year of service. Normal retirement is age 65; however, early retirement is available with 25 years of benefit service. The Plan was amended effective January 1, 1999, to also allow early retirement to those employees who are age 55 or older with at least 10 years of benefit service. Retirement benefits are based on length of service and compensation, and benefits are reduced for retirement before age 55. The Plan is sponsored by and may be amended by CPS, acting by and through the General Manager & CEO of CPS. The Plan assets, having a market value of $830.6 million at December 31, 1999 and $629.1 million at December 31, 1998, are held in a separate trust that is periodically audited and which statements include historical trend information. For further information, contact the Employee Benefits Division at CPS.

The current policy of CPS is to establish funding levels, considering annual actuarial evaluations and recommendations of the Administrative/Investment Committee, using both employee and employer contributions. Generally, participating employees contribute 5 percent of their total compensation and are normally fully vested in CPS' contribution after completing 15 years of credited service. The Plan was amended effective January 1, 1999, to reduce the time it takes an employee to fully vest to seven years. In addition, employees are now fully vested at age 40.

Employee contributions commence with the effective date of participation, and continue until attaining normal or early retirement age or termination of employment. The balance of Plan contributions are the responsibility of CPS, acting by and through the General Manager & CEO of CPS, considering actuarial information, budgetary compliance, and the need to amend the Plan to comply with legal requirements or to ensure that the Plan is appropriate and within industry and community norms.

CPS adopted two Restoration Plans effective January 1, 1998, to supplement Pension benefits paid from the Plan due to federal tax restrictions on benefit amounts. The benefits due under the Restoration Plans were recognized by CPS.

The total employer and employee pension funding, which includes amortization of past service costs using the unit credit cost actuarial method, is summarized as follows:

	2000	1999
	(In thousands)	
Employee contributions	$ 6,692	$ 6,239
CPS contributions	12,471	14,375
Total contributions	$ 19,163	$ 20,614
Covered payroll	$ 138,488	$ 129,063
Total payroll	$ 152,225	$ 137,796

The actuarially determined contribution requirements for 2000 and 1999 were computed using an assumed rate of return of 8.5 percent. For 2000 the past-service costs were amortized over a targeted 10 years, as compared to a 15-year amortization for 1999 and 1998, 20-years for 1997, 1996 and 1995, and a 30-year amortization for prior years. No changes in actuarial cost methods or actuarial assumptions were made in 1999 or 2000 which would affect the comparability of results with the prior year except that the retirement rate assumption was expanded to account for the new plan provision allowing early retirement at 55 with 10 years of service. CPS contributions for 1999 include $3.0 million for a Voluntary Early Retirement Program (VERP) that was offered to executives who were at least 52 years old and had 10 years of service as of March 26, 1998.

CPS' contributions to the Plan amounted to 9.0 percent of covered payroll in 2000; 11.1 percent in 1999, 10.0 percent in 1998 and 11.4 percent in 1997.

A schedule of funding progress under GASB Statement No. 27 guidelines follows:

	Actuarial Valuation Date (Unaudited)		
	1/1/99	1/1/98	1/1/97
		(In millions)	
1. Actuarial Value of Assets	$563.4	$507.6	$455.6
2. Actuarial Accrued Liability(AAL)	565.0	520.5	487.2
3. Unfunded AAL (UAAL): (2)–(1)	1.6	12.9	31.6
4. Funded Ratio (1) ÷(2)	99.7%	97.5%	93.5%
5. Covered Payroll	138.5	129.1	123.8
6. UAAL as a Percentage of Covered Payroll: (3) ÷(5)	1.2%	10.0%	25.5%

Methods used for the January 1, 1999, 1998, and 1997 actuarial valuations include (a) the five-year smoothed market method for asset valuation, (b) the projected unit credit for pension cost, and (c) the level dollar for amortization. The remaining amortization periods for 1999, 1998, and 1997 are 1.0 years, 2.84 years, and 16.52 years respectively and are calculated using the level dollar open amortization method.

Significant actuarial assumptions used for the January 1, 1999, 1998, and 1997 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year compounded annually, (b) projected salary increases averaging 5.0%, and (c) post-retirement cost-of-living increases of 2.0%. The projected salary increases include an inflation rate of 4.0%.

As calculated under GASB Statement No. 27 guidelines, CPS' annual pension cost and net pension obligation for the fiscal periods ended January 31, 2000, January 31, 1999, and January 31, 1998 were as follows:

	2000	1999	1998
		(In thousands)	
Annual required contribution (ARC)	$ 12,288	$ 14,642	$ 12,238
Interest on net pension obligation (NPO)	42	0	0
Adjustment to ARC	(490)	0	0
Annual pension cost (APC)	11,840	14,642	12,238
CPS Contributions in relation to ARC	(12,231)	(14,152)	(12,238)
Increase (decrease) in NPO	(391)	490	0
Net pension obligation beginning of year	490	0	0
Net pension obligation end of year	99	490	0
Percentage of APC contributed	103.0%	96.7%	100.0%

Employees who retired prior to 1983 are receiving annuity payments from an insurance carrier as well as receiving some benefits directly from CPS. CPS' costs for fiscal 2000 and 1999 were $353 thousand and $367 thousand respectively, and were recorded when paid.

7. Other Postemployment Benefits

CPS provides certain health care and life insurance benefits for retired employees. Most former CPS employees are eligible for these benefits upon retirement from CPS. Plan assets are held as part of CPS' Group Health and Life Insurance Plans. Plan funding is from both participant and employer contributions determined by annual actuarial and in-house calculations. Retired employees contribute to the health plan in varying amounts depending upon an equity formula that considers age and years of service. The Plans may be amended by CPS, acting by and through the General Manager & CEO of CPS. The annual cost of retiree health care and life insurance benefits funded by CPS is recognized as an expense of CPS as employer contributions are made to the programs. These costs approximated $2.3 million per year for 2000 and 1999. CPS contributed $200,000 to the Health Plan and $10,000 to the Life Insurance Plan to cover costs associated with the Voluntary Early Retirement Program offered to executives during 1998. CPS reimbursed $45.50 per month for Medicare supplement for certain retirees and their spouses enrolled in Medicare Part B in 1999 and in 2000.

Retired employees and covered dependents contributed $941 thousand and $928 thousand for their health care and life insurance benefits in fiscal 2000 and 1999, respectively. In fiscal 2000, there were approximately 1,985 retirees and covered dependents eligible for health care and life insurance benefits, as compared to approximately 1,875 in 1999.

In view of the potential economic significance of these benefits, CPS has reviewed the present value of the postemployment benefit obligations for current retirees. The January 1 valuations are $42.0 million in 1999 and $42.7 million in 1998 for health and $15.2 million in 1999 and $14.6 in 1998 for life insurance benefits. The actuarial analysis of the present value of postemployment benefit obligations for other participants fully eligible for benefits are estimated to be $28.2 million for health, $4.5 million for life insurance and $2.8 million for disability benefits. CPS began partial accrual and funding of projected future benefits in 1992. Funding totaled $3.7 million in fiscal 2000, $5.2 million in 1999, $5.4 million in 1998, $5.0 million in 1997, $7.0 million in 1996 and $5.0 million per year for 1993 through 1995.

For the health plan, the actuarial cost method used is the Projected Unit Credit Actuarial Cost Method. For the life insurance and disability plans, CPS uses a present value method to determine the cost of benefits.

Significant actuarial assumptions used in the calculations for the January 1, 1999 and 1998 actuarial valuations include (a) a rate of return on the investment of present and future assets of 8.5% per year for the health and life plans and 7% per year for the disability, (b) projected salary increases for the plans ranging from 3.3% to 12.0% depending on age for base and other salaries, and (c) medical cost increases projected at 6% for 2000 compared to 7% for 1999.

8. Risk Management

CPS is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions, and natural disasters. CPS purchases commercial liability and property insurance coverages to provide protection in event of large/catastrophic claims. CPS performs actuarial studies periodically to determine its insurance retentions. An actuarial study was last performed in 2000.

In addition, CPS is exposed to risks of loss due to death of, injuries to, or illnesses of, its employees. At January 31, 2000 and 1999, CPS has accumulated approximately $143.4 million and $111.4 million, respectively, in external trusts for these risks. The trust accounts and related claims liabilities are not included in CPS' financial statements. CPS has recorded $17.4 million of expense related to these risk programs for the year ended January 31, 2000 and $12.0 million for the year ended January 31, 1999.

In January 1999, CPS recorded estimates for landfill closure and dismantling and remediation of several gas powered units. Closure and postclosure costs were estimated for the Class I non-hazardous waste landfill in accordance with EPA regulations. Additional depreciation expense of $5.2 million was recorded for this dismantling and remediation of the generating units.

Based upon the guidance of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, the following information is provided regarding the changes in the insurance reserves for property, and employee and public liability claims for the years ended January 31, 2000 and 1999:

	Property Insurance	Employee & Public Liability Claims
Balance - 1/31/98	$ 4,679,394	$ 3,368,616
Payments	(39,785)	(2,686,728)
Incurred Claims	5,612,500	2,857,744
Balance - 1/31/99	10,252,109	3,539,632
Payments	(101,458)	(3,486,267)
Incurred Claims	7,500	5,549,242
Balance - 1/31/00	$ 10,158,151	$ 5,602,607

9. South Texas Project (STP)

CPS is one of four participants in the STP, which consists of two 1,250-megawatt nuclear generating units in Matagorda County, Texas. The other participants in the STP are Reliant Energy, formerly known as Houston Lighting and Power Company, Central Power and Light Company, and the City of Austin. In-service dates for STP were August 1988 for Unit 1 and June 1989 for Unit 2. CPS' 28-percent ownership in the STP represents 700 megawatts of plant capacity. At January 31, 2000 and 1999, CPS' investment in the STP utility plant was approximately $1.7 billion, net of accumulated depreciation.

Effective November 17, 1997, the Participation Agreement among the owners of STP was Amended and Restated and the STP Nuclear Operating Company, a Texas non-profit non-member corporation created by the participants, assumed responsibility as the licensed operator of STP. The participants share costs in proportion to ownership interests, including all liabilities and expenses of STP Nuclear Operating Company.

NUCLEAR INSURANCE — The Price-Anderson Act, a comprehensive statutory arrangement providing limitations on nuclear liability and governmental indemnities, is in effect until August 1, 2002. The limit of liability under the Price-Anderson Act for licensees of nuclear power plants is $9.602 billion per incident. The maximum amount that each licensee may be assessed following a nuclear incident at any insured facility is $83.9 million, which may be adjusted for inflation, for each licensed reactor, payable at $10 million per year per reactor for each nuclear incident. CPS and each of the other participants of STP are subject to such assessments, which will be borne on the basis of their respective ownership interests in STP. For purposes of these assessments, STP has two licensed reactors. The participants have purchased the maximum limits of nuclear liability insurance, as required by law, and have executed indemnification agreements with the NRC, in accordance with the financial protection requirements of the Price-Anderson Act.

A Master Worker Nuclear Liability policy, with a maximum limit of $400 million for the nuclear industry as a whole, provides protection from nuclear-related claims of workers employed in the nuclear industry after January 1, 1988 who do not use the workers' compensation system as sole remedy and bring suit against another party.

NRC regulations require licensees of nuclear power plants to obtain on-site property damage insurance in a minimum amount of $1.06 billion. NRC regulations also require that the proceeds from this insurance be used first to ensure that the licensed reactor is in a safe and stable condition so as to prevent any significant risk to the public health or safety, and then to complete any decontamination operations that may be ordered by the NRC. Any funds remaining would then be available for covering direct losses to property.

The owners of STP currently maintain $2.75 billion of nuclear property insurance, which is above the legally required amount of $1.06 billion, but is less than the total amount available for such losses. The $2.75 billion of nuclear property insurance consists of $500 million in primary property damage insurance and $2.25 billion of excess property damage insurance, both subject to a retrospective assessment being paid by all members of Nuclear Electric Insurance Limited (NEIL). In the event that property losses as a result of an accident at any nuclear plant insured by NEIL exceed the accumulated fund available to NEIL, a retrospective assessment could occur. The maximum aggregate assessment under current policies for both primary and excess property damage insurance is $17.3 million during any one-policy year.

NUCLEAR DECOMMISSIONING — CPS, together with the other owners of the STP, files with the NRC a certificate of financial assurance for the decommissioning of the nuclear power plant. The certificate assures that CPS will meet the minimum decommissioning funding requirements mandated by the NRC. The STP owners agreed in the financial assurance plan that their estimate of decommissioning costs would be reviewed and updated periodically. In 1994, the owners conducted a review of decommissioning costs. The results estimated CPS' share of decommissioning costs at approximately $270 million in 1994 dollars, which also exceeded NRC minimum requirements. In 1999, the owners conducted an additional review of decommissioning, and results showed that CPS' share of decommissioning costs are now approximately $311 million in 1998 dollars.

In 1991, CPS started accumulating the decommissioning funds in an external trust, in accordance with the NRC's regulations. The Decommissioning Trust assets and related liabilities are included in CPS' financial statements as a component unit. At January 31, 2000, CPS has accumulated approximately $95.5 million of funds in the external trust. Based on the annual calculation of financial assurance required by the NRC, CPS' trust balance exceeded the calculated financial assurance amounts of $51.5 million at December 31, 1999 and $45.8 million at December 31, 1998. Based upon the 1994 decommissioning cost study, the annual levelized funding into the trust of $8.8 million for both 2000 and 1999 was expensed by CPS.

10. Lignite Mining Lease and Assignment Agreement

CPS has an agreement with the Aluminum Company of America (ALCOA) dated December 28, 1998 regarding CPS' lignite reserves in Bastrop and Lee Counties, Texas. ALCOA began making advance royalty payments to CPS under the agreement in January, 1999. The base term of the agreement runs through 2013. ALCOA has the option to exercise six additional five-year extensions of the agreement. Thus, if ALCOA exercises all six extensions, the agreement will remain in effect until 2043. The agreement provides for royalty payments to CPS based on the amount of lignite mined by ALCOA, subject to certain minimum amounts per year once mining has commenced. The current estimate of the amount of the lignite to be mined by ALCOA under the agreement is 180 million tons over a 30-year period, although ALCOA may mine more or less than this amount. CPS will amortize the basis of the lignite at approximately $18.8 million as royalty payments are received.

11. Joint Operations Agreement

A 1997 Joint Operations Agreement resulted from the litigation settlement with Reliant Energy, formerly known as Houston Lighting & Power, over its management of STP during the construction and early operating periods. The Joint Operations Agreement is an arrangement to jointly dispatch CPS' and Reliant's generating plants to take advantage of the most efficient plants and favorable fuel prices of each utility. CPS receives, in monthly cash payments, ninety percent of the savings realized from the jointly operated systems. This joint operation agreement must result in at least $10 million in cumulative savings per year to CPS, or Reliant will make up the difference in cash. A similar payment will be made by Reliant to ensure benefits to CPS of $150 million in savings during the ten-year life of this agreement. As of January 31, 2000, CPS' total cumulative savings were $65.0 million.

The CPS Board authorized that the funds be segregated until a formal plan for their use is adopted. In December 1997, the CPS Board preliminarily committed a portion of the total joint operations savings to partially fund the construction of a new combined cycle facility. In October 1998, CPS initiated full construction of this new facility named the Arthur von Rosenberg Power Plant, and began using the joint operations savings to fund this construction.

12. Commitments and Contingencies

In the normal course of business, CPS is involved in legal proceedings related to alleged personal and property damages, breach of contract, condemnation appeals and discrimination cases. In addition, CPS power generation activities and other utility operations are subject to extensive state and federal environmental regulation. In the opinion of management of CPS, the outcome of such proceedings will not have a material adverse effect on the financial position or results of operations of CPS.

