Item 8. *Financial Statements and Supplementary Data of the Company*

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME
(As Restated, See Note 1)

	Year Ended December 31,		
	1999	2000	2001
	(Thousands of dollars, except per share amounts)		
Revenues	$13,794,548	$28,269,159	$40,809,455
Expenses:			
Fuel and cost of gas sold	6,330,893	15,049,322	19,505,052
Purchased power	3,095,110	7,580,108	15,126,826
Operation and maintenance	1,763,695	2,356,213	2,654,490
Taxes other than income taxes	441,242	498,061	542,847
Depreciation and amortization	905,305	906,318	911,450
Latin America operating results	(528)	1,113	—
Impairment of Latin America assets	—	40,711	75,342
Total	12,535,717	26,431,846	38,816,007
Operating Income	1,258,831	1,837,313	1,993,448
Other Income (Expense):			
Unrealized gain (loss) on AOL Time Warner investment	2,452,406	(204,969)	(70,215)
Unrealized (loss) gain on indexed debt securities	(629,523)	101,851	58,033
(Loss) income from equity investments in unconsolidated subsidiaries	(793)	42,860	57,440
Operating results from equity investments in unconsolidated Latin America assets	(26,176)	(40,583)	—
Impairment of Latin America unconsolidated equity investments	—	(130,842)	(4,330)
Loss on disposal of Latin America assets	—	(176,400)	—
Interest expense	(500,151)	(713,674)	(602,090)
Distribution on trust preferred securities	(51,220)	(54,358)	(55,598)
Minority interest	638	988	(81,399)
Other, net	60,836	96,366	123,496
Total	1,306,017	(1,078,761)	(574,663)
Income Before Income Taxes, Extraordinary Items, Cumulative Effect of Accounting Change and Preferred Dividends	2,564,848	758,552	1,418,785
Income Tax Expense	899,117	318,497	499,845
Income Before Extraordinary Items, Cumulative Effect of Accounting Change and Preferred Dividends	1,665,731	440,055	918,940
Extraordinary (Loss) Gain, net of tax of $98,679 and $0 in 1999 and 2000, respectively	(183,261)	7,445	—
Income Before Cumulative Effect of Accounting Change and Preferred Dividends	1,482,470	447,500	918,940
Cumulative Effect of Accounting Change, net of tax of $33,205 in 2001	—	—	61,619
Income Before Preferred Dividends	1,482,470	447,500	980,559
Preferred Dividends	389	389	858
Net Income Attributable to Common Stockholders	$ 1,482,081	$ 447,111	$ 979,701
Basic Earnings Per Share:			
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	$ 5.84	$ 1.54	$ 3.17
Extraordinary Items, net of tax	(0 64)	0 03	—
Cumulative Effect of Accounting Change, net of tax	—	—	0.21
Net Income Attributable to Common Stockholders	$ 5.20	$ 1.57	$ 3.38
Diluted Earnings Per Share:			
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	$ 5.82	$ 1.53	$ 3.14
Extraordinary Items, net of tax	(0.64)	0 03	—
Cumulative Effect of Accounting Change, net of tax	—	—	0.21
Net Income Attributable to Common Stockholders	$ 5.18	$ 1.56	$ 3.35

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(As Restated, See Note 1)

	Year Ended December 31,		
	1999	2000	2001
	(Thousands of dollars)		
Net income attributable to common stockholders	$1,482,081	$447,111	$ 979,701
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustments from continuing operations (net of tax of $317, $594 and $98,088)	(587)	(1,104)	(94,066)
Foreign currency translation adjustments from assets held for sale (net of tax of $22,826, $40,862 and $13)	(42,392)	75,887	(24)
Unrealized (loss) gain on available-for-sale securities (net of tax of $373, $1,492 and $9,241)	(1,224)	(2,264)	16,984
Reclassification adjustments for gains on sales of available-for-sale securities realized in income (net of tax of $4,668)	—	—	(8,670)
Reclassification adjustment for impairment loss on available-for-sale securities realized in net income (net of tax of $9,276)	—	17,228	—
Additional minimum non-qualified pension liability adjustment (net of tax of $11,127 and $3,601)	—	(19,135)	5,965
Cumulative effect of adoption of SFAS No. 133 (net of tax of $215,897)	—	—	(421,852)
Net deferred gain from cash flow hedges (net of tax of $203,913)	—	—	412,445
Reclassification of deferred gain from cash flow hedges realized in net income (net of tax of $96,876)	—	—	(91,599)
Other comprehensive (loss) income	(44,203)	70,612	(180,817)
Comprehensive Income	$1,437,878	$517,723	$ 798,884

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(As Restated, See Note 1)

	December 31, 2000	December 31, 2001
	(Thousands of dollars)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 175,972	$ 135,674
Restricted cash	50,000	167,421
Investment in AOL Time Warner common stock	896,824	826,609
Accounts receivable, net	2,623,492	1,922,708
Accrued unbilled revenues	592,618	226,428
Inventory	483,213	579,673
Trading and marketing assets	4,290,803	1,611,393
Non-trading derivative assets	—	399,896
Margin deposits on energy trading and hedging activities	521,004	213,727
Other	279,335	165,206
Total current assets	9,913,261	6,248,735
Property, Plant and Equipment, net	15,260,176	15,814,170
Other Assets:		
Goodwill and other intangibles, net	3,080,686	2,946,859
Regulatory assets	1,926,103	3,276,800
Trading and marketing assets	544,909	446,610
Non-trading derivative assets	—	256,402
Equity investments in unconsolidated subsidiaries	108,727	386,841
Stranded costs indemnification receivable	—	203,693
Net assets held for sale	194,858	8,000
Restricted cash	—	6,775
Other	931,709	1,085,659
Total other assets	6,786,992	8,617,639
Total Assets	$31,960,429	$30,680,544
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term borrowings	$ 5,004,494	$ 3,435,347
Current portion of long-term debt	1,623,202	660,757
Indexed debt securities derivative	—	730,225
Accounts payable	3,057,948	1,439,840
Taxes accrued	172,449	307,827
Interest accrued	103,489	114,578
Dividends declared	110,893	9
Trading and marketing liabilities	4,272,771	1,478,335
Non-trading derivative liabilities	—	472,021
Margin deposits from customers on energy trading and hedging activities	284,603	144,700
Accumulated deferred income taxes, net	309,008	359,220
Other	706,357	563,323
Total current liabilities	15,645,214	9,706,182
Other Liabilities:		
Accumulated deferred income taxes, net	2,548,891	2,307,737
Unamortized investment tax credit	265,737	247,407
Trading and marketing liabilities	530,263	361,786
Non-trading derivative liabilities	—	649,036
Benefit obligations	491,964	547,369
Regulatory liabilities	237,487	1,359,883
Non-derivative stranded costs liability	—	203,693
Other	1,048,018	1,064,474
Total other liabilities	5,122,360	6,741,385
Long-term Debt	4,996,095	5,741,944
Commitments and Contingencies (Note 14)		
Minority Interest in Consolidated Subsidiaries	9,345	1,047,366
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Junior Subordinated Debentures of the Company	705,355	705,744
Stockholders' Equity	5,482,060	6,737,923
Total Liabilities and Stockholders' Equity	$31,960,429	$30,680,544

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

	Year Ended December 31,		
	1999	2000	2001
	(Thousands of dollars)		
Cash Flows from Operating Activities:			
Net income attributable to common stockholders	$ 1,482,081	$ 447,111	$ 979,701
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	905,305	906,318	911,450
Deferred income taxes	632,588	(41,892)	(110,279)
Investment tax credit	(58,706)	(18,330)	(18,330)
Cumulative effect of accounting change, net	—	—	(61,619)
Unrealized (gain) loss on AOL Time Warner investment	(2,452,406)	204,969	70,215
Unrealized loss (gain) on indexed debt securities	629,523	(101,851)	(58,033)
Undistributed losses (earnings) of unconsolidated subsidiaries	793	(24,931)	(30,280)
Curtailment and related enhancement of benefits	—	—	100,609
REPGB stranded cost indemnification settlement gain	—	—	(36,881)
Impairment of marketable equity securities	—	26,504	—
Extraordinary items	183,261	(7,445)	—
Net cash (used in) provided by assets held for sale	(24,547)	437,620	199,031
Minority interest	(638)	(988)	81,399
Changes in other assets and liabilities:			
Restricted cash	—	(50,000)	(117,421)
Accounts receivable, net	(325,777)	(1,933,033)	1,189,214
Inventory	51,480	(74,603)	(74,703)
Proceeds from sale of debt securities	—	123,428	—
Accounts payable	197,549	2,022,004	(1,635,274)
Federal tax refund	—	86,155	—
Fuel cost over (under) recovery/surcharge	73,567	(515,278)	422,672
Net trading and marketing assets and liabilities	(11,703)	(3,984)	(185,136)
Margin deposits on energy trading and hedging activities, net	(29,921)	(206,480)	167,374
Non-trading derivative	—	—	(51,415)
Prepaid lease obligations	—	—	(180,531)
Interest and taxes accrued	(29,858)	(48,841)	155,117
Other current assets	(21,337)	(93,731)	159,057
Other current liabilities	(4,143)	229,628	(70,841)
Other assets	(72,551)	(158,184)	(158,227)
Other liabilities	(55,939)	69,738	(1,441)
Other, net	34,931	70,100	67,639
Net cash provided by operating activities	1,103,552	1,344,004	1,713,067
Cash Flows from Investing Activities:			
Capital expenditures	(1,165,639)	(1,842,385)	(2,053,383)
Business acquisitions, net of cash acquired	(1,060,000)	(2,121,481)	—
Proceeds from sale-leaseback transactions	—	1,000,000	—
Payment of business purchase obligation	—	(981,789)	—
Investment in AOL Time Warner securities	(537,055)	—	—
Investments in unconsolidated subsidiaries	(36,582)	(5,755)	—
Net cash (used in) provided by assets held for sale	(55,100)	641,768	(13,397)
Other, net	(15,557)	23,444	(18,181)
Net cash used in investing activities	(2,869,933)	(3,286,198)	(2,084,961)
Cash Flows from Financing Activities:			
Proceeds from long-term debt, net	2,060,680	1,092,373	1,293,204
Increase (decrease) in short-term borrowings, net	822,468	2,170,314	(1,477,646)
Payments of long-term debt	(935,908)	(678,709)	(636,206)
Payment of common stock dividends	(427,255)	(426,859)	(433,918)
Proceeds from issuance of stock, net	30,452	53,809	100,430
Proceeds from subsidiary issuance of stock	—	—	1,696,074
Proceeds from sale of trust preferred securities, net	362,994	—	—
Purchase of treasury stock by subsidiary	—	—	(189,460)
Purchase of treasury stock	(90,708)	(27,306)	—
Redemption of preferred stock	—	—	(10,227)
Increase in restricted cash related to securitization financing	—	—	(6,775)
Net cash provided by (used in) assets held for sale	400	(120,173)	1,200
Other, net	(204)	(31,138)	672
Net cash provided by financing activities	1,822,919	2,032,311	337,348
Effect of Exchange Rate Changes on Cash	—	5,088	(5,752)
Net Increase (Decrease) in Cash and Cash Equivalents	56,538	95,205	(40,298)
Cash and Cash Equivalents at Beginning of Year	24,229	80,767	175,972
Cash and Cash Equivalents at End of Year	$ 80,767	$ 175,972	$ 135,674
Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest (net of amounts capitalized)	$ 504,821	$ 786,660	$ 598,009
Income taxes	401,703	526,603	563,011

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

(As Restated, See Note 1)

	1999		2000		2001	
	Shares	Amount	Shares	Amount	Shares	Amount
	(Thousands of dollars and shares)					
Preference Stock, none outstanding	—	$ —	—	$ —	—	$ —
Cumulative Preferred Stock						
Balance, beginning of year	97	9,740	97	9,740	97	9,740
Redemption of preferred stock	—	—	—	—	(97)	(9,740)
Balance, end of year	97	9,740	97	9,740	—	—
Common Stock, no par; authorized 700,000,000 shares						
Balance, beginning of year	296,271	3,136,826	297,612	3,182,751	299,914	3,257,190
Issuances related to benefit and investment plans	1,341	46,062	2,302	74,447	3,030	130,660
Unrealized gain on sale of subsidiaries' stock	—	—	—	—	—	509,499
Other	—	(137)	—	(8)	—	(48)
Balance, end of year	297,612	3,182,751	299,914	3,257,190	302,944	3,897,301
Treasury Stock						
Balance, beginning of year	(103)	(2,384)	(3,625)	(93,296)	(4,811)	(120,856)
Shares acquired	(3,524)	(90,708)	(1,184)	(27,306)	—	—
Contribution to pension plan	—	—	—	—	4,512	113,336
Other	2	(204)	(2)	(254)	299	7,520
Balance, end of year	(3,625)	(93,296)	(4,811)	(120,856)	—	—
Unearned ESOP stock						
Balance, beginning of year	(11,674)	(217,780)	(10,679)	(199,226)	(8,639)	(161,158)
Issuances related to benefit plan	995	18,554	2,040	38,068	1,569	29,270
Balance, end of year	(10,679)	(199,226)	(8,639)	(161,158)	(7,070)	(131,888)
Retained Earnings						
Balance, beginning of year		1,445,081		2,500,181		2,520,350
Net income		1,482,081		447,111		979,701
Common stock dividends — $1.50 per share in 1999 and 2000 and $1.125 in 2001		(426,981)		(426,942)		(323,518)
Balance, end of year		2,500,181		2,520,350		3,176,533
Accumulated Other Comprehensive Loss						
Balance, beginning of year		(49,615)		(93,818)		(23,206)
Other comprehensive (loss) income, net of tax:						
Foreign currency translation adjustments from continuing operations		(587)		(1,104)		(94,066)
Foreign currency translation adjustments from assets held for sale		(42,392)		75,887		(24)
Unrealized (loss) gain on available-for-sale securities		(1,224)		(2,264)		16,984
Reclassification adjustment for gains on sales of available-for-sale securities realized in income		—		—		(8,670)
Reclassification adjustment for impairment loss on available-for-sale securities realized in net income		—		17,228		—
Additional minimum non-qualified pension liability adjustment		—		(19,135)		5,965
Cumulative effect of adoption of SFAS No. 133		—		—		(421,852)
Net deferred gain from cash flow hedges		—		—		412,445
Reclassification of deferred gain from cash flow hedges realized in net income		—		—		(91,599)
Other comprehensive (loss) income		(44,203)		70,612		(180,817)
Balance, end of year		(93,818)		(23,206)		(204,023)
Total Stockholders' Equity		$5,306,332		$5,482,060		$6,737,923

See Notes to the Company's Consolidated Financial Statements

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Background and Basis of Presentation

Reliant Energy, Incorporated (Reliant Energy), together with its subsidiaries (collectively, the Company), is a diversified international energy services company that provides energy and energy services primarily in North America and Western Europe. Reliant Energy is both an electric utility company and a utility holding company through its wholly owned subsidiary Reliant Energy Resources Corp. (RERC).

The Company's financial reporting business segments include the following: Electric Operations, Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy, European Energy, Retail Energy, Latin America and Other Operations. Electric Operations includes the operations of Reliant Energy HL&P, an electric utility. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers and some non-rate regulated retail gas marketing operations to commercial and industrial customers. Pipelines and Gathering includes the interstate natural gas pipeline operations and the natural gas gathering and pipelines services businesses. Wholesale Energy is engaged in the acquisition, development and operation of non-rate regulated power generation facilities as well as the wholesale energy trading, marketing, power origination and risk management services in North America. European Energy is engaged in the operation of power generation facilities in the Netherlands as well as wholesale energy trading and power origination activities in Europe. Retail Energy consists of the Company's unregulated retail electric operations, and has historically been reported in the Other Operations business segment. Other Operations includes unallocated general corporate expenses, a communications business and non-operating investments. Latin America primarily consists of an electric utility and an electric cogeneration plant located in Argentina. Wholesale Energy, European Energy, Retail Energy and certain operations included within Other Operations are currently owned by Reliant Resources.

Reliant Energy is in the process of separating its regulated and unregulated businesses into two publicly traded companies. In December 2000, Reliant Energy transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources) which, at the time, was a wholly owned subsidiary. In May 2001, Reliant Resources conducted an initial public offering (Offering) of approximately 20% of its common stock (59.8 million shares of its common stock) at a price of $30 per share, and received net proceeds from the Offering of $1.7 billion. After the Offering, Reliant Energy owned approximately 80% of Reliant Resources. As of December 31, 2001, Reliant Energy owns approximately 83% of Reliant Resources due to treasury stock repurchases of $189 million during 2001 by Reliant Resources. As a result of the Offering, the Company recorded directly into stockholders' equity as a component of common stock a $509 million unrealized gain on the sale of subsidiaries' stock. Pursuant to a master separation agreement between Reliant Energy and Reliant Resources, Reliant Resources used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. In connection with the Offering, Reliant Energy converted $1.7 billion of intercompany indebtedness owed by Reliant Resources and its subsidiaries prior to the closing of the Offering to equity as a capital contribution to Reliant Resources. In December 2001, Reliant Energy's shareholders approved an agreement and plan of merger by which the following will occur (which we refer to as the Restructuring):

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

After the Restructuring, Reliant Energy plans, subject to further corporate approvals, market and other conditions, to complete the separation of its regulated and unregulated businesses by distributing the shares of common stock of Reliant Resources that the Company owns to its shareholders (Distribution). The Company's goal is to complete the Restructuring and subsequent Distribution as quickly as possible after all

the necessary conditions are fulfilled, including receipt of an order from the Securities and Exchange Commission (SEC) granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act) and an extension from the IRS of its private letter ruling that the Company has obtained regarding the tax-free treatment of the Distribution. Although receipt or timing of regulatory approvals cannot be assured, the Company believes it meets the standards for such approvals. Reliant Energy currently expects to complete the Restructuring and Distribution in the summer of 2002.

Effective December 1, 2000, Reliant Energy's board of directors approved a plan to dispose of the Company's Latin America business segment through sales of its assets. Accordingly, in its 2000 consolidated financial statements, the Company reported the results of its Latin America business segment as discontinued operations in accordance with Accounting Principles Board (APB) Opinion No. 30 "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," (APB Opinion No. 30) for each of the three years in the period ended December 31, 2000. On December 20, 2001, negotiations for the sale of the remaining Latin America investments were terminated as a result of the recent economic developments in Argentina. The Company will continue to evaluate options related to the future disposition of these assets.

Accordingly, the Latin America business segment is no longer reported as discontinued operations. The related operating results and loss on disposal have been reclassified within the Consolidated Statements of Income for all periods into operating income with respect to consolidated subsidiaries and other income with respect to equity investments in unconsolidated subsidiaries as required for assets held for sale by Emerging Issues Task Force (EITF) Issue No. 90-6 (EITF 90-6). For additional information regarding the disposal of the Latin America business segment, see Note 19.

Restatement

On May 9, 2002, Reliant Resources determined that it had engaged in same-day commodity trading transactions involving purchases and sales with the same counterparty for the same volume at substantially the same price, which the personnel who effected these transactions apparently did so with the sole objective of increasing volumes. Reliant Resources commenced a review to quantify the amount and assess the impact of these trades (round trip trades). The Audit Committees of each of the Board of Directors of Reliant Energy and Reliant Resources (Audit Committees) also directed an internal investigation by outside legal counsel, with assistance by outside accountants, of the facts and circumstances relating to the round trip trades and related matters.

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

Based on Reliant Resources' review, Reliant Resources determined that it engaged in such round trip trades in 1999, 2000 and 2001. The results of the Audit Committees' investigation were consistent with the results of Reliant Resources' review. The round trip trades were for 30 million megawatt hours (MWh) of power and 182 billion cubic feet (Bcf) in 1999, 30 million MWh of power in 2000, and 74 million MWh of power and 46 Bcf of natural gas in 2001. On May 13, 2002, Reliant Resources previously announced its preliminary findings of round trip trades which had identified 30 million MWh of power in 1999, 30 million MWh of power in 2000, and 78 million MWh of power and 45 Bcf of natural gas in 2001. In addition to the round trip trades reported on May 13, 2002, Reliant Resources' review also identified an additional transaction in 1999 involving 182 Bcf of natural gas totaling $364 million, which based on available information, Reliant

Resources believes was also recorded with the sole objective of increasing volumes but also resulted in increased revenues and fuel and cost of gas sold expense.

In the course of Reliant Resources' review, Reliant Resources also identified and determined to record on a net basis several transactions for energy related services (not involving round trip trades) that totaled $85 million over the three year period ended December 31, 2001. These transactions were originally recorded on a gross basis.

During 1999, 2000 and 2001, these transactions, referred to above, collectively, had the effect of increasing revenues, fuel and cost of gas sold expense and purchased power expense as follows:

	Year Ended December 31,		
	1999	2000	2001
		(In millions)	
Revenues	$1,417	$1,070	$3,902
Fuel and cost of gas sold expense	376	27	208
Purchase power expense	1,041	1,043	3,694

In addition, during the May 2001 through September 2001 time frame, Reliant Resources entered into four structured transactions involving a series of forward or swap contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003 (four structured transactions). The four structured transactions were intended to increase future cash flow and earnings and to increase certainty associated with future cash flow and earnings, albeit at the expense of 2001 cash flow and earnings. Each series of contracts in a structure were executed contemporaneously with the same counterparty and were for the same commodities, quantities and locations. The contracts in each structure were offsetting in terms of physical attributes. The transactions that settled in 2001 were previously recorded on a gross basis with such transactions being reported in revenues and expenses which resulted in $1.5 billion of revenues, $364 million in fuel and cost of gas sold and $1.2 billion of purchased power expense being recognized during the period from May 2001 through December 31, 2001. Having further reviewed the transactions, Reliant Resources now believes these transactions should have been accounted for on a net basis.

During the fourth quarter of 2000, two power generation swap contracts with a fair value of $261 million were terminated and replaced with a substantially similar contract providing for physical delivery and designated to hedge electric generation. The termination of the original contracts and execution of the replacement contract represented a substantive modification to the original contract. As a result, upon termination of the original contracts, a contractual liability representing the fair value of the original contracts and a deferred asset of equal amount should have been recorded. As of January 1, 2001, in connection with the adoption of Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133), the deferred asset should have been recorded as a transition adjustment to other comprehensive loss. The liability and transition adjustment should have been amortized on a straight-line basis over the term of the power generation contract replacing the terminated power generation contracts (through May 2004). The Company previously did not give accounting recognition to these transactions. As a result, the Company has restated its Consolidated Balance Sheets as of December 31, 2000 and 2001 and the Statements of Consolidated Stockholders' Equity and Comprehensive Income for the year ended December 31, 2001, to appropriately account for these transactions as described above. The restatement had no impact on the Company's reported consolidated cash flows, operating income or net income.

The consolidated financial statements for 1999, 2000 and 2001 have been restated from amounts previously reported to reflect all of the transactions described herein. In addition, the unaudited quarterly financial data for the interim periods ended March 31, 2001, June 30, 2000 and 2001, and September 30, 2000 and 2001 have been restated from amounts previously reported to reflect all of the transactions described

herein. The unaudited restated condensed quarterly financial statement information for the quarters ended March 31, 2001, June 30, 2000 and 2001, September 30, 2000 and 2001, and December 31, 2000 and 2001 have been included in Note 17. The restatement had no impact on previously reported consolidated cash flows, operating income or net income. A summary of the principal effects of the restatement are as follows for 1999, 2000 and 2001: (Note — Those line items for which no change in amounts is shown were not affected by the restatement.)

	Year Ended December 31, 1999	
	As Restated	As Previously Reported
	(In millions)	
Revenues	$13,794	$15,211
Expenses:		
Fuel and Cost of Gas Sold	6,331	6,707
Purchased Power	3,095	4,136
Other Expenses	3,109	3,109
Total	12,535	13,952
Operating Income	1,259	1,259
Other Income, net	1,305	1,305
Income Tax Expense	(899)	(899)
Income Before Extraordinary Loss	1,665	1,665
Extraordinary Loss	(183)	(183)
Net Income Attributable to Common Stockholders	$ 1,482	$ 1,482

	Year Ended December 31, 2000	
	As Restated	As Previously Reported
	(In millions)	
Revenues	$28,269	$29,339
Expenses:		
Fuel and Cost of Gas Sold	15,050	15,077
Purchased Power	7,580	8,623
Other Expenses	3,802	3,802
Total	26,432	27,502
Operating Income	1,837	1,837
Other Expense, net	(1,079)	(1,079)
Income Tax Expense	(318)	(318)
Income Before Extraordinary Gain	440	440
Extraordinary Gain	7	7
Net Income Attributable to Common Stockholders	$ 447	$ 447

	Year Ended December 31, 2001	
	As Restated	As Previously Reported
	(In millions)	
Revenues	$40,810	$46,226
Expenses:		
Fuel and Cost of Gas Sold	19,504	20,075
Purchased Power	15,127	19,972
Other Expenses	4,186	4,186
Total	38,817	44,233
Operating Income	1,993	1,993
Other Expense, net	(574)	(574)
Income Tax Expense	(500)	(500)
Income Before Cumulative Effect of Accounting Change	919	919
Cumulative Effect of Accounting Change, net of tax	61	61
Net Income Attributable to Common Stockholders	$ 980	$ 980

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	December 31, 2000	
	As Restated	As Previously Reported
	(in millions)	
ASSETS		
Current Assets:		
Other current assets	$ 279	$ 203
Other	9,634	9,634
Total current assets	9,913	9,837
Other Assets:		
Other noncurrent assets	932	747
Property, plant and equipment and other assets	21,115	21,115
Total other assets	22,047	21,862
Total Assets	$31,960	$31,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Other current liabilities	$ 706	$ 630
Other	14,939	14,939
Total current liabilities	15,645	15,569
Other Liabilities:		
Other liabilities	1,048	863
Other	4,074	4,074
Total other liabilities	5,122	4,937
Long-term Debt	4,996	4,996
Minority Interest in Consolidated Subsidiaries	9	9
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts	706	706
Stockholders' Equity:		
Cumulative Preferred Stock	10	10
Common Stock	3,257	3,257
Treasury Stock	(121)	(121)
Unearned ESOP	(161)	(161)
Retained earnings	2,520	2,520
Accumulated other comprehensive loss	(23)	(23)
Stockholders' equity	5,482	5,482
Total Liabilities and Stockholders' Equity	$31,960	$31,699

	December 31, 2001	
	As Restated	As Previously Reported
	(in millions)	
ASSETS		
Current Assets	$ 6,249	$ 6,249
Property, plant and equipment and other assets	24,432	24,432
Total Assets	$30,681	$30,681
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Non-trading derivative liabilities	$ 472	$ 396
Accumulated deferred income taxes, net	359	386
Other	8,875	8,875
Total current liabilities	9,706	9,657
Other Liabilities:		
Accumulated deferred income taxes, net	2,308	2,346
Non-trading derivative liabilities	649	540
Other	3,785	3,785
Total other liabilities	6,742	6,671
Long-term Debt	5,742	5,742
Minority Interest in Consolidated Subsidiaries	1,047	1,047
Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts	706	706
Stockholders' Equity:		
Common Stock	3,897	3,897
Unearned ESOP	(132)	(132)
Retained earnings	3,177	3,177
Accumulated other comprehensive loss	(204)	(84)
Stockholders' equity	6,738	6,858
Total Liabilities and Stockholders' Equity	$30,681	$30,681

The restatement did not impact earnings per share for 1999, 2000 and 2001, the Statements of Consolidated Cash Flows for 1999, 2000 and 2001, the Statements of Consolidated Comprehensive Income for 1999 and 2000 or the Statements of Consolidated Stockholders' Equity as of December 31, 1999 and 2000.

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

Beginning with the quarter ended September 30, 2002, the Company will report all energy trading and marketing activities on a net basis in the Statements of Consolidated Income pursuant to Emerging Issues

Task Force Issue No. 02-3, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities".

(2) Summary of Significant Accounting Policies

(a) Reclassifications and Use of Estimates

Some amounts from the previous years have been reclassified to conform to the 2001 presentation of financial statements. These reclassifications do not affect earnings.

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

(b) Market Risk and Uncertainties

The Company is subject to the risk associated with price movements of energy commodities and the credit risk associated with the Company's risk management activities. For additional information regarding these risks, see Notes 5, 14(g) and 21. The Company is also subject to risks relating to the supply and prices of fuel and electricity, seasonal weather patterns, technological obsolescence and the regulatory environment in the United States, and Western Europe and Latin America.

(c) Principles of Consolidation

The accounts of Reliant Energy and its wholly owned and majority owned subsidiaries are included in the consolidated financial statements. All significant intercompany transactions and balances are eliminated in consolidation. The Company uses the equity method of accounting for investments in entities in which the Company has an ownership interest between 20% and 50% and exercises significant influence. For additional information regarding these investments, see Note 7. Other investments, excluding marketable securities, are generally carried at cost. The results of the Company's European Energy business segment are consolidated on a one-month lag basis due to the availability of financial information. The Company has made adjustments to the European Energy business segment's accounts to include the effect of the settlement of our indemnity for certain energy obligations in December 2001 (see Note 14(h)). The Company owns approximately 83% of Reliant Resources and has reflected the third-party interest in Reliant Resources as minority interest in the Consolidated Balance Sheets and Statements of Consolidated Income.

(d) Revenues

The Company records revenue for electricity and natural gas sales and services to retail customers, except for certain contracted sales to large commercial, industrial and institutional customers, under the accrual method and these revenues are generally recognized upon delivery. Pipelines and Gathering record revenues as transportation services are provided. Energy sales and services not billed by month-end are accrued based upon estimated energy and services delivered. Domestic non-rate regulated electric power and other non-rate regulated energy services are sold at market-based prices through existing power exchanges or through third-party contracts. Prior to January 1, 2001, energy revenues related to the Company's power generation facilities in Europe were generated under a regulated pricing structure, which included compensation for the cost of fuel, capital and operation and maintenance expenses. The wholesale electric market in the Netherlands opened to competition on January 1, 2001. Accordingly, beginning in 2001, electric power and other energy services in Europe are sold at market-based prices or through third-party contracts.

The Company's energy trading, marketing, power origination and risk management services activities and contracted sales of electricity to large commercial, industrial and institutional customers are accounted for under mark-to-market accounting. Under the mark-to-market method of accounting, financial instruments and contractual commitments are recorded at fair value in revenues upon contract execution. The net changes

in their fair values are recognized in the Statements of Consolidated Income as revenues in the period of change. Trading and marketing revenues related to the physical sale of natural gas, electric power and other energy related commodities are recorded on a gross basis in the delivery period. For additional discussion regarding trading and marketing revenue recognition and the related estimates and assumptions that can affect reported amounts of such revenues, see Note 5.

The gains and losses related to financial instruments and contractual commitments qualifying and designated as hedges related to the sale of electric power and sales and purchases of natural gas are recognized in the same period as the settlement of the underlying physical transaction. These realized gains and losses are included in operating revenues and operating expenses in the Statements of Consolidated Income. For additional discussion, see Note 5.

(e) Long-lived Assets and Intangibles

The Company records property, plant and equipment at historical cost. The Company recognizes repair and maintenance costs incurred in connection with planned major maintenance, such as turbine and generator overhauls, control system upgrades and air conditioner replacements, under the "accrual in advance" method for its non-rate regulated power generation operations acquired or developed prior to December 31, 1999. Planned major maintenance cycles primarily range from two to ten years. Under the accrual in advance method, the Company estimates the costs of planned major maintenance and accrues the related expense over the maintenance cycle. As of December 31, 2000 and 2001, the Company's maintenance reserve was $27 million and $19 million, respectively, of which $20 million and $17 million, respectively, were included in other long-term liabilities and the remainder in other current liabilities. The Company expenses all other repair and maintenance costs as incurred. Property, plant and equipment includes the following:

	Estimated Useful Lives (Years)	December 31, 2000	December 31, 2001
		(In millions)	
Electric	5-75	$18,754	$20,092
Natural gas distribution	5-50	1,809	2,002
Pipelines and gathering	5-75	1,582	1,627
Other property	3-40	247	450
Total		22,392	24,171
Accumulated depreciation and amortization		(7,132)	(8,357)
Property, plant and equipment, net		$15,260	$15,814

The Company records goodwill for the excess of the purchase price over the fair value assigned to the net assets of an acquisition. Goodwill has been amortized on a straight-line basis over 5 to 40 years. See Note 3 and the following table for additional information regarding goodwill and the related amortization periods.

	Estimated Useful Lives (Years)	December 31, 2000	December 31, 2001
		(In millions)	
Reliant Energy Resources Corp. (RERC Corp.)	40	$1,955	$1,955
Reliant Energy Mid-Atlantic Power Holdings, LLC	35	7	5
Reliant Energy Power Generation Benelux N.V.	30	897	877
Florida Generation Plant	35	2	2
California Generation Plants	30	70	70
Reliant Energy Services, Inc.	40	131	131
Other	5-35	64	45
Total		3,126	3,085
Accumulated amortization		(222)	(303)
Foreign currency exchange impact		(107)	(150)
Total goodwill, net		$2,797	$2,632

The Company recognizes specifically identifiable intangibles, including air emissions regulatory allowances and water rights and permits, when specific rights and contracts are acquired. As of December 31, 2000 and 2001, specific intangibles were $284 million and $315 million, respectively. The Company amortizes air emissions regulatory allowances primarily on a units-of-production basis as utilized. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range between 5 and 35 years.

The Company periodically evaluates long-lived assets, including property, plant and equipment, goodwill and specifically identifiable intangibles, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions. During 2001, the Company determined equipment and goodwill associated with its Communications business was impaired and accordingly recognized $22 million of fixed asset impairments and $19 million of goodwill impairments (see Note 20). For discussion of goodwill impairment analysis in 2002, see Note 2(q).

During December 2001, the Company evaluated its European Energy business segment's long-lived assets and goodwill for impairment. As of December 31, 2001, pursuant to Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (SFAS No. 121), no impairment had been indicated. For discussion of goodwill impairment analysis in 2002, see Note 2(q).

During the fourth quarter of 2001, the Distribution of Reliant Resources was deemed to be a probable event. As Reliant Resources has an option, subject to the completion of the Distribution, to purchase the Company's Texas generation assets in 2004 (see Note 4(b)), the Company was required to evaluate these assets for potential impairment in accordance with SFAS No. 121, due to an expected decrease in the number of years the Company expects to hold and operate these assets. As of December 31, 2001, no impairment had been indicated. The Company anticipates that future events, such as the expected public offering of the Company's Texas generation operations (see Note 4(b)), or change in the estimated holding period of the Texas generation assets, will require the Company to re-evaluate these assets for impairment between now and 2004. If an impairment is indicated, it could be material and will not be fully recoverable through the 2004 true-up proceeding calculations (see Note 4(a)).

The Texas Electric Restructuring Law provides the Company recovery of the regulatory book value of its Texas generating assets for the amount the regulatory book value exceeds the estimated market value. If the Texas generating assets are sold to Reliant Resources, or to a third party in the future, a loss on sale of these assets, or an impairment of the recorded recoverable electric generation plant mitigation regulatory asset (see Note 2(f)), will occur to the extent the recorded book value of the Texas generating assets exceeds the regulatory book value. As of December 31, 2001, the recorded book value was $638 million in excess of the regulatory book value. This amount declines each year as the recorded book value is depreciated and increases by the amount of non-environmental capital expenditures. For further discussion of the difference between the regulatory book value and the recorded book value, see Note 4.

(f) Regulatory Assets and Liabilities

The Company applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) to the accounts of transmission and distribution operations of Reliant Energy HL&P and the utility operations of Natural Gas Distribution and to some of the accounts of Pipelines and Gathering. For information regarding Reliant Energy HL&P's electric generation operations' discontinuance of the application of SFAS No. 71 in 1999 and the effect on its regulatory assets and the Texas Electric Choice Plan (Texas Electric Restructuring Law), see Note 4(a).

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2000 and 2001:

	December 31,	
	2000	2001
	(In millions)	
Recoverable impaired plant costs, net	$ 281	$ —
Recoverable electric generation related regulatory assets, net	1,150	160
Securitized regulatory asset	—	740
Regulatory tax asset, net	186	111
Unamortized loss on reacquired debt	66	62
Recoverable electric generation plant mitigation	—	1,967
Excess mitigation liability	—	(1,126)
Other long-term assets/liabilities	6	3
Total	$1,689	$ 1,917

If, as a result of changes in regulation or competition, the Company's ability to recover these assets and liabilities would not be assured, then pursuant to SFAS No. 101, "Regulated Enterprises Accounting for the Discontinuation of Application of SFAS No. 71" (SFAS No. 101) and SFAS No. 121, the Company would be required to write off or write down these regulatory assets and liabilities. In addition, the Company would be required to determine any impairment to the carrying costs of plant and inventory assets. See Note 4(a) for a discussion of the discontinuation of SFAS No. 71 related to Reliant Energy HL&P's electric generation operations.

Through December 31, 2001, the Texas Utility Commission provided for the recovery of most of Reliant Energy HL&P's fuel and purchased power costs from customers through a fixed fuel factor included in electric rates. Included in the above table in recoverable electric generation related regulatory assets, net are $558 million and $200 million of regulatory assets related to the recovery of fuel costs as of December 31, 2000 and 2001.

In December 2001, the Company recorded a regulatory asset for recoverable electric generation plant mitigation for $2.0 billion and recorded a regulatory liability of $1.1 billion for excess mitigation, resulting in net regulatory assets of $841 million on which the Company will not earn a return and which are not included in the Company's rate base. Recoverable electric plant generation regulatory assets are anticipated to be recovered in the 2004 true-up proceedings as further discussed in Note 4(a). The Company is entitled to

recover its full amount of stranded costs in the 2004 true-up proceeding. That recovery would include any amounts whose earlier mitigation was prevented by excess mitigation credits and the reversal of redirected depreciation ordered by the Texas Utility Commission.

In 2001, the Company monetized $738 million of regulatory assets in a securitization financing authorized by the Texas Utility Commission pursuant to the Texas Electric Restructuring Law. For additional information regarding the securitization financing, see Note 4(a).

For additional information regarding recoverable impaired plant costs and recoverable electric generation related assets and the related amortization during 1999, 2000 and 2001, see Notes 2(g) and 4(a).

(g) Depreciation and Amortization Expense

Depreciation is computed using the straight-line method based on economic lives or a regulatory mandated method. Other amortization expense includes amortization of regulatory assets and air emissions regulatory allowances and other intangibles. See Notes 2(f) and 4(a) for additional discussion of these items.

The following table presents depreciation, goodwill amortization and other amortization expense for 1999, 2000 and 2001.

	Year Ended December 31,		
	1999	2000	2001
	(In millions)		
Depreciation expense	$547	$391	$436
Goodwill amortization expense	62	86	81
Write off of Communications goodwill	—	—	19
Other amortization expense	296	429	375
Total depreciation and amortization expense	$905	$906	$911

In June 1998, the Texas Utility Commission issued an order approving a transition to competition plan (Transition Plan) filed by Reliant Energy HL&P in December 1997. In order to reduce Reliant Energy HL&P's exposure to potential stranded costs related to generation assets, the Transition Plan permitted the redirection of depreciation expense to generation assets that Reliant Energy HL&P otherwise would apply to transmission, distribution and general plant assets (Redirected Depreciation). In addition, the Transition Plan provided that all earnings above a stated overall annual rate of return on invested capital be used to recover Reliant Energy HL&P's investment in generation assets (Accelerated Depreciation). Reliant Energy HL&P implemented the Transition Plan effective January 1, 1998 and pursuant to its terms, recorded $194 million in Accelerated Depreciation and $195 million in Redirected Depreciation in 1998 and $104 million in Accelerated Depreciation and $99 million in Redirected Depreciation in the first six months in 1999. Due to the discontinuance of SFAS No. 71 to Reliant Energy HL&P's generation operations, the provisions for Accelerated and Redirected Depreciation of the Transition Plan were no longer applied effective July 1, 1999. For additional information regarding the discontinuance of SFAS No. 71 to the Electric Operations business segments' generation operations and the related Texas Electric Restructuring Law, as well as an October 3, 2001 order finding that the Company had overmitigated its stranded costs, see Note 4(a).

(h) Capitalization of Interest and Allowance for Funds Used During Construction

Allowance for funds used during construction (AFUDC) represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases both utility plant and earnings, it is realized in cash through depreciation provisions included in rates for subsidiaries that apply SFAS No. 71. Interest and AFUDC for subsidiaries that apply SFAS No. 71 are capitalized as a component of projects under construction and will be amortized over the assets' estimated useful lives. During 1999, 2000 and 2001, the Company capitalized interest and AFUDC related to debt of $19 million, $45 million and $68 million, respectively.

(i) Income Taxes

The Company files a consolidated federal income tax return. The Company follows a policy of comprehensive interperiod income tax allocation. The Company uses the liability method of accounting for deferred income taxes and measures deferred income taxes for all significant income tax temporary differences. Investment tax credits were deferred and are being amortized over the estimated lives of the related property. Unremitted earnings from the Company's foreign operations are deemed to be permanently reinvested in foreign operations. For additional information regarding income taxes, see Note 13.

(j) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable, principally from customers, are net of an allowance for doubtful accounts of $89 million and $136 million at December 31, 2000 and 2001, respectively. The provision for doubtful accounts in the Company's Statements of Consolidated Income for 1999, 2000 and 2001 was $16 million, $80 million and $90 million, respectively. In addition, during the year ended December 31, 2001, the Company wrote off $15 million of receivables for refunds related to energy sales in California and $88 million related to energy sales to Enron Corp. and its affiliates (Enron) which filed a voluntary petition for bankruptcy during the fourth quarter of 2001. For information regarding the provision against receivable balances related to energy sales in the California market and to Enron, see Notes 14(g) and 21, respectively.

During 1999, 2000 and 2001, the Company had an agreement under which it sold substantially all of the customer accounts receivable of Reliant Energy HL&P. Receivables aggregating $4.4 billion, $4.9 billion and $5.8 billion were sold in 1999, 2000 and 2001, respectively. In December 2001, Reliant Energy HL&P terminated the agreement under which it sold its customer accounts receivable and recorded an early termination charge of $20 million in the Statements of Consolidated Income. Proceeds for the repurchase of receivables, which occurred in January 2002, were obtained from a combination of bank loans and the sale of commercial paper. Net proceeds from the sale of customer accounts receivable were $523 million at December 31, 2001. Such proceeds were not reflected as debt in the Consolidated Balance Sheets.

(k) Inventory

Inventory consists principally of materials and supplies, coal and lignite, natural gas and heating oil. Inventories used in the production of electricity and in the retail natural gas distribution operations are valued at the lower of average cost or market except for coal and lignite, which are valued under the last-in, first-out method. Heating oil and natural gas used in the trading and marketing operations are accounted for under mark-to-market accounting as discussed in Note 5.

	December 31,	
	2000	2001
	(In millions)	
Materials and supplies	$270	$273
Coal and lignite	59	92
Natural gas	107	173
Heating oil	47	42
Total inventory	$483	$580

(l) Investment in Other Debt and Equity Securities

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), the Company reports "available-for-sale" securities at estimated fair value within other long-term assets in the Company's Consolidated Balance Sheets and any unrealized gain or loss, net of tax, as a separate component of stockholders' equity and accumulated other comprehensive (loss) income. In accordance with SFAS No. 115, the Company reports "trading" securities at estimated fair value in the Company's Consolidated Balance Sheets, and any unrealized holding gains and losses are recorded as other income (expense) in the Company's Statements of Consolidated Income.

As of December 31, 2000 and 2001, the Company held "available-for-sale" debt and equity securities in its nuclear decommissioning trust, which is reported at its fair value of $159 million and $169 million, respectively, in the Company's Consolidated Balance Sheets in other long-term assets. Any unrealized losses or gains are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability.

In addition, as of December 31, 2000 and 2001, the Company held marketable equity securities of $5 million and $12 million, respectively, classified as "available-for-sale." At December 31, 2000, the accumulated unrealized loss, net of tax, relating to these equity securities was $2 million. At December 31, 2001, the accumulated unrealized gain, net of tax, relating to these equity securities was $6 million.

During 2000, pursuant to SFAS No. 115, the Company incurred a pre-tax impairment loss equal to the $27 million of cumulative unrealized losses that had been charged to accumulated other comprehensive loss through December 31, 1999. Management's determination to recognize this impairment resulted from a combination of events occurring in 2000 related to this investment. These events affecting the investment included changes occurring in the investment's senior management, announcement of significant restructuring charges and related downsizing for the entity, reduced earnings estimates for this entity by brokerage analysts and the bankruptcy of a competitor of the investment in the first quarter of 2000. These events, coupled with the stock market value of the Company's investment in these securities continuing to be below the Company's cost basis, caused management to believe the decline in fair value of these "available-for-sale" securities to be other than temporary.

As of December 31, 2000 and 2001, the Company held an investment in AOL Time Warner common stock, which was classified as a "trading" security. For information regarding the Company's investment in AOL Time Warner, Inc. common stock, see Note 8.

As of December 31, 2000, the Company did not hold debt or equity securities that are classified as "trading", other than its investment in AOL Time Warner. As of December 31, 2001, the Company held equity securities classified as "trading" totaling $1 million, other than its investment in AOL Time Warner. The Company recorded unrealized holding gains on "trading" securities, excluding unrealized gains and losses related to the Company's investment in AOL Time Warner, included in gains from investments in the Statements of Consolidated Income of $16 million, $4 million and $5 million during 1999, 2000 and 2001, respectively.

(m) Project Development Costs

Project development costs include costs for professional services, permits and other items that are incurred incidental to a particular project. The Company expenses these costs as incurred until the project is considered probable. After a project is considered probable, capitalizable costs incurred are capitalized to the project. When project operations begin, the Company begins to amortize these costs on a straight-line basis over the life of the facility. As of December 31, 2000 and 2001, the Company had recorded in the Consolidated Balance Sheets project development costs of $7 million and $9 million, respectively.

(n) Environmental Costs

The Company expenses or capitalizes environmental expenditures, as appropriate, depending on their future economic benefit. The Company expenses amounts that relate to an existing condition caused by past operations, and that do not have future economic benefit. The Company records undiscounted liabilities related to these future costs when environmental assessments and/or remediation activities are probable and the costs can be reasonably estimated. Subject to SFAS No. 71, a corresponding regulatory asset is recorded in anticipation of recovery through the rate making process by subsidiaries that apply SFAS No. 71 in some circumstances.

(o) Foreign Currency Adjustments

Local currencies are the functional currency of the Company's foreign operations. Foreign subsidiaries' assets and liabilities have been translated into U.S. dollars using the exchange rate at the balance sheet date. Revenues, expenses, gains and losses have been translated using the weighted average exchange rate for each month prevailing during the periods reported. Cumulative adjustments resulting from translation have been recorded as a component of accumulated other comprehensive loss in stockholders' equity. Through December 31, 2001, the U.S. dollar had been the functional currency for the Company's operations in Argentina since the revenues and costs of these operations were based primarily on U.S. dollar-indexed contracts. Since the inception of the Company's operations in Argentina, the Argentine peso has been pegged to the U.S. dollar at a rate of one Argentine peso to one U.S. dollar. As a result, no foreign currency adjustments have resulted from these operations through 2001. The Company has determined that the functional currency for its Argentina operations in 2002 will be the Argentine peso as a result of Argentine legislation enacted in January 2002 requiring that all U.S. dollar-indexed contracts be restructured to Argentine pesos.

(p) Statements of Consolidated Cash Flows

For purposes of reporting cash flows, the Company considers cash equivalents to be short-term, highly liquid investments with maturities of three months or less from the date of purchase. As of December 31, 2001, the Company has recorded $167 million of restricted cash that is available for Reliant Energy Mid-Atlantic Power Holdings LLC and its subsidiaries' (collectively, REMA) working capital needs and future lease payments. For additional discussion regarding REMA's lease transactions, see Note 14(b). In connection with a financing completed in October 2001, the Company was required to establish restricted cash accounts to collateralize the bonds that were issued in this financing transaction. These restricted cash accounts are reflected as Restricted Cash in the Consolidated Balance Sheets and are classified as long-term as they are not available for withdrawal until the maturity of the bonds. Cash and Cash Equivalents does not include Restricted Cash. For additional information regarding the securitization financing, see Note 4(a).

(q) New Accounting Pronouncements

Staff Accounting Bulletin No. 101, "Revenue Recognition" (SAB No. 101), was issued by the SEC on December 3, 1999. SAB No. 101 summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. The consolidated financial statements reflect the accounting guidance provided in SAB No. 101.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141 "Business Combinations" (SFAS No. 141) and SFAS No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142). SFAS No. 141 requires business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting and broadens the criteria for recording intangible assets separate from goodwill. Recorded goodwill and intangibles will be evaluated against these new criteria and may result in certain intangibles being transferred to goodwill, or alternatively, amounts initially recorded as goodwill may be separately identified and recognized apart from goodwill. SFAS No. 142 provides for a nonamortization approach, whereby goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead will be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. The Company adopted the provisions of each statement which apply to goodwill and intangible assets acquired prior to June 30, 2001 on January 1, 2002. The adoption of SFAS No. 141 did not have a material impact on the Company's historical results of operations or financial position. On January 1, 2002, the Company discontinued amortizing goodwill into the results of operations pursuant to SFAS No. 142. The Company recognized $81 million of goodwill amortization expense in the Statements of Consolidated Income during 2001, excluding a $19 million write-off of its Communications business goodwill

balance which was recorded as goodwill amortization expense (see Note 20). The Company is in the process of determining further effects of adoption of SFAS No. 142 on its consolidated financial statements, including the review of goodwill and certain intangible assets for impairment. The Company has not completed its review pursuant to SFAS No. 142. However, based on the Company's preliminary review, the Company believes an impairment of its European Energy business segment goodwill is reasonably possible. As of December 31, 2001, net goodwill associated with the European Energy business segment is $632 million. The Company has not completed its preliminary review of its other business segments with net goodwill totaling $2.0 billion. The Company anticipates finalizing its review of goodwill and certain intangible assets during 2002.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of a liability for an asset retirement legal obligation to be recognized in the period in which it is incurred. When the liability is initially recorded, associated costs are capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. The Company plans to adopt SFAS No. 143 on January 1, 2003 and is in the process of determining the effect of adoption on its consolidated financial statements. For certain operations subject to cost of service rate regulation, the Company is permitted to include annual charges for cost of removal and nuclear decommissioning costs in the revenues charged to customers.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supercedes SFAS No. 121 and APB Opinion No. 30, while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with early adoption encouraged. SFAS No. 144 is not expected to materially change the methods used by the Company to measure impairment losses on long-lived assets, but may result in additional future dispositions being reported as discontinued operations than was previously permitted. The Company adopted SFAS No. 144 on January 1, 2002.