Purchase and construction commitments amounted to approximately $ 1.1 billion at January 31, 2000. This amount includes approximately $573.8 million that is expected to be paid for natural gas purchases to be made under the contract currently in effect through the June 2002; the actual amount to be paid will depend upon CPS' actual requirements during the contract period and the price of gas. Commitments also include $70.2 million for pipeline quality gas to be produced from the City of San Antonio "Nelson Gardens" landfill under the contract which is currently in effect through the year 2017. Also included is $9.4 million for coal purchases through December 2000, $127.5 million for coal transportation through December 2004, and $8.8 million for treated cooling water through December 2005, based upon the minimum firm commitment under these contracts.

Additional purchase commitments at January 31, 2000, which are related to STP, include approximately $70.7 million for raw uranium, associated fabrication and conversion services. This amount represents services that will be needed for refueling during the next two fiscal years.

The Public Utility Commission (PUC) of Texas has promulgated new rules designed to comply with legislative changes affecting the utility industry. The Transmission Pricing and Access Rule (Rule) mandates that electric utilities charge customers for wholesale open transmission access according to a formula based on a single statewide fee. This rate structure potentially will cost CPS $20 to $25 million per year in additional transmission costs that will effectively subsidize competing utilities with higher transmission costs. Under a phased-in feature of this plan, CPS' costs for calendar years 1997, 1998, and 1999 were approximately $1.3, $1.4, and $5.9 million respectively.

CPS challenged the initial Rule's validity in State District Court. CPS also filed an appeal from the PUC's determination as to the level of transmission costs CPS may recover under the PUC's Rule. CPS appealed the State District Court's opinion upholding the Rule's validity, and the court of Appeals overturned the District Court's decision. The case will likely be appealed by the Attorney General to the Texas Supreme Court. The State District Court upheld the PUC's determination of the level of transmission cost for CPS, but a favorable decision in the rule challenge case could effectively overturn this decision as well. These cases will have only a limited effect on the impact of the PUC's current Rules.

13. Segment Information

	2000			1999		
	Electric	Gas (In thousands)	Total	Electric	Gas (In thousands)	Total
OPERATING REVENUE	$ 933,629	$ 107,020	$1,040,649	$ 909,639	$ 114,237	$1,023,876
EXPENSES:						
Operating and maintenance expenses	437,755	81,135	518,890	411,756	82,686	494,442
Regulatory transition assessment	2,024	—	2,024	2,083	—	2,083
Survey and investigation costs – lignite mine site	—	—	—	3,557	—	3,557
Depreciation	151,593	13,585	165,178	155,294	12,392	167,686
Total expenses	591,372	94,720	686,092	572,690	95,078	667,768
OPERATING INCOME	$ 342,257	$ 12,300	354,557	$ 336,949	$ 19,159	356,108
Interest and other income			39,320			57,528
Net interest and debt expense			(161,043)			(181,374)
NET INCOME BEFORE EXTRAORDINARY COSTS FOR CASH DEFEASANCE OF DEBT			232,834			232,262
Extraordinary costs for cash defeasance of debt…			—			(24,900)
INCOME BEFORE OPERATING TRANSFERS			232,834			207,362
Payments to the City's General Fund			(145,474)			(144,555)
NET INCOME			$ 87,360			$ 62,807
CAPITAL EXPENDITURES	$ 349,346	$ 82,650	$ 431,996	$ 246,781	$ 39,074	$ 285,855
ASSETS:						
Plant in service, net of accumulated depreciation:						
Production – all STP facilities	$1,557,245		$1,557,245	$1,613,854		$1,613,854
Production – other facilities	615,841		615,841	652,882		652,882
Transmission facilities	194,728		194,728	190,571		190,571
Distribution facilities	850,406	$ 266,433	1,116,839	765,435	$ 237,308	1,002,743
General facilities	46,720	15,593	62,313	43,156	13,081	56,237
Subtotal net plant in service	3,264,940	282,026	3,546,966	3,265,898	250,389	3,516,287
Identifiable construction work in progress	250,553	50,428	300,981	127,883	21,776	149,659
Nuclear fuel, net of accumulated amortization	39,152		39,152	36,602		36,602
Held for future use Utility & Property Leased	31,312		31,312	31,384		31,384
Total identifiable utility plant	$3,585,957	$ 332,454	3,918,411	$3,461,767	$ 272,165	3,733,932
Net common utility plant and common CWIP			215,796			195,773
Total net utility plant			4,134,207			3,929,705
Other identifiable assets	$ 283,899	$ 6,642	290,541	$ 246,639	$ 15,309	261,948
Total identifiable assets and common plant/CWIP			4,424,748			4,191,653
Unidentifiable assets			581,021			728,624
TOTAL ASSETS			$5,005,769			$4,920,277
TOTAL EQUITY AND LIABILITIES			$5,005,769			$4,920,277
NET WORKING CAPITAL			$ 146,752			$ 112,018

City
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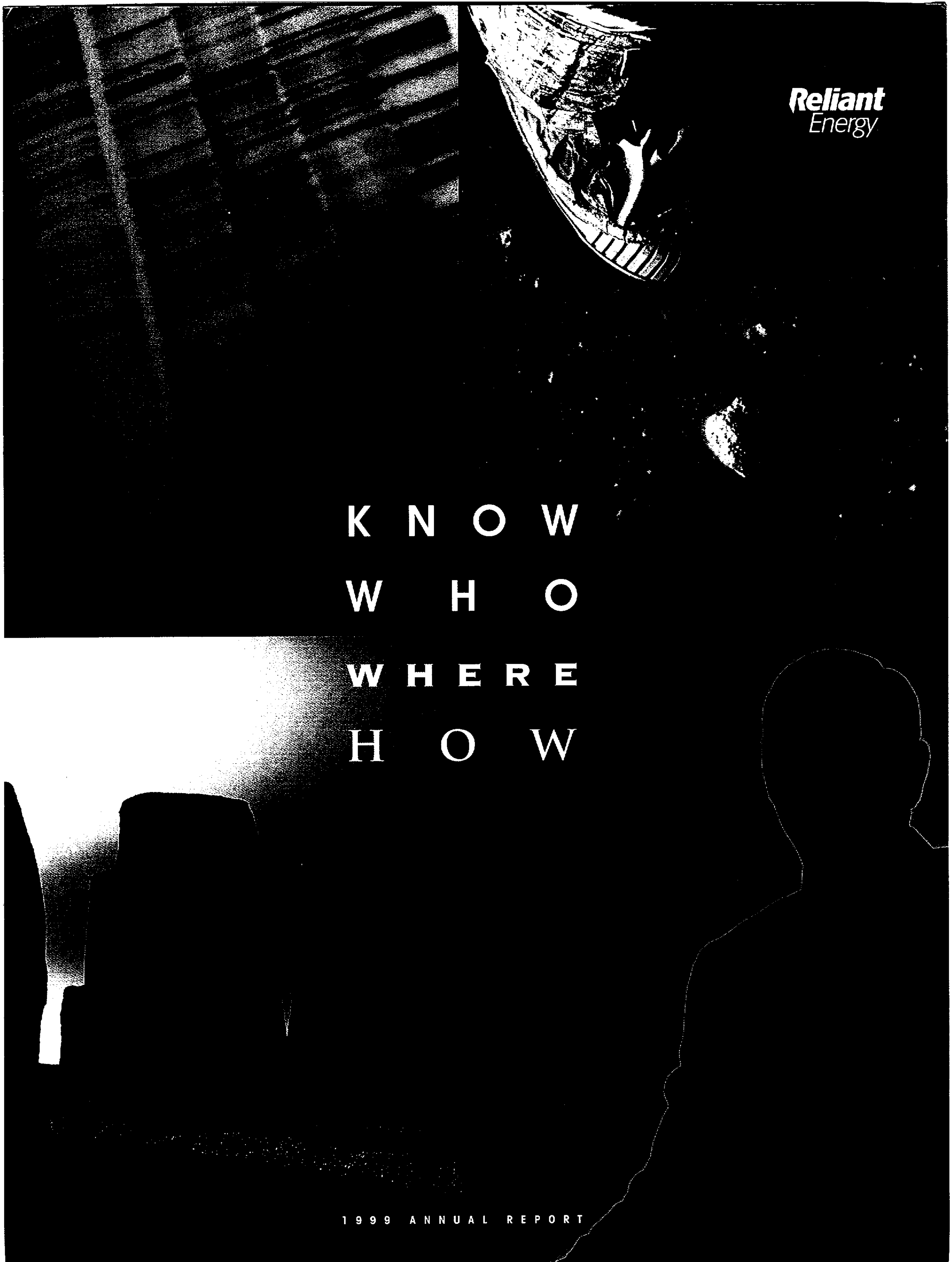

Reliant Energy

KNOW WHO WHERE HOW

1999 ANNUAL REPORT

Financial Highlights

	1999 (1)	1998	1997 (1)
	(Thousands of Dollars, Except Per Share Amounts)		
Revenues	$ 15,302,810	$ 11,488,464	$ 6,878,225
Operating Income	$ 1,240,514	$ 1,465,818	$ 1,055,046
Net Income (Loss), As Reported	$ 1,482,081	$ (141,482)	$ 420,948
Net Income, As Adjusted (2)	$ 601,474	$ 622,417	$ 463,284
Common Stock, Per Share			
Earnings Attributable to Common Stockholders, As Reported:			
Net Income (Loss) Attributable to Common Stockholders, Basic	$ 5.20	$ (0.50)	$ 1.66
Net Income (Loss) Attributable to Common Stockholders, Diluted	$ 5.18	$ (0.50)	$ 1.66
Earnings Attributable to Common Stockholders, As Adjusted (2):			
Net Income Attributable to Common Stockholders, Basic	$ 2.11	$ 2.19	$ 1.83
Net Income Attributable to Common Stockholders, Diluted	$ 2.10	$ 2.19	$ 1.83
Book Value	$ 18.70	$ 15.16	$ 17.28
Market Value – Year End	$ 22.88	$ 32.06	$ 26.75
Dividends	$ 1.50	$ 1.50	$ 1.50
Capitalization			
Long-term Debt (Excludes Current Maturities)	$ 4,961,310	$ 6,800,748	$ 5,218,015
Trust Preferred Securities	$ 705,272	$ 342,232	$ 362,172
Preferred Stock	$ 9,740	$ 9,740	$ 9,740
Common Stock Equity	$ 5,296,592	$ 4,312,128	$ 4,886,805
Total Capitalization	$ 10,972,914	$ 11,464,848	$ 10,476,732
Total Assets	$ 26,220,936	$ 19,138,522	$ 18,445,606
Capital Expenditures, Net of Capitalized Interest and AFUDC	$ 2,892,597	$ 1,480,895	$ 1,986,248
Price to Earnings Ratio, As Adjusted (2)	10.8	14.6	14.6
Common Stock Outstanding (000) (3)	283,308	284,494	282,875
Number of Common Stockholders	81,903	86,419	89,330
Number of Employees	14,256	12,916	12,714

(1) Reflects the effects of UNA acquisition and NorAm Energy acquisition from October 1999 and August 1997, respectively.

(2) Net income has been adjusted for a $409 million, $764 million and $79 million non-cash, unrealized accounting loss on indexed debt securities for 1999, 1998 and 1997, respectively. Net Income for 1999 has also been adjusted for a $1.575 billion unrealized gain on the Company's investment in Time Warner common stock, a $102 million loss related to the devaluation of the Brazilian real and a $183 million extraordinary loss for the accounting impairment of certain electric operations' generation-related regulatory assets. Net income for 1998 includes an $80 million gain on the sale of an Argentine utility. Net income for 1997 has also been adjusted for interest income of $37 million related to the settlement of a federal income tax dispute.

(3) Excludes Treasury Stock of 3,624,618 shares and 102,805 shares at December 31, 1999 and 1998, respectively. Also excludes ESOP shares of 10,679,489 and 11,674,063 at December 31, 1999 and 1998, respectively.

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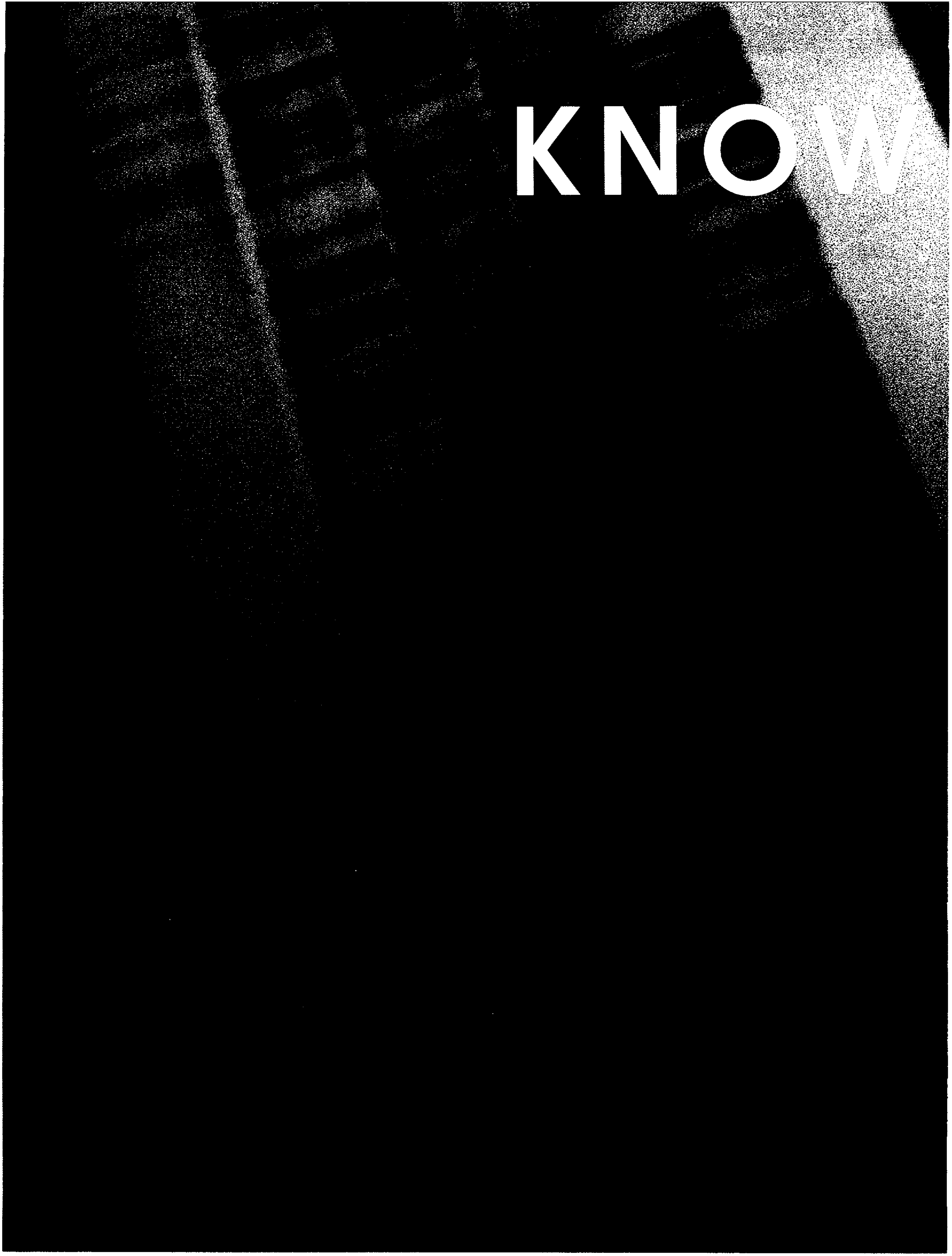
In the evolving energy industry, Reliant Energy is positioning itself to capitalize on new business opportunities. This 1999 annual report is designed to answer some fundamental questions about our businesses and our strategies.

Who are we?

Where are we going?

How will we get there?