See Note 5 for the Company's adoption of SFAS No. 133 on January 1, 2001 and adoption of subsequent cleared guidance.

(3) Business Acquisitions

(a) Reliant Energy Mid-Atlantic Power Holdings, LLC

On May 12, 2000, a subsidiary of the Company purchased entities owning electric power generating assets and development sites located in Pennsylvania, New Jersey and Maryland having an aggregate net generating capacity of approximately 4,262 MW. With the exception of development entities that were sold to another subsidiary of Reliant Resources in July 2000, the assets of the entities acquired are held by REMA. The purchase price for the May 2000 transaction was $2.1 billion. In 2002, the Company made an $8 million payment to the prior owner for post-closing adjustments which resulted in an adjustment to purchase price. The Company accounted for the acquisition as a purchase with assets and liabilities of REMA reflected at their estimated fair values. The Company's fair value adjustments related to the acquisition primarily included adjustments in property, plant and equipment, air emissions regulatory allowances, specific intangibles,

materials and supplies inventory, environmental reserves and related deferred taxes. The air emissions regulatory allowances of $153 million are being amortized on a units-of-production basis as utilized. The specific intangibles which relate to water rights and permits of $43 million will be amortized over the estimated life of the related facility of 35 years. The excess of the purchase price over the fair value of the net assets acquired of $5 million was recorded as goodwill and historically was amortized over 35 years. The Company finalized these fair value adjustments in May 2001. There were no additional material modifications to the preliminary adjustments from December 31, 2000. Funds for the acquisition of REMA were made available through commercial paper borrowings by a finance subsidiary, which borrowings were supported by credit facilities.

The net purchase price of REMA was allocated and the fair value adjustments to the seller's book value are as follows:

	Purchase Price Allocation	Fair Value Adjustments
	(In millions)	
Current assets	$ 85	$ (27)
Property, plant and equipment	1,898	627
Goodwill	5	(146)
Other intangibles	196	33
Other assets	3	(5)
Current liabilities	(50)	(13)
Other liabilities	(39)	(15)
Total	$2,098	$ 454

Adjustments to property, plant and equipment, other intangibles which includes air emissions regulatory allowances and other specific intangibles, and environmental reserves included in other liabilities are based primarily on valuation reports prepared by independent appraisers and consultants.

In August 2000, the Company, through subsidiaries, entered into separate sale-leaseback transactions with each of three owner-lessors covering the subsidiaries' respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, acquired as part of the REMA acquisition. As lessee, Reliant Resources leases an interest in each facility from each owner-lessor under a facility lease agreement. As consideration for the sale of the Company's interest in the facilities, the Company received $1.0 billion in cash. The Company used the $1.0 billion of sale proceeds to repay certain commercial paper borrowings as described above.

The Company's results of operations include the results of REMA only for the period beginning May 12, 2000. The following table presents selected actual financial information and unaudited pro forma information for 1999 and 2000, as if the acquisition had occurred on November 24, 1999 and January 1, 2000, as applicable. Pro forma information for operations prior to November 24, 1999 would not be meaningful since historical financial results of the business and the revenue generating activities underlying that period are substantially different from the wholesale generation activities that REMA has been engaged in after November 24, 1999. Pro forma amounts also give effect to the sale and leaseback of interests in three of the REMA generating plants, which were consummated in August 2000.

	Year Ended December 31,			
	1999		2000	
	Actual	Unaudited Pro forma	Actual	Unaudited Pro forma
	(In millions)			
Revenues	$13,794	$13,824	$28,269	$28,436
Income after tax and before extraordinary items	1,666	1,656	440	431
Net income attributable to common stockholders	1,482	1,472	447	438

These unaudited pro forma results, based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the amounts that would have resulted if the acquisition of the REMA entities had occurred on November 24, 1999 and January 1, 2000, as applicable. Purchase-related adjustments to the results of operations include the effects on depreciation and amortization, interest expense and income taxes.

(b) Reliant Energy Power Generation Benelux N.V.

Effective October 7, 1999, a subsidiary of the Company acquired REPGB, a Dutch electric generation company, for a total net purchase price, payable in Dutch Guilders (NLG), of $1.9 billion based on an exchange rate on October 7, 1999 of 2.06 NLG per U.S. dollar. The aggregate purchase price paid in 1999 by the Company consisted of $833 million in cash. On March 1, 2000, under the terms of the acquisition agreement, the Company funded the remaining purchase obligation for $982 million. A portion ($596 million) of this obligation was financed with a three-year term loan facility obtained in the first quarter of 2000.

The Company recorded the REPGB acquisition under the purchase method of accounting, with assets and liabilities of REPGB reflected at their estimated fair values As outlined in the table below, the Company's fair value adjustments related to the acquisition of REPGB primarily included increases in property, plant and equipment, long-term debt, severance liabilities, post-employment benefit liabilities and deferred foreign taxes. Additionally, a $19 million receivable was recorded in connection with the acquisition as the selling shareholders agreed to reimburse REPGB for some obligations incurred prior to the purchase of REPGB. Adjustments to property, plant and equipment are based on valuation reports prepared by independent appraisers and consultants. The excess of the purchase price over the fair value of net assets acquired of $877 million was recorded as goodwill and was historically amortized on a straight-line basis over 30 years. The Company finalized these fair value adjustments in September 2000. The Company finalized a severance plan (REPGB Plan) in connection with the REPGB acquisition in September 2000 (commitment date) and in accordance with EITF Issue No. 95-3 "Recognition of Liabilities in Connection with a Purchase Business Combination," recorded this liability of $19 million in the third quarter of 2000. During 2001, the Company utilized $8 million of the reserve for the REPGB Plan. As of December 31, 2001, the remaining severance liability is $11 million. The majority of the $11 million of remaining severance liability will be disbursed in accordance with the terms and conditions outlined by a collective labor bargaining agreement regarding employees near retirement age (Social Plan) in accordance with applicable Dutch labor law. The Social Plan, which by formula defines termination benefits, prescribes a payout period for up to five years for an employee subsequent to termination date. In the fourth quarter of 2001, the Dutch taxing authority finalized REPGB's tax basis of property, plant and equipment as of October 1999. As a result, the Company recorded an adjustment to decrease goodwill and accumulated deferred tax liability by $5 million in the fourth quarter of 2001. As of December 31, 2001, the tax basis of other certain assets and liabilities has not been finalized.

In connection with the acquisition of REPGB, the Company developed a comprehensive business process reengineering and employee severance plan intended to make REPGB competitive in the deregulated Dutch electricity market that began January 1, 2001. The REPGB Plan's initial conceptual formulation was initiated prior to the acquisition of REPGB in October 1999. The finalization of the REPGB Plan was approved and

completed in September 2000. The Company identified 195 employees who were involuntarily terminated in REPGB's following functional areas: plant operations and maintenance, procurement, inventory, general and administrative, legal, finance and support. The Company has notified all employees identified under the severance component of the REPGB Plan that they are subject to involuntary termination and the majority of terminations occurred during 2001. The termination benefits under the REPGB Plan are governed by REPGB's Social Plan, a collective bargaining agreement between REPGB and its various representative labor unions signed in 1998. The Social Plan provides defined benefits for involuntarily severed employees depending upon age, tenure and other factors, and was agreed to by the management of REPGB as a result of the anticipated deregulation of the Dutch electricity market. The Social Plan is still in force and binding on the current management of the Company and REPGB. The Company is still executing the REPGB Plan as of the date of these consolidated financial statements.

The net purchase price of REPGB was allocated and the fair value adjustments to the seller's book value are as follows:

	Purchase Price Allocation	Fair Value Adjustments
	(In millions)	
Current assets	$ 244	$ 34
Property, plant and equipment	1,899	719
Goodwill	877	877
Current liabilities	(336)	—
Deferred taxes	(76)	(76)
Long-term debt	(422)	(87)
Other long-term liabilities	(244)	(35)
Total	$1,942	$1,432

The following table presents selected actual financial information for 1999 and unaudited pro forma information for 1999, as if the acquisition of REPGB had occurred on January 1, 1999. The pro forma results are based on assumptions deemed appropriate by the Company's management, have been prepared for informational purposes only and are not necessarily indicative of the consolidated results that would have resulted if the acquisition of REPGB had occurred on January 1, 1999. Purchase related adjustments to results of operations include amortization of goodwill, interest expense and the effects on depreciation and amortization of the assessed fair value of some of REPGB's net assets and liabilities.

	1999	
	Actual	Pro forma
	(In millions)	
Revenues	$13,794	$14,371
Net income attributable to common stockholders	1,482	1,455

(c) Florida Generation Plant Purchase

On October 6, 1999, the Company purchased a steam turbine generation plant (Indian River) with a net generating capacity of 619 MW from a Florida municipality (Municipality) for a net purchase price of $188 million. Indian River, located near Titusville, Florida, consists of three conventional steam generation units fueled by both oil and natural gas. Under the Company's ownership, the units will sell up to 578 MW of power generation from Indian River to the Municipality through a power purchase agreement that was originally scheduled to expire in September 2003, but has been extended through September 2007. During the option period, the Municipality has the right to purchase up to 500 MW for the first two years of the option period and 300 MW for the final two years. Any excess power generated by the plant may be sold to other utilities and rural electric cooperatives within the state and other entities within the Florida wholesale market.

The Company recorded the acquisition under the purchase method of accounting. The purchase price has been allocated to assets acquired and liabilities assumed based on their estimated fair market values at the date of acquisition. The Company's fair value adjustments related to the acquisition of Indian River primarily included increases in property, plant and equipment, specific intangibles related to water rights and permits, major maintenance reserves and related deferred taxes. The specific intangibles of $112 million are being amortized over their contractual lives of 35 years. The Company finalized these fair value adjustments during September 2000. There were no material adjustments made to the purchase allocation subsequent to December 31, 1999.

Net purchase price of Indian River was allocated as follows (in millions):

Current assets	$ 15
Property, plant and equipment	93
Goodwill	2
Other intangibles	112
Major maintenance reserve	(3)
Other long-term liabilities	(31)
Total	$188

The Company's results of operations include Indian River's results of operations only for the period beginning with the October 6, 1999 acquisition date. Pro forma information has not been presented for Indian River for 1999. Pro forma information would not be meaningful since historical financial results of the business and the revenue generating activities underlying that period as described below are substantially different from the wholesale generation activities that Indian River has been engaged in after October 6, 1999. Prior to the Company's acquisition, the acquired Indian River generation operations were fully integrated with, and its results of operations were consolidated into, the Municipality's vertically-integrated utility operations. In addition, prior to the Company's acquisition, the electric output of these facilities was sold based on rates set by regulatory authorities and are not indicative of these assets' future operating results as a wholesale electricity provider.

(4) Regulatory Matters

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

In June 1999, the Texas legislature adopted the Texas Electric Restructuring Law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition. Retail pilot projects allowing competition for up to 5% of each utility's load in all customer classes began in the third quarter of 2001, and retail electric competition for all other customers began in January 2002. In preparation for competition, the Company made significant changes in the electric utility operations it conducts through its electric utility division, Reliant Energy HL&P. In addition, the Texas Utility Commission issued a number of new rules and determinations in implementing the Texas Electric Restructuring Law.

The Texas Electric Restructuring Law defined the process for competition and created a transition period during which most utility rates were frozen at rates not in excess of their then-current levels. The Texas Electric Restructuring Law provided for utilities to recover their generation related stranded costs and regulatory assets (as defined in the Texas Electric Restructuring Law).

Retail Choice. Under the Texas Electric Restructuring Law, beginning January 1, 2002, retail customers of most investor owned electric utilities in Texas became eligible to purchase their electricity from any of a number of "retail electric providers," which are certified by the Texas Utility Commission. Retail electric providers may not own or operate generation assets and their sales prices are not subject to traditional

cost-of-service rate regulation. Retail electric providers that are affiliates of electric utilities may compete substantially statewide for these sales, but prices they charge within the affiliated electric utility's traditional service territory are subject to some limitations at the outset of retail choice, as described below. The Texas Utility Commission has prescribed regulations governing quality, reliability and other aspects of service from retail electric providers. Reliant Resources intends to compete in the Texas retail market and, as a result, has certified three of its subsidiaries as retail electric providers.

Unbundling. As of January 1, 2002, electric utilities in Texas such as Reliant Energy HL&P unbundled their businesses in order to separate power generation, transmission and distribution, and retail activities into different units. Pursuant to the Texas Electric Restructuring Law, the Company submitted a plan in January 2000 that was later amended and updated to accomplish the required separation (the Business Separation Plan). For additional information regarding the Business Separation Plan, see Note 4(b). The transmission and distribution business will continue to be subject to cost-of-service rate regulation and will be responsible for the delivery of electricity to retail customers. The Company plans to transfer the Texas generation facilities that were formerly part of the Reliant Energy HL&P integrated utility (Texas generation business) to an indirect wholly owned partnership (Texas Genco) in connection with the Restructuring. As a result of these changes, the Company's Texas generation operations will no longer be conducted as part of an integrated utility and will comprise a new business segment in 2002, Electric Generation. Additionally, these operations will not be part of the Company's business if they are acquired in 2004 by Reliant Resources pursuant to an option agreement as described below. At that time, Reliant Resources will be an unaffiliated company as a result of the planned Distribution.

Generation. Power generators began selling electric energy to wholesale purchasers, including retail electric providers, at unregulated prices on January 1, 2002. To facilitate a competitive market, each power generation company affiliated with a transmission and distribution utility is required to sell at auction 15% of the output of its installed generating capacity. The first auction was held in September 2001 for power delivered beginning January 1, 2002. This obligation continues until January 1, 2007 unless before that date the Texas Utility Commission determines that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial load in the electric utility's service area is being served by retail electric providers other than the affiliated retail electric provider. See Note 4(b) for information regarding the capacity auctions and the effect of the Business Separation Plan on the Company. Texas Genco plans to auction all of its remaining capacity (less approximately 10% withheld to provide for unforeseen outages) during the time period prior to Reliant Resources' exercise of the Texas Genco option discussed below. Pursuant to the Business Separation Plan, Reliant Resources is entitled to purchase, at prices established in these auctions, 50% (but no less than 50%) of the remaining capacity, energy and ancillary services auctioned by Texas Genco.

Rates. Base rates charged by Reliant Energy HL&P on September 1, 1999 were frozen until January 1, 2002. Pursuant to Texas Utility Commission regulations, effective January 1, 2002, after the cycle meter read in January 2002, retail rates charged to residential and small commercial customers by an affiliated retail electric provider were reduced by 6% from the average rates (on a bundled basis) in effect on January 1, 1999. Following adjustments for changes in fuel prices, this actually resulted in a 17% rate reduction for Reliant Resources, through its subsidiaries, as an affiliated retail provider. That reduced rate, known as the "price to beat", is being charged by the affiliated retail electric provider to residential and small commercial customers in the utility's service area who have not elected service from another retail electric provider. The affiliated retail electric provider may not offer different rates to residential or small commercial customer classes in the utility's service area until the earlier of the date the Texas Utility Commission determines that 40% of power consumed by that class in the affiliated transmission and distribution utility's service area is being served by non-affiliated retail electric providers or January 1, 2005. In addition, the affiliated retail electric provider must make the price to beat rate available to eligible consumers until January 1, 2007.

Stranded Costs. Reliant Energy HL&P will be entitled to recover its stranded costs (*i.e.*, the excess of net book value of generation assets (as defined by the Texas Electric Restructuring Law) over the market value of those assets) and its regulatory assets related to generation. The Texas Electric Restructuring Law prescribes specific methods for determining the amount of stranded costs and the details for their recovery. During the transition period to deregulation (the Transition Period) which included 1998 and the first six months of 1999, and extending through the base rate freeze period from July 1999 through 2001, the Texas Electric Restructuring Law provided that earnings above a stated overall annual rate of return on invested capital be used to recover the Electric Operations business segments' investment in generation assets (Accelerated Depreciation). In addition, during the Transition Period, the redirection of depreciation expense to generation assets that the Electric Operation business segment would otherwise apply to transmission, distribution and general plant assets was permitted for regulatory purposes (Redirected Depreciation). See discussion of the accounting treatment of Accelerated Depreciation and Redirected Depreciation for financial reporting purposes below under *"Accounting."* We cannot predict the amount, if any, of these costs that may not be recovered.

In accordance with the Texas Electric Restructuring Law, beginning on January 1, 2002, and ending when the true-up proceeding is completed in January 2004, any difference between market power prices received in the generation capacity auction and the Texas Utility Commission's earlier estimates of those market prices will be included in the 2004 stranded cost true-up, as further discussed below. This component of the true-up is intended to ensure that neither the customers nor the Company are disadvantaged economically as a result of the two-year transition period by providing this pricing structure.

On October 24, 2001, Reliant Energy Transition Bond Company LLC (Bond Company), a Delaware limited liability company and direct wholly owned subsidiary of Reliant Energy, issued $749 million aggregate principal amount of its Series 2001-1 Transition Bonds pursuant to a financing order of the Texas Utility Commission. Classes of the bonds have final maturity dates of September 15, 2007, September 15, 2009, September 15, 2011 and September 15, 2015, and bear interest at rates of 3.84%, 4.76%, 5.16% and 5.63%, respectively. Scheduled payments on the bonds are from 2002 through 2013. Net proceeds to the Bond Company from the issuance were $738 million. The Bond Company paid Reliant Energy $738 million for the transition property. Reliant Energy used the net proceeds for general corporate purposes, including the repayment of indebtedness.

The Transition Bonds are secured primarily by the "transition property," which includes the irrevocable right to recover, through non-bypassable transition charges payable by certain retail electric customers, the qualified costs of Reliant Energy HL&P authorized by the financing order. The holders of the Bond Company's bonds have no recourse to any assets or revenues of Reliant Energy, and the creditors of Reliant Energy have no recourse to any assets or revenues (including, without limitation, the transition charges) of the Bond Company. Reliant Energy has no payment obligations with respect to the Transition Bonds except to remit collections of transition charges as set forth in a servicing agreement between Reliant Energy and the Bond Company and in an intercreditor agreement among Reliant Energy, the Bond Company and other parties.

Costs associated with nuclear decommissioning will continue to be subject to cost-of-service rate regulation and are included in a charge to transmission and distribution customers. For further discussion of the effect of the Business Separation Plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

True-Up Proceeding. The Texas Electric Restructuring Law and current Texas Utility Commission implementation guidance provide for a True-up Proceeding to be initiated in January 2004. The purpose of the True-up Proceeding is to quantify and reconcile the amount of stranded costs, the capacity auction true-up, unreconciled fuel costs (see Note 2(f)), and other regulatory assets associated with Reliant Energy HL&P's

electric generating operations that were not previously securitized through the Transition Bonds. The True-up Proceeding will result in either additional charges or credits being assessed on certain retail electric customers.

Accounting. Historically, Reliant Energy HL&P has applied the accounting policies established in SFAS No. 71. Effective June 30, 1999, the Company applied SFAS No. 101 to Reliant Energy HL&P's electric generation operations. Reliant Energy HL&P's transmission and distribution operations continue to meet the criteria of SFAS No. 71.

In 1999, the Company evaluated the effects that the Texas Electric Restructuring Law would have on the recovery of its generation related regulatory assets and liabilities. The Company determined that a pre-tax accounting loss of $282 million existed because it believes only the economic value of its generation related regulatory assets (as defined by the Texas Electric Restructuring Law) will be recovered. Therefore, the Company recorded a $183 million after-tax extraordinary loss in the fourth quarter of 1999. Pursuant to EITF Issue No. 97-4, the remaining recoverable regulatory assets will not be written off and will become associated with the transmission and distribution portion of the Company's electric utility business. For details regarding Reliant Energy HL&P's regulatory assets, see Note 2(f).

At June 30, 1999, the Company performed an impairment test of its previously regulated electric generation assets pursuant to SFAS No. 121 on a plant specific basis. Under SFAS No. 121, an asset is considered impaired, and should be written down to fair value, if the future undiscounted net cash flows expected to be generated by the use of the asset are insufficient to recover the carrying amount of the asset. For assets that are impaired pursuant to SFAS No. 121, the Company determined the fair value for each generating plant by estimating the net present value of future cash inflows and outflows over the estimated life of each plant. The difference between fair value and net book value was recorded as a reduction in the current book value. The Company determined that $808 million of electric generation assets were impaired in 1999. Of this amount, $756 million related to the South Texas Project Electric Generating Station (South Texas Project) and $52 million related to two gas-fired generation plants. The Texas Electric Restructuring Law provides for recovery of this impairment through regulated cash flows during the transition period and through charges to transmission and distribution customers. As such, a regulatory asset was recorded for an amount equal to the impairment loss and was included on the Company's Consolidated Balance Sheets as a regulatory asset. The Company recorded amortization expense related to the recoverable impaired plant costs and other assets created from discontinuing SFAS No. 71 of $221 million in the third and fourth quarters of 1999, $329 million in 2000 and $258 million in 2001.

The impairment analysis requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the plants. The resulting impairment loss is highly dependent on these underlying assumptions. In addition, after January 10, 2004, Reliant Energy HL&P must finalize and reconcile stranded costs (as defined by the Texas Electric Restructuring Law) in a filing with the Texas Utility Commission. Any positive difference between the regulatory net book value and the fair market value of the generation assets (as defined by the Texas Electric Restructuring Law) will be collected through future charges. Any overmitigation of stranded costs may be refunded by a reduction in future charges. This final reconciliation allows alternative methods of third party valuation of the fair market value of these assets, including outright sale, stock valuations and asset exchanges.

In order to reduce potential exposure to stranded costs related to generation assets, Reliant Energy HL&P redirected $195 million and $99 million of depreciation in 1998 and for the six months ended June 30, 1999, respectively, from transmission and distribution related plant assets to generation assets for regulatory and financial reporting purposes (Redirected Depreciation). This redirection was in accordance with the Company's Transition Plan. Subsequent to June 30, 1999, Redirected Depreciation expense could no longer be recorded by the electric generation operations portion of Reliant Energy HL&P for financial reporting purposes as this portion of electric operations is no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, $99 million, $218 million and $230 million in

depreciation expense, respectively, was redirected from transmission and distribution for regulatory and financial reporting purposes and was established as an embedded regulatory asset included in transmission and distribution related plant and equipment balances. As of December 31, 2000 and 2001, the cumulative amount of Redirected Depreciation for regulatory purposes was $611 million and $841 million, respectively, prior to the effects of the October 3, 2001 order discussed below.

Additionally, as allowed by the Texas Utility Commission, in an effort to further reduce potential exposure to stranded costs related to generation assets, Reliant Energy recorded Accelerated Depreciation of $194 million and $104 million in 1998 and for the six months ended June 30, 1999, respectively, for regulatory and financial reporting purposes. Accelerated Depreciation expense was recorded in accordance with the Company's Transition Plan during this period. Subsequent to June 30, 1999, Accelerated Depreciation expense could no longer be recorded by the electric generation operations portion of Reliant Energy HL&P for financial reporting purposes, as this portion of electric operations is no longer accounted for under SFAS No. 71. During the six months ended December 31, 1999 and during 2000 and 2001, $179 million, $385 million and $264 million of Accelerated Depreciation was recorded for regulatory reporting purposes, reducing the regulatory book value of Reliant Energy HL&P's electric generation assets.

The Texas Utility Commission issued a final order on October 3, 2001 (October 3, 2001 Order) that established the transmission and distribution utility rates that became effective January 2002. In this Order, the Texas Utility Commission found that Reliant Energy HL&P had overmitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the Transition Plan and Texas Electric Restructuring Law. As a result of the October 3, 2001 Order, Reliant Energy HL&P was required to reverse the $841 million embedded regulatory asset related to Redirected Depreciation, thereby reducing the net book value of transmission and distribution assets. Reliant Energy HL&P was required to record a regulatory liability of $1.1 billion related to Accelerated Depreciation. The October 3, 2001 Order requires this amount to be refunded through excess mitigation credits to certain retail electric customers during a seven year period beginning in January 2002. On appeal, a Texas District court upheld the Texas Utility Commission's order. An appeal may be taken to a Texas Court of Appeal, but no further appeal has yet been filed.

As of December 31, 2001, in contemplation of the True-up Proceeding, Reliant Energy HL&P has recorded a regulatory asset of $2.0 billion representing the estimated recovery of previously incurred stranded costs, which includes a regulatory liability of $1.1 billion plus the reversal of previously recorded Redirected Depreciation. This estimated recovery is based upon current projections of the market value of the Reliant Energy HL&P electric generation assets to be covered by the True-up Proceeding calculations. Because generally accepted accounting principles require the Company to estimate fair market values in advance of the final reconciliation, the financial impacts of the Texas Electric Restructuring Law with respect to the final determination of stranded costs in 2004 are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. If events were to occur that made the recovery of some of the remaining generation related regulatory assets no longer probable, the Company would write off the remaining balance of such assets as a charge against earnings. For additional discussion of potential future impairment of the assets of the Company's Texas generation business, see Note 2(e).

Other Accounting Policy Changes. As a result of discontinuing SFAS No. 71, effective July 1, 1999, allowance for funds used during construction is no longer accrued on generation related construction projects. Instead, interest is being capitalized on these projects in accordance with SFAS No. 34, "Capitalization of Interest Cost."

Previously, in accordance with SFAS No. 71, Reliant Energy HL&P deferred the premiums and expenses that arose when long-term debt was redeemed and amortized these costs over the life of the new debt. If no new debt was issued, these costs would be amortized over the remaining original life of the retired debt. Effective July 1, 1999, costs resulting from the retirement of debt attributable to the generation operations of Reliant Energy HL&P will be recorded in accordance with SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," unless these costs will be recovered through regulated cash flows. In that case, these costs will be deferred and recorded as a regulatory asset by the entity through which the source of the regulated cash flows will be derived.

(b) Business Separation Plan

Restructuring of Regulated Entities and Distribution of Reliant Resources Stock. Pursuant to the Business Separation Plan, subject to receipt of an order from the Securities and Exchange Commission (SEC) described below, Reliant Energy will become a subsidiary of a new holding company, CenterPoint Energy, which initially will own the Company's (a) electric transmission and distribution operations, (b) natural gas distribution businesses, (c) electric generating assets in Texas that were formerly operated by Reliant Energy HL&P, (d) interstate pipelines, gas gathering and pipeline services operations, (e) interests in energy companies in Latin America (see Note 19) and (f) interests in Reliant Resources. In these Notes, references to Reliant Energy in connection with events occurring or the performance of agreements after the Restructuring generally refer to CenterPoint Energy.

Upon becoming a subsidiary of CenterPoint Energy, Reliant Energy will transfer the stock of its principal operating subsidiaries to a subsidiary of CenterPoint Energy and will transfer its electric generating assets in Texas that were formerly operated by Reliant Energy HL&P to Texas Genco. In January 2004, Reliant Resources will have the right to exercise an option to acquire Texas Genco, as further discussed below. As a result of the stock and asset transfers described above, Reliant Energy will become solely a transmission and distribution utility, with its other businesses becoming indirect subsidiaries of CenterPoint Energy, which will assume all of Reliant Energy's debt other than its first mortgage bonds. The indebtedness of certain wholly owned financing subsidiaries of Reliant Energy is expected to be refinanced by the regulated holding company by the end of 2002.

The Company anticipates that, upon completion of the Restructuring and subject to approval by the Company's board of directors, market and other conditions, CenterPoint Energy will distribute all of the stock it owns in Reliant Resources to CenterPoint Energy's shareholders, affecting the separation of its operations into two publicly traded corporations. The Company has obtained a private letter ruling from the IRS providing for the tax-free treatment of the Distribution that is predicated on the completion of the Distribution by April 30, 2002. The Company has requested an extension of this deadline. While there can be no assurance that the Company will receive the extension, the Company anticipates that it will receive an extension that allows it to proceed with the Distribution after April 30, 2002.

Reliant Energy has made and will continue to make internal asset and stock transfers intended to allocate the assets and liabilities of Reliant Energy in accordance with regulatory requirements and as contemplated by the Business Separation Plan. Forms of each of the intercompany agreements described below were prepared and entered into by Reliant Energy and Reliant Resources prior to the Offering.

The Restructuring as currently planned cannot be completed unless and until the SEC issues an order granting the required approvals under the Public Utility Holding Company Act of 1935 (1935 Act). While the Company believes such an order will be received, and that both the Restructuring and Distribution will be completed during the summer of 2002, there can be no assurances that such will be the case. The Restructuring has been designed to enable the Company to meet all of the requirements of the Texas Electric Restructuring Law. The Company has not formulated an alternative restructuring plan that could be implemented were the SEC to refuse to grant the requested approvals for CenterPoint Energy.

Agreements Related to Texas Generating Assets. Pursuant to the Business Separation Plan, Reliant Energy expects to cause Texas Genco to conduct an initial public offering of approximately 20% of its capital stock by the end of 2002. If the initial public offering is not conducted, Reliant Energy may distribute approximately 20% of Texas Genco's capital stock to its stockholders in a transaction taxable both to it and its stockholders as part of the valuation of stranded costs. In connection with the separation of its unregulated businesses from its regulated businesses, Reliant Energy granted Reliant Resources an option, subject to the completion of the Distribution, to purchase all of the shares of capital stock of Texas Genco that will be owned by Reliant Energy after the initial public offering or distribution (Texas Genco Option). The Texas Genco Option may be exercised between January 10, 2004 and January 24, 2004. The per share exercise price under the option will be the average daily closing price on the national exchange for publicly held shares of common stock of Texas Genco for the 30 consecutive trading days with the highest average closing price during the 120 trading days immediately preceding January 10, 2004, plus a control premium, up to a maximum of 10%, to the extent a control premium is included in the valuation determination made by the Texas Utility Commission relating to the market value of Texas Genco's common stock equity. The exercise price is also subject to adjustment based on the difference between the cash dividends paid during the period there is a public ownership interest in Texas Genco and Texas Genco's earnings during that period. Reliant Resources has agreed that if it exercises the Texas Genco Option and purchases the shares of Texas Genco common stock, Reliant Resources will also purchase all notes and other receivables from Texas Genco then held by Reliant Energy, at their principal amount plus accrued interest. Similarly, if Texas Genco holds notes or receivables from the Company, Reliant Resources will assume those obligations in exchange for a payment to Reliant Resources by the Company of an amount equal to the principal plus accrued interest.

Exercise of the Texas Genco Option by Reliant Resources will be subject to various regulatory approvals, including Hart-Scott-Rodino antitrust clearance and United States Nuclear Regulatory Commission (NRC) license transfer approval. The option will be exercisable only if Reliant Energy or CenterPoint Energy distributes all of the shares of Reliant Resources common stock it owns to its shareholders.

At the time of the Restructuring, Texas Genco will become the beneficiary of the decommissioning trust that has been established to provide funding for decontamination and decommissioning of a nuclear electric generation station in which Reliant Energy owns a 30.8% interest (see Note 6). The master separation agreement provides that Reliant Energy will collect through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trust, and will pay the amounts to Texas Genco. Texas Genco will in turn be required to deposit these amounts received from Reliant Energy into the decommissioning trust. Upon decommissioning of the facility, in the event funds from the trust are inadequate, Reliant Energy or its successor will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to Reliant Energy's or its successor's ratepayers.

(c) Reliant Energy HL&P Regulatory Filings

As of December 31, 2000 and 2001, Reliant Energy HL&P was under-collected on fuel recovery by $558 million and $200 million, respectively. In two separate filings with the Texas Utility Commission in 2000, Reliant Energy HL&P received approval to implement fuel surcharges to collect the under-recovery of fuel expenses, as well as to adjust the fuel factor to compensate for significant increases in the price of natural gas. For additional information regarding this matter, see Note 2(f).

On March 15, 2001, Reliant Energy HL&P filed an application with the Texas Utility Commission to revise its fuel factor and address its undercollected fuel costs of $389 million, which was the accumulated amount from September 2000 through February 2001, plus estimates for March and April 2001. Reliant

Energy HL&P requested to revise its fixed fuel factor to be implemented with the May 2001 billing cycle and proposed to defer the collection of the $389 million until the 2004 stranded costs True-up Proceeding. On April 16, 2001, the Texas Utility Commission issued an order approving interim rates effective with the May 2001 billing cycle.

On June 21, 2001, Reliant Energy HL&P filed an application with the Texas Utility Commission to terminate the interim factor and return to the prior fuel factor due to the forecasted decline in natural gas prices. On July 20, 2001, the Texas Utility Commission issued an order of dismissal approving Reliant Energy HL&P's request that the interim rates approved on April 16, 2001, effective with Reliant Energy HL&P's May 2001 billing month, be terminated and Reliant Energy HL&P prospectively bill its customers using the prior fuel factor established in a previous order beginning with Reliant Energy HL&P's August billing month. The Texas Utility Commission also granted Reliant Energy HL&P a good cause exception in that Reliant Energy HL&P will not be required to refund amounts collected through the interim rates. Reliant Energy HL&P did not waive its right to collect any final fuel balance. The final fuel balance is subject to review, and the amount to be included in the 2004 stranded cost true-up will be determined during the final fuel reconciliation. The Texas Utility Commission currently has scheduled Reliant Energy HL&P to file its final fuel reconciliation in July 2002.

(d) Arkla Rate Case

On November 21, 2001, Arkla filed a rate case (Docket 01-243-U) with the Arkansas Public Service Commission seeking an increase in rates for its Arkansas customers of approximately $47 million on an annual basis. Arkla's last rate increase was authorized in 1995. In the rate filing, Arkla maintains that its rate base has grown by $183 million, and its operating expenses have increased from $93 million to $106 million on an annual basis and, therefore, Arkla's current rates for service to Arkansas customers do not provide a reasonable opportunity for Arkla to cover its operating costs and earn a fair return on its investment. A decision in the case is expected by the fourth quarter of 2002.

(5) Derivative Financial Instruments

Effective January 1, 2001, the Company adopted SFAS No. 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement requires that derivatives be recognized at fair value in the balance sheet and that changes in fair value be recognized either currently in earnings or deferred as a component of other comprehensive income (loss), depending on the intended use of the derivative, its resulting designation and its effectiveness. If certain conditions are met, an entity may designate a derivative instrument as hedging (a) the exposure to changes in the fair value of an asset or liability (Fair Value Hedge), (b) the exposure to variability in expected future cash flows (Cash Flow Hedge) or (c) the foreign currency exposure of a net investment in a foreign operation. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs.

Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of $61 million and a cumulative after-tax increase in accumulated other comprehensive loss of $422 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by approximately $627 million, $67 million, $778 million, and $277 million, respectively, in the Company's Consolidated Balance Sheets. During the year ended December 31, 2001, $165 million of the initial after-tax transition adjustment recognized in other comprehensive income was recognized in net income.

The application of SFAS No. 133 is still evolving as the FASB clears issues previously submitted to the Derivatives Implementation Group for consideration. During the second quarter of 2001, an issue that applies exclusively to the electric industry and allows the normal purchases and normal sales exception for option-type contracts if certain criteria are met was approved by the FASB with an effective date of July 1, 2001. The

adoption of this cleared guidance had no impact on the Company's results of operations. Certain criteria of this previously approved guidance were revised in October and December 2001 and became effective on April 1, 2002. The Company is currently in the process of determining the effect of adoption of the revised guidance.

During the third quarter of 2001, the FASB cleared an issue related to application of the normal purchases and normal sales exception to contracts that combine forward and purchased option contracts. The effective date of this guidance is April 1, 2002, and the Company is currently assessing the impact of this cleared issue and does not believe it will have a material impact on the Company's consolidated financial statements.

The Company is exposed to various market risks. These risks arise from transactions entered into in the normal course of business and are inherent in the Company's consolidated financial statements. The Company utilizes derivative instruments such as futures, physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes in electricity, natural gas and fuel prices on its operating results and cash flows. The Company utilizes cross-currency swaps, forward contracts and options to hedge its net investments in and cash flows of its foreign subsidiaries, interest rate swaps to mitigate the impact of changes in interest rates and other financial instruments to manage various other market risks.

Trading and marketing operations often involve risk associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis. These risks fall into three different categories: price and volume volatility, credit risk of trading counterparties and adequacy of the control environment for trading. The Company routinely enters into Energy Derivatives to hedge purchase and sale commitments, fuel requirements and inventories of natural gas, coal, electricity, crude oil and products, emission allowances and other commodities and to minimize the risk of market fluctuations in its trading, marketing, power origination and risk management services operations.

Energy Derivatives primarily used by the Company are described below:

- Future contracts are exchange-traded standardized commitments to purchase or sell an energy commodity or financial instrument, or to make a cash settlement, at a specific price and future date.
- Physical forward contracts are commitments to purchase or sell energy commodities in the future.
- Swap agreements require payments to or from counterparties based upon the differential between a fixed price and variable index price (fixed price swap) or two variable index prices (variable price swap) for a predetermined contractual notional amount. The respective index may be an exchange quotation or an industry pricing publication.
- Option contracts convey the right to buy or sell an energy commodity, financial instrument at a predetermined price or settlement of the differential between a fixed price and a variable index price or two variable index prices.

(a) Energy Trading, Marketing, Power Origination and Price Risk Management Activities

The Company offers energy price risk management services primarily related to natural gas, electric power and other energy related commodities. These activities also include the establishing of open positions in the energy markets, primarily on a short-term basis, and transactions intended to optimize the Company's power generation portfolio, but which do not qualify for hedge accounting. The Company provides these services by utilizing a variety of derivative instruments (Trading Energy Derivatives).

The Company applies mark-to-market accounting for all of its energy trading, marketing, power origination and price risk management services operations in North America and Europe, as well as to retail contracted sales to large commercial, industrial and institutional customers. Accordingly, these Trading Energy Derivatives are recorded at fair value with net realized and unrealized gains (losses) recorded as a

component of revenues. The recognized, unrealized balances are recorded as trading and marketing assets/liabilities.

	Fair Value	
	Assets	Liabilities
	(In millions)	
December 31, 2000		
Natural gas	$3,823	$3,818
Electricity	974	946
Oil and other	39	39
	$4,836	$4,803
December 31, 2001		
Natural gas	$1,389	$1,303
Electricity	648	517
Oil and other	21	20
	$2,058	$1,840

All of the fair values shown in the table above at December 31, 2000 and 2001 have been recognized in income. The fair values as of December 31, 2000 and 2001, are estimated using quoted prices where available, other valuation techniques when market data is not available, for example in illiquid markets, and other factors such as time value and volatility factor for the underlying commitment. The Company's alternative pricing methodologies include, but are not limited to, extrapolation of forward pricing curves using historically reported data from illiquid pricing points. These same pricing techniques are used to evaluate a contract prior to taking the position.

The fair values in the above table are subject to significant changes based on fluctuating market prices and conditions. Changes in the assets and liabilities from trading, power origination, marketing and price risk management services result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions and the timing of settlements. The most significant estimates include natural gas and power forward market prices, volatility and credit risk. For the contracted retail electric sales to large commercial, industrial and institutional customers, significant variables affecting contract values also include the variability in electricity consumption patterns due to weather and operational uncertainties (within contract parameters). Market prices assume a normal functioning market with an adequate number of buyers and sellers providing market liquidity. Insufficient market liquidity could significantly affect the values that could be obtained for these contracts, as well as the costs at which these contracts could be hedged.

The weighted-average term of the trading portfolio, based on volumes, is less than one year. The maximum term of the trading portfolio is 17 years. These maximum and average terms are not indicative of likely future cash flows, as these positions may be changed by new transactions in the trading portfolio at any time in response to changing market conditions, market liquidity and the Company's risk management portfolio needs and strategies. Terms regarding cash settlements of these contracts vary with respect to the actual timing of cash receipts and payments.

(b) Non-Trading Activities

Cash Flow Hedges. To reduce the risk from market fluctuations in revenues and the resulting cash flows derived from the sale of electric power, natural gas and other commodities, the Company may enter into Energy Derivatives in order to hedge exposure to variability in cash flows (Non-trading Energy Derivatives).

The Non-trading Energy Derivative portfolios are managed to complement the physical transaction portfolio, reducing overall risks within authorized limits.

The Company applies hedge accounting for its Non-trading Energy Derivatives utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being hedged. This correlation, a measure of hedge effectiveness, is measured both at the inception of the hedge and on an ongoing basis, with an acceptable level of correlation of at least 80% to 120% for hedge designation. If and when correlation ceases to exist at an acceptable level, hedge accounting ceases and mark-to-market accounting is applied. During 2001, the amount of hedge ineffectiveness recognized in earnings from derivatives that are designated and qualify as Cash Flow Hedges was a gain of $8 million. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, the Company realizes in net income the deferred gains and losses recognized in accumulated other comprehensive income (loss). During the year ended December 31, 2001, there was a $3.6 million deferred loss recognized in earnings as a result of the discontinuance of cash flow hedges because it was no longer probable that the forecasted transaction would occur due to credit problems of a customer. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive income (loss) is reclassified and included in the Company's Statements of Consolidated Income under the captions (a) fuel expenses, in the case of natural gas purchase transactions, (b) purchased power, in the case of electric power purchase transactions and (c) revenues, in the case of electric power and natural gas sales transactions and financial electric power or natural gas derivatives. Cash flows resulting from these transactions in Non-trading Energy Derivatives are included in the Statements of Consolidated Cash Flows in the same category as the item being hedged. As of December 31, 2001, the Company's current non-trading derivative assets and liabilities and corresponding amounts in accumulated other comprehensive loss were expected to be reclassified into net income during the next twelve months.

The maximum length of time the Company is hedging its exposure to the variability in future cash flows for forecasted transactions excluding the payment of variable interest on existing financial instruments is eleven years.

In addition, as of December 31, 2001, the European Energy business segment had entered into transactions to purchase $271 million at fixed exchange rates in order to hedge future fuel purchases payable in U.S. dollars.

Interest Rate Swaps. During 2001, the Company entered into interest rate swaps with an aggregate notional amount of $1.8 billion to fix the interest rate applicable to floating rate short-term debt and interest rate swaps with a notional amount of $425 million to fix the interest rate applicable to floating rate long-term debt. At December 31, 2001, $225 million of the swaps relating to long-term debt had expired. The swaps relating to short-term debt do not qualify as cash flow hedges under SFAS No. 133, and are marked to market on the Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Income. The swaps relating to long-term debt qualify for hedge accounting under SFAS No. 133 and the periodic settlements are recognized as an adjustment to interest expense in the Statements of Consolidated Income over the term of the swap agreement. During 2001, the Company entered into forward-starting interest rate swaps having an aggregate notional amount of $500 million to hedge the interest rate on a portion of a future offering of five-year notes. These swaps qualify as cash flow hedges under SFAS No. 133. Should the expected issuance of the debt no longer be probable, any deferred amount will be recognized immediately into income. The maximum length of time the Company is hedging its exposure to the payment of variable interest rates is four years.

Hedge of the Foreign Currency Exposure of Net Investment in Foreign Subsidiaries. The Company has substantially hedged the foreign currency exposure of its net investment in its European subsidiaries through a combination of Euro-denominated borrowings, foreign currency swaps and foreign currency forward contracts

to reduce the Company's exposure to changes in foreign currency rates. During the normal course of business, the Company reviews its currency hedging strategies and determines the hedging approach deemed appropriate based upon the circumstances of each situation.

The Company records the changes in the value of the foreign currency hedging instruments and Euro-denominated borrowings as foreign currency translation adjustments included as a component of accumulated other comprehensive loss. The effectiveness of the hedging instruments can be measured by the net change in foreign currency translation adjustments attributed to the Company's net investment in its European subsidiaries. These amounts generally offset amounts recorded in stockholders' equity as adjustments resulting from translation of the hedged investment into U.S. dollars. During 2001, the derivative and non-derivative instruments designated as hedging the net investment in the Company's European subsidiaries resulted in a gain of $31 million, which is included in the balance of the cumulative translation adjustment.

Other Derivatives. In December 2000, the Dutch parliament adopted legislation allocating to the Dutch generation sector, including REPGB, financial responsibility for various stranded costs contracts and other liabilities. The legislation became effective in all material respects on January 1, 2001. In particular, the legislation allocated to the Dutch generation sectors, including REPGB, financial responsibility to purchase electricity and gas under gas supply and electricity contracts. These contracts are derivatives pursuant to SFAS No. 133. As of December 31, 2001, the Company had recognized $369 million in short-term and long-term non-trading derivative liabilities for REPGB's portion of these stranded costs contracts. Future changes in the valuation of these stranded cost import contracts which remain an obligation of REPGB will be recorded as adjustments to the Company's Statements of Consolidated Income. The valuation of the contracts could be affected by, among other things, changes in the price of electric power, coal, low sulfur fuel oil and the value of the United States dollar and British pound relative to the Euro. For additional information regarding REPGB's stranded costs and the related indemnification by former shareholders of these stranded costs during 2001, see Note 14(h).

During 2001, Reliant Resources entered into two structured transactions which were recorded on the Consolidated Balance Sheets in non-trading derivative assets and liabilities involving a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003. The change in fair value of these derivative assets and liabilities must be recorded in the Statements of Consolidated Income for each reporting period. During 2001, $117 million of net non-trading derivative liabilities were settled related to these transactions, and a $1 million pre-tax unrealized gain was recognized. As of December 31, 2001, Reliant Resources has recognized $221 million of non-trading derivative assets and $103 million of non-trading derivative liabilities related to these transactions.

(c) Credit Risks

In addition to the risk associated with price movements, credit risk is inherent in the Company's risk management activities and hedging activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The Company has off-balance sheet risk to the extent that the counterparties to these transactions may fail to perform as required by the terms of each contract. The Company enters into derivative instruments primarily with counterparties having at least a minimum investment grade credit rating (i.e. a minimum credit rating for such entity's senior unsecured debt of BBB- for Standard & Poor's and Fitch or Baa3 for Moody's). In addition, the Company seeks to enter into netting agreements that permit it to offset receivables and payables with a given counterparty. The Company also attempts to enter into agreements that enable the Company to obtain collateral from a counterparty or to terminate upon the occurrence of credit-related events. For long-term arrangements, the Company periodically reviews the financial condition of these counterparties in addition to monitoring the effectiveness of these financial contracts in achieving the Company's objectives. If the counterparties to these arrangements fail to perform, the Company would seek to compel performance at law or otherwise obtain compensatory damages.

The Company might be forced to acquire alternative hedging arrangements or be required to replace the underlying commitment at then-current market prices. In this event, the Company might incur additional losses to the extent of amounts, if any, already paid to the counterparties. For information regarding the provision related to energy sales in California, see Note 14(g). For information regarding the net provision recorded in 2001 related to energy sales to Enron, see Note 21.

The following tables show the composition of the trading and marketing assets of the Company as of December 31, 2000 and 2001 and the non-trading derivative assets as of December 31, 2001.

Trading and Marketing Assets	December 31, 2000		December 31, 2001	
	Investment Grade(2)	Total	Investment Grade(2)	Total
	(In millions)			
Energy marketers	$2,291	$2,481	$ 683	$ 757
Financial institutions	1,099	1,228	495	495
Gas and electric utilities	472	542	538	544
Oil and gas producers	474	566	135	176
Commercial, industrial and institutional customers	73	85	119	184
Total	$4,409	4,902	$1,970	2,156
Credit and other reserves		(66)		(98)
Trading and marketing assets		$4,836		$2,058

Non-trading Derivative Assets	December 31, 2001	
	Investment Grade(1)(2)	Total
	(In millions)	
Energy marketers	$371	$408
Financial institutions	76	76
Gas and electric utilities	89	90
Oil and gas producers	8	76
Commercial, industrial and institutional customers	7	8
Others	5	14
Total	$556	672
Credit and other reserves		(16)
Non-trading derivative assets		$656

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

(2) For unrated counterparties, the Company performs financial statement analysis, considering contractual rights and restrictions, and collateral, to create a synthetic credit rating.

(d) Trading and Non-trading — General Policy

The Company has established a Risk Oversight Committee comprised of corporate and business segment officers that oversees all commodity price, foreign currency and credit risk activities, including the Company's trading, marketing, power origination, risk management services and hedging activities. The committee's

duties are to approve the Company's commodity risk policies, allocate risk capital within limits established by the Company's board of directors, approve trading of new products and commodities, monitor risk positions and monitor compliance with the Company's risk management policies and procedures and trading limits established by the Company's board of directors.

The Company's policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

(6) Jointly Owned Electric Utility Plant

The Company has a 30.8% interest in the South Texas Project, which consists of two 1,250 MW nuclear generating units and bears a corresponding 30.8% share of capital and operating costs associated with the project. The South Texas Project is owned as a tenancy in common among its four co-owners, with each owner retaining its undivided ownership interest in the two nuclear-fueled generating units and the electrical output from those units. The four co-owners have delegated management and operating responsibility for the South Texas Project to the South Texas Project Nuclear Operating Company (STPNOC). STPNOC is managed by a board of directors comprised of one director from each of the four owners, along with the chief executive officer of STPNOC. As of December 31, 2001, the total utility plant in service and construction work in progress for the total South Texas Project was $5.8 billion and $120 million, respectively. The Company's investment in the South Texas Project was $316 million (net of $2.2 billion accumulated depreciation which includes an impairment loss recorded in 1999 of $756 million). For additional information regarding the impairment loss, see Note 4(a). The Company's investment in nuclear fuel was $35 million (net of $286 million amortization) as of December 31, 2001.

(7) Equity Investments in Unconsolidated Subsidiaries

The Company has a 50% interest in a 490 MW electric generation plant in Boulder City, Nevada. The plant became operational in May 2000. Reliant Resources has a 50% partnership interest in a 100 MW cogeneration plant in Orange, Texas which began commercial operations in December 1999. In addition, Reliant Resources, through REPGB, acquired a 22.5% interest in BV Nederlands Elektriciteit Administratiekantoor (NEA), which was formerly the coordinating body for the Dutch electricity generating sector. For information regarding Reliant Resources' investment in NEA and financial impacts, see Note 14(h). See Note 3(b) for a description of 1999 equity accounting related to REPGB during 1999.