Reliant Energy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WHO WE ARE. *Reliant Energy is an international energy delivery and energy services company.*

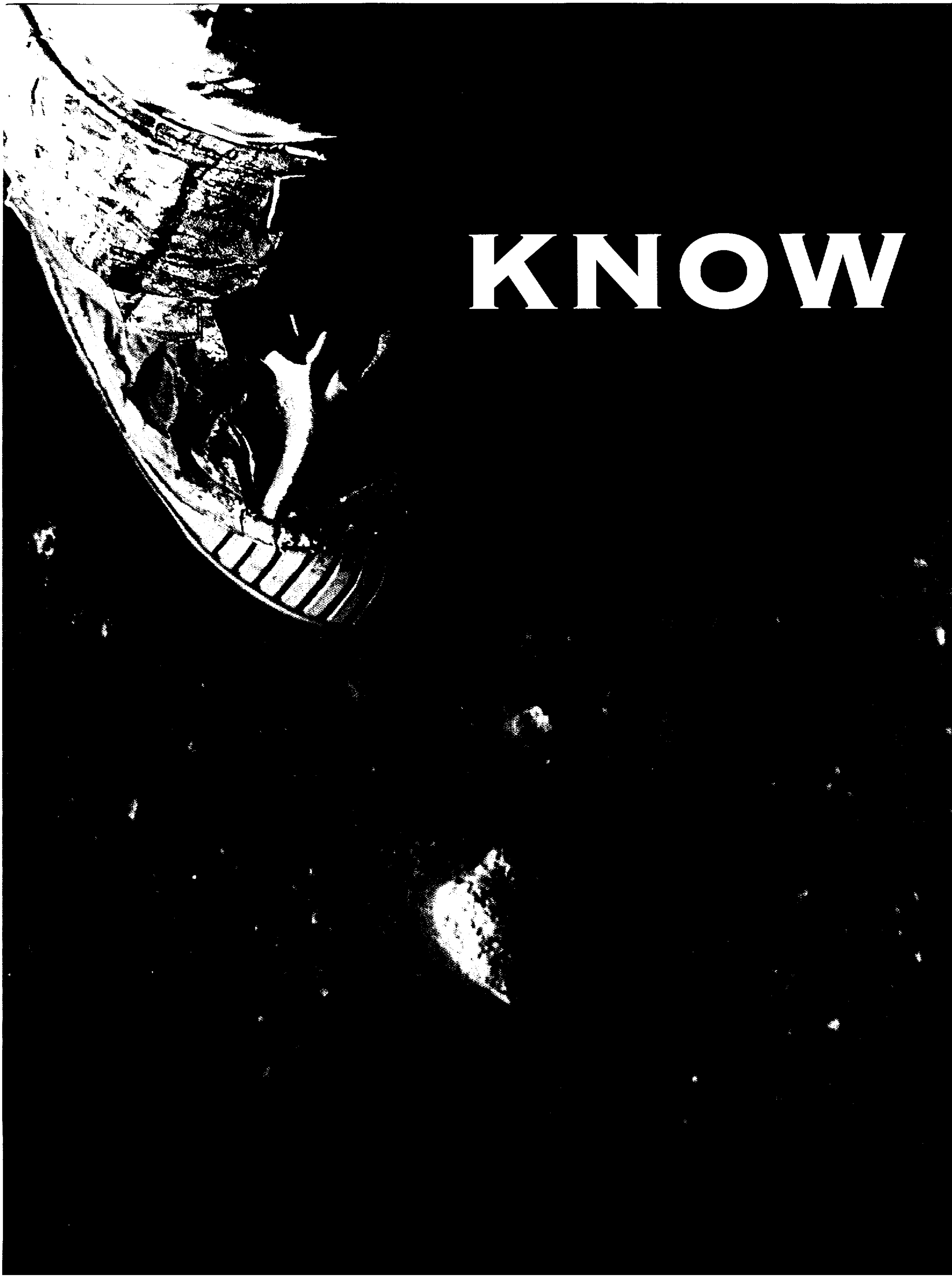
Our energy delivery activities include electricity and natural gas distribution, electricity transmission and natural gas pipelines – businesses which will remain regulated as our industry undergoes restructuring. We serve nearly 4 million electricity and natural gas customers in six states and have ownership interests in systems serving nearly 10 million customers in Latin America.

Our energy services business employs multiple resources and capabilities to develop innovative energy products and services for customers in the U.S. and Western Europe. Our wholesale energy trading, marketing and risk management business is among the nation's top five in combined electricity and natural gas volumes. We also have nearly 19,000 megawatts of electric generation in operation in the U.S. and have announced development projects and acquisitions that will add more than 8,300 megawatts in key regions of the country. During 1999, we expanded our energy services business into Europe by acquiring N.V. UNA, a Dutch power generation company with 3,400 megawatts of capacity, and by launching a European energy trading and marketing operation.

Energy services is a competitive business that is developing as electric and natural gas markets deregulate, with the wholesale market developing first. Reliant Energy has wholesale energy services operations across the U.S., in Canada and in Europe. On the retail level, Reliant Energy is preparing for a competitive market in Texas beginning January 1, 2002.

During 1999, more than 90 percent of Reliant Energy's operating income came from its regulated businesses. Its common stock was viewed primarily as an income investment.

Every living organism has its own unique profile. In humans, animals and plants, this unique identity is carried and defined by genetic material called DNA. These individual traits and strengths allow us to thrive, to compete and to succeed.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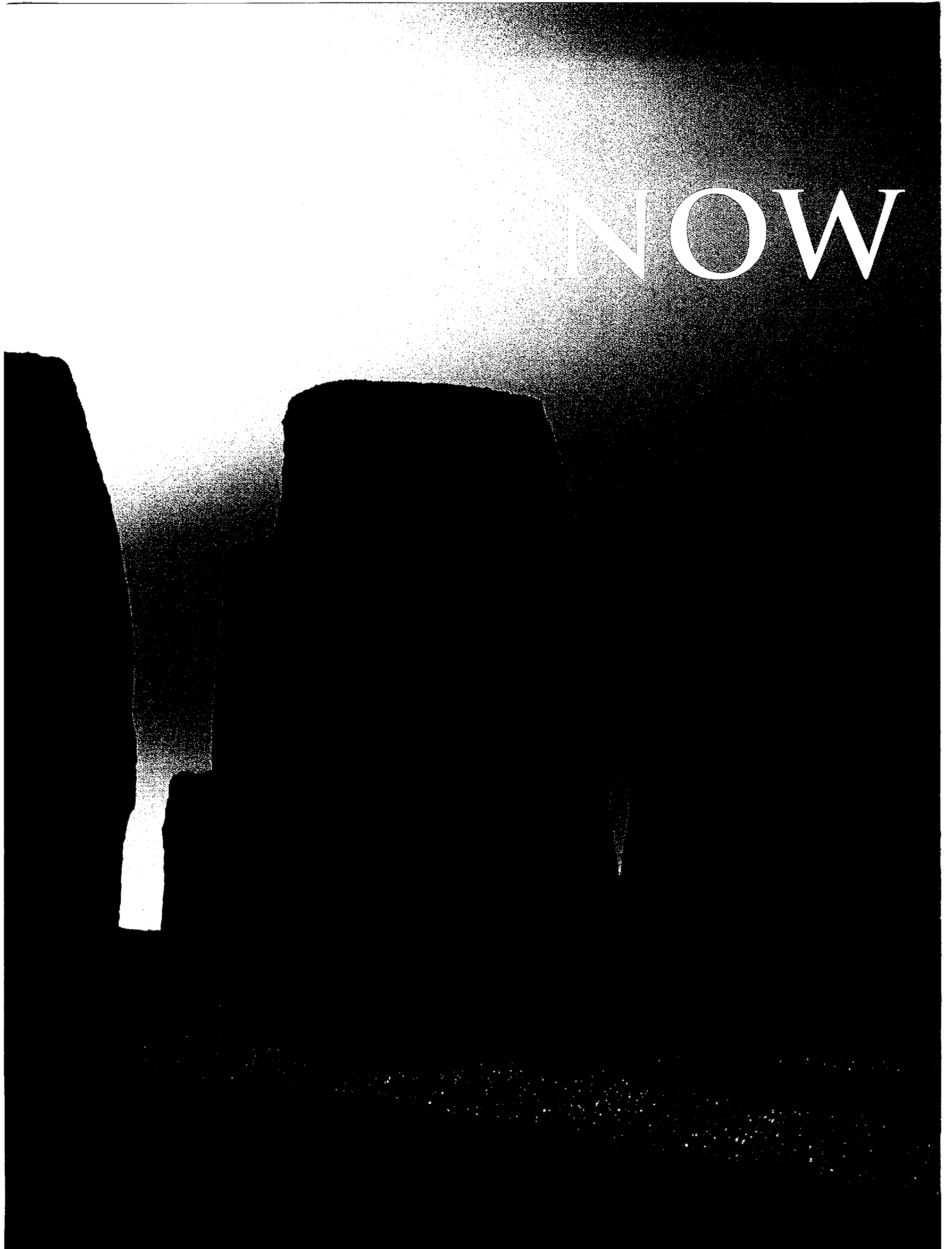
WHERE WE ARE GOING. *Reliant Energy's vision is to transform the company into a skills-based energy services provider deriving the majority of its earnings from competitive businesses with attractive growth rates and returns. We are focusing on key markets in the U.S. and Western Europe where industry restructuring is creating an attractive environment for our asset-backed energy trading and marketing strategy.*

By 2004, we plan to have a wholesale network in the U.S. including a generation portfolio of more than 40,000 megawatts, providing a strong presence in the West, Southwest, Midwest, Mid-Atlantic, Texas and Florida. In addition, we expect to be among the nation's top three energy trading and marketing companies. In Europe, we will leverage off our U.S. wholesale capabilities to build businesses in the Netherlands and Germany with likely expansion into other Western European countries.

Our retail energy services business will grow dramatically on January 1, 2002, when Texas opens its electricity market to competition. On that date, our unregulated retail affiliate will gain up to 1.7 million customers who do not choose another electricity provider. Our initial emphasis will be to build a retail energy business in Texas and expand to other attractive regions in the U.S. through acquisitions and alliances. We will leverage our access to customers by building telecommunications networks and developing Internet and technology opportunities.

In 2004, we estimate that 70 percent of our operating income will come from unregulated businesses, and we expect our stock to become increasingly attractive to growth-oriented investors.

When Neil Armstrong stepped on the moon in 1969, it was one of the defining moments of the twentieth century. America was inspired to accomplish this feat, in part, by the promise made by John F. Kennedy in 1961 when he declared that we would go there.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HOW WE WILL GET THERE. *We will become a skills-based company by focusing our capital and human resources on building our energy services business in the U.S. and Western Europe. This will require adjusting our existing portfolio to support the development of our energy services businesses. We are currently evaluating the sale of our Latin American investments, which are primarily energy delivery companies, and we are considering strategic alternatives related to our natural gas pipeline operations and two of our natural gas distribution companies. As markets evolve, we will continue to refocus our portfolio to advance our financial and strategic objectives.*

We are investing in generating and other strategic assets, systems for serving customers and managing risks, and in the people who have the commercial skills, experiences and imagination to create value in the restructuring energy marketplace.

In preparation for retail competition in Texas, we are building marketing skills and systems to retain our valued customers, to expand in other attractive markets and to offer additional services such as telecommunications and other bundled offerings.

We will make these vital investments on a scale and at a pace that also allows us to meet our earnings target, which we recently adjusted upward to 10 to 12 percent annual growth in earnings per share.

Between 2000 and 1500 B.C., ancestors of the inhabitants of Great Britain erected Stonehenge, a choreographed constellation of stones, some weighing over 50 tons each. Though the technology to accomplish this was not apparent for centuries, the builders had the know-how to complete this mammoth project.

KNOW

Dear Fellow Shareholder:

At the dawn of a new millennium, we are in an era of dramatic growth and remarkable change for both the energy industry and Reliant Energy. As your new chairman and CEO, I am excited about the opportunities that change is creating for our company. At the same time, I recognize the challenges that you as an investor face in determining what the future will bring and which companies will emerge as winners. Reliant Energy intends to remain a leader as our industry evolves, and we have a clear vision of how we will accomplish that objective. We want you to share our vision and optimism about the future, so we are devoting this annual report to telling you who we are today, where we are going and how we will get there.

In 1999, we made significant progress that will help to define the direction and prospects for our company well into the future.

- We surpassed our goal of 8 to 10 percent growth in adjusted earnings per share despite less than optimum business conditions. Our adjusted earnings were $601 million, or $2.11 per share, representing a 10.5 percent increase over 1998.

- We championed passage of fair and realistic electric deregulation legislation in Texas. The bill that was enacted into law will establish a competitive electric market on January 1, 2002, and will create a solid framework for our business in Texas.

- As part of electric restructuring in Texas, our unregulated retail affiliate will gain up to 1.7 million current Reliant Energy HL&P/Entex electric customers who do not choose another electricity provider. In preparation for competition, we are creating the marketing skills and systems to serve our valued customers and to expand in Texas and other attractive markets.

- Our electric and natural gas distribution companies are building customer loyalty through an increased focus on reliability and customer satisfaction. Reliant Energy HL&P/Entex achieved the best electric system reliability performance in the company's history.

- We created a strong new corporate brand identity that helps to leverage our size and reputation. The Reliant Energy brand name, announced in February 1999, provides a premium position from which to expand in unregulated markets.

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► We advanced our asset-backed wholesale energy trading and marketing strategy in the U.S. with new acquisitions and projects that, over the next several years, will add more than 8,300 megawatts to our current non-regulated generating portfolio of 4,700 megawatts. With an additional 14,000 megawatts in Texas that will be deregulated on January 1, 2002, Reliant Energy will be one of the largest generators in the U.S. and will be uniquely positioned to realize value from these assets using our trading and marketing abilities.

Operating Income (Loss) by Segment

Twelve Months Ended December 31, (in millions)	1999 Actual	1998 Actual
Electric Operations	**$ 981**	$ 1,002
Natural Gas Distribution	**125**	145
Interstate Pipelines	**113**	128
Wholesale Energy	**45**	59
Reliant Energy Europe	**32**	–
Reliant Energy Latin America	**79***	182**
Corporate	**(32)**	(50)
Total Consolidated	**$ 1,343**	$ 1,466

**Excludes a $102 million charge due to the devaluation of the Brazilian real.*
***Includes a $138 million gain on the sale of an Argentine electric system.*

► We significantly increased our physical trading and marketing volumes in 1999 to 5 billion cubic feet of natural gas per day and 112 million megawatt-hours of electricity. More importantly, we increased the profitability of our trading and marketing operations. We also have expanded our financial trading and risk management services.

► We gained a presence in Europe by acquiring N.V. UNA, a Dutch power generating company with 3,400 megawatts of capacity, and establishing a European energy trading and marketing operation. This acquisition provides us with an opportunity to replicate our U.S. wholesale strategy.

► While our primary focus is on the evolving energy business, we also are identifying new growth platforms. In 1999, we launched a telecommunications business. We are investing in energy-related technology through both venture capital funds and direct investments in start-up companies. In addition, we are establishing e-business capabilities to capitalize on existing customer relationships and the explosive growth of the Internet.

► In February 2000, we announced an agreement to acquire 4,276 megawatts of generation in Pennsylvania, New Jersey and Maryland (PJM), increasing our wholesale merchant position in the Mid-Atlantic region. The PJM assets are a key component in allowing us to increase our earnings growth expectation to 10 to 12 percent annually.

Energy

► We advanced our asset-backed wholesale energy trading and marketing strategy in the U.S. with new acquisitions and projects that, over the next several years, will add more than 8,300 megawatts to our current non-regulated generating portfolio of 4,700 megawatts. With an additional 14,000 megawatts in Texas that will be deregulated on January 1, 2002, Reliant Energy will be one of the largest generators in the U.S. and will be uniquely positioned to realize value from these assets using our trading and marketing abilities.