Reliant Resources' equity investments in unconsolidated subsidiaries are as follows:

	As of December 31,	
	2000	2001
	(In millions)	
Nevada generation plant	$ 77	$ 57
Texas cogeneration plant	32	31
NEA	—	299
Equity investments in unconsolidated subsidiaries	$109	$387

Reliant Resources' income (loss) from equity investments of unconsolidated subsidiaries is as follow:

	Year Ended December 31,		
	1999	2000	2001
	(In millions)		
Nevada generation plant	$(1)	$42	$ 5
Texas cogeneration plant	—	1	1
NEA	—	—	51
Income from equity investments in unconsolidated subsidiaries	$(1)	$43	$57

During 1999, there were no distributions from these investments. During 2000 and 2001, $18 million and $27 million, respectively, were the net distributions from these investments.

(8) Indexed Debt Securities (ACES and ZENS) and AOL Time Warner Securities

(a) Original Investment in Time Warner Securities

On July 6, 1999, the Company converted its 11 million shares of Time Warner Inc. (TW) convertible preferred stock (TW Preferred) into 45.8 million shares of Time Warner common stock (TW Common). Prior to the conversion, the Company's investment in the TW Preferred was accounted for under the cost method at a value of $990 million in the Company's Consolidated Balance Sheets. The TW Preferred which was redeemable after July 6, 2000, had an aggregate liquidation preference of $100 per share (plus accrued and unpaid dividends), was entitled to annual dividends of $3.75 per share until July 6, 1999 and was convertible by the Company. The Company recorded pre-tax dividend income with respect to the TW Preferred of $21 million in 1999 prior to the conversion. Effective on the conversion date, the shares of TW Common were classified as trading securities under SFAS No. 115 and an unrealized gain was recorded in the amount of $2.4 billion ($1.5 billion after-tax) to reflect the cumulative appreciation in the fair value of the Company's investment in Time Warner securities. Unrealized gains and losses resulting from changes in the market value of the TW Common (now AOL TW Common) are recorded in the Company's Statements of Consolidated Income.

(b) ACES

In July 1997, in order to monetize a portion of the cash value of its investment in TW Preferred, the Company issued 22.9 million of its unsecured 7% Automatic Common Exchange Securities (ACES) having an original principal amount of $1.052 billion and maturing July 1, 2000. The market value of ACES was indexed to the market value of TW Common. On the July 1, 2000 maturity date, the Company tendered 37.9 million shares of TW Common to fully settle its obligations in connection with its unsecured 7% ACES having a value of $2.9 billion.

(c) ZENS

On September 21, 1999, the Company issued approximately 17.2 million of its 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of $1.0 billion. The original principal amount per ZENS will increase each quarter to the extent that the sum of the quarterly cash dividends and the interest paid during a quarter on the reference shares attributable to one ZENS is less than $.045, so that the annual yield to investors from the date the Company issued the ZENS to the date of computation of the contingent principal amount is not less than 2.309%. At December 31, 2001, the principal amount of the ZENS had increased $3 million as the reference shares no longer pay dividends. At maturity the holders of the ZENS will receive in cash the higher of the original principal amount of the ZENS (subject to adjustment as discussed above) or an amount based on the then-current market value of AOL TW

Common, or other securities distributed with respect to AOL TW Common (1.5 shares of AOL TW Common and such other securities, if any, are referred to as reference shares). Each ZENS has an original principal amount of $58.25, and is exchangeable at any time at the option of the holder for cash equal to 95% (100% in some cases) of the market value of the reference shares attributable to one ZENS. The Company pays interest on each ZENS at an annual rate of 2% plus the amount of any quarterly cash dividends paid in respect of the quarterly interest period on the reference shares attributable to each ZENS. Subject to some conditions, the Company has the right to defer interest payments from time to time on the ZENS for up to 20 consecutive quarterly periods. As of December 31, 2001, no interest payments on the ZENS had been deferred.

The Company used $537 million of the net proceeds from the offering of the ZENS to purchase 9.2 million shares of TW Common (now 13.8 million shares of AOL TW Common), which are classified as trading securities under SFAS No. 115. Prior to the purchase of additional shares of TW Common on September 21, 1999, the Company owned approximately 8 million shares of TW Common (now 12 million shares of AOL TW Common). The Company now holds 25.8 million shares of AOL TW Common that are expected to be held to facilitate the Company's ability to meet its obligation under the ZENS.

Prior to January 1, 2001, an increase above $58.25 (subject to some adjustments) in the market value per share of TW Common resulted in an increase in the Company's liability for the ZENS. However, as the market value per share of TW Common declined below $58.25 (subject to some adjustments), the liability for the ZENS did not decline below the original principal amount. The market value per share of TW Common was $52.24 as of December 31, 2000 and the market value per share of AOL TW Common was $32.10 as of December 31, 2001. Upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component (the holder's option to receive the appreciated value of AOL TW Common at maturity). The derivative component was valued at fair value and determined the initial carrying value assigned to the debt component ($121 million) as the difference between the original principal amount of the ZENS ($1.0 billion) and the fair value of the derivative component at issuance ($879 million). Effective January 1, 2001 the debt component was recorded at its accreted amount of $122 million and the derivative component is recorded at its current fair value of $788 million, as a current liability, resulting in a transition adjustment pre-tax gain of $90 million ($58 million net of tax). The transition adjustment gain was reported in the first quarter of 2001 as the effect of a change in accounting principle. Subsequently, the debt component will accrete through interest charges at 17.5% up to the minimum amount payable upon maturity of the ZENS in 2029, approximately $1.1 billion, and changes in the fair value of the derivative component will be recorded in the Company's Statements of Consolidated Income. During 2001, the Company recorded a $70 million loss on the Company's investment in AOL TW Common. During 2001, the Company recorded a $58 million gain associated with the fair value of the derivative component of the ZENS obligation. Changes in the fair value of the AOL TW Common held by the Company are expected to substantially offset changes in the fair value of the derivative component of the ZENS.

The following table sets forth summarized financial information regarding the Company's investment in AOL TW securities and the Company's ACES and ZENS obligations (in millions).

	AOL TW Investment	ACES	Debt Component of ZENS	Derivative Component of ZENS
Balance at December 31, 1998	$ 990	$ 2,350	$ —	$ —
Issuance of indexed debt securities	—	—	1,000	—
Purchase of TW Common	537	—	—	—
Loss on indexed debt securities	—	388	241	—
Gain on TW Common	2,452	—	—	—
Balance at December 31, 1999	3,979	2,738	1,241	—
Loss (gain) on indexed debt securities	—	139	(241)	—
Loss on TW Common	(205)	—	—	—
Settlement of ACES	(2,877)	(2,877)	—	—
Balance at December 31, 2000	897	—	1,000	—
Transition adjustment from adoption of SFAS No. 133	—	—	(90)	—
Bifurcation of ZENS obligation	—	—	(788)	788
Accretion of debt component of ZENS	—	—	1	—
Gain on indexed debt securities	—	—	—	(58)
Loss on AOL TW Common	(70)	—	—	—
Balance at December 31, 2001	$ 827	$ —	$ 123	$730

(9) Preferred Stock and Preference Stock

(a) Preferred Stock

At December 31, 2000, Reliant Energy had 10,000,000 authorized shares of cumulative preferred stock, of which 97,397 shares were outstanding. As of that date, Reliant Energy's only outstanding series of preferred stock was its $4.00 Preferred Stock. The $4.00 Preferred Stock paid an annual dividend of $4.00 per share, was redeemable at $105 per share and had a liquidation price of $100 per share to third parties.

On December 14, 2001, Reliant Energy redeemed all outstanding shares of its $4.00 Preferred Stock at $105 per share plus accrued dividends of $0.478 per share for a total redemption payment of $10.3 million. At December 31, 2001, Reliant Energy had 10,000,000 authorized shares of cumulative preferred stock, none of which were outstanding.

(b) Preference Stock

At December 31, 2000 and 2001, Reliant Energy had 10,000,000 authorized shares of preference stock, none of which were outstanding for financial reporting purposes. At December 31, 2001, Reliant Energy had issued and outstanding shares of preference stock that were held by various financing subsidiaries of the Company to support debt obligations of the subsidiaries to third party lenders. The aggregate amount of debt outstanding at these subsidiaries at December 31, 2001 was $2.9 billion.

Reliant Energy has a Shareholder Rights Plan, which states that each share of Reliant Energy's common stock includes one associated preference stock purchase right (Right) which entitles the registered holder to purchase from Reliant Energy a unit consisting of one-thousandth of a share of Series A Preference Stock.

The Rights, which expire on July 11, 2010, are exercisable upon some events involving the acquisition of 20% or more of Reliant Energy's outstanding common stock. Upon the occurrence of such an event, each Right entitles the holder to receive common stock with a current market price equal to two times the exercise price of the Right. At anytime prior to becoming exercisable, Reliant Energy may repurchase the Rights at a price of $0.005 per Right. There are 700,000 shares of Series A Preference Stock reserved for issuance upon exercise of the Rights.

(10) Long-term Debt and Short-term Borrowings

	December 31, 2000		December 31, 2001	
	Long-Term	Current(1)	Long-Term	Current(1)
	(In millions)			
Short-term borrowings:				
Commercial paper		$3,675		$2,502
Lines of credit		853		290
Receivables facility		350		346
Other(2)		126		297
Total short-term borrowings		$5,004		$3,435
Long-term debt:				
Reliant Energy				
ZENS(3)	$ —	$1,000	$ —	$ 123
Debentures 7.88% to 9.38% due 2002	100	250	—	100
First mortgage bonds 4.90% to 9.15% due 2002 to 2027	1,261	—	1,161	100
Pollution control bonds 4.70% to 5.95% due 2011 to 2030	1,046	—	1,046	—
Series 2001-1 Transition Bonds 3.84% to 5 63% due 2002 to 2013	—	—	736	13
Other	12	1	11	1
Financing Subsidiaries (directly or indirectly owned by Reliant Energy)				
Debentures 7.40% due 2002	300	225	—	300
Reliant Energy Power Generation, Inc.				
Notes payable various market rates due 2002 to 2024	260	—	295	2
REPGB(2)				
Debentures 6.00% to 8.94% due 2002 to 2006	66	1	38	22
Reliant Energy Capital Europe(2)				
Notes payable various market rates due 2003	565	—	534	—
RERC Corp.(4)				
Convertible debentures 6 00% due 2012	93	—	82	—
Debentures 6.38% to 8.90% due 2003 to 2011	1,285	—	1,833	—
Notes payable 8.77% to 9.23% paid 2001	—	146	—	—
Unamortized discount and premium	8	—	6	—
Total long-term debt	4,996	1,623	5,742	661
Total borrowings	$4,996	$6,627	$5,742	$4,096

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

(2) Includes borrowings at December 31, 2000 and 2001 which are denominated in Euros. As of December 31, 2000 and 2001, the assumed exchange rate was 1.06 Euros and 1.12 Euros per U.S. dollar, respectively.

(3) Upon adoption of SFAS No. 133 effective January 1, 2001, the Company's ZENS obligation was bifurcated into a debt component and an embedded derivative component. For additional information regarding ZENS, see Note 8(b). As ZENS are exchangeable for cash at any time at the option of the holders, these notes are classified as a current portion of long-term debt.

(4) Debt acquired in business acquisitions is adjusted to fair market value as of the acquisition date. Included in long term debt is additional unamortized premium related to fair value adjustments of long-term debt of $12 million and $9 million at December 31, 2000 and 2001, respectively, which is being amortized over the respective remaining term of the related long-term debt.

(a) Short-term Borrowings

As of December 31, 2001, the Company had credit facilities, which included the facilities of various financing subsidiaries, Reliant Resources, REPGB and RERC Corp., with financial institutions which provide for an aggregate of $11.0 billion in committed credit. The facilities expire as follows: $6.6 billion in 2002, $3.6 billion in 2003 and $0.8 billion in 2004. As of December 31, 2001, borrowings of $4.6 billion were outstanding or supported under these credit facilities of which $0.8 billion were classified as long-term debt, based on availability of committed credit with expiration dates exceeding one year and management's intention to maintain these borrowings in excess of one year. The remaining unused credit facilities totaled $6.4 billion. Various credit facilities aggregating $2.4 billion may be used for letters of credit of which $0.4 billion were outstanding as of December 31, 2001. Interest rates on borrowings are based on the London Interbank Offered Rate (LIBOR) plus a margin, Euro interbank deposits plus a margin, a base rate or a rate determined through a bidding process. Credit facilities aggregating $5.4 billion are unsecured. The credit facilities contain covenants and requirements that must be met to borrow funds and obtain letters of credit, as applicable. Such covenants are not anticipated to materially restrict the borrowers from borrowing funds or obtaining letters of credit, as applicable, under such facilities. As of December 31, 2001, the borrowers are in compliance with the covenants under all of these credit agreements.

The Company sells commercial paper to provide financing for general corporate purposes. As of December 31, 2001, $2.5 billion of commercial paper was outstanding. The commercial paper borrowings are supported by various credit facilities discussed above, including $4.7 billion in credit facilities expiring in 2002 and a $350 million revolving credit facility expiring in 2003.

RERC Corp. has a receivables facility under which it sells its customer accounts receivable. Advances under this facility are reflected in the Consolidated Balance Sheets as short-term debt. At December 31, 2000 and 2001, the amount of the receivables facility was $350 million and RERC Corp. had received advances of $350 million and $346 million, respectively. Fees and interest expense related to this facility for 1999, 2000 and 2001 aggregated $19 million, $24 million and $15 million, respectively. The size of the receivables facility was increased from $300 million to $350 million in August 1999. For information on the reduction in the size of the facility in 2002, see Note 22(b).

The weighted average interest rate on short-term borrowings as of December 31, 1999, 2000 and 2001 was 5.84%, 7.43% and 3.29%, respectively.

The Company's revolving credit agreements are broadly-syndicated committed facilities which contain "material adverse change" clauses that could impact its ability to borrow under these facilities. The "material adverse change" clauses generally relate to the Company's ability to perform its obligations under the agreements.

(b) Long-term Debt

Maturities. The Company's maturities of long-term debt and sinking fund requirements, excluding the ZENS obligation, are $538 million in 2002, $1.2 billion in 2003, $90 million in 2004, $390 million in 2005 and

$218 million in 2006. The 2002 and 2003 amounts are net of sinking fund payments that can be satisfied with bonds that had been acquired and retired as of December 31, 2001.

Liens. At December 31, 2001, substantially all physical assets used in the conduct of the business and operations of the Electric Operations business segment are subject to liens securing the First Mortgage Bonds. After the Restructuring, only the assets of the transmission and distribution utility are expected to be subject to liens securing the First Mortgage Bonds. Sinking fund requirements on the First Mortgage Bonds may be satisfied by certification of property additions at 100% of the requirements as defined by the Mortgage and Deed of Trust. Sinking or improvement/replacement fund requirements for 1999, 2000 and 2001 have been satisfied by certification of property additions. The replacement fund requirement to be satisfied in 2002 is $334 million.

RERC Corp. Debt Issuance. In February 2001, RERC Corp. issued $550 million of unsecured notes that bear interest at 7.75% per year and mature in February 2011. Net proceeds to RERC Corp. were $545 million. RERC Corp. used the net proceeds from the sale of the notes to pay a $400 million dividend to Reliant Energy, and for general corporate purposes. Reliant Energy used the $400 million proceeds from the dividend for general corporate purposes, including the repayment of short-term borrowings.

Securitization. For a discussion of the securitization financing completed in October 2001, see Note 4(a).

Purchase of Convertible Debentures. At December 31, 2000 and 2001, RERC Corp. had issued and outstanding $98 million and $86 million, respectively, aggregate principal amount ($93 million and $82 million, respectively, carrying amount) of its 6% Convertible Subordinated Debentures due 2012 (Subordinated Debentures). The holders of the Subordinated Debentures receive interest quarterly and have the right at any time on or before the maturity date thereof to convert each Subordinated Debenture into 0.65 shares of Reliant Energy common stock and $14.24 in cash. After the Restructuring, each Subordinated Debenture will be convertible into 0.65 shares of CenterPoint Energy common stock and $14.24 in cash. After the Distribution, each Subordinated Debenture will be convertible into an increased number of CenterPoint Energy shares based on a formula as provided in the relevant indenture and $14.24 in cash. During 2001, RERC Corp. purchased $11 million aggregate principal amount of its Subordinated Debentures.

TERM Notes. RERC Corp.'s $500 million aggregate principal amount of 6¾% Term Enhanced ReMarketable Securities (TERM Notes) provide an investment bank with a call option, which gives it the right to have the TERM Notes redeemed from the investors on November 1, 2003 and then remarketed if it chooses to exercise the option. The TERM Notes are unsecured obligations of RERC Corp. which bear interest at an annual rate of 6¾% through November 1, 2003. On November 1, 2003, the holders of the TERM Notes are required to tender their notes at 100% of their principal amount. The portion of the proceeds attributable to the call option premium will be amortized over the stated term of the securities. If the option is not exercised by the investment bank, RERC Corp. will repurchase the TERM Notes at 100% of their principal amount on November 1, 2003. If the option is exercised, the TERM Notes will be remarketed on a date, selected by RERC Corp., within the 52-week period beginning November 1, 2003. During this period and prior to remarketing, the TERM Notes will bear interest at rates, adjusted weekly, based on an index selected by RERC Corp. If the TERM Notes are remarketed, the final maturity date of the TERM Notes will be November 1, 2013, subject to adjustment, and the effective interest rate on the remarketed TERM Notes will be 5.66% plus RERC Corp.'s applicable credit spread at the time of such remarketing.

Extinguishments of Debt. During the second quarter of 2000, REPGB negotiated the repurchase of $272 million aggregate principal amount of its long-term debt for a total cost of $286 million, including $14 million in expenses. The book value of the debt repurchased was $293 million, resulting in an extraordinary gain on the early extinguishment of long-term debt of $7 million. Borrowings under a short-term

banking facility and proceeds from the sale of trading securities by REPGB were used to finance the debt repurchase.

During 1999, the Company's regulated operations recorded losses from the extinguishment of debt of $22 million. There were no losses recorded from the early extinguishment of debt in 2000 and 2001. As these costs will be recovered through regulated cash flows, these costs have been deferred and a regulatory asset has been recorded. For further discussion regarding the accounting, see Note 4(a).

(c) Off-balance Sheet Financings

For information regarding off-balance sheet financings and REMA sale-leaseback transactions related to Reliant Resources, see Notes 14(b) and 14(l).

(11) Trust Preferred Securities

In February 1997, two Delaware statutory business trusts created by Reliant Energy (HL&P Capital Trust I and HL&P Capital Trust II) issued to the public (a) $250 million aggregate amount of preferred securities and (b) $100 million aggregate amount of capital securities, respectively. In February 1999, a Delaware statutory business trust created by Reliant Energy (REI Trust I) issued $375 million aggregate amount of preferred securities to the public. Reliant Energy accounts for REI Trust I, HL&P Capital Trust I and HL&P Capital Trust II as wholly owned consolidated subsidiaries. Each of the trusts used the proceeds of the offerings to purchase junior subordinated debentures issued by Reliant Energy having interest rates and maturity dates that correspond to the distribution rates and the mandatory redemption dates for each series of preferred securities or capital securities.

The junior subordinated debentures are the trusts' sole assets and their entire operations. Reliant Energy considers its obligations under the Amended and Restated Declaration of Trust, Indenture, Guaranty Agreement and, where applicable, Agreement as to Expenses and Liabilities, relating to each series of preferred securities or capital securities, taken together, to constitute a full and unconditional guarantee by Reliant Energy of each trust's obligations with respect to the respective series of preferred securities or capital securities.

The preferred securities and capital securities are mandatorily redeemable upon the repayment of the related series of junior subordinated debentures at their stated maturity or earlier redemption. Subject to some limitations, Reliant Energy has the option of deferring payments of interest on the junior subordinated debentures. During any deferral or event of default, Reliant Energy may not pay dividends on its capital stock. As of December 31, 2001, no interest payments on the junior subordinated debentures had been deferred.

In June 1996, a Delaware statutory business trust created by RERC Corp. (RERC Trust) issued $173 million aggregate amount of convertible preferred securities to the public. RERC Corp. accounts for RERC Trust as a wholly owned consolidated subsidiary. RERC Trust used the proceeds of the offering to purchase convertible junior subordinated debentures issued by RERC Corp. having an interest rate and maturity date that correspond to the distribution rate and mandatory redemption date of the convertible preferred securities. The convertible junior subordinated debentures represent RERC Trust's sole assets and its entire operations. RERC Corp. considers its obligation under the Amended and Restated Declaration of Trust, Indenture and Guaranty Agreement relating to the convertible preferred securities, taken together, to constitute a full and unconditional guarantee by RERC Corp. of RERC Trust's obligations with respect to the convertible preferred securities.

The convertible preferred securities are mandatorily redeemable upon the repayment of the convertible junior subordinated debentures at their stated maturity or earlier redemption. Each convertible preferred security is convertible at the option of the holder into $33.62 of cash and 1.55 shares of Reliant Energy common stock. During 2000 and 2001, convertible preferred securities of $0.3 million and $0.04 million,

respectively, were converted. As of December 31, 2000 and 2001, $0.4 million liquidation amount of convertible preferred securities were outstanding. Subject to some limitations, RERC Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, RERC Corp. may not pay dividends on its common stock to Reliant Energy. As of December 31, 2001, no interest payments on the convertible junior subordinated debentures had been deferred.

The outstanding aggregate liquidation amount, distribution rate and mandatory redemption date of each series of the preferred securities, convertible preferred securities or capital securities of the trusts and the identity and similar terms of each related series of junior subordinated debentures are as follows:

Trust	Aggregate Liquidation Amounts as of December 31, 2000 and 2001 (In millions)	Distribution Rate/Interest Rate	Mandatory Redemption Date/Maturity Date	Junior Subordinated Debentures
REI Trust I	$375	7.20%	March 2048	7.20% Junior Subordinated Debentures due 2048
HL&P Capital Trust I ...	$250	8.125%	March 2046	8.125% Junior Subordinated Deferrable Interest Debentures Series A
HL&P Capital Trust II ..	$100	8.257%	February 2037	8.257% Junior Subordinated Deferrable Interest Debentures Series B
RERC Trust	$ 1	6.25%	June 2026	6.25% Convertible Junior Subordinated Debentures due 2026

(12) Stock-Based Incentive Compensation Plans and Retirement Plans

(a) Incentive Compensation Plans

The Company has long-term incentive compensation plans (LICP) that provide for the issuance of stock-based incentives, including performance-based shares, performance-based units, restricted shares, stock options and stock appreciation rights, to key employees of the Company, including officers. As of December 31, 2001, 716 current and 54 former employees of the Company participate in the plans. A maximum of approximately 39 million shares of Reliant Energy common stock may be issued under these plans.

Awards in Reliant Resources common stock have been made from the Reliant Resources, Inc. Long-Term Incentive Plan (Resources LICP). Under the Resources LICP, participant awards may be in the form of stock options, performance-based shares or units, stock appreciation rights, restricted or unrestricted grants of common stock. As of December 31, 2001, 735 current employees and 4 former employees of Reliant Resources participate in the Resources LICP.

Performance-based shares, performance-based units and restricted shares are granted to employees without cost to the participants. The performance shares and units vest three years after the grant date based upon the performance of the Company over a three-year cycle, except as discussed below. The restricted shares vest to the participants at various times ranging from immediate vesting to vesting at the end of a six-year period. Upon vesting, the shares are issued to the plans' participants.

In 2001, awards of Reliant Resources performance-based shares and restricted shares have been made to Reliant Resources participants. For all other participants, awards have been made in performance-based units and restricted shares of Reliant Energy. During 1999, 2000 and 2001, the Company, including Reliant Resources, recorded compensation expense of $8 million, $22 million and $9 million, respectively, related to performance-based shares, performance-based units and restricted share grants.

The following table summarizes Reliant Energy's performance-based units, performance-based shares and restricted share grant activity for the years 1999 through 2001:

	Number of Performance-Based Units	Number of Performance-Based Shares	Number of Restricted Shares
Outstanding at December 31, 1998	—	904,997	161,385
Granted	—	431,643	113,837
Canceled	—	(228,215)	(646)
Released to participants	—	(179,958)	(3,953)
Outstanding at December 31, 1999	—	928,467	270,623
Granted	—	394,942	206,395
Canceled	—	(81,541)	(13,060)
Released to participants	—	(174,001)	(5,346)
Outstanding at December 31, 2000	—	1,067,867	458,612
Granted	83,670	—	2,623
Canceled	—	(17,154)	(2,778)
Released to participants	—	(424,623)	(249,895)
Outstanding at December 31, 2001	83,670	626,090	208,562
Weighted average fair value granted for 1999	$ —	$ 29.23	$ 26.88
Weighted average fair value granted for 2000	$ —	$ 25.19	$ 28.03
Weighted average fair value granted for 2001	$ —	$ —	$ 38.13

The maximum value associated with the performance-based units granted in 2001 was $150.

The following table summarizes Reliant Resources' performance-based shares and restricted share grant activity during 2001:

	Number of Performance-Based Shares	Number of Restricted Shares
Outstanding at December 31, 2000	—	—
Granted	693,135	156,674
Canceled	—	—
Released to participants	—	—
Outstanding at December 31, 2001	693,135	156,674
Weighted average fair value granted for 2001	$ 22.50	$ 33.11

Assuming the Distribution occurs during calendar year 2002, the Company's compensation committee will authorize the conversion of outstanding Reliant Energy performance-based shares for the performance cycle ending December 31, 2002 to a number of time-based restricted shares of Reliant Energy's common stock equal to the number of performance-based shares that would have vested if the performance objectives for the performance cycle were achieved at the maximum level. These time-based restricted shares will vest if the participant holding the shares remains employed with the Company or with Reliant Resources and its subsidiaries through December 31, 2002. On the date of the Distribution, holders of these time-based restricted shares will receive shares of Reliant Resources common stock in the same manner as other holders

of Reliant Energy common stock, but these shares of common stock will be subject to the same time-based vesting schedule, as well as to the terms and conditions of the plan under which the original performance shares were granted. Thus, following the Distribution, employees who held performance-based shares under the LICP for the performance cycle ending December 31, 2002 will hold time-based restricted shares of Reliant Energy common stock and time-based restricted shares of Reliant Resources common stock, which will vest following continuous employment through December 31, 2002.

Under both the Resources LICP and the Company's plans, stock options generally become exercisable in one-third increments on each of the first through third anniversaries of the grant date. The exercise price is the average of the high and low sales price of the common stock on the New York Stock Exchange on the grant date. The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25), and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been recognized for these fixed stock options. The following table summarizes stock option activity related to the Company and Reliant Resources for the years 1999 through 2001:

	Reliant Energy		Reliant Resources	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 1998	2,945,654	$24.87		
Options granted	3,806,051	26.74		
Options exercised	(83,610)	19.38		
Options canceled	(205,124)	25.96		
Outstanding at December 31, 1999	6,462,971	25.99		
Options granted	5,936,510	22.14		
Options exercised	(1,061,169)	25.01		
Options canceled	(1,295,877)	23.96		
Outstanding at December 31, 2000	10,042,435	24.13		
Options granted	1,887,668	46.23	8,826,432	$29.82
Options exercised	(1,812,022)	24.11	—	—
Options canceled	(289,610)	27.38	(245,830)	28.28
Outstanding at December 31, 2001	9,828,471	28.34	8,580,602	29.86
Options exercisable at December 31, 1999	1,350,374	$23.87		
Options exercisable at December 31, 2000	2,258,397	$25.76		
Options exercisable at December 31, 2001	3,646,228	$25.38	6,500	$30.00

Exercise prices for Reliant Energy stock options outstanding held by Company employees ranged from $7.00 to $50.00. Exercise prices for Reliant Resources stock options outstanding held by Company employees

ranged from $15.65 to $34.03. The following tables provide information with respect to outstanding Reliant Energy and Reliant Resources stock options held by the Company's employees on December 31, 2001:

	Reliant Energy		
	Options Outstanding	Average Exercise Price	Remaining Average Contractual Life (Years)
Ranges of Exercise Prices:			
$7.00-$21.00	3,974,064	$20.46	8.1
$21.01-$26.00	1,107,368	25.20	6.0
$26.01-$30.00	2,450,119	27.16	7.3
$30.01-$50.00	2,296,920	44.73	9.2
Total	9,828,471	28.34	7.9

	Reliant Resources		
	Options Outstanding	Average Exercise Price	Remaining Average Contractual Life (Years)
Ranges of Exercise Prices:			
$15.65-$23.50	95,436	$20.62	9.7
$23.51-$34.03	8,485,166	29.97	9.2
Total	8,580,602	29.86	9.2

The following table provides information with respect to Reliant Energy stock options exercisable at December 31, 2001:

	Options Exercisable	Average Exercise Price
Ranges of Exercise Prices:		
$7.00-$21.00	991,464	$20.36
$21.01-$26.00	1,015,723	25.24
$26.01-$30.00	1,439,165	27.23
$30.01-$47.22	199,876	37.70
Total	3,646,228	25.38

As of December 31, 2001, Reliant Resources had 6,500 options exercisable at an exercise price of $30.00.

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), the Company applies the guidance contained in APB Opinion No. 25 and discloses the required pro forma effect on net income of the fair value based method of accounting for stock compensation. The weighted average fair values at date of grant for Reliant Energy options granted during 1999, 2000 and 2001 were $3.13, $5.07 and $9.25, respectively. The weighted average fair value at date of grant for Reliant Resources options granted

during 2001 was $13.35. The fair values were estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

	Reliant Energy		
	1999	2000	2001
Expected life in years	5	5	5
Interest rate	5.10%	6.57%	4.87%
Volatility	21.23%	24.00%	31.91%
Expected common stock dividend	$ 1.50	$ 1.50	$ 1.50

	Reliant Resources 2001
Expected life in years	5
Interest rate	4.94%
Volatility	42.65%

Pro forma information for 1999, 2000 and 2001 is provided to take into account the amortization of stock-based compensation to expense on a straight-line basis over the vesting period. Had compensation costs been determined as prescribed by SFAS No. 123, the Company's, including Reliant Resources', net income would have been reduced by $5 million, $10 million, and $26 million in 1999, 2000 and 2001, respectively. Earnings per share would have been reduced by $0.02 per share, $0.03 per share and $0.09 per share in 1999, 2000 and 2001, respectively.

Subject to the Distribution, the Company expects to convert all outstanding Reliant Energy stock options granted prior to the Offering to a combination of adjusted Reliant Energy stock options and Reliant Resources stock options. For the converted stock options, the sum of the intrinsic value of the Reliant Energy stock options immediately prior to the record date of the Distribution will equal the sum of the intrinsic values of the adjusted Reliant Energy stock options and the Reliant Resources stock options granted immediately after the record date of the Distribution. As such, Reliant Resources employees who do not work for the Company will hold stock options of the Company. Both the number and the exercise price of all outstanding Reliant Energy stock options that were granted on or after the Offering will be adjusted to maintain the total intrinsic value of the grants.

(b) Pension

The Company sponsors multiple pension plans. The principal retiree benefit plans are discussed below. Other such plans are not significant individually or in the aggregate.

The Company maintains a pension plan which is a noncontributory defined benefit plan covering substantially all employees in the United States and certain employees in foreign countries. The benefit accrual is in the form of a cash balance of 4% of annual pay. Prior to 1999, the pension plan accrued benefits based on years of service, final average pay and covered compensation. As a result, certain employees participating in the plan as of December 31, 1998 are eligible for transition benefits through 2008.

The Company's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the pension plans consist principally of common stocks and interest bearing obligations. Included in such assets are approximately 4.5 million shares of Reliant Energy common stock contributed from treasury stock during 2001. As of December 31, 2001, the fair value of Reliant Energy common stock was $120 million or 8.7% of the pension plan assets.

REPGB is a foreign subsidiary of the Company and participates along with other companies in the Netherlands in making payments to pension funds which are not administered by the Company. The Company treats these payments as a defined contribution pension plan which provides retirement benefits for most of its employees. The contributions are principally based on a percentage of the employee's base compensation and charged against income as incurred. This expense was $2 million, $6 million and $6 million for the three months ended December 31, 1999 and during 2000 and 2001, respectively.

Net pension cost for the Company (excluding REPGB) includes the following components:

	Year Ended December 31,		
	1999	2000	2001
		(In millions)	
Service cost — benefits earned during the period	$ 34	$ 33	$ 37
Interest cost on projected benefit obligation	88	88	99
Expected return on plan assets	(141)	(146)	(138)
Net amortization	(5)	(12)	(3)
Curtailment	—	—	(23)
Benefit enhancement	—	—	69
Net pension (benefit) cost	$ (24)	$ (37)	$ 41

Following are reconciliations of the Company's beginning and ending balances of its retirement plan benefit obligation, plan assets and funded status for 2000 and 2001 (excluding REPGB):

	Year Ended December 31,	
	2000	2001
	(In millions)	
Change in Benefit Obligation		
Benefit obligation, beginning of year	$1,232	$1,319
Service cost	33	37
Interest cost	88	99
Benefits paid	(85)	(92)
Plan amendments	3	—
Acquisitions	1	—
Transfer of obligation to non-qualified pension plan	(11)	—
Curtailment and benefit enhancement	—	57
Actuarial loss	58	71
Benefit obligation, end of year	$1,319	$1,491
Change in Plan Assets		
Plan assets, beginning of year	$1,513	$1,418
Employer contributions	—	107
Benefits paid	(85)	(92)
Actual investment return	(11)	(56)
Acquisitions	1	—
Plan assets, end of year	$1,418	$1,377

	Year Ended December 31,	
	2000	2001
	(In millions)	
Reconciliation of Funded Status		
Funded status	$ 99	$ (114)
Unrecognized transition asset	(4)	(2)
Unrecognized prior service cost	(125)	(92)
Unrecognized actuarial loss	227	471
Net amount recognized at end of year	$ 197	$ 263
Actuarial Assumptions		
Discount rate	7.5%	7.25%
Rate of increase in compensation levels	3.5-5.5%	3.5-5.5%
Expected long-term rate of return on assets	10.0%	9.5%

The transitional asset at January 1, 1986, is being recognized over 17 years, and the prior service cost is being recognized over 15 years.

Effective March 1, 2001, the Company no longer accrues benefits under a noncontributory pension plan for its domestic non-union employees of Reliant Resources and its participating subsidiaries' employees (Resources Participants). Effective March 1, 2001, each Resources Participant's unvested accrued benefit was fully vested and a one-time benefit enhancement was provided to some qualifying participants. After the Distribution, each Resources Participant may elect to have his accrued benefit (a) left in the Company's pension plan, (b) rolled over to a new Reliant Resources savings plan or an individual IRA account, or (c) paid in a lump sum or annuity distribution. During the first quarter of 2001, the Company incurred a charge to earnings of $84 million (pre-tax) for a one-time benefit enhancement and a gain of $23 million (pre-tax) related to the curtailment of the Company's pension plan.

In addition to the noncontributory pension plans discussed above, the Company maintains non-qualified pension plans which allow participants to retain the benefits to which they would have been entitled under the Company's noncontributory pension plan except for the federally mandated limits on these benefits or on the level of salary on which these benefits may be calculated. The expense associated with these non-qualified plans was $5 million, $25 million and $25 million in 1999, 2000 and 2001, respectively. Expense for 2001 includes a one-time benefit enhancement of $15 million, which is included in the $84 million discussed above. The accrued benefit liability for the nonqualified pension plan was $92 million and $99 million at December 31, 2000 and 2001, respectively. In addition, these accrued benefit liabilities include the recognition of minimum liability adjustments of $30 million as of December 31, 2000 and $20 million as of December 31, 2001, which are reported as a component of comprehensive income, net of income tax effects.

The Company's prepaid pension asset is presented in the Consolidated Balance Sheets under the caption "Other Assets — Other."

(c) Savings Plan

The Company has employee savings plans that qualify as cash or deferred arrangements under Section 401(k) of the Internal Revenue Code of 1986, as amended (the Code). Under the plans, participating employees may contribute a portion of their compensation, pre-tax or after-tax, generally up to a maximum of 16% of compensation. The Company matches 75% to 125% (based on certain performance goals achieved) of the first 6% of each employee's compensation contributed, with most matching contributions subject to a vesting schedule. A substantial portion of the Company's match is invested in Reliant Energy common stock.

Effective March 1, 2001, the Company amended its savings plan for Reliant Resources participants and REMA's non-union employee savings plan to generally provide for (a) employer matching contributions equal to 100% of the first 6% of each employee's contributions to the plan, (b) a 2% employer contribution on a payroll basis for 2002, limited to the first $85,000 of compensation, and (c) discretionary employer contributions up to 3% at the end of the plan year based on each employee's eligible compensation. Effective March 1, 2001, all prior and future employer contributions on behalf of such employees are fully vested.

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

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

The ESOP share balances at December 31, 2000 and 2001 were as follows:

	December 31,	
	2000	2001
Allocated shares transferred/distributed from the savings plan ...	2,397,523	2,740,328
Allocated shares	7,725,772	8,951,967
Unearned shares	8,638,889	7,069,889
Total original ESOP shares	18,762,184	18,762,184
Fair value of unearned ESOP shares	$374,171,880	$187,493,456

As a result of the ESOP and the Company stock fund, the savings plan has significant holdings of Reliant Energy common stock. As of December 31, 2000 and 2001, an aggregate of 33,437,216 shares and 33,505,474 shares of Reliant Energy's common stock were held by the savings plan, which represented 66.0% and 56.1% of its investments, respectively. Given the concentration of the investments in Reliant Energy's common stock, the savings plan and its participants have market risk related to this investment.

The Company's savings plan benefit expense was $35 million, $53 million and $55 million in 1999, 2000 and 2001, respectively.

(d) Postretirement Benefits

The Company sponsors multiple postretirement plans. The principal retiree benefit plans are discussed below. Other such plans are not significant individually or in the aggregate.

The Company provides certain healthcare and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plans. Under plan amendments effective in early 1999, health care benefits for future retirees were changed to limit employer contributions for medical coverage.

Such benefit costs are accrued over the active service period of employees. The net unrecognized transition obligation, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years.

The Company is required to fund a portion of its obligations in accordance with rate orders. All other obligations are funded on a pay-as-you-go basis.

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

	Year Ended December 31,		
	1999	2000	2001
	(In millions)		
Service cost — benefits earned during the period	$ 5	$ 6	$ 7
Interest cost on projected benefit obligation	26	29	32
Expected return on plan assets	(9)	(11)	(13)
Net amortization	15	12	14
Curtailment	—	—	40
Net postretirement benefit cost	$37	$ 36	$ 80

Following are reconciliations of the Company's beginning and ending balances of its postretirement benefit plans benefit obligation, plan assets and funded status for 2000 and 2001:

	Year Ended December 31,	
	2000	2001
	(In millions)	
Change in Benefit Obligation		
Benefit obligation, beginning of year	$ 395	$ 455
Service cost	6	7
Interest cost	29	32
Benefits paid	(27)	(18)
Participant contributions	3	5
Acquisitions	12	—
Plan amendments	3	—
Foreign exchange impact	(1)	(2)
Actuarial loss	35	6
Benefit obligation, end of year	$ 455	$ 485
Change in Plan Assets		
Plan assets, beginning of year	$ 105	$ 122
Benefits paid	(27)	(18)
Employer contributions	37	41
Participant contributions	3	5
Actual investment return	4	(11)
Plan assets, end of year	$ 122	$ 139

	Year Ended December 31,	
	2000	2001
	(In millions)	
Reconciliation of Funded Status		
Funded status	$ (333)	$ (346)
Unrecognized transition obligation	126	94
Unrecognized prior service cost	88	66
Unrecognized actuarial gain	(52)	(23)
Net amount recognized at end of year	$ (171)	$ (209)
Actuarial Assumptions		
Discount rate	6.6-7.5%	6.6-7.25%
Expected long-term rate of return on assets	10.0%	9.5%
Health care cost trend rates — Under 65	8.0%	7.5%
Health care cost trend rates — 65 and over	9.0%	8.5%

The assumed health care rates gradually decline to 5.5% for both medical categories by 2010. The actuarial gains and losses are due to changes in actuarial assumptions.

If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of December 31, 2001 would increase by approximately 3.6%. The annual effect of the 1% increase on the total of the service and interest costs would be an increase of approximately 3%. If the health care cost trend rate assumptions were decreased by 1%, the accumulated postretirement benefit obligation as of December 31, 2001 would decrease by approximately 3.5%. The annual effect of the 1% decrease on the total of the service and interest costs would be a decrease of 2.9%.

Effective March 1, 2001, the Company discontinued providing subsidized postretirement benefits to its Resources Participants. The Company incurred a pre-tax loss of $40 million during the first quarter of 2001 related to the curtailment of the Company's postretirement obligation.

The Company's postretirement obligation is presented as a liability in the Consolidated Balance Sheets under the caption "Benefit Obligations."

(e) Postemployment Benefits

Net postemployment benefit costs for former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily health care and life insurance benefits for participants in the long-term disability plan) were $11 million, $2 million and $6 million in 1999, 2000 and 2001, respectively.

The Company's postemployment obligation is presented as a liability in the Consolidated Balance Sheets under the caption "Benefit Obligations."

(f) Other Non-qualified Plans

Since 1985, the Company has had in effect deferred compensation plans which permit eligible participants to elect each year to defer a percentage of that year's salary (prior to December 1993, up to 25% or 40%, depending on age, and beginning in December 1993, up to 100%) and up to 100% of that year's annual bonus. In general, employees who attain the age of 60 during employment and participate in the Company's deferred compensation plans may elect to have their deferred compensation amounts repaid in (a) fifteen equal annual installments commencing at the later of age 65 or termination of employment or (b) a lump-sum distribution following termination of employment. Interest generally accrues on deferrals made in 1989 and

subsequent years at a rate equal to the average Moody's Long-Term Corporate Bond Index plus 2%, determined annually until termination when the rate is fixed at the greater of the rate in effect at age 64 or at age 65. Fixed rates of 19% to 24% were established for deferrals made in 1985 through 1988. During 1999, 2000 and 2001, the Company, including Reliant Resources, recorded interest expense related to its deferred compensation obligation of $22 million, $14 million and $17 million, respectively. The discounted deferred compensation obligation recorded by the Company, including Reliant Resources, was $159 million and $161 million as of December 31, 2000 and 2001, respectively.

Each Reliant Resources participant has elected to have his non-qualified deferred compensation plan account balance, after the Distribution: (a) placed in a new Reliant Resources deferred compensation plan, which generally mirrors the former Reliant Energy deferred compensation plans; or, (b) rolled over to the new non-qualified deferred compensation plan discussed below.

Effective January 1, 2002, select key and highly compensated employees were eligible to participate in a new non-qualified deferred compensation plan. The plan allows eligible employees to elect to defer up to 80% of their annual base salary and/or up to 100% of their eligible annual bonus. The Company funds these deferred compensation liabilities by making contributions to a rabbi trust. Plan participants direct the allocation of their deferrals between one or more of the Company's designated investment funds within the rabbi trust. Participants may withdraw their deferrals and accumulated earnings, if any, at any time before their normal distributions would have commenced with a ten percent penalty.

The Company's obligations under other non-qualified plans are presented as a liability in the Consolidated Balance Sheets under the caption "Benefit Obligations."

(g) Other Employee Matters

As of December 31, 2001, approximately 36% of the Company's employees are subject to collective bargaining arrangements, of which contracts covering 8% of the Company's employees will expire prior to December 31, 2002.

(13) Income Taxes

The components of income before taxes are as follows:

	Year Ended December 31,		
	1999	2000	2001
	(In millions)		
United States	$2,535	$578	$1,302
Foreign	29	180	117
Income before income taxes	$2,564	$758	$1,419

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

	Year Ended December 31,		
	1999	2000	2001
	(In millions)		
Current:			
Federal	$300	$297	$ 625
State	4	25	2
Foreign	7	48	1
Total current	311	370	628
Deferred:			
Federal	554	(53)	(140)
State	34	1	16
Foreign	—	—	(4)
Total deferred	588	(52)	(128)
Income tax expense	$899	$318	$ 500

A reconciliation of the federal statutory income tax rate to the effective income tax rate is as follows:

	Year Ended December 31,		
	1999	2000	2001
	(In millions)		
Income before income taxes	$2,564	$758	$1,419
Federal statutory rate	35%	35%	35%
Income taxes at statutory rate	898	265	497
Net addition (reduction) in taxes resulting from:			
State income taxes, net of valuation allowances and federal income tax benefit	25	17	12
Amortization of investment tax credit	(21)	(18)	(18)
Excess deferred taxes	(5)	(4)	(5)
REPGB tax holiday	(5)	(44)	(50)
Federal and foreign valuation allowance	1	13	3
Goodwill amortization	18	19	25
Latin America operations	—	69	(5)
Minority interest	—	—	29
Other, net	(12)	1	12
Total	1	53	3
Income tax expense	$ 899	$318	$ 500
Effective rate	35.1%	42.0%	35.2%

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

	December 31,	
	2000	2001
	(In millions)	
Deferred tax assets:		
Current:		
Unrealized loss on indexed debt securities	$ 555	$ 472
Allowance for doubtful accounts	—	74
Non-trading derivative assets, net	—	19
Other	—	5
Total current deferred tax assets	555	570
Non-current:		
Alternative minimum tax and other credit carryforwards	25	—
Employee benefits	143	172
Disallowed plant cost, net	56	53
Operating loss carryforwards	84	47
Contingent liabilities associated with discontinuance of SFAS No. 71	74	74
Environmental reserves	25	16
Allowance for doubtful accounts	34	—
Foreign exchange gains	26	27
Non-trading derivative liabilities, net	—	136
Non-derivative stranded costs liability	—	73
Impairment of foreign asset	—	52
Other	88	94
Valuation allowance	(68)	(31)
Total non-current deferred tax assets	487	713
Total deferred tax assets	$1,042	$1,283
Deferred tax liabilities:		
Current:		
Unrealized gain on AOL Time Warner investment	$ 864	$ 829
Trading and marketing assets, net	—	48
Hedges of net investment in foreign subsidiaries	—	52
Total current deferred tax liabilities	864	929

	December 31,	
	2000	2001
	(In millions)	
Non-current:		
Depreciation	2,290	2,252
Regulatory assets, net	380	438
Deferred state income taxes	69	69
Deferred gas costs	201	43
Trading and marketing assets, net	—	27
Stranded costs indemnification receivable	—	73
Other	96	119
Total non-current deferred tax liabilities	3,036	3,021
Total deferred tax liabilities	3,900	3,950
Accumulated deferred income taxes, net	$2,858	$2,667

Tax Attribute Carryforwards At December 31, 2001, the Company had $13 million, $530 million and $45 million of federal, state and foreign net operating loss carryforwards, respectively. The losses are available to offset future respective federal and state taxable income through the year 2021. The foreign losses available to offset future foreign taxable income will not expire under current foreign jurisdiction tax law.

The valuation allowance reflects a net increase of $49 million in 2000 and a net decrease of $37 million in 2001. These net changes resulted from a reassessment of the Company's future ability to use federal, state and foreign tax net operating loss carryforwards.

REPGB Tax Holiday. Under 1998 Dutch tax law relating to the Dutch electricity industry, REPGB qualifies for a zero percent tax rate through December 31, 2001. The tax holiday applies only to the Dutch income earned by REPGB. Beginning January 1, 2002, REPGB is subject to Dutch corporate income tax at standard statutory rates, which is currently 34.5%, and was enacted in 2001. Prior to 2001, the enacted rate was 35%. The effect of the change in the enacted tax rate was not material to the Company's results of operations.

As discussed in Note 14(h), the Dutch parliament has adopted legislation allocating to the Dutch generation sector, including REPGB, financial responsibility for certain stranded costs and other liabilities incurred by NEA prior to the deregulation of the Dutch wholesale market. These obligations include NEA's obligations under an out-of-market gas supply contract and three out-of-market electricity contracts. As a result of the above, the Company recorded a net stranded cost liability of $369 million and a related deferred tax asset of $127 million at December 31, 2001 for the Company's statutorily allocated share of these gas supply and electricity contracts. The Company believes that the costs incurred by REPGB subsequent to the tax holiday ending in 2001 related to these contracts will be deductible for Dutch tax purposes. However, due to uncertainties related to the deductibility of these costs, the Company has recorded an offsetting liability in other liabilities of $127 million as of December 31, 2001.

Undistributed Earnings of Foreign Subsidiaries The undistributed earnings of foreign subsidiaries aggregated $298 million as of December 31, 2001, which, under existing tax law, will not be subject to U.S. income tax until distributed. Provisions for U.S. taxes have not been accrued on these undistributed earnings, as these earnings have been, or are intended to be, permanently reinvested. In the event of a distribution of these earnings in the form of dividends, the Company will be subject to U.S. income taxes net of allowable foreign tax credits.

Tax Refunds. In 2000, the Company received refunds from the IRS totaling $126 million in taxes and interest following audits of tax returns and refund claims for Reliant Energy's 1985, 1986 and 1990 through 1995 tax years, and RERC Corp.'s 1979 through 1993 tax years. The pre-tax income statement effect of $40 million ($26 million after-tax) was recorded in 2000 in other income in the Company's Statements of Consolidated Income. Of the refunds, $26 million was recorded as a reduction in goodwill. Reliant Energy's consolidated federal income tax returns have been audited and settled through the 1996 tax year. All of RERC Corp.'s consolidated federal income tax returns for tax years ending on or prior to Reliant Energy's acquisition of RERC Corp. have been audited and settled.

(14) Commitments and Contingencies

(a) Commitments and Guarantees

The following information is presented separately for the Company's regulated and unregulated businesses:

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

Capital and Environmental Commitments. Reliant Energy anticipates investing up to $397 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance. Reliant Energy anticipates expenditures to be as follows (in millions):

2002	$234
2003	132
2004	28
2005	3
2006	—
Total	$397

Fuel and Purchased Power. Fuel commitments include several long-term coal, lignite and natural gas contracts related to Texas power generation operations, which have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities or trading and marketing assets and liabilities in the Company's Consolidated Balance Sheets as of December 31, 2001 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" (see Note 5) or do not meet the definition of a derivative. Minimum payment obligations for coal and transportation agreements that extend through 2009 are approximately $199 million in 2002, $129 million in 2003, $133 million in 2004, $137 million in 2005 and $141 million in 2006. Purchase commitments related to lignite mining and lease agreements, natural gas purchases and storage contracts, and purchased power are not material to Reliant Energy's operations. Prior to January 1, 2002, the Electric Operations business segment was allowed recovery of these costs through rates for electric service. As of December 31, 2001, some of these contracts are above market. Reliant Energy anticipates that stranded costs associated with these obligations will be recoverable through the stranded cost recovery mechanisms contained in the Texas Electric Restructuring Law. For information regarding the Texas Electric Restructuring Law, see Note 4(a).