Operating Income (Loss) by Segment	1999 Actual	1998 Actual
Electric Operations	$ 981	$ 1,002
Natural Gas Distribution	125	145
Interstate Pipelines	113	128
Wholesale Energy	45	59
Reliant Energy Europe	32	–
Reliant Energy Latin America	79*	182**
Corporate	(32)	(50)
Total Consolidated	$ 1,343	$ 1.466

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**Includes a $138 million gain on the sale of an Argentine electric system.

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Stock Performance

The greatest disappointment of 1999 was the decline in our stock price, which echoed the performance of many other companies in our industry. Despite our increasing diversification, the majority of our earnings still come from our regulated electric operations, and electric utility stocks were very much out of favor during 1999. Concerns about continued hikes in interest rates as a result of inflation fears and the flow of capital into technology and Internet stocks contributed to the price declines.

In addition, uncertainty about what strategies will succeed in a restructured electric industry has put pressure on electric stocks. We recognize the need to establish a track record in the new competitive energy arena, and we are optimistic that successful execution of our strategy will ultimately lead to a superior market valuation.

Our View of the Future

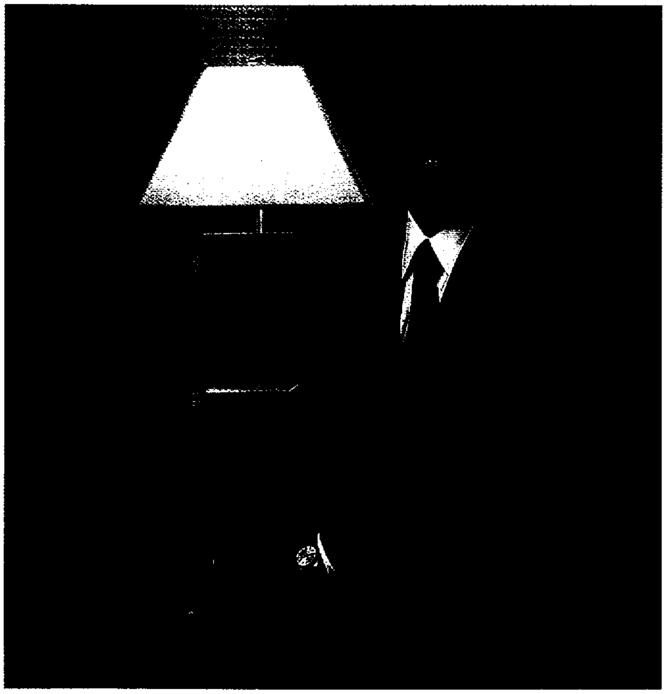
Reliant Energy has a once-in-a-lifetime opportunity to participate in the restructuring of a major industry, and we are investing to take full advantage of the unprecedented possibilities that are opening to us. We anticipated industry restructuring. We began investing early in the people and assets we will need to maintain a leadership position, and we are taking a disciplined approach to investment decisions.

Over the last three years, we have substantially transformed Reliant Energy, and that transformation will continue. During 1999, we redefined the company in many respects, and we developed focused but flexible strategies that allow us to move quickly – as we did in making the UNA acquisition – when our environment changes or opportunities arise.

Our goal is to be a skills-based energy services provider deriving the majority of our earnings from competitive businesses with attractive growth rates. This is in sharp contrast to the asset-driven utility that was our business for most of our history. We will continue to build the commercial skills and talent we need to act quickly and effectively in a changing marketplace. We will use these skills to identify and execute new growth opportunities in businesses where we can differentiate ourselves, leverage our unique set of skills and create shareholder value.

Electric restructuring in the U.S. and Europe has created excellent opportunities to combine industry-leading commercial skills with advantaged asset positions. We are placing the highest geographic priority on the U.S., which is the world's largest energy market. The energy industry in Western Europe is opening and evolving in much the same direction as it is in the U.S.

In late 1999, we decided to evaluate the sale of our interests in Latin America, which are primarily energy delivery businesses. These are attractive properties in markets with excellent growth potential, and we anticipate they will be of interest to companies seeking to enter or expand in Latin America. Recently, we announced a review of strategic alternatives related to our natural gas pipeline operations and two of our natural gas distribution companies. We are refocusing our portfolio in order to channel our capital and human resources where we can create the greatest value, and these businesses do not fit well with the strategies I outlined above.



The End of an Era

I must personally say thanks to the man who led Reliant Energy as it became one of the largest energy delivery and energy services companies in the U.S. After 44 years of service, Don D. Jordan, the remarkable visionary who headed Reliant Energy for nearly a quarter century, retired as CEO and chairman of the board in 1999.

Throughout his career, Don's ability to look to the future and his willingness to change and adapt characterized his leadership. Don can take great pride in being the lead architect of the transformation this company has already undergone, and for laying the foundation for much of the success we will experience in the future.

Future Directions

I am pleased with the events and accomplishments of 1999 that provide a solid base on which we will build our future. But I recognize we have a great deal of work ahead to meet the challenges and profit from the opportunities presented by industry restructuring. We will continue moving the company forward during 2000, through execution of the strategies we have developed, consistent achievement of the goals we have set, and effective communication of our plans and progress.

Reliant Energy is evolving. As we use the strategic assets and intellectual capital we are accumulating to build a track record, I am confident that the market will recognize and reward our evolution from an asset-driven utility to a skills-based energy services provider performing in a competitive environment.

Sincerely,

R. Steve Letbetter

R. Steve Letbetter
Chairman, President and CEO

ENERGY Delivery

WHO WE ARE

Reliant Energy's "energy delivery" companies are its most traditional businesses – electricity transmission, natural gas transportation and the distribution of electricity and natural gas. These are asset-based businesses that will remain regulated in the evolving energy industry.

Reliant Energy's domestic electricity and natural gas distribution companies serve nearly 4 million customers in six states. The company's two interstate natural gas pipelines together form one of the largest natural gas pipelines in the mid-continent U.S. Reliant Energy Latin America has ownership interests in electric and natural gas distribution companies that serve more than 10 million customers in Central and South America.

WHERE WE ARE GOING

Our energy delivery businesses produce earnings and cash flow that provide a solid financial foundation. We will maximize the economic and strategic value of our core delivery assets while considering the divestiture of assets that do not advance our financial or strategic objectives. Toward that end, we are evaluating the sale of our Latin American investments and are considering strategic alternatives for our natural gas pipelines and two of our natural gas distribution companies.

HOW WE WILL GET THERE

We will maximize the economic value of our energy delivery assets through skillful, cost-efficient operations, positive relationships with regulators and a keen understanding of the market and regulatory conditions for each state in which we operate. We will maximize the strategic value derived from the reputation and relationships of our energy delivery companies by maintaining our tradition of superior service and reliability.

ENERGY DELIVERY EARNINGS The company's energy delivery businesses report earnings under four business segments: electric operations, natural gas distribution, interstate pipelines and Reliant Energy Latin America.

Electric Operations Reliant Energy continued to show strong customer growth in its electric service territory during 1999. However, its electric operating income decreased to $981 million compared to $1,002 million in 1998. The decrease resulted from milder weather, additional base electric rate credits and higher franchise taxes. Operating income does not include a $183 million after-tax extraordinary loss that the company recorded in the fourth quarter of 1999 related to the accounting impairment of certain regulatory assets.

Natural Gas Distribution The natural gas distribution segment reported 1999 operating income of $125 million compared with $145 million the previous year. The decrease was primarily due to one-time expenses.

Interstate Pipelines Interstate pipelines' 1999 operating income was $113 million, compared to $128 million for the same period of 1998. The decrease was primarily due to non-recurring items in 1998 that had a positive effect on earnings for that year.

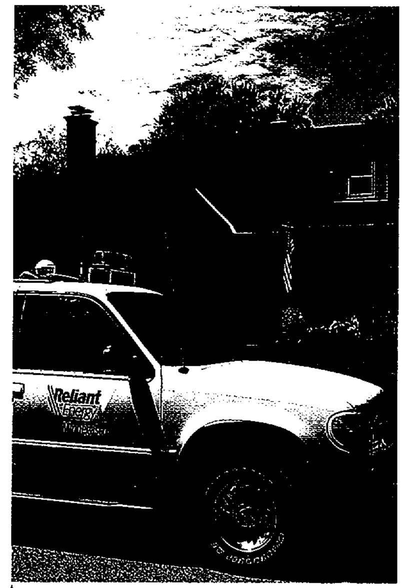
Reliant Energy Latin America The Reliant Energy Latin America segment's adjusted operating income was $79 million, excluding a $102 million charge due to the devaluation of the Brazilian real. This compares to 1998 operating income of $182 million, which included a $138 million pre-tax gain on the sale of an Argentine electric distribution system.

RELIANT ENERGY DELIVERY GROUP Reliant Energy's Delivery Group includes its U.S. electricity and natural gas distribution companies, Reliant Energy HL&P/Entex, Reliant Energy Entex, Reliant Energy Arkla and Reliant Energy Minnegasco. Together these companies serve nearly 4 million customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. Each of these companies dates back more than 100 years and is well established and highly regarded within its service territory. Reliant Energy created the Delivery Group in March 1999 to streamline the operation of its electricity and natural gas distribution business, enhance efficiency and share best practices.

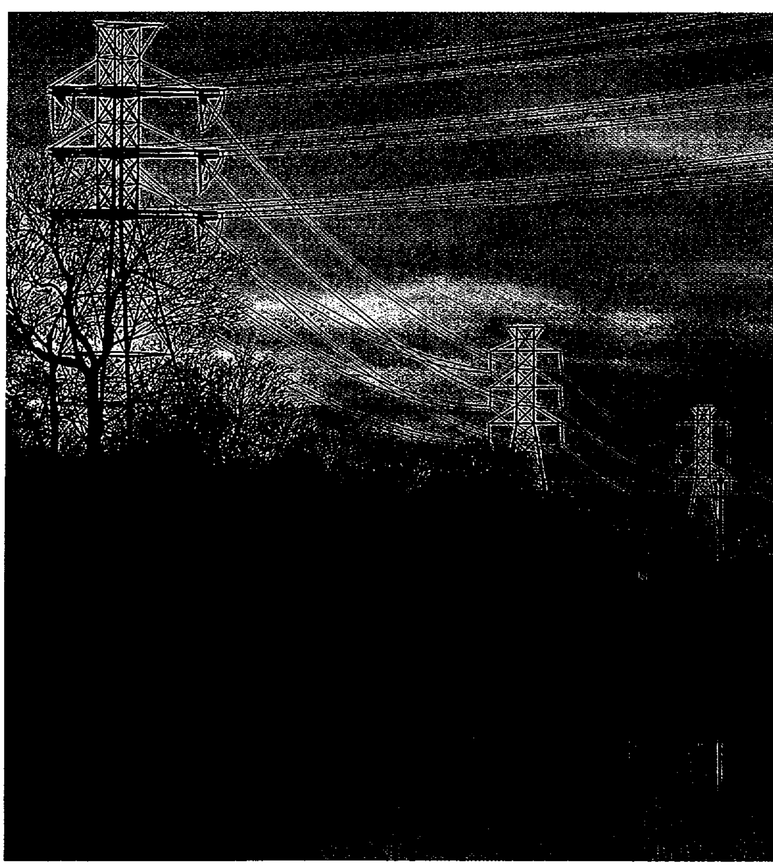
Improving Efficiency The formation of the Delivery Group followed a comprehensive study by cross-company teams of employees who examined virtually all areas of operations to identify opportunities that would add value and improve service for customers.

The reorganization that followed included the creation of a new distribution company – Reliant Energy HL&P/Entex – which combines electric and natural gas operations in Houston and surrounding areas where the two have overlapping territories. The new organization improves the quality and convenience of service provided to customers and takes advantage of unified facilities, joint meter reading and common computer systems. The company also established several centralized support groups for functions such as engineering, training and safety, and credit. These initiatives created economies of scale and eliminated redundant activities.

Reliant Energy Arkla and Reliant Energy Minnegasco also restructured business operations to improve efficiency and consolidate business



Reliant Energy Minnegasco became the first natural gas utility in the world to connect new light-sensing detection equipment with a computer program that electronically records leak survey data on maps. The Automated Leak Detection System reduces paper, speeds analysis and makes it easier to generate government-mandated reports.



Texas Governor George W. Bush and the Texas Natural Resources Conservation Commission awarded the 1999 Texas Environmental Excellence Award in the large business category to Reliant Energy in recognition of the company's efforts to restore damaged wetlands along Clear Creek near Galveston Bay.

functions. By implementing a new routing and dispatching system that is based on location rather than type of work, Reliant Energy Arkla's service technicians increased the number of service orders worked by approximately 20 percent. Reliant Energy Minnegasco combined new customer construction with system repair and maintenance functions to use resources more efficiently and improve work planning.

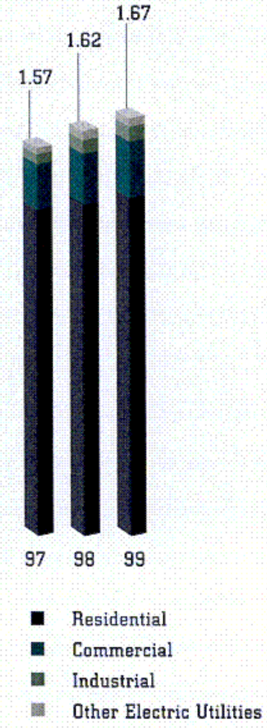
Improving Customer Satisfaction and Perception Each of Reliant Energy's distribution companies has programs in place to improve customer service.

In 1999, Reliant Energy HL&P/Entex implemented its Best Practices initiative to enhance communications with customers, improve scheduling and work management, and provide advanced employee training. The company also is expanding its use of the Internet to provide information to electric and gas customers about a number of payment options that help customers manage their bills and enhance customer satisfaction.

Reliant Energy Minnegasco developed and introduced an interactive Internet service in September 1999 that allows residential and business customers to access account information and other services online. Customers can log on and review their bills for balance, due date, usage history and other information, as well as sign up for various billing and payment plans.

Reliant Energy Arkla is maximizing opportunities to communicate with customers and to increase gas usage through front-line employees' daily customer contacts. This "single point of contact" philosophy includes a trade ally network – retailers who sell and service gas appliances – to help meet customers' needs. By the end of 1999, approximately 6,300 additional

Electric Customers
(in millions)



Sponsorship of high-profile community events such as Reliant Energy's Power of Houston have helped the company build positive awareness of the Reliant Energy name announced in February 1999.

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gas-burning appliances were purchased by Reliant Energy Arkla's existing customer base. The company's enhanced customer service initiatives received national recognition in an article on best practices for utilities and energy companies published in *Chartwell's*.

In a return to basic marketing strategies designed to increase customer usage, Reliant Energy Entex is promoting products such as gas water heaters, gas heating and gas lighting. This effort included the creation of a web site designed to encourage builders to install gas products.

Corporate Citizenship Community service and corporate giving has always been a high priority for Reliant Energy. In 1999, company employees gave more than 64,000 volunteer hours to programs and organizations in the areas served by the company. Among the widely-recognized organizations to which the company provided volunteers and/or financial support are the March of Dimes, Habitat for Humanity, the United Way, Junior Achievement, the United Negro College Fund and the Houston Public Library Power Card Challenge.

Reliant Energy has also received numerous awards for its environmental efforts including the 1999 Coastal America Special Recognition Award for partnership efforts to restore and protect the coastal environment.

RELIANT ENERGY HL&P/ENTEX (operating in the Houston metropolitan area)

Electric Transmission and Distribution:

- Eighth-largest electric company in the United States in kilowatt-hour sales.
- 72.1 billion kilowatt-hours sold in 1999.
- 1.7 million customers in 1999, an increase of 50,000 over 1998.
- 5,000 square-mile service area in and around Houston and the Texas Gulf Coast.
- 37,000 miles of transmission and distribution lines.
- Exceeded system reliability targets and achieved the best reliability figures in company history, as measured by the System Average Interruption Duration Index.
- Named Best Substation Operator of the Year by PHB Hagler Bailly, consultants.

Natural Gas Distribution:

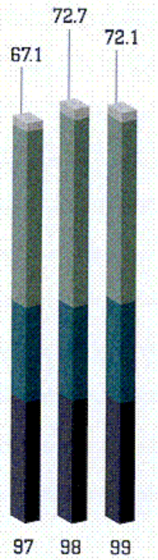
- Distributed 81.1 billion cubic feet of natural gas in 1999, down from 83.6 billion cubic feet in 1998.
- 907,000 customers in 1999, an increase of 16,000 over 1998.
- 13,000 miles of main lines and 9,000 miles of service lines in the Houston area.
- More than 1,600 active expansion projects at year end, indicating continued growth.
- More than 400 compressed natural gas (CNG) powered service trucks and passenger cars in operation in the service territory. Through its subsidiary, Reliant Energy Entex Fuels, Inc., the company designs, manufactures and installs CNG fueling systems for vehicle fleet customers. Reliant Energy Entex Fuels operates 13 CNG fueling stations in the Houston area.

RELIANT ENERGY ENTEX (operating outside the Houston metropolitan area)

Natural Gas Distribution:

- Distributed 58.3 billion cubic feet of natural gas in 1999, down from 59.6 billion cubic feet in 1998.
- 557,000 customers in 1999, an increase of 2,000 over 1998.

Electric Sales
(in billion kwh)



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- Serves more than 400 communities in the East Texas/ Beaumont, South Texas, Louisiana and Mississippi areas.
- More than 13,000 miles of main lines and 7,500 miles of service lines.

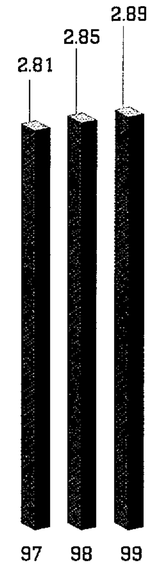
RELIANT ENERGY ARKLA

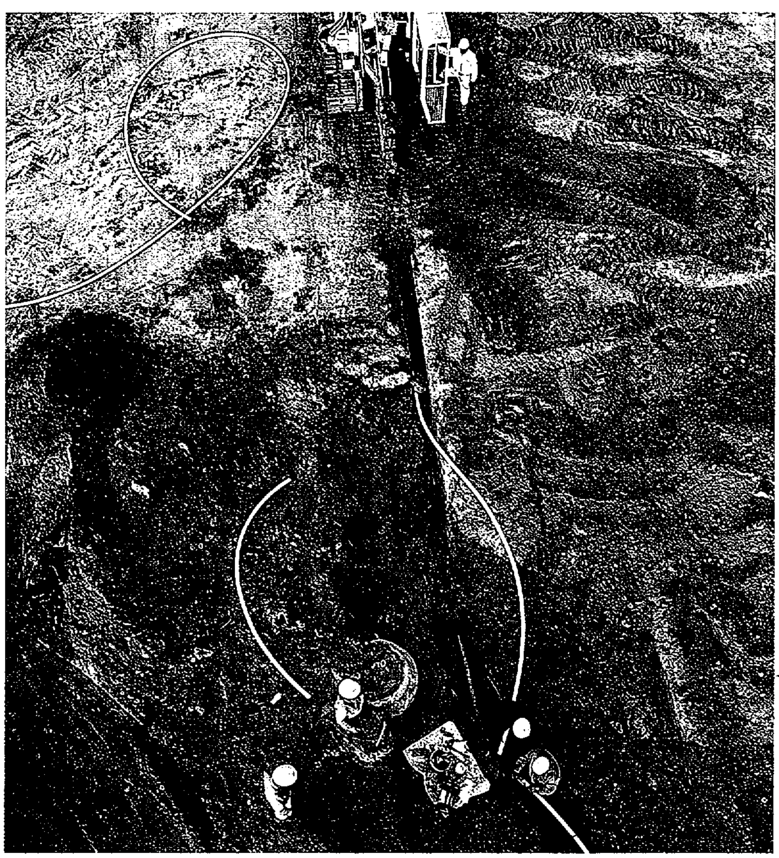
Natural Gas Distribution:
- Distributed 111.7 billion cubic feet of natural gas in 1999, slightly down from 112 billion cubic feet in 1998.
- 742,000 customers in 1999, an increase of 12,000 over 1998.
- Serves 621 communities in Arkansas, Oklahoma, Louisiana and Texas.
- 19,000 miles of main lines and 4,000 miles of service lines in operation.
- New customer information center in Shreveport opened in July 1999.

RELIANT ENERGY MINNEGASCO

Natural Gas Distribution:
- Largest natural gas distribution company in Minnesota.
- Distributed 138 billion cubic feet of natural gas in 1999, an increase of 7 billion cubic feet over 1998.
- 682,000 customers in 1999, an increase of 13,000 over 1998.
- Serves more than 240 communities with the largest concentration of customers in Minneapolis and its suburbs.
- 11,000 miles of main lines and 10,000 miles of service lines.
- Completed 63 industrial customer projects that added 2.5 billion cubic feet of throughput during 1999.
- Surpassed its 1999 target for automated meter reading of 96 percent and set a new high of 97.6 percent in December 1999.

Natural Gas Distribution Companies Total Customer Count at Year End
(in millions)





By merging business activities in the Houston metropolitan area, Reliant Energy HL&P/Entex has improved efficiencies. Joint trenching, for example, allows a single ditch to hold both natural gas and electric lines.

- Minnegasco® Home Service Plus® provides the following products and services to residential customers in Minnesota: repair and maintenance of heating and cooling equipment and appliances; sales of heating, air conditioning and hearth equipment; home security systems; and external home maintenance. In 1999, Home Service Plus® increased revenues by 16 percent.

NATURAL GAS TRANSPORTATION AND PIPELINE SERVICES

Reliant Energy owns two interstate pipelines, Reliant Energy Gas Transmission Company and Mississippi River Transmission Corporation. Together they form one of the largest natural gas pipelines in the mid-continent U.S. and move approximately one trillion cubic feet of gas per year. The company also provides operations and maintenance services to pipeline facilities across the nation.

INTERSTATE PIPELINES

Reliant Energy Gas Transmission Company and Mississippi River Transmission Corporation

- 8,200 miles of pipe.
- Transports up to 4.3 billion cubic feet of natural gas per day.
- Provides transportation, storage and related services to customers across Texas, Oklahoma, Kansas, Missouri, Louisiana, Arkansas and Mississippi.
- Operates compression in excess of 350,000 horsepower and six natural gas storage facilities.
- Directly serves 69 industrial customers with 340,000 MMBtu per day under contract.
- Developed and implemented a new hourly rate schedule in July 1999, allowing pipeline customers to enter into electronic transportation service agreements with Reliant Energy Gas Transmission for terms as short as one hour. The first of its kind, the tariff enables the pipeline to meet the load swing and peaking needs of customers.
- Directly connects to 5,180 megawatts of power generation facilities with a 127 percent increase in consumption since 1997.

PIPELINE SERVICES Reliant Energy's pipeline services group provides comprehensive solutions for construction, operation and maintenance of pipeline facilities, as well as project management services to various energy and end-use segments of the market. The company currently offers an array of project management and facility operations services in 11 states with potential projects in Argentina and Mexico.

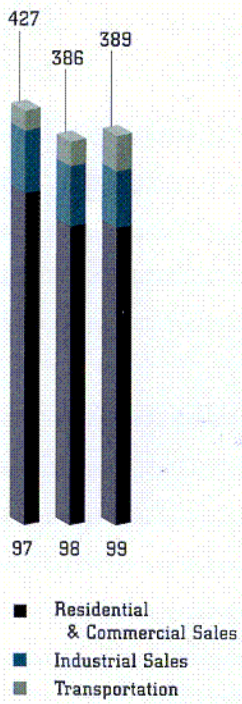
RELIANT ENERGY LATIN AMERICA

Reliant Energy has ownership interests in electric and natural gas distribution companies that serve more than 10 million customers in Argentina, Brazil, Colombia and El Salvador. The company also has an industrial power generation project in operation in Argentina.

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.

Reliant Energy's $3 million grant to Texas A&M University's School of Business will create a trading center that will give students hands-on experience managing real and simulated investment portfolios.

Natural Gas Distribution Companies Throughput
(in bcf)



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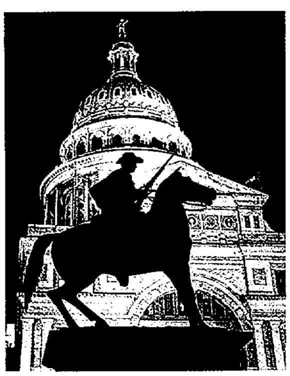
TEXAS Restructuring

Restructuring of the energy industry has been the driving force behind Reliant Energy's transformation from a traditional, rate-regulated utility into an integrated energy delivery and energy services company. On June 18, 1999, the Texas Legislature established a solid framework for the company's energy services business in Texas – Governor George W. Bush signed into law Senate Bill 7, which will allow for customer choice and bring competition to the retail electric market in Texas on January 1, 2002.



EXCERPTS FROM INDUSTRY ANALYSTS ON THE IMPACT OF TEXAS LEGISLATION

"Texas deregulation is reasonable, limits regulatory risk and allows visibility on eventual growth. Over time, we believe incumbency in Texas and a good unregulated energy market will be very valuable."
JAMES D. VON RIESEMANN WITH MORGAN STANLEY DEAN WITTER

"We believe the features of the legislation provide the Texas-based utilities with improved financial flexibility, while also removing the uncertainty associated with future regulatory proceedings."
DANIEL F. FORD WITH ABN AMRO

"We view the bill positively as it gives [Reliant Energy] earnings flexibility through the transition with an ROR cap, the potential for stranded cost recovery and good ability to succeed in competition."
STEVEN FLEISHMAN WITH MERRILL LYNCH

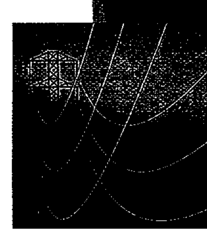
"With the constructive framework created by the recent legislation in Texas, we believe that [Reliant Energy] should be in a strong competitive position. As we have seen in states like Virginia, fair legislation should provide increased momentum and allow the focus to shift to strategic initiatives."
ANDREW LEVI WITH CS FIRST BOSTON

SEPTEMBER 1, 1999
Effective date of bill. Base rates to customers are frozen.

JANUARY 10, 2000
Utilities filed unbundling plans to separate business activities into generation, retail and delivery by January 1, 2002.

APRIL 1, 2000
Utilities are required to separate their costs and file proposed tariffs for delivery companies.

SEPTEMBER 1, 2000
Utilities must unbundle competitive energy services from their regulated delivery service.



Highlights of the Bill:

- Base electricity rates are frozen from September 1, 1999, through December 31, 2001.
- Customer choice of electric suppliers begins January 1, 2002, except in areas served by municipally owned utilities and electric cooperatives, which can set their own schedule for competition any time after January 1, 2002.
- Large commercial and industrial customers will negotiate for the best price from any provider. Residential and small commercial customers will be able to shop for electricity or stay with the affiliate retail provider of the local utility and receive a 6 percent rate reduction. This price will be offered for five years and is known as the "price to beat."
- The affiliate retail provider of the local utility is prohibited from offering residential and small commercial customers in its traditional service territory any price other than the "price to beat." The restriction is in effect for each of these customer classes until the earlier of three years from the start of retail choice or until competitors serve 40 percent of the electrical usage for that customer class.
- Utilities are allowed to recover 100 percent of their prudently incurred stranded costs. Stranded costs are those costs that would not be recoverable in a competitive environment because the book value of certain assets exceeds the value that would be placed on them by the market.
- In 2004, a reconciliation of estimated stranded costs to actual costs will be developed based on market conditions, and Reliant Energy will be able to recover 100 percent of its remaining stranded costs.
- The generating affiliate of any existing electric utility or independent generator may not own and control more than 20 percent of the power region's total generation capacity.
- Pilot project allowing customer choice for 5 percent of customers' electrical usage begins June 1, 2001.
- Consumers are protected by provisions such as prohibiting service disconnection during extreme weather conditions, requiring easy-to-read bills and providing up to an additional 20 percent discount (over the 6 percent reduced "price to beat") for low-income Texans.
- Environmental benefits are encouraged by allowing companies to recover emission reduction costs to upgrade grandfathered generating units.

JUNE 1, 2001

Retail choice pilot project begins for 5 percent of the electrical usage of all customer classes.

JANUARY 1, 2002

Retail choice scheduled to begin for all investor-owned electric utility customers.

JANUARY 10, 2004

Reconciliation of stranded cost recovery begins.

JANUARY 1, 2005

Reliant Energy's retail electric provider can offer competitive prices to its residential and small commercial customers in its service area.

ENERGY Services

WHO WE ARE

Reliant Energy draws on its many resources and capabilities to offer comprehensive, integrated energy products and related services packaged to meet the needs of customers. "Energy services" is a competitive, skills-based business that includes power generation, wholesale trading, marketing and risk management, and retail marketing of energy and related services. The three Reliant Energy business units involved in energy services are Reliant Energy Wholesale Group, Reliant Energy Europe and Reliant Energy Retail Group.

WHERE WE ARE GOING

Our primary geographic focus is the U.S. where industry restructuring is creating attractive growth opportunities. Our goal is to be a leading multi-regional provider of energy services to wholesale and retail customers and to leverage our customer relationships to offer telecommunications and other bundled services.

On the wholesale level, we expect to become one of the top three energy trading and marketing organizations in the U.S., trading gas on a national scale and electricity in regions where we have access to generation. In addition, we will be one of the largest power generators in the U.S. with a balanced portfolio of baseload, intermediate and peaking capacity in four to six regions of the country.

Reliant Energy Europe is implementing and expanding the company's wholesale energy services strategy in Western Europe where the markets are opening and evolving in much the same direction as U.S. markets.

Our non-regulated retail business will grow dramatically when full electric deregulation comes to Texas on January 1, 2002. On that date, our unregulated retail affiliate will gain up to 1.7 million electric customers of Reliant Energy HL&P/Entex who do not choose another electricity provider.

HOW WE WILL GET THERE

Reliant Energy will create value through strategic assets coupled with superior commercial capabilities. We will gain access to assets through acquisitions, project development and alliances. We will enhance our commercial skills by investing in top talent, providing effective development and offering competitive compensation linked to organizational performance.

ENERGY SERVICES EARNINGS The company's energy services businesses report earnings under two business segments, wholesale energy and Reliant Energy Europe. Non-regulated retail activities and telecommunications currently are included in the corporate segment.

Wholesale Energy The wholesale energy segment, which includes non-regulated power generation in the U.S. as well as wholesale energy trading and marketing in the U.S. and Canada, produced 1999 operating income of $45 million, compared to $59 million in 1998. The decrease reflected a decline in market prices in California caused by milder weather than normal and higher levels of hydroelectric generation imports. This decline more than offset significant increases in operating income from trading and marketing activities.

Reliant Energy Europe The Reliant Energy Europe segment, which includes Reliant Energy's European power generation and wholesale energy trading and marketing operations, was established in the fourth quarter of 1999. Reliant Energy Europe produced fourth-quarter 1999 operating income of $32 million. Reliant Energy acquired a 52 percent interest in UNA, a Dutch power generation company with 3,400 megawatts of capacity, during the fourth quarter of 1999, and completed the purchase of the remaining shares of UNA on March 1, 2000.

RELIANT ENERGY WHOLESALE GROUP Reliant Energy Wholesale Group consists of several interrelated businesses operating in North America. These businesses work closely together to provide customers with comprehensive products, services and capabilities and to capture value-creation opportunities that exist between these activities:

- Power merchant, including trading and origination, asset development and acquisition, operations and related engineering/construction support;
- Gas trading and marketing, including financial gas trading; and
- Trading of other commodities, including oil and weather derivatives.