Reliant Energy's other long-term fuel supply commitments which have various quantity requirements and durations are not considered material either individually or in the aggregate to its results of operations or cash flows.

Reliant Resources — unregulated businesses

As of December 31, 2001, the Wholesale Energy business segment had entered into commitments associated with various non-rate regulated electric generating projects, including commitments for the purchase of combustion turbines, aggregating $440 million. In addition, the Wholesale Energy business segment has options to purchase additional generating equipment for a total estimated cost of $42 million for future generation projects. Reliant Resources is actively attempting to remarket this equipment.

Reliant Resources is a party to several fuel supply contracts, commodity transportation contracts, and purchase power and electric capacity contracts, that have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities or trading and marketing assets and liabilities in the Consolidated Balance Sheets as of December 31, 2001 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" (see Note 5) or do not meet the definition of a derivative. The maximum duration of any of these commitments is 21 years. Minimum purchase commitment obligations under these agreements are as follows for the next five years, as of December 31, 2001 (in millions):

	Fuel Commitments	Transportation Commitments	Purchased Power and Electric and Gas Capacity Commitments
2002	$105	$ 45	$315
2003	39	84	119
2004	45	101	61
2005	45	101	61
2006	45	101	61
Total	$279	$432	$617

The maximum duration under any individual fuel supply contract and transportation contract is 18 years and 21 years, respectively.

Reliant Resources' aggregate electric capacity commitments, including capacity auction products, are for 7,496 MW, 1,800 MW, 1,000 MW, 1,000 MW and 1,000 MW for 2002, 2003, 2004, 2005 and 2006, respectively. The maximum duration under any individual commitment is five years. Included in the above purchase power and electric capacity commitments are amounts to be acquired from Texas Genco in 2002 and 2003 of $213 million and $57 million, respectively.

As of December 31, 2001, Reliant Resources has commitments, including electric energy and capacity sale contracts and district heating contracts (see Note 14(h)) which are not classified as non-trading derivative assets and liabilities or trading and marketing assets and liabilities in the Consolidated Balance Sheets as these contracts meet the SFAS No. 133 exception to be classified as "normal sales contracts" or do not meet the definition of a derivative. The estimated minimum sale commitments under these contracts are $450 million, $211 million, $194 million, $174 million and $159 million in 2002, 2003, 2004, 2005 and 2006, respectively.

In addition, in January 2002, Reliant Resources began providing retail electric services to approximately 1.5 million residential and small commercial customers previously served by Reliant Energy's electric utility division. Within Reliant Energy's electric utility division's territory, prices that may be charged to residential and small commercial customers by this retail electric service provider are subject to a fixed, specified price (price to beat) at the outset of retail competition. The Texas Utility Commission's regulations allow this retail electric provider to adjust its price to beat fuel factor based on a percentage change in the price of natural gas. In addition, the retail electric provider may also request an adjustment as a result of changes in its price of purchased energy. The retail electric provider may request that its price to beat be adjusted twice a year.

Reliant Resources will not be permitted to sell electricity to residential and small commercial customers in the incumbent's traditional service territory at a price other than the price to beat until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers is committed to be served by other retail electric providers.

Reliant Resources guarantees the performance of certain of its subsidiaries' trading and hedging obligations. As of December 31, 2001, the fixed maximum amount of such guarantees was $4.7 billion. In addition, Reliant Resources has issued letters of credit totaling $51 million in connection with its trading activities. Reliant Resources does not consider it likely that it would be required to perform or otherwise incur any losses associated with these guarantees.

In addition to the above discussions, Reliant Resources' other commitments have various quantity requirements and durations and are not considered material either individually or in the aggregate to its results of operations or cash flows.

(b) Lease Commitments

In August 2000, the Company, entered into separate sale-leaseback transactions with each of three owner-lessors covering the subsidiaries' respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, acquired in the REMA acquisition. As lessee, the Company leases an interest in each facility from each owner-lessor under a facility lease agreement. The equity interests in all the subsidiaries of REMA are pledged as collateral for REMA's lease obligations. In addition, the subsidiaries have guaranteed the lease obligations. The lease documents contain restrictive covenants that restrict REMA's ability to, among other things, make dividend distributions unless REMA satisfies various conditions. The covenant restricting dividends would be suspended if the direct or indirect parent of REMA, meeting specified criteria, including having a rating on REMA's long-term unsecured senior debt of at least BBB from Standard and Poor's and Baa2 from Moody's, guarantees the lease obligations. The Company will make lease payments through 2029. The lease term expires in 2034. As of December 31, 2001, REMA had $167 million of restricted funds that are available for REMA's working capital needs and to make future lease payments, including a lease payment of $55 million which was made in January 2002.

In the first quarter of 2001, Reliant Resources entered into tolling arrangements with a third party to purchase the rights to utilize and dispatch electric generating capacity of approximately 1,100 MW extending through 2012. This electricity will be generated by two gas-fired, simple-cycle peaking plants, with fuel oil backup which are being constructed by a tolling partner. Reliant Resources anticipates construction to be completed by the summer of 2002, at which time Reliant Resources will commence tolling payments. The tolling arrangements qualify as operating leases.

In February 2001, the Company entered into a lease for office space for Reliant Resources in a building under construction. The lease agreement was assigned by the Company to Reliant Resources by an assignment and assumption agreement in June 2001. The lease term, which commences in the second quarter 2003, is 15 years with two five-year renewal options. Reliant Resources has the right to name the building.

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2001, which primarily relate to the REMA leases mentioned above. Other non-cancelable, long-term operating leases for Reliant Energy and Reliant Resources principally

consist of tolling arrangements, as discussed above, rental agreements for building space, data processing equipment and vehicles, including major work equipment.

	REMA Sale-Lease Obligation	Reliant Resources Other	Reliant Energy Other	Total
		(In millions)		
2002	$ 136	$ 52	$ 14	$ 202
2003	77	72	12	161
2004	84	87	7	178
2005	75	89	6	170
2006	64	90	5	159
2007 and beyond	1,124	469	66	1,659
Total	$1,560	$859	$110	$2,529

Total lease expense for all operating leases was $39 million, $62 million and $112 million during 1999, 2000 and 2001, respectively. During 2001, the Company made lease payments related to the REMA lease of $259 million. As of December 31, 2001, the Company had recorded a prepaid lease obligation related to the REMA sale-leaseback of $59 million and $122 million in other current assets and other long-term assets, respectively.

(c) Cross Border Leases

During the period from 1994 through 1997, under cross border lease transactions, REPGB leased several of its power plants and related equipment and turbines to non-Netherlands based investors (the head leases) and concurrently leased the facilities back under sublease arrangements with remaining terms as of December 31, 2001 of 1 to 23 years. REPGB utilized proceeds from the head lease transactions to prepay its sublease obligations and to provide a source for payment of end of term purchase options and other financial undertakings. The initial sublease obligations totaled $2.4 billion of which $1.6 billion remained outstanding as of December 31, 2001. These transactions involve REPGB providing to a foreign investor an ownership right in (but not necessarily title to) an asset, with a leaseback of that asset. The net proceeds to REPGB of the transactions were recorded as a deferred gain and are currently being amortized to income over the lease terms. At December 31, 2000 and 2001, the unamortized deferred gain on these transactions totaled $77 million and $68 million, respectively. The power plants, related equipment and turbines remain on the financial statements of REPGB and continue to be depreciated.

REPGB is required to maintain minimum insurance coverages, perform minimum annual maintenance and, in specified situations, post letters of credit. REPGB's shareholder is subject to some restrictions with respect to the liquidation of REPGB's shares. In the case of early termination of these contracts, REPGB would be contingently liable for some payments to the sublessors, which at December 31, 2001, are estimated to be $272 million. Starting in March 2000, REPGB was required by some of the lease agreements to obtain standby letters of credit in favor of the sublessors in the event of early termination. The amount of the required letters of credit was $272 million as of December 31, 2001. Commitments for these letters of credit have been obtained as of December 31, 2001.

(d) Naming Rights to Houston Sports Complex

In October 2000, Reliant Resources acquired the naming rights for the new football stadium for the Houston Texans, the National Football League's newest franchise. In addition, the naming rights cover the entertainment and convention facilities included in the stadium complex. The agreement extends for 32 years. In addition to naming rights, the agreement provides Reliant Resources with significant sponsorship rights.

The aggregate cost of the naming rights will be approximately $300 million. During the fourth quarter of 2000, Reliant Resources incurred an obligation to pay $12 million in order to secure the long-term commitment and for the initial advertising of which $10 million was expensed in the Statement of Consolidated Income in 2000. Starting in 2002, when the new stadium is operational, Reliant Resources will pay $10 million each year through 2032 for annual advertising under this agreement.

(e) Transportation Agreement

A subsidiary of RERC Corp. had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) that contemplated that this subsidiary would transfer to ANR an interest in some of RERC Corp.'s pipeline and related assets. As of December 31, 2000 and 2001, the Company had recorded $41 million in other long-term liabilities in the Company's Consolidated Balance Sheets to reflect the Company's obligation to ANR for the use of 130 million cubic feet (Mmcf)/day of capacity in some of the Company's transportation facilities. The level of transportation will decline to 100 Mmcf/day in the year 2003 with a refund of $5 million to ANR. The ANR Agreement will terminate in 2005 with a refund of $36 million.

(f) Legal, Environmental and Other Regulatory Matters

Legal Matters

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

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

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

The extent to which issues in the Three Cities case may affect the claims of the other cities served by Reliant Energy HL&P cannot be assessed until judgments are final and no longer subject to appeal. However, the trial court's rulings disregarding most of the jury's findings are consistent with Texas Supreme Court

opinions over the past decade. The Company estimates the range of possible outcomes for the plaintiffs to be between zero and $18 million inclusive of interest and attorneys' fees.

California Wholesale Market. Reliant Energy, Reliant Energy Services, REPG and several other subsidiaries of Reliant Resources, as well as three officers of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(c)), Reliant Resources has agreed to indemnify Reliant Energy for any damages arising under these lawsuits and may elect to defend these lawsuits at its own expense. Three of these lawsuits were filed in the Superior Court of the State of California, San Diego County; two were filed in the Superior Court in San Francisco County; and one was filed in the Superior Court of Los Angeles County. While the plaintiffs allege various violations by the defendants of state antitrust laws and state laws against unfair and unlawful business practices, each of the lawsuits is grounded on the central allegation that defendants conspired to drive up the wholesale price of electricity. In addition to injunctive relief, the plaintiffs in these lawsuits seek treble the amount of damages alleged, restitution of alleged overpayments, disgorgement of alleged unlawful profits for sales of electricity, costs of suit and attorneys' fees. The cases were initially removed to federal court and were then assigned to Judge Robert H. Whaley, United States District Judge, pursuant to the federal procedures for multi-district litigation. On July 30, 2000, Judge Whaley remanded the cases to state court. Upon remand to state court, the cases were assigned to Superior Court Judge Janis L. Sammartino pursuant to the California state coordination procedures. On March 4, 2002, Judge Sammartino adopted a schedule proposed by the parties that would result in a trial beginning on March 1, 2004. On March 8, 2002, the plaintiffs filed a single, consolidated complaint naming numerous defendants, including Reliant Energy Services and other Reliant Resources' subsidiaries, that restated the allegations described above and alleged that damages against all defendants could be as much as $1 billion.

Plaintiffs have voluntarily dismissed Reliant Energy from two of the three class actions in which it was named as a defendant. The ultimate outcome of the lawsuits cannot be predicted with any degree of certainty at this time. However, the Company believes, based on its analysis to date of the claims asserted in these lawsuits and the underlying facts, that resolution of these lawsuits will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

On March 11, 2002, the California Attorney General filed a civil lawsuit in San Francisco Superior Court naming Reliant Energy, Reliant Resources, Reliant Energy Services, REPG, and several other subsidiaries of Reliant Resources as defendants. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources (see Note 4(c)), Reliant Resources has agreed to indemnify Reliant Energy for any damages arising under these lawsuits and may elect to defend these lawsuits at its own expense. The Attorney General alleges various violations by the defendants of state laws against unfair and unlawful business practices arising out of transactions in the markets for ancillary services run by the California Independent System Operator (Cal ISO). In addition to injunctive relief, the Attorney General seeks restitution and disgorgement of alleged unlawful profits for sales of electricity, and civil penalties. The ultimate outcome of this lawsuit cannot be predicted with any degree of certainty at this time.

On March 19, 2002, the California Attorney General filed a complaint with the FERC naming Reliant Energy Services and "all other public utility sellers" in California as defendants. The complaint alleges that sellers with market-based rates have violated their tariffs by not filing with the FERC transaction-specific information about all of their sales and purchases at market-based rates. The California Attorney General argues that, as a result, all past sales should be subject to refund if found to be above just and reasonable levels. The ultimate outcome of this complaint proceeding cannot be predicted with any degree of certainty at this time. However, the Company believes, based on its analysis to date of the claims asserted in the complaint, the underlying facts, and the relevant statutory and regulatory provisions, that resolution of this

lawsuit will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

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

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

Environmental Matters

Clean Air Standards. The Company has participated in a lawsuit against the Texas Natural Resource Conservation Commission (TNRCC) regarding the limitation of the emission of oxides of nitrogen (NOx) in the Houston area. A settlement of the lawsuit was reached with the TNRCC in the second quarter of 2001 and revised emissions limitations were adopted by the TNRCC in the third quarter of 2001. The revised limitations provide for an increase in allowable NOx emissions, compared to the original TNRCC requirements, through 2004. Further emission reduction requirements may or may not be required through 2007, depending upon the outcome of further investigations of regional air quality issues. To achieve the TNRCC NOx reduction requirements, the Company anticipates investing up to $721 million in capital and other special project expenditures by 2004, including costs incurred through December 31, 2001, and potentially up to an additional $88 million between 2004 and 2007. The Texas Electric Restructuring Law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements.

Hydrocarbon Contamination. On August 24, 2001, 37 plaintiffs filed suit against Reliant Energy Gas Transmission Company, Inc., Reliant Energy Pipeline Services, Inc., RERC, Reliant Energy Services, Inc., other Reliant Energy entities and third parties (Docket No. 460, 916-Div. "B"), in the 1st Judicial District Court, Caddo Parish, Louisiana. The petition has now been supplemented five times. As of March 11, 2002, there were 628 plaintiffs, a majority of whom are Louisiana residents who live near the Wilcox Aquifer. In addition to the Reliant Energy entities, the plaintiffs have sued the State of Louisiana through its Department of Environmental Quality, several individuals, some of whom are present employees of the State of Louisiana, the Bayou South Gas Gathering Company, L.L.C., Martin Timber Company, Inc., and several trusts.

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

Beginning about 1985, the predecessors of certain Reliant Energy defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they own or lease. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or dimunition of value of their property, and in addition seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. As of December 31, 2001, the Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in this matter.

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

At December 31, 2000 and 2001, RERC had accrued $18 million and $23 million, respectively, for remediation of the Minnesota sites. At December 31, 2001, the estimated range of possible remediation costs was $11 million to $49 million. The cost estimates of the MGW site are based on studies of that site. The remediation costs for the other sites are based on industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used.

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

Other Minnesota Matters. At December 31, 2000 and 2001, RERC had recorded accruals of $4 million and $5 million, respectively for other environmental matters in Minnesota for which remediation may be required. At December 31, 2001 the estimated range of possible remediation costs was $4 million to $8 million.

Mercury Contamination. The Company's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by the Company at some sites in the past, and the Company has conducted remediation at sites found to be contaminated. Although the Company is not aware of additional specific sites, it is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total

amount of these costs cannot be known at this time, based on experience by the Company and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, the Company believes that the costs of any remediation of these sites will not be material to the Company's financial position, results of operations or cash flows.

REMA Ash Disposal Site Closures and Site Contaminations. Under the agreement to acquire REMA (see Note 3(a)), the Company became responsible for liabilities associated with ash disposal site closures and site contamination at the acquired facilities in Pennsylvania and New Jersey prior to a plant closing, except for the first $6 million of remediation costs at the Seward Generating Station. A prior owner retained liabilities associated with the disposal of hazardous substances to off-site locations prior to November 24, 1999. As of December 31, 2000 and 2001, REMA has liabilities associated with six future ash disposal site closures and six current site investigations and environmental remediations. The Company has recorded its estimate of these environmental liabilities in the amount of $36 million as of December 31, 2000 and 2001. The Company expects approximately $16 million will be paid over the next five years.

REPGB Asbestos Abatement and Soil Remediation. Prior to the Company's acquisition of REPGB (see Note 3(b)), REPGB had a $25 million obligation primarily related to asbestos abatement, as required by Dutch law, and soil remediation at six sites. During 2000, the Company initiated a review of potential environmental matters associated with REPGB's properties. REPGB began remediation in 2000 of the properties identified to have exposed asbestos and soil contamination, as required by Dutch law and the terms of some leasehold agreements with municipalities in which the contaminated properties are located. All remediation efforts are to be fully completed by 2005. As of December 31, 2000 and 2001, the recorded estimated undiscounted liability for this asbestos abatement and soil remediation was $24 million and $18 million, respectively.

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

Other Matters

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

(g) California Wholesale Market Uncertainty.

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

Due to the disparity between wholesale and retail rates, the credit ratings of PG&E and SCE fell below investment grade. Additionally, PG&E filed for protection under the bankruptcy laws on April 6, 2001. As a result, PG&E and SCE are no longer considered creditworthy and since January 17, 2001 have not directly purchased power from third-party suppliers through the Cal ISO to serve their net short load. Pursuant to emergency legislation enacted by the California Legislature, the California Department of Water Resources (CDWR) has negotiated and purchased power through short and long-term contracts on behalf of PG&E and SCE to meet their net short loads. In December 2001, the CDWR began making payments to the Cal ISO for real-time transactions. The CDWR has now made payment through the Cal ISO for most real-time energy deliveries subsequent to January 17, 2001.

In addition, certain contracts intended to serve as collateral for sales to the California Power Exchange (Cal PX) were seized by California Governor Gray Davis in February 2001. The Ninth Circuit Court of Appeals subsequently ruled that Governor Davis' seizure of these contracts was wrongful. The Company has filed a lawsuit, currently pending in California, to require the state of California to compensate it for the seizure of these contracts. Although SCE made a payment on March 1, 2002 to the Cal PX that included amounts it owed to the Company under these contracts, the Company is still seeking to recover the market value of the contracts at the time they were seized by Governor Davis, which was significantly higher than the contract value, and to collect amounts owed as a result of payment defaults by PG&E under the contracts. The timing and ultimate resolution of these claims is uncertain at this time.

On September 20, 2001, PG&E filed a Plan of Reorganization and an accompanying disclosure statement with the bankruptcy court. Under this plan, PG&E would pay all allowed creditor claims in full, through a combination of cash and long-term notes. Components of the plan will require the approval of the FERC, the SEC and the Nuclear Energy Regulatory Commission, in addition to the bankruptcy court. PG&E has stated it seeks to have this plan confirmed by December 31, 2002. A number of parties are contesting PG&E's reorganization plan, including a number of California parties and agencies. The bankruptcy judge in the PG&E case has ordered that the CPUC may file a competing plan. The details of the CPUC's proposal are unknown at this time. The ability of PG&E to have its reorganization plan confirmed, including the provision providing for the payment in full of unsecured creditors, is uncertain at this time.

On October 5, 2001, a federal district court in California entered a stipulated judgment approving a settlement between SCE and the CPUC in an action brought by SCE regarding the recovery of its wholesale power costs under the filed rate doctrine. Under the stipulated judgment, a rate increase approved earlier in 2001 will remain in place until the earlier of SCE recovering $3.3 billion or December 31, 2002. After that date, the CPUC will review the sufficiency of retail rates through December 31, 2005. A consumer organization has appealed the judgment to the Ninth Circuit Court of Appeals, and no hearing has been held to date. Under the stipulated judgment, any settlement with SCE's creditors that is entered into after March 1, 2002 must be approved by the CPUC. The Company has appealed this provision of the judgment. On March 1, 2002, SCE made a payment to the Cal PX that included amounts it owed the Company. The Company has made a filing with FERC seeking an order providing for the disbursement of the funds owed to

the suppliers. The FERC and the bankruptcy court governing the Cal PX bankruptcy proceedings are considering how to dispense this money and it remains uncertain when those funds will be paid over to the Company.

As of December 31, 2000, the Company was owed a total of $282 million by the Cal PX and the Cal ISO. As of December 31, 2001, the Company was owed a total of $302 million by the Cal ISO, the Cal PX, the CDWR, and California Energy Resources Scheduling for energy sales in the California wholesale market during the fourth quarter of 2000 through December 31, 2001. From January 1, 2002 through March 26, 2002, the Company has collected $45 million of these receivable balances. As of December 31, 2001, the Company had a pre-tax provision of $68 million against receivable balances related to energy sales in the California market, including $39 million recorded in 2000 and $29 million recorded in 2001. Management will continue to assess the collectability of these receivables based on further developments affecting the California electricity market and the market participants described herein.

FERC Market Mitigation. In response to the filing of a number of complaints challenging the level of wholesale prices, the FERC initiated a staff investigation and issued a number of orders implementing a series of wholesale market reforms. Under these orders, and subject to review and adjustment based on the pending refund proceeding described below, the Company may face an as yet undetermined amount of refund liability. See "— FERC Refunds" below. Under these orders, for the period January 1, 2001 through June 19, 2001, approximately $20 million of the $149 million charged by the Company for sales in California to the Cal ISO and the Cal PX were identified as being subject to possible refunds. During the second quarter of 2001, the Company accrued refunds of $15 million, $3 million of which had been previously expensed during the first quarter of 2001.

On April 26, 2001, the FERC issued an order replacing the previous price review procedures and establishing a market monitoring and mitigation plan, effective May 29, 2001, for the California markets. The plan establishes a cap on prices during periods when power reserves fall below 7% in the Cal ISO (reserve deficiency periods). The Cal ISO is instructed to use data submitted confidentially by gas-fired generators in California and daily indices of natural gas and emissions allowance costs to establish the market-clearing price in real-time based on the marginal cost of the highest-cost generator called to run. The plan also requires generators in California to offer all their available capacity for sale in the real-time market, and conditions sellers' market-based rate authority such that sellers engaging in certain bidding practices will be subject to increased scrutiny by the FERC, potential refunds and even revocation of their market-based rate authority.

On June 19, 2001, the FERC issued an order modifying the market monitoring and mitigation plan adopted in its April 26 order, to apply price controls to all hours, instead of just hours of low operating reserve, and to extend the mitigation measures to other Western states in addition to California, including Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming. The FERC set July 2, 2001 as the refund effective date for sales subject to the price mitigation plan throughout the West region. This means that transactions after that date may be subject to refund if found to be unjust or unreasonable. The proxy market clearing price calculated by the Cal ISO will apply during periods of reserve deficiency to all sales in the Cal ISO and Western spot markets. In non-reserve deficiency hours in California, the maximum price in California and the other Western states will be capped at 85% of the highest Cal ISO hourly market clearing price established during the most recent reserve deficiency period. Sellers other than marketers will be allowed to bid higher than the maximum prices, but such bids are subject to justification and potential refund. Justification of higher prices is limited to establishing higher actual gas costs than the proxy calculation averages and making a showing that conditions in natural gas markets changed significantly. The modified monitoring and mitigation plan went into effect June 20, 2001, and will terminate on September 30, 2002, covering two summer peak seasons, or approximately 16 months.

On December 19, 2001, the FERC issued a series of orders on price mitigation in California and the West region. These orders largely maintained existing mitigation mechanisms, but did make a temporary modifica-

tion to the way that mitigated market clearing prices will be set during the winter months, allowing the maximum prices to rise if gas prices rise. The FERC removed the requirement that non-reserve deficiency prices be limited to 85% of the most recent reserve deficiency prices, allowing prices to rise to a mitigated clearing price of $108/MWh (above which price transactions must be justified as described above). In addition, the FERC determined that if gas prices in California rise by 10%, the mitigated price may be revised to take that change into account. The formula will then track subsequent cumulative changes of at least 10%, but may not fall below a maximum price of $108/MWh. This modification is effective December 20, 2001 through April 30, 2002, at which point the previous mitigation formula is reinstated.

Also, the December 19 orders affirm the June 19 order's requirement that generators must offer all available capacity for sale in the real-time market. As a result of this requirement, the Company's opportunity to sell ancillary services in the West region in the future may be reduced. During 2001, the Company recorded $42 million in revenues related to ancillary services in the West region.

In addition to the impact on ancillary services sales, certain aspects of the December 19, 2001 orders may have retroactive application that may affect prices charged in the West region since June 21, 2001. Because the precise application of the December 19, 2001 order is not known at this time, the Company cannot anticipate the resulting impact on earnings.

The Company believes that while the mitigation plan will reduce volatility in the market, the Company will nevertheless be able to profitably operate its facilities in the West. Additionally, as noted above, the mitigation plan allows sellers, such as the Company, to justify prices above the proxy price. However, previous efforts by the Company to justify prices above the proxy price have been rejected by the FERC and there is no certainty that the FERC will allow for the recovery of costs above the proxy price. Finally, any adverse impacts of the mitigation plan on the Company's operations would be mitigated, in part, by the Company's forward hedging activities.