The Wholesale Group currently operates 14,000 megawatts of regulated generation in Texas and 4,700 megawatts of unregulated generating capacity across the U.S. The group also has announced development projects and acquisitions totaling more than 8,300 megawatts. Wholesale trading volumes totaled over 5 billion cubic feet of natural gas per day and 112 million megawatt-hours of electricity in 1999, making the company a top-five U.S. marketer in combined natural gas and power volumes.

The Necessary Elements for Success Reliant Energy Wholesale Group defines its strategic priorities in three dimensions: assets, origination and trading. These three are mutually supporting and linked by common goals.

Assets Reliant Energy views ownership of, or access to, strategic assets as a key component of its wholesale energy services portfolio. The company is aggressively building and/or acquiring an unregulated generating position in key regions of the country. Starting from a strong base in Texas, Reliant Energy has expanded to create a significant presence in other regions of the U.S.

In Texas, Reliant Energy owns approximately 14,000 megawatts of generation which will become deregulated when the electric industry in the state opens to competition on January 1, 2002. With these soon-to-be-commercial assets, Reliant Energy will be one of the largest unregulated power producers in the world. The company also is developing additional unregulated generating assets in Texas.

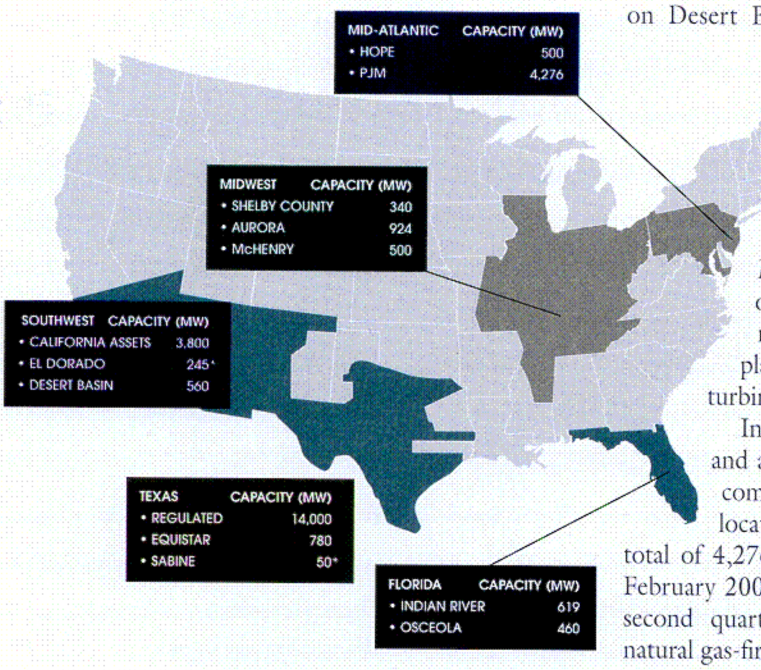
The Sabine Project, a 100-megawatt cogeneration plant at Bayer Corporation's synthetic rubber manufacturing facility in Orange, Texas, began operations in December 1999. The plant, which is jointly owned by Reliant Energy and Air Liquide America Corporation, provides virtually all of the power and steam needs for Bayer's Sabine facility. In addition, Reliant Energy's Wholesale Group signed an agreement to sell 60 megawatts of capacity and energy from the Sabine facility to Alabama Electric Cooperative for three years beginning January 1, 2000. Energy sales plus demand charges from the transaction are estimated at $40 million over the three-year period.

Construction began in March 2000 on a 780-megawatt cogeneration plant in the Houston area. Reliant Energy was selected by Equistar Chemicals, LP, one of the world's largest petrochemical producers, to supply electricity and steam at Equistar's Channelview, Texas, facility and to provide power at up to 10 Equistar facilities in Texas.

In addition to its strong initial position in the Electric Reliability Council of Texas (ERCOT), since early 1998 Reliant Energy has acquired approximately 3,800 megawatts of generating capacity in Southern

Reliant Energy's trading and marketing organization substantially increased trading volumes while increasing profitability. Gas sales volumes rose by 56 percent and power sales volumes increased by 72 percent in 1999.

Wholesale Power Merchant



■ FAVORABLE EMERGING SUB-REGIONS
■ ESTABLISHED SUB-REGIONS
* REPRESENTS RELIANT ENERGY'S 50 PERCENT OWNERSHIP

Reliant Energy's domestic assets include approximately 14,000 megawatts in Texas that will be deregulated January 1, 2002, and 4,700 megawatts of non-regulated capacity in operation: five generating plants in southern California, one in Nevada, one in Texas and one in Florida. The company has announced development projects and acquisitions that will add another 8,300 megawatts to the company's generation portfolio.

California and is enhancing this Southwest regional portfolio with two new projects. El Dorado Energy, located just outside Las Vegas, Nevada, began operating in early 2000. This 490-megawatt, combined-cycle generating station is jointly owned by Reliant Energy and Sempra Energy and was the first true merchant plant in the U.S. to be built with non-recourse financing. In addition, Reliant Energy started construction in September 1999 on Desert Basin Generation, a 560-megawatt, combined-cycle plant located near Phoenix, Arizona. The plant is scheduled for operation by the summer of 2001.

The company also has begun establishing a portfolio of generating assets in the Midwest, the Mid-Atlantic and Florida. In the Midwest, the company has announced 1,764 megawatts of peaking capacity. Proposed simple-cycle, peaking plants in Aurora and McHenry County, Illinois, would provide power during times of heaviest electricity usage in the rapidly growing northwest region of the state. The company's 340-megawatt peaking plant in Shelby County, Illinois, consisting of eight natural gas turbines, is scheduled for operation in the summer of 2000.

In the Mid-Atlantic, Reliant Energy has announced an acquisition and a development project totaling nearly 4,800 megawatts. The company announced its agreement to purchase 21 power plants located in Pennsylvania, New Jersey and Maryland (PJM) for a total of 4,276 megawatts of generating capacity from Sithe Energies in February 2000 and expects to close on the acquisition by the end of the second quarter. Reliant Energy is also developing a 500-megawatt, natural gas-fired, combined-cycle project in Johnston, Rhode Island, and is exploring potential generating projects in the Mid-Atlantic through its alliance with Old Dominion Electric Cooperative.

In Florida, the Wholesale Group purchased the 619-megawatt Indian River plant from Orlando Utilities Commission (OUC) in October 1999 and announced plans to develop a 460-megawatt peaking project in Osceola County earlier in the year. Both projects are supported by power purchase agreements. Indian River will continue to provide power to OUC through a four-year agreement, and will sell excess power to other utilities and rural cooperatives. The Osceola County project will supply 306 megawatts of power to Seminole Electric Cooperative through a five-year contract beginning in December 2001.

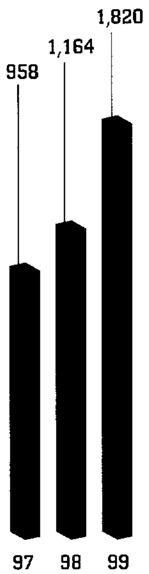
Reliant Energy also has a portfolio of unannounced generating projects in various stages of development in these key regions. This strategic asset position is enhanced by selected gas assets and access to customer assets.

Origination Through its energy origination activities, Reliant Energy provides services and solutions for utilities and industrial customers, retail energy providers and energy producers. These solutions may include a combination of wholesale gas and power-related products for multiple seasons or multiple years, options on quantity or price, other physical or financial risk management services, and the management of customer assets or positions.

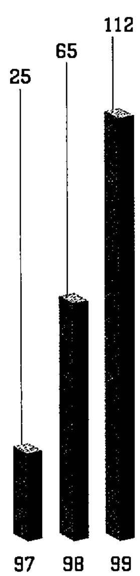
The company significantly expanded its origination business in 1999 through arrangements of various types with several municipalities and co-ops. These include Los Angeles Department of Water and Power in California; Springfield City Water, Light and Power in Illinois; Big Rivers

C-11

Annual Gas Sales Volume
(in bcf)



Annual Power Sales Volume
(in million mwh)



Electric Co-op in Kentucky; and Old Dominion Electric Co-op in Virginia. In addition, the company has contractual arrangements with Seminole Electric Co-op and the Orlando Utilities Commission in Florida, and Alabama Electric Co-op.

Trading Reliant Energy's asset positions are complemented by one of the industry's most skilled gas and power trading organizations. Over the last several years, the trading group has expanded its capabilities from primarily physical transactions to include a strong emphasis on financial trading and risk management services. The combination of industry-leading capabilities in gas and power and physical and financial transactions ranging from near-term to longer-term gives Reliant Energy an integrated ability to manage its positions and meet the needs of its customers.

From 1995 to 1999, the company increased physical gas volumes from less than 1 billion cubic feet per day to more than 5 billion cubic feet per day. Financial gas volumes grew from less than 2 billion cubic feet per day to approximately 17 billion cubic feet per day. Reliant Energy expects its ratio of financial to physical trading to grow further over the next few years. Electric power trading volumes increased from zero in 1995 to approximately 112 million megawatt-hours in 1999. Reliant Energy also has improved its profitability in these and in other commodities traded.

At the same time, Reliant Energy has established a reputation for customer-focused execution. For example, the Mastio customer satisfaction survey, published in October 1999, ranked Reliant Energy's gas trading and marketing operations as the best among the ten largest natural gas marketing companies. This same commitment to customers is common across all of Reliant Energy's businesses.

RELIANT ENERGY WHOLESALE GROUP BUSINESSES

Power Generation Development and Unregulated Power Operations The power generation development organization acquires, develops and operates unregulated power generation assets.

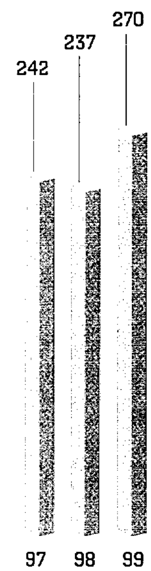
Energy Trading Energy trading buys, sells and trades natural gas, power and other energy-related commodities as well as their financial derivatives nationwide and, increasingly, in Canada. This unit also manages gas transportation and storage positions for the company and its customers. The trading organization offers a comprehensive range of energy and risk management services tailored to meet customer needs.

Gas and Power Origination The combined assets and capabilities of the Wholesale Group position the company to meet customer needs for complex and long-term energy solutions. The gas and power origination teams focus on providing solutions for utility and industrial customers and energy producers.

Regulated Power Operations and Fuel and Energy Management Regulated power operations manages over 14,000 megawatts of regulated generation for the company's electric utility. The power operations unit operates and maintains these plants. The regulated fuel and energy management organization provides fuel and manages the power dispatch, including the purchase and sale of wholesale power for the regulated utility. These activities will be deregulated January 1, 2002.

Field Services The field services unit gathers natural gas from the wellhead for delivery to processing plants and pipelines. The Reliant Energy field services organization is one of the top natural gas gathering companies in the mid-continent region, gathering approximately 250 billion cubic feet of gas annually in Oklahoma, Louisiana, Arkansas and Texas. This unit provides comprehensive field services including wellhead operations, gas gathering, treating, processing, dehydration, compression and administration services.

Gas Gathering Total Annual Volume
(in bcf)



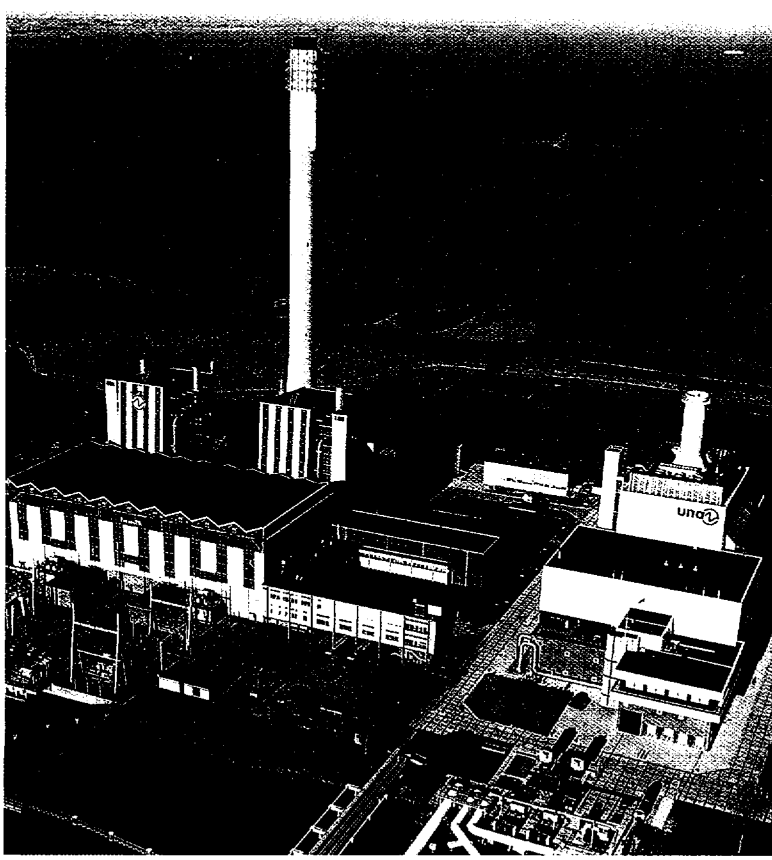
RELIANT ENERGY EUROPE

Reliant Energy believes that its asset-backed trading and marketing strategy can be implemented successfully in Western Europe where markets are opening and evolving in much the same direction as the U.S. markets.

With the announcement in March 1999 of its intent to purchase N.V. UNA, a Dutch power generation firm for $2.4 billion, Reliant Energy gained a unique entry point into the most important energy region outside the U.S. Europe offers deregulating power and gas markets plus strong commercial, political and legal infrastructures.

Reliant Energy completed the first phase of the UNA acquisition in October 1999, purchasing a 40 percent interest. In December 1999, Reliant Energy increased its ownership in UNA to 52 percent. The company purchased the remaining shares on March 1, 2000.

UNA's 3,400 megawatts of gas, coal and cogeneration capacity in the Amsterdam and Utrecht areas represents nearly 20 percent of the Dutch market.



Reliant Energy's investment in N.V. UNA, the Dutch power generation firm, represents an initial platform for growth in Western Europe. With a disciplined approach to asset ownership, the company has the opportunity to leverage its strong commercial skills in the deregulating European market.

As European markets continue to restructure rapidly, Reliant Energy plans to establish significant business positions in Western Europe beginning with the Netherlands.

The acquisition of UNA unites the commercial and financial capabilities of a strong U.S. player with the assets and operational expertise of an established local entity – creating a formidable presence in Europe's energy industry. The alliance with a well-regarded European company provides credibility in the European energy market and simplifies project evaluation, financing and risk management.

Reliant Energy Trading & Marketing B.V. In October 1999, Reliant Energy opened its trading and marketing subsidiary in Amsterdam to engage in Pan-European energy trading as well as Netherlands-focused energy marketing and origination. Reliant Energy Trading & Marketing B.V. employs commodity traders, market analysts, industrial marketing experts and administrative personnel.

The company's initial efforts in the Netherlands have centered on large industrial and commercial customers and distribution companies that are free to choose their own energy supplier under the terms of the Electricity Act of 1998. The company is currently negotiating with several of these potential customers, offering a broad spectrum of energy-related services, including power generation, wholesale energy trading, marketing, fuel supply, risk management and full-service energy management programs which are custom-designed to meet the competitive needs of the European markets.

Expansion Opportunities Reliant Energy Europe serves the northwestern region of Europe and anticipates opening additional marketing offices as the European Union continues to deregulate. The company expects to open offices in Frankfurt, Germany, and in London, England, by the second quarter of 2000. Building on its experience with deregulated energy markets in the U.S., Reliant Energy plans a rapid expansion of service offerings tailored to European markets.

RELIANT ENERGY RETAIL GROUP Reliant Energy Retail Group provides natural gas, electricity and energy services to business and residential customers in deregulated markets.

With expertise in acquiring and growing profitable retail opportunities, the Retail Group plans to aggressively compete throughout the state of Texas and use economies of scale and marketing sophistication to expand regionally into select retail markets.

Serving a Broad Customer Base The Retail Group is organized by business units that work together to serve key customer segments:

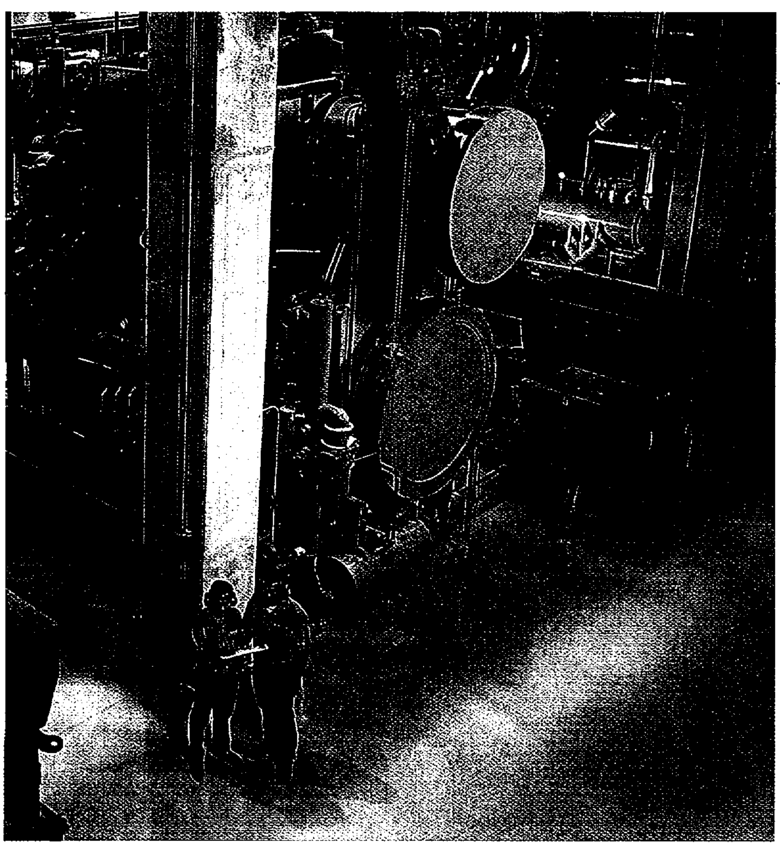
- Mass Markets serves residential and small commercial customers.
- Mid Markets serves mid-sized commercial and industrial electric and natural gas customers.
- Major Accounts serves large-volume commercial, institutional, national and industrial electric and natural gas customers.
- Reliant Energy Solutions offers integrated energy management solutions to large commercial, institutional, manufacturing, governmental and industrial customers.
- Reliant Energy Thermal Systems serves high-density loads and large facilities with site-specific and district energy technology for commercial heating, ventilation and air conditioning systems.

Winning Competitively in Texas With deregulation and market structure rules driving competition, Texas will be the primary focus for the Retail Group over the next two years. Retaining market share of customers in the greater Houston area and acquiring Texas-based customers in regions outside of Houston are strategic imperatives.

When electric competition begins on January 1, 2002, Reliant Energy Retail Group will become the electric provider for up to 1.7 million residential and small commercial customers currently served by Reliant Energy HL&P/Entex who do not choose another supplier. The Retail Group must combine superior marketing capabilities, competitive prices and exceptional customer service to retain these customers and attract new ones. Succeeding in Texas is critical to enable cost-efficient expansion into other deregulated markets throughout the nation.

Utilizing Information Technology Developing leading-edge marketing and customer service capabilities based on innovative uses of the Internet and information technology is a key part of the Retail Group's strategy for competitive differentiation. Information systems are rapidly becoming state-of-the-art so that employees can make the right decisions quickly, speeding the delivery of service to customers.

Reliant Energy Retail Group's challenge is to develop brand equity and competitive market experience during the Texas deregulation transition period and implement "high-touch," low-cost customer service capabilities. The technologies being put in place include the SAP customer care system, automated call center technology, customer relationship management systems and e-business.



Northwind Houston, an affiliate of Reliant Energy Thermal Systems, Inc., completed the first phase of its downtown Houston district cooling plant ahead of schedule. Northwind uses state-of-the-art thermal ice storage and chilled water distribution technology to cool commercial buildings in Houston.

In December 1999, Reliant Energy created a new Internet and e-business function reporting to the office of the CEO to manage, expand and enhance the company's web presence and to develop business-to-consumer and business-to-business, web-based programs. These initiatives are expected to enhance business operations, improve customer service and provide stronger, more personalized customer relationships.

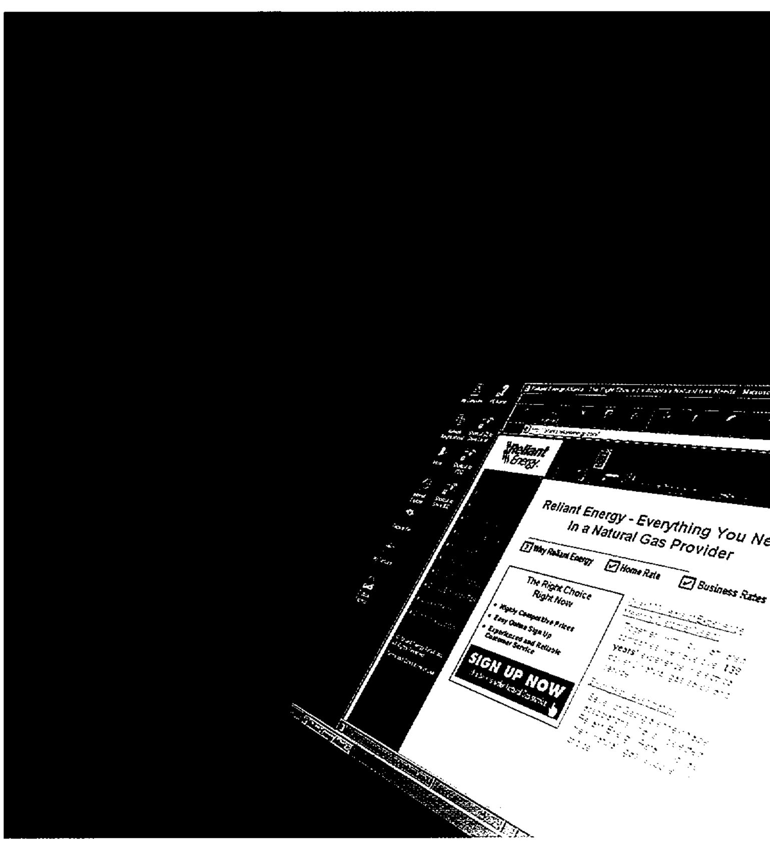
The Retail Group began testing electronic commerce strategies in the deregulated Atlanta natural gas market in May 1999, with the launch of its Atlanta e-business site. The Reliant Energy Atlanta web site allows business and residential consumers the option to sign up for natural gas service online.

Providing Integrated Solutions Providing integrated solutions to meet the complex energy management needs of large customers is a critical priority for the Retail Group. Customers, after all, are buying heat, light, energy and services, not kilowatt-hours or cubic feet of gas. They are already expressing their preference for aggregated, rebundled single-source providers to manage their total energy cost.

Reliant Energy Solutions, Inc. develops energy service projects that maximize the value that its commercial and industrial customers receive from their energy-related expenditures by analyzing, developing, and implementing comprehensive behind-the-meter energy solutions. The group provides total energy solutions, which include gas, power, central plant work, lighting retrofits, commodity billing consolidation, payment and other related services to large customers. In 1999, Reliant Energy Solutions acquired the assets of Southland Industries' Energy Services

RELIANT ENERGY RETAIL GROUP WINS CONTRACTS NATIONWIDE

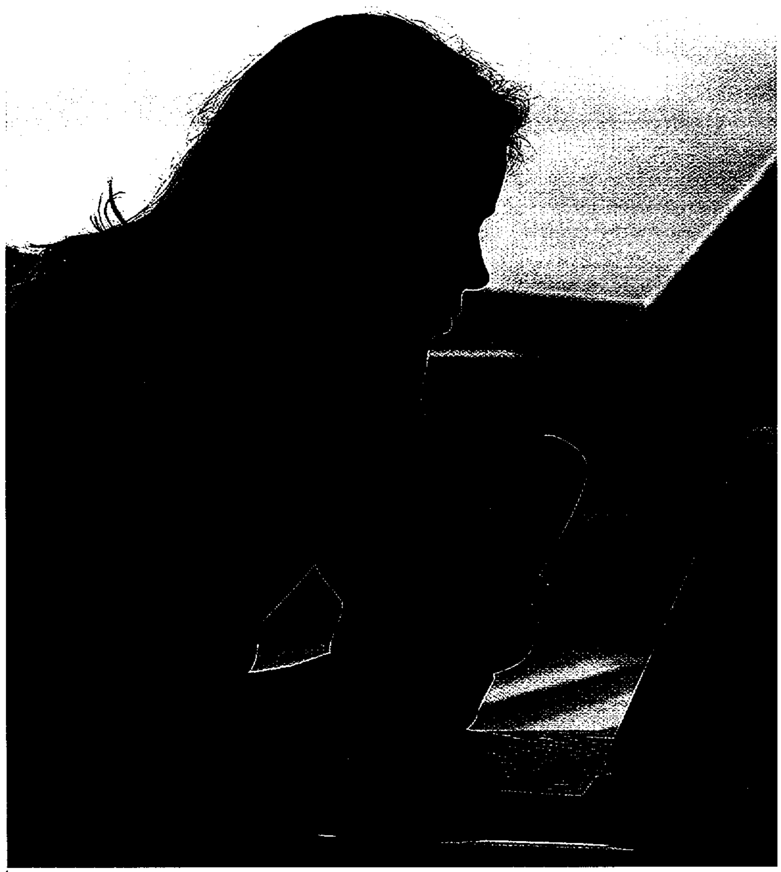
- **LUBY'S RESTAURANTS LIMITED PARTNERSHIPS,** for a multi-year, multi-million dollar comprehensive energy services agreement for Luby's 223 units nationwide.
- **ADVANTICA RESTAURANT GROUP,** to provide Advantica's 568 California restaurants with consolidated billing and resource account services.
- **WALGREEN CO.,** to provide natural gas to 43 Walgreen units in Massachusetts and Connecticut through July 2001.
- **PASADENA PAPER COMPANY, LP,** for a four-year energy services agreement to deliver integrated energy solutions that reduce the energy and utility costs and optimize the use of energy in the manufacturing processes at the company's coated paper manufacturing facility in Texas.
- **FARMLAND INDUSTRIES, INC.,** for a multi-year alliance to develop and implement comprehensive energy strategies for Farmland's 17 refinery, fertilizer, and food processing facilities located nationwide.



Reliant Energy continues to develop leading-edge e-business opportunities and innovative uses of information technology to differentiate itself from competitors, extend its appeal to new consumers and create new levels of customer involvement and satisfaction.

Division, increasing Reliant Energy Solutions' engineering and fulfillment capabilities and broadening its wide range of energy services.

Reliant Energy Thermal Systems, Inc. provides energy management and thermal systems for site-specific projects such as buildings, universities and hospitals, as well as district cooling systems for cities and large metropolitan areas. In August 1999, Northwind Houston LP, a limited partnership of Reliant Energy Thermal Systems, Inc. and Unicom Thermal Technologies Houston, Inc., completed phase one of its downtown Houston Union Station District Energy Center plant ahead of schedule. Among Northwind's most notable clients are the Houston Astros' new baseball stadium, the Alley Theatre and several downtown Houston high-rise office buildings.



Reliant Energy Communications is designing its state-of-the-art fiber optics network around areas of high customer concentration. The telecommunications company began offering data and voice communications services to small- and medium-sized businesses in the Houston area in November 1999.

Reliant Energy launched a retail telecommunications business in 1999 to use existing resources, participate in the rapid growth of this industry and position itself for the future when energy customers may demand bundled services for their homes and businesses.

The new unit, Reliant Energy Communications, Inc., began offering a full suite of data and voice services, including local, long distance and wireless, and high-speed Internet access, web hosting and data transport services to companies in Houston's major business centers.

As the industry continues to evolve, telecommunications customers will appreciate the customer care and reliability that is synonymous with Reliant Energy. The company is also evaluating the expansion of telecommunications service to other customer segments and other geographic areas.

CONDENSED FINANCIAL STATEMENTS OF THE COMPANY

Reliant Energy, Incorporated and Subsidiaries

The financial information presented on pages 30 through 38 regarding Reliant Energy, Incorporated and its subsidiaries is condensed. This information should be read in conjunction with the Company's complete financial statements (including notes) as well as management's discussion and analysis of financial condition and results of operations of the Company, which are presented in Appendix A to the 2000 Proxy Statement.

Investors may also request, without charge, the Company's Annual Report on Form 10-K for the year ended December 31, 1999 by writing or calling Reliant Energy Investor Services at 1-888-468-3020. Additional investor information can be found on the inside back cover of this report.

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CONDENSED FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA

Reliant Energy, Incorporated and Subsidiaries

The following table sets forth selected financial data with respect to the Company's consolidated financial condition and results of consolidated operations and should be read in conjunction with the Company's Consolidated Financial Statements and the related notes in Appendix A of the 2000 Proxy Statement. Certain amounts from prior years have been reclassified to conform with the 1999 presentation. In July 1995, the Company sold its former cable television subsidiary, the operations of which were accounted for as discontinued operations. The selected financial data includes the financial statement effect of UNA and Resources since the October 1999 acquisition and August 1997 acquisition, respectively. Both acquisitions were accounted for under the purchase method. See Note 2 to the Company's Consolidated Financial Statements for additional information regarding these acquisitions.

	(thousands of dollars, except per share amounts)				
Year Ended December 31,	**1999**	1998	1997	1996	1995
Revenues	**$ 15,302,810**	$ 11,488,464	$ 6,878,225	$ 4,095,277	$ 3,729,271
Income (loss) from continuing operations before extraordinary item and preferred dividends [1][2][3]	**$ 1,665,731**	$ (141,092)	$ 421,110	$ 404,944	$ 397,400
Gain on sale of cable television subsidiary	**—**	—	—	—	708,124
Extraordinary item, net of tax [4]	**183,261**	—	—	—	—
Preferred dividends	**389**	390	162	—	—
Net income (loss) attributable to common stockholders [1][2][3]	**$ 1,482,081**	$ (141,482)	$ 420,948	$ 404,944	$ 1,105,524
Basic earnings (loss) per common share:					
Continuing operations before extraordinary item [1][2][3]	**$ 5.84**	$ (.50)	$ 1.66	$ 1.66	$ 1.60
Gain on sale of cable television subsidiary	**—**	—	—	—	2.86
Extraordinary item, net of tax [4]	**(.64)**	—	—	—	—
Basic earnings (loss) per common share [1][2][3]	**$ 5.20**	$ (.50)	$ 1.66	$ 1.66	$ 4.46
Diluted earnings (loss) per common share:					
Continuing operations before extraordinary item [1][2][3]	**$ 5.82**	$ (.50)	$ 1.66	$ 1.66	$ 1.60
Gain on sale of cable television subsidiary	**—**	—	—	—	2.86
Extraordinary item, net of tax [4]	**(.64)**	—	—	—	—
Diluted earnings (loss) per common share [1][2][3]	**$ 5.18**	$ (.50)	$ 1.66	$ 1.66	$ 4.46

CONDENSED FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA (continued)

Reliant Energy, Incorporated and Subsidiaries

(thousands of dollars, except per share amounts)

Year Ended December 31,	**1999**	1998	1997	1996	1995
Cash dividends declared per common share	**$ 1.50**	$ 1.50	$ 1.50	$ 1.50	$ 1.50
Dividend payout ratio from continuing operations (1)(2)(3)	**26%**	—	96%	89%	94%
Return on average common equity (1)(2)(3)(4)	**30.8%**	(3.1%)	9.7%	10.2%	29.5%
Ratio of earnings from continuing operations to fixed charges (1)(2)(3)(5)	**5.28**	—	2.40	2.75	2.70
At year-end:					
Book value per common share	**$ 18.70**	$ 15.16	$ 17.28	$ 16.41	$ 16.61
Market price per common share	**$ 22.88**	$ 32.06	$ 26.75	$ 22.63	$ 24.25
Market price as a percent of book value	**122%**	211%	155%	138%	146%
Total assets	**$ 26,220,936**	$ 19,138,522	$ 18,445,606	$ 12,287,857	$ 11,819,606
Long-term debt obligations, including current maturities	**$ 9,343,446**	$ 7,198,202	$ 5,469,184	$ 3,254,413	$ 3,692,173
Trust preferred securities	**$ 705,272**	$ 342,232	$ 362,172	—	—
Cumulative preferred stock	**$ 9,740**	$ 9,740	$ 9,740	$ 135,179	$ 402,400
Capitalization:					
Common stock equity	**34%**	36%	46%	53%	50%
Cumulative preferred stock	**—**	—	—	2%	5%
Trust preferred securities	**5%**	3%	3%	—	—
Long-term debt (including current maturities)	**61%**	61%	51%	45%	45%
Cash consideration for purchase of UNA, net	**$ 832,742**	—	—	—	—
Purchase of Resources, net of cash acquired	**—**	—	$ 1,422,672	—	—
Other business acquisitions	**$ 38,426**	$ —	$ —	$ —	$ —
Non-rate regulated electric power plants	**$ 188,832**	$ 292,398	$ —	$ —	$ —
Investments and advances to unconsolidated subsidiaries	**$ 116,076**	$ 445,042	$ 234,852	$ 495,379	$ 49,835
Capital expenditures	**$ 1,179,466**	$ 743,455	$ 328,724	$ 324,075	$ 397,796

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

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

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

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

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

STATEMENTS OF CONSOLIDATED INCOME

Reliant Energy, Incorporated and Subsidiaries

(thousands of dollars, except per share amounts)

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

See Notes to the Company's Consolidated Financial Statements

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STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
Reliant Energy, Incorporated and Subsidiaries

Year Ended December 31,	**1999**	1998	1997
		(thousands of dollars)	
Net income (loss) attributable to common stockholders	**$ 1,482,081**	$ (141,482)	$ 420,948
Foreign currency translation adjustments (net of tax of $23,143, $17,656 and $247)	**(42,979)**	(32,790)	(458)
Unrealized loss on available for sale securities (net of tax of $373, $5,877 and $1,181)	**(1,224)**	(10,370)	(1,897)
Comprehensive Income (Loss)	**$ 1,437,878**	$ (184,642)	$ 418,593

See Notes to the Company's Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS
Reliant Energy, Incorporated and Subsidiaries

Year Ended December 31,	1999 (thousands of dollars)	1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 89,078	$ 29,673
Investment in Time Warner common stock	3,979,461	—
Accounts receivable – net	1,104,640	726,377
Accrued unbilled revenues	172,629	175,515
Fuel stock and petroleum products	152,292	211,750
Materials and supplies, at average cost	188,167	171,998
Price risk management assets	435,336	265,203
Prepayments and other current assets	131,666	88,655
Total current assets	6,253,269	1,669,171
Property, Plant and Equipment – net	13,267,395	11,503,114
Other Assets:		
Goodwill and other intangibles – net	3,034,361	2,098,890
Equity investments and advances to unconsolidated subsidiaries	1,022,210	1,051,600
Investment in Time Warner preferred stock	—	990,000
Regulatory assets	1,739,507	1,313,362
Price risk management assets	148,722	21,414
Deferred debits	755,472	490,971
Total other assets	6,700,272	5,966,237
Total Assets	$ 26,220,936	$ 19,138,522
Liabilities and Stockholders' Equity		
Current Liabilities:		
Short-term borrowings	$ 2,879,211	$ 1,812,739
Current portion of long-term debt	4,382,136	397,454
Accounts payable	1,036,839	807,977
Taxes accrued	227,058	252,581
Interest accrued	116,274	115,201
Dividends declared	110,811	111,058
Price risk management liabilities	424,324	227,652
Accumulated deferred income taxes	415,591	—
Business purchase obligation	431,570	—
Other	360,109	346,280
Total current liabilities	10,383,923	4,070,942
Deferred Credits:		
Accumulated deferred income taxes	2,451,619	2,364,036
Unamortized investment tax credit	270,243	328,949
Price risk management liabilities	117,437	40,532
Benefit obligations	400,849	378,747
Business purchase obligation	596,303	—
Other	1,027,648	490,468
Total deferred credits	4,864,099	3,602,732
Long-term Debt	4,961,310	6,800,748
Commitments and Contingencies (Note 14)		
Company obligated mandatorily redeemable preferred securities of subsidiary trusts holding solely junior subordinated debentures of the Company	705,272	342,232
Stockholders' Equity	5,306,332	4,321,868
Total Liabilities and Stockholders' Equity	$ 26,220,936	$ 19,138,522

See Notes to the Company's Consolidated Financial Statements

STATEMENTS OF CONSOLIDATED CASH FLOWS

Reliant Energy, Incorporated and Subsidiaries

		(thousands of dollars)	
Year Ended December 31,	**1999**	1998	1997
Cash Flows from Operating Activities:			
Net income (loss) attributable to common stockholders	**$ 1,482,081**	$ (141,482)	$ 420,948
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	**911,122**	870,093	665,374
Deferred income taxes	**601,627**	(423,904)	35,523
Investment tax credit	**(58,706)**	(20,123)	(19,777)
Unrealized gain on Time Warner investment	**(2,452,406)**	—	—
Unrealized loss on indexed debt securities	**629,523**	1,176,211	121,402
Extraordinary item	**183,261**	—	—
Undistributed earnings of unconsolidated subsidiaries	**28,308**	(27,350)	(3,142)
Changes in other assets and liabilities:			
Accounts receivable – net	**(333,195)**	266,938	(436,580)
Inventories	**51,576**	(121,793)	55,111
Accounts payable	**185,710**	(92,652)	191,840
Other – net	**(67,236)**	(60,579)	80,060
Net cash provided by operating activities	**1,161,665**	1,425,359	1,110,759
Cash Flows from Investing Activities:			
Capital expenditures	**(1,179,466)**	(743,455)	(328,724)
Investment in Time Warner securities	**(537,055)**	—	—
Business acquisitions, net of cash acquired	**(871,168)**	—	(1,422,672)
Acquisition of non-rate regulated electric power plants	**(188,832)**	(292,398)	—
Investments and advances to unconsolidated subsidiaries	**(116,076)**	(445,042)	(234,852)
Sale of equity investments in foreign electric system projects	**—**	242,744	—
Other – net	**(4,288)**	8,375	4,795
Net cash used in investing activities	**(2,896,885)**	(1,229,776)	(1,981,453)

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STATEMENTS OF CONSOLIDATED CASH FLOWS (continued)

Reliant Energy, Incorporated and Subsidiaries

		(thousands of dollars)	
Year Ended December 31,	**1999**	1998	1997
Cash Flows from Financing Activities:			
Proceeds from long-term debt – net	**$ 2,032,386**	$ 1,267,107	$ 1,136,516
Payments of long-term debt	**(935,908)**	(733,114)	(780,186)
Proceeds from sale of trust preferred securities – net	**362,994**	—	340,785
Increase (decrease) in short-term borrowings – net	**822,868**	(312,217)	787,084
Redemption of preferred stock	**—**	—	(153,628)
Payment of common stock dividends	**(427,255)**	(426,265)	(405,288)
Purchase of treasury stock	**(90,708)**	—	—
Other – net	**30,248**	(13,133)	(10,878)
Net cash provided by (used in) financing activities	**1,794,625**	(217,622)	914,405
Net Increase (Decrease) in Cash and Cash Equivalents	**59,405**	(22,039)	43,711
Cash and Cash Equivalents at Beginning of Period	**29,673**	51,712	8,001
Cash and Cash Equivalents at End of Period	**$ 89,078**	$ 29,673	$ 51,712

Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest (net of amounts capitalized)	**$ 517,897**	$ 502,889	$ 414,467
Income taxes	**401,703**	484,376	171,539

See Notes to the Company's Consolidated Financial Statements

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STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

Reliant Energy, Incorporated and Subsidiaries

(thousands of dollars and shares)

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

See Notes to the Consolidated Financial Statements

TO THE STOCKHOLDERS OF RELIANT ENERGY, INCORPORATED:

We have audited the consolidated balance sheets of Reliant Energy, Incorporated and its subsidiaries (the Company) as of December 31, 1999 and 1998, and the related statements of consolidated income, consolidated comprehensive income, consolidated cash flows and consolidated stockholders' equity for each of the three years in the period ended December 31, 1999. Such consolidated financial statements and our report thereon dated March 1, 2000, expressing an unqualified opinion (which are not included herein), are included in Appendix A to the Proxy Statement for the 2000 Annual Meeting of Shareholders. The accompanying condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on such condensed consolidated financial statements in relation to the complete consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements of the Company is fairly stated in all material respects in relation to the basic consolidated financial statements from which it has been derived.

Deloitte & Touche LLP

Deloitte & Touche LLP
Houston, Texas
March 1, 2000

JAMES A. BAKER, III .... 69, Senior Partner of Baker Botts LLP, Houston, Texas, director since 1996.

RICHARD E. BALZHISER, PHD .... 67, President Emeritus of the Electric Power Research Institute, Palo Alto, California, director since 1996.

MILTON CARROLL .... 49, Chairman, President and Chief Executive Officer of Instrument Products, Inc., Houston, Texas, director since 1992.

JOHN T. CATER .... 64, Chairman of Compass Bank, Houston, Texas, director since 1983.

O. HOLCOMBE CROSSWELL .... 59, President of Griggs Corporation, Houston, Texas, director since 1997.

ROBERT J. CRUIKSHANK .... 69, Private Investor and Retired Senior Partner with Deloitte & Touche LLP, Houston, Texas, director since 1993.

LINNET F. DEILY .... 54, Vice Chairman of Charles Schwab Corporation and President, Schwab Retail Group of Charles Schwab & Co., Inc., San Francisco, California, director since 1993.

LEE W. HOGAN .... 55, Vice Chairman of the Company, director since 1995.

T. MILTON HONEA .... 67, Retired Chairman of the Board, President and Chief Executive Officer of NorAm Energy Corp., Santa Barbara, California, director since 1997.

R. STEVE LETBETTER .... 51, Chairman, President and Chief Executive Officer of the Company, director since 1995.

ALEXANDER F. SCHILT, PHD .... 59, President of the Inter-American University Council for Economic and Social Development, Houston, Texas, director since 1992.

Office of the CEO

R. STEVE LETBETTER
51, Chairman, President and
Chief Executive Officer

ROBERT W. HARVEY
44, Vice Chairman

LEE W. HOGAN
55, Vice Chairman

STEPHEN W. NAEVE
52, Vice Chairman and
Chief Financial Officer

Operating Committee

GARY M. CERNY
44, President and Chief
Operating Officer
Reliant Energy Minnegasco

REX CLEVENGER
42, Vice President
Finance

WATERS S. DAVIS, IV
46, President and Chief
Operating Officer
Reliant Energy Retail Group

J. DOUGLAS DIVINE
43, Senior Vice President
Generation Development

DALE C. EARWOOD
44, President
Pipelines

B. BRUCE GIBSON
46, Senior Vice President
Government Affairs

THOMAS S. GLANVILLE
41, Vice President
Technology and New Ventures

PRESTON JOHNSON
44, Senior Vice President
Human Resources

HUGH RICE KELLY
57, Executive Vice President,
General Counsel and
Corporate Secretary

MARC KILBRIDE
47, Treasurer

BRIAN LANDRUM
38, Vice President
Internet and E-Business

CONSTANTINE S. LIOLLIO
41, President and Chief
Operating Officer
Reliant Energy Entex

SHAHID J. MALIK
39, President
Trading and Marketing

DAVID M. McCLANAHAN
50, President and Chief
Operating Officer
Reliant Energy Delivery Group

IANNE McCREA
47, Senior Vice President
Information Technology and
Chief Information Officer

MICHAEL H. MEANS
52, President and Chief
Operating Officer
Reliant Energy Arkla

EDDIE R. MECHE
34, Vice President and
Chief Risk Control Officer

EDWARD A. MONTO
59, President and Chief
Operating Officer
Reliant Energy International, Inc.

CURTIS A. MORGAN
39, Vice President
Corporate Planning
and Development

JOE BOB PERKINS
39, President and Chief
Operating Officer
Reliant Energy Wholesale Group

MARY P. RICCIARDELLO
44, Senior Vice President
and Comptroller

STEPHEN C. SCHAEFFER
52, Senior Vice President
Regulatory

ALLAN SCHOENEBERG
49, Vice President
Shared Services

RUFUS S. SCOTT
56, Vice President
Deputy General Counsel and
Assistant Corporate Secretary

MARK B. SLAUGHTER
41, Vice President
New Business Development

THOMAS R. STANDISH
50, President and Chief
Operating Officer
Reliant Energy HL&P/Entex

DAVID G. TEES
55, Senior Vice President
Power Operations

ROBERT L. WALDROP
53, Senior Vice President
Communications

Annual Meeting

The annual meeting of shareholders will be held at 9 a.m., central time, on May 3, 2000, in the Reliant Energy Plaza Auditorium, 1111 Louisiana Street, Houston, Texas. All shareholders are invited to attend. A formal notice of the meeting will be mailed to shareholders in April with a proxy statement. The proxy statement describes business items to be considered at the annual meeting, and includes a proxy card that you may use to vote on nominees for director and other matters.

Investor Services

If you have questions about your Reliant Energy investor account, or if you would like to order any publications listed on this page, please contact:
In Houston: (713) 207-3060
Toll Free: (800) 231-6406
Fax: (713) 207-3169
A list of publications and investor services may be found on the company's web site at: www.reliantenergy.com/investing

Investor Services representatives are available from 8 a.m. to 4:30 p.m., central time, Monday through Friday to help you with questions about Reliant Energy common stock, preferred stock, first mortgage bonds and enrollment in the Reliant Energy Investor's Choice Plan. *You also can enroll in Investor's Choice online at: www.netstockdirect.com*

The Investor's Choice Plan provides easy, inexpensive options, including direct purchase and sale of Reliant Energy common stock; dividend reinvestment, statement-based accounting; monthly or quarterly automatic investing by electronic transfer; and individual retirement accounts (IRAs). You become a registered Reliant Energy shareholder by making an initial investment of at least $250 through Investor's Choice.

Reliant Energy Investor Services serves as transfer agent, registrar and dividend and interest disbursing agent for Reliant Energy common stock, and for HL&P preferred stock and first mortgage bonds.

Information Requests

Call (888) 468-3020 toll-free for additional copies of:

1999 Annual Report
2000 Proxy Statement
Form 10-K
Video and audio materials

Dividend Payments

Common stock dividends are generally paid on the 10th of March, June, September and December to holders of record on the 16th of February, May, August and November, respectively. Dividends are subject to declaration by the Board of Directors, and they establish the amount of each quarterly common stock dividend and fix record and payment dates.

Institutional Investors

Security analysts and other investment professionals should contact Reliant Energy Investor Relations at (713) 207-3115 or (713) 207-3042.

Stock Listing

Reliant Energy, Incorporated common stock is traded under the symbol REI on the New York and Chicago stock exchanges.

Auditors

Deloitte & Touche LLP, Houston, Texas

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About This Summary Annual Report

The 1999 Reliant Energy annual report provides condensed financial disclosure. Full audited financial statements are found in Appendix A to the 2000 Proxy Statement. This report contains forward-looking statements that are based on information currently available to management and should be judged as such. Actual results could differ significantly from those predicted here. Additional copies of this report and all other financial statements may be requested free of charge from Reliant Energy Investor Services at 800-231-6406.