FERC Refunds. The FERC issued an order on July 25, 2001 adopting a refund methodology and initiating a hearing schedule to determine (1) revised mitigated prices for each hour from October 2, 2000 through June 20, 2001; (2) the amount owed in refunds by each supplier according to the methodology (these amounts may be in addition to or in place of the refund amounts previously determined by the FERC); and (3) the amount currently owed to each supplier. The amounts of any refunds will be determined by the FERC after the conclusion of the hearing process. On December 19, 2001, the FERC issued an order modifying the methodology to be used to determine refund amounts. The schedule currently anticipates that the Administrative Law Judge will make his refund amount recommendations to the FERC in October 2002. However, the Company does not know when the FERC will issue its final decision. The Company has not reserved any amounts for potential future refund liability resulting from the FERC refund hearing, nor can it currently predict the amount of these potential refunds, if any, because the methodology used to calculate these refunds is not final and will depend on information that is still subject to review and challenge in the hearing process. Any refunds that are determined in the FERC proceeding will likely be offset against unpaid amounts owed, if any, to the Company for its prior sales.

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

further action by FERC is uncertain. If the FERC does not modify or reject its proposed approach for dealing with anti-competitive behavior, the Company's future earnings may be affected by the open-ended refund obligation.

On February 13, 2002, the FERC issued an order initiating a staff investigation into potential manipulation of electric and natural gas prices in the Western region for the period January 1, 2000 forward. While this order does not propose any action against the Company, if the investigation results in findings that markets were dysfunctional during this period, those findings may be used in support of existing or future claims by the FERC or others that prices in the Company's long-term contracts entered into after January 1, 2000 for sales in the West region should be altered.

Other Investigations. In addition to the FERC investigation discussed above, several state and other federal regulatory investigations and complaints have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action. In California, the California State Senate and the California Office of the Attorney General have separate ongoing investigations into the high prices and their causes. Although these investigations have not been completed and no findings have been made in connection with either of them, the California Attorney General has filed a civil lawsuit in San Francisco Superior Court alleging that the Company has violated state laws against unfair and unlawful business practices and a complaint with the FERC alleging the Company violated the terms of its tariff with the FERC (see Note 14(f)). Adverse findings or rulings could result in punitive legislation, sanctions, fines or even criminal charges against the Company or its employees. The Company is cooperating with both investigations and has produced a substantial amount of information requested in subpoenas issued by each body. The Washington and Oregon attorneys general have also begun similar investigations.

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

(h) Indemnification of Stranded Costs

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

The Transition Act and related agreements specify that REPGB has a 22.5% share of NEA's assets, liabilities and stranded cost commitments. NEA's stranded cost commitments consisted primarily of various uneconomical or stranded cost investments and commitments, including a gas supply and three power contracts entered into prior to the liberalization of the Dutch wholesale electricity market. REPGB's stranded cost obligations also include uneconomical district heating contracts which were previously administrated by NEA prior to deregulation of the Dutch power market.

The gas supply contract expires in 2016 and provides for gas imports aggregating 2.283 billion cubic meters per year. Prior to December 31, 2001, one of the stranded cost power contracts was settled. The two remaining stranded cost power contracts have the following capacities and terms: (a) 300 MW through 2005, and (b) 600 MW through March 2002 and 750 MW through 2009. Under the Transition Act, REPGB can either assume its 22.5% allocated interest in the contracts or, subject to the terms of the contracts, sell its interests to third parties. The district heating obligations relate to three heating water supply contacts entered into with various municipalities and expire from 2013 through 2015. Under the district heating contracts, the municipal districts are required to take annually a combined minimum of 5,549 terajoules (TJ) increasing annually to 7,955 TJ over the life of the contracts.

The Transition Act also authorized the government to purchase from NEA at least a majority of the shares in the Dutch national transmission grid company which was sold to the Dutch government on October 25, 2001 for approximately NLG 2.6 billion (approximately $1.05 billion based on an exchange rate of 2.48 NLG per U.S. dollar as of December 31, 2001).

Prior to December 31, 2001, the former shareholders agreed pursuant to a share purchase agreement to indemnify REPGB for up to NLG 1.9 billion in stranded cost liabilities (approximately $766 million). The indemnity obligation of the former shareholders and various provincial and municipal entities (including the city of Amsterdam), was secured by a NLG 900 million escrow account (approximately $363 million).

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

In January 2001, the Company recognized an out-of-market, net stranded cost liability for its gas and electric contracts and district heating commitments. At such time, the Company recorded a corresponding asset of equal amount for the indemnification of this obligation from REPGB's former shareholders and the Dutch government, as applicable. Pursuant to SFAS No. 133, the gas and electric contracts are marked-to-market (see Note 5). As of December 31, 2001, the Company has recorded a liability of $369 million for its stranded cost gas and electric commitments in non-trading derivative liabilities and a liability of $206 million for its district heating commitments in current and non-current other liabilities. As of December 31, 2001, the Company has recorded an indemnification receivable from the Dutch government for the district heating stranded cost liability of $206 million. The settlement of the indemnification related to gas and electric contract commitments in December 2001 is discussed below.

Settlement of Stranded Cost Indemnification. In December 2001, REPGB and its former shareholders entered into a settlement agreement immediately resolving the former shareholders of their stranded cost indemnity obligations related to the gas supply and power contracts under the original share purchase agreement, and provides conditional terms for the possible settlement of their stranded cost indemnity obligation related to district heating obligations under certain conditions. The settlement agreement was approved in December 2001 by the Ministry of Economic Affairs of the Netherlands.

Under the settlement agreement, the former shareholders paid to REPGB NLG 500 million ($202 million) in January and February 2002. The payment represents a settlement of the obligations of the former shareholders to indemnify REPGB for all stranded cost liabilities other than those relating to the district heating contracts. The full amount of this payment was placed into an escrow account in the name of REPGB to fund its stranded cost obligations related to the gas and electric import contracts. Any remaining escrow funds as of January 1, 2004 will be distributed to REPGB.

Under the settlement agreement, the former shareholders will continue to indemnify REPGB for the stranded cost liabilities relating to district heating contracts. The terms of the indemnity are as follows:

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

Under the terms of the original indemnification agreement, the former shareholders were entitled to receive any and all distributions and dividends above NLG 125 million ($51 million) paid by NEA. Under the settlement agreement, the former shareholders waived all rights under the original indemnification agreement to claim distributions of NEA.

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

Investment in NEA. During the second quarter of 2001, Reliant Resources recorded a $51 million pretax gain (NLG 125 million) recorded as equity income for the preacquisition gain contingency related to the acquisition of REPGB for the value of its equity investment in NEA. This gain was based on Reliant Resources' evaluation of NEA's financial position and fair value. The fair value of Reliant Resources' investment in NEA is dependent upon the ultimate resolution of its existing contingencies and proceeds received from liquidating its remaining net assets. Prior to the settlement agreement discussed above, pursuant to the purchase agreement of REPGB, as amended, REPGB was entitled to a NLG 125 million dividend from NEA with any remainder owing to the former shareholders. As mentioned above, REPGB entered into an agreement with its former shareholders to settle the original indemnification agreement and the former shareholders waived all rights to distributions of NEA. Accordingly, as a component of the net gain recognized from the settlement of the stranded cost indemnity, Reliant Resources recorded a $248 million increase in its investment in NEA. As of December 31, 2001, Reliant Resources has recorded $299 million in equity investments of unconsolidated subsidiaries for its investment in NEA.

(i) Operations Agreement with City of San Antonio

As part of the 1996 settlement of certain litigation claims asserted by the City of San Antonio with respect to the South Texas Project, the Company entered into a 10-year joint operations agreement under which the Company and the City of San Antonio, acting through the City Public Service Board of San Antonio (CPS), share savings resulting from the joint dispatching of their respective generating assets in

order to take advantage of each system's lower cost resources. In January 2000, the contract term was extended for three years and is expected to terminate in 2009. Under the terms of the joint operations agreement entered into between CPS and Electric Operations, the Company has guaranteed CPS minimum annual savings of $10 million up to a total cumulative savings of $150 million over the term of the agreement. The cumulative obligation was met in the first quarter of 2001. In 1999, 2000 and 2001, savings generated for CPS' account were $14 million, $60 million and $65 million, respectively. Through December 31, 2001, cumulative savings generated for CPS' account were $189 million.

(j) Nuclear Insurance

The Company and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain $2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was $9.3 billion as of December 31, 2001. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. The Company and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan.

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

(k) Nuclear Decommissioning

The Company contributed $14.8 million per year in 1999, 2000 and 2001 to a trust established to fund its share of the decommissioning costs for the South Texas Project. Pursuant to the October 3, 2001 Order, beginning in 2002, the Company will contribute $2.9 million per year to this trust. There are various investment restrictions imposed upon the Company by the Texas Utility Commission and the NRC relating to the Company's nuclear decommissioning trust. Additionally, the Company's board of directors has appointed the Nuclear Decommissioning Trust Investment Committee to establish the investment policy of the trust and oversee the investment of the trusts' assets. The securities held by the trust for decommissioning costs had an estimated fair value of $169 million as of December 31, 2001, of which approximately 46% were fixed-rate debt securities and the remaining 54% were equity securities. For a discussion of the accounting treatment for the securities held in the Company's nuclear decommissioning trust, see Note 2(l). In July 1999, an outside consultant estimated the Company's portion of decommissioning costs to be approximately $363 million. While the current funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Texas Electric Restructuring Law, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a charge to transmission and distribution customers. For information regarding the effect of the Business Separation Plan on funding of the nuclear decommissioning trust fund, see Note 4(b).

(l) Construction Agency Agreement and Equipment Financing Structure

In 2001, Reliant Resources, through several of its subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power

generation projects. The special purpose entities are not consolidated by the Company. The special purpose entities have an aggregate financing commitment from equity and debt participants (Investors) of $2.5 billion of which the last $1.1 billion is currently available only if the cash is collateralized. The availability of the commitment is subject to satisfaction of various conditions, including the obligation to provide cash collateral for the loans and letters of credit outstanding on November 27, 2004. Reliant Resources, through several of its subsidiaries, acts as construction agent for the special purpose entities and is responsible for completing construction of these projects by December 31, 2004, but Reliant Resources has generally limited its risk during construction to an amount not in excess of 89.9% of costs incurred to date, except in certain events. Upon completion of an individual project and exercise of the lease option, Reliant Resources' subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If Reliant Resources does not exercise its option to lease any project upon its completion, Reliant Resources must purchase the project or remarket the project on behalf of the special purpose entities. Reliant Resources' ability to exercise the lease option is subject to certain conditions. Reliant Resources must guarantee that the Investors will receive an amount at least equal to 89.9% of their investment in the case of a remarketing sale at the end of construction. At the end of an individual project's initial operating lease term (approximately five years from construction completion), Reliant Resources' subsidiary lessees have the option to extend the lease with the approval of Investors, purchase the project at a fixed amount equal to the original construction cost, or act as a remarketing agent and sell the project to an independent third party. If the lessees elect the remarketing option, they may be required to make a payment of an amount not to exceed 85% of the project cost, if the proceeds from remarketing are not sufficient to repay the Investors. Reliant Resources has guaranteed the performance and payment of its subsidiaries' obligations during the construction periods and, if the lease option is exercised, each lessee's obligations during the lease period. At any time during the construction period or during the lease, Reliant Resources may purchase a facility by paying an amount approximately equal to the outstanding balance plus costs.

Reliant Resources, through its subsidiary, REPG, has entered into an agreement with a bank whereby the bank, as owner, entered or will enter into contracts for the purchase and construction of power generation equipment and REPG, or its subagent, acts as the bank's agent in connection with administering the contracts for such equipment. Under the agreement, the bank has agreed to provide up to a maximum aggregate amount of $650 million. REPG and its subagents must cash collateralize their obligation to administer the contracts. This cash collateral is approximately equivalent to the total payments by the bank for the equipment, interest and other fees. As of December 31, 2001, the bank had assumed contracts for the purchase of eleven turbines, two heat recovery steam generators and one air-cooled condenser with an aggregate cost of $398 million. REPG, or its designee, has the option at any time to purchase, or, at equipment completion, subject to certain conditions, including the agreement of the bank to extend financing, to lease the equipment, or to assist in the remarketing of the equipment under terms specified in the agreement. All costs, including the purchase commitment on the turbines, are the responsibility of the bank. The cash collateral is deposited by REPG or an affiliate into a collateral account with the bank and earns interest at LIBOR less 0.15%. Under certain circumstances, the collateral deposit or a portion of it, will be returned to REPG or its designee. Otherwise, it will be retained by the bank. At December 31, 2001, REPG and its subsidiary had deposited $230 million into the collateral account. The bank's payments for equipment under the contracts totaled $227 million as of December 31, 2001. In January 2002, the bank sold to the parties to the construction agency agreements discussed above, equipment contracts with a total contractual obligation of $258 million, under which payments and interest during construction totaled $142 million. Accordingly, $142 million of Reliant Resources' collateral deposits were returned to Reliant Resources. As of December 31, 2001, there were equipment contracts with a total contractual obligation of $140 million under which payments during construction totaled $83 million. Currently this equipment is not designated for current planned power generation construction projects. Therefore, the Company anticipates that it will either purchase the equipment, assist in the remarketing of the equipment or negotiate to cancel the related contracts.

(15) Estimated Fair Value of Financial Instruments

The fair values of cash and cash equivalents, investments in debt and equity securities classified as "available-for-sale" and "trading" in accordance with SFAS No. 115, and short-term borrowings are estimated to be approximately equivalent to carrying amounts and have been excluded from the table below. The fair value of financial instruments included in the trading operations are marked-to-market at December 31, 2000 and 2001 (see Note 5). The fair values of non-trading derivative assets and liabilities are recognized in the Consolidated Balance Sheets at December 31, 2001 (see Note 5). Therefore, these financial instruments are stated at fair value and are excluded from the table below. The fair values of non-trading derivative assets and liabilities as of December 31, 2000 have been determined using quoted market prices for the same or similar instruments when available or other estimation techniques.

	December 31, 2000	
	Carrying Amount	Fair Value
	(In millions)	
Financial assets:		
Energy derivatives — non-trading	$ —	$ 520
Financial liabilities:		
Long-term debt (excluding capital leases)	6,607	6,512
Trust preferred securities	705	665
Energy derivatives — non-trading	—	69
Foreign currency swaps	62	68

	December 31, 2001	
	Carrying Amount	Fair Value
	(In millions)	
Financial liabilities:		
Long-term debt (excluding capital leases)	$6,391	$6,406
Trust preferred securities	706	664

(16) Earnings Per Share

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

	For the Year Ended December 31,		
	1999	2000	2001
	(In millions, except per share and share amounts)		
Basic EPS calculation:			
Income before extraordinary items and cumulative effect of accounting change	$ 1,665	$ 440	$ 919
Extraordinary items	(183)	7	—
Cumulative effect of accounting change, net of tax	—	—	61
Net income attributable to common stockholders	$ 1,482	$ 447	$ 980
Weighted average shares outstanding	285,040,000	284,652,000	289,776,000
Basic EPS:			
Income before extraordinary items and cumulative effect of accounting change	$ 5.84	$ 1.54	$ 3.17
Extraordinary items	(0.64)	0.03	—
Cumulative effect of accounting change, net of tax	—	—	0.21
Net income attributable to common stockholders	$ 5.20	$ 1.57	$ 3.38
Diluted EPS calculation:			
Net income attributable to common stockholders	$ 1,482	$ 447	$ 980
Plus: Income impact of assumed conversions:			
Interest on 6¼% convertible trust preferred securities	—	—	—
Total earnings effect assuming dilution	$ 1,482	$ 447	$ 980
Weighted average shares outstanding	285,040,000	284,652,000	289,776,000
Plus: Incremental shares from assumed conversions(1)			
Stock options	260,000	1,652,000	1,650,000
Restricted stock	698,000	955,000	754,000
6¼% convertible trust preferred securities	23,000	14,000	13,000
Weighted average shares assuming dilution	286,021,000	287,273,000	292,193,000
Diluted EPS:			
Income before extraordinary items and cumulative effect of accounting change	$ 5.82	$ 1.53	$ 3.14
Extraordinary items	(0.64)	0.03	—
Cumulative effect of accounting change, net of tax	—	—	0.21
Net income attributable to common stockholders	$ 5.18	$ 1.56	$ 3.35

(1) Options to purchase 433,915, 442,385 and 2,074,437 shares were outstanding for the years ended December 31, 1999, 2000 and 2001, respectively, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares for the respective years.

(17) Restated Unaudited Quarterly Information

As discussed in Note 1, the unaudited quarterly financial data for the interim periods ended March 31, 2001, June 30, 2000 and 2001, September 30, 2000 and 2001 and December 31, 2000 and 2001 have been restated from amounts previously reported to reflect certain transactions on a net basis. The restatement had no impact on previously reported consolidated cash flows, operating income or net income. A summary of the principal effects of the restatement are as follows for unaudited quarterly information for the quarters ended March 31, 2000 and 2001, June 30, 2000 and 2001, September 30, 2000 and 2001, and December 31, 2000 and 2001: (Note — Those line items for which no change in amounts are shown were not affected by the restatement.)

	Year Ended December 31, 2000		
	First Quarter	Second Quarter	
	As Previously Reported	As Restated	As Previously Reported
		(In millions)	
Revenues	$4,213	$5,719	$5,755
Fuel and cost of gas sold	2,333	2,915	2,922
Purchased power	785	1,377	1,406
Operating income	346	508	508
Income before extraordinary item	133	217	217
Extraordinary item, net of tax	—	7	7
Net income attributable to common stockholders	133	224	224
Basic Earnings Per Share:(1)			
Income before extraordinary item	$ 0.47	$ 0.76	$ 0.76
Extraordinary item, net of tax	—	0.03	0.03
Net income attributable to common stockholders	$ 0.47	$ 0.79	$ 0.79
Diluted Earnings Per Share:(1)			
Income before extraordinary item	$ 0.47	$ 0.75	$ 0.75
Extraordinary item, net of tax	—	0.03	0.03
Net income attributable to common stockholders	$ 0.47	$ 0.78	$ 0.78

	Year Ended December 31, 2000			
	Third Quarter		Fourth Quarter	
	As Restated	As Previously Reported	As Restated	As Previously Reported
	(In millions)			
Revenues	$9,109	$9,502	$9,228	$9,869
Fuel and cost of gas sold	3,882	3,895	5,920	5,927
Purchased power	3,428	3,808	1,990	2,624
Operating income	778	778	205	205
Income before extraordinary item	389	389	(299)	(299)
Extraordinary item, net of tax	—	—	—	—
Net income attributable to common stockholders	389	389	(299)	(299)
Basic Earnings Per Share:(1)				
Income before extraordinary item	$ 1.36	$ 1.36	$(1.04)	$(1.04)
Extraordinary item, net of tax	—	—	—	—
Net income attributable to common stockholders	$ 1.36	$ 1.36	$(1.04)	$(1.04)
Diluted Earnings Per Share:(1)				
Income before extraordinary item	$ 1.34	$ 1.34	$(1.04)	$(1.04)
Extraordinary item, net of tax	—	—	—	—
Net income attributable to common stockholders	$ 1.34	$ 1.34	$(1.04)	$(1.04)

	Year Ended December 31, 2001			
	First Quarter		Second Quarter	
	As Restated	As Previously Reported	As Restated	As Previously Reported
	(In millions)			
Revenues	$12,052	$13,284	$10,269	$11,991
Fuel and cost of gas sold	7,666	7,667	5,008	5,313
Purchased power	2,877	4,108	3,660	5,077
Operating income	454	454	614	614
Income before cumulative effect of accounting change	201	201	316	316
Cumulative effect of accounting change, net of tax	61	61	—	—
Net income attributable to common stockholders	262	262	316	316
Basic Earnings Per Share:(1)				
Income before cumulative effect of accounting change	$ 0.69	$ 0.69	$ 1.09	$ 1.09
Cumulative effect of accounting change, net of tax	0.22	0 22	—	—
Net income attributable to common stockholders	$ 0.91	$ 0.91	$ 1.09	$ 1.09
Diluted Earnings Per Share:(1)				
Income before cumulative effect of accounting change	$ 0.69	$ 0.69	$ 1.08	$ 1.08
Cumulative effect of accounting change, net of tax	0.21	0.21	—	—
Net income attributable to common stockholders	$ 0.90	$ 0.90	$ 1.08	$ 1.08

	Year Ended December 31, 2001			
	Third Quarter		Fourth Quarter	
	As Restated	As Previously Reported	As Restated	As Previously Reported
	(In millions)			
Revenues	$10,903	$12,511	$7,586	$8,440
Fuel and cost of gas sold	3,667	3,928	3,163	3,167
Purchased power	5,348	6,695	3,242	4,092
Operating income	779	779	146	146
Income before cumulative effect of accounting change	355	355	47	47
Cumulative effect of accounting change, net of tax	—	—	—	—
Net income attributable to common stockholders	355	355	47	47
Basic Earnings Per Share:(1)				
Income before cumulative effect of accounting change	$ 1.22	$ 1.22	$ 0.16	$ 0.16
Cumulative effect of accounting change, net of tax	—	—	—	—
Net income attributable to common stockholders	$ 1.22	$ 1.22	$ 0.16	$ 0.16
Diluted Earnings Per Share:(1)				
Income before cumulative effect of accounting change	$ 1.21	$ 1.21	$ 0.16	$ 0.16
Cumulative effect of accounting change, net of tax	—	—	—	—
Net income attributable to common stockholders	$ 1.21	$ 1.21	$ 0.16	$ 0.16

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

The quarterly operating results incorporate the results of operations of REMA from its respective acquisition date as discussed in Note 3(a). The variances in revenues, operating income and net income (loss) from quarter to quarter were primarily due to this acquisition, the seasonal fluctuations in demand for energy and energy services and changes in energy commodity prices and the timing of maintenance expenses on electric generation plants.

Effective December 1, 2000, Reliant Energy's board of directors approved a plan to dispose of the Company's Latin America business segment through sales of its assets. Accordingly, in its 2000 consolidated financial statements, the Company reported the results of its Latin America business segment as discontinued operations in accordance with APB Opinion No. 30 for each of the three years in the period ended December 31, 2000.

On December 20, 2001, negotiations for the sale of the Company's remaining Latin America investments were terminated as a result of the recent adverse economic developments in Argentina.

Accordingly, the Latin America business segment is no longer reported as discontinued operations. The related operating results and loss on disposal have been reclassified within the Statements of Consolidated Income for all periods into operating income with respect to consolidated subsidiaries and other income with respect to equity investments in unconsolidated subsidiaries as required for assets held for sale by EITF 90-6. For additional discussion of our Latin America business segment, see Note 19.

(18) Reportable Business Segments

The Company's determination of reportable business segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. Financial information for REMA and REPGB are included in the business segment disclosures only for periods beginning on their respective acquisition dates. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies except that some executive benefit costs have not been allocated to business segments. The Company evaluates performance based on operating income excluding some corporate costs not allocated to the business segments. Long-lived assets include net property, plant and equipment, net goodwill, net air emissions regulatory allowances and other intangibles and equity investments in unconsolidated subsidiaries. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices. In the fourth quarter of 2000, the Company transferred its non-rate regulated retail gas marketing operations from Retail Energy to Natural Gas Distribution and its natural gas gathering business from Wholesale Energy to Pipelines and Gathering. In the third quarter of 2001, the Company began reporting the results of its unregulated retail electric business as a separate business segment entitled "Retail Energy". Historically, Retail Energy's operations had been reported as part of the Other Operations business segment. Reportable business segments from previous years have been restated to conform to the 2001 presentation.

Effective December 1, 2000, Reliant Energy's board of directors approved a plan to dispose of the Company's Latin America business segment through sales of its assets. Accordingly, in its 2000 consolidated financial statements, the Company reported the results of its Latin America business segment as discontinued operations in accordance with APB Opinion No. 30 for each of the three years in the period ended December 31, 2000.

On December 20, 2001, negotiations for the sale of the Company's remaining assets in Argentina were terminated as a result of the recent adverse economic developments in Argentina. The Company will continue to evaluate options related to the future disposition of these assets. Accordingly, the Latin America business segment is no longer reported as discontinued operations.

The Company has identified the following reportable business segments: Electric Operations, Natural Gas Distribution, Pipelines and Gathering, Wholesale Energy, European Energy, Retail Energy, Latin America and Other Operations. For a description of the financial reporting business segments, see Note 1. Financial data for business segments, products and services and geographic areas are as follows:

	Electric Operations	Natural Gas Distribution	Pipelines and Gathering	Wholesale Energy	European Energy	Retail Energy	Latin America/ Assets Held for Sale	Other Operations	Reconciling Eliminations	Consolidated
					(In millions)					
As of and for the year ended December 31, 1999:										
Revenues from external customers	$ 4,483	$2,742	$ 151	$ 6,231	$ 153	$ 23	$ —	$ 11	$ —	$13,794
Intersegment revenues	—	46	180	264	—	—	—	1	(491)	—
Depreciation and amortization	667	137	53	21	21	—	—	6	—	905
Operating income (loss)	981	158	131	27	32	(14)	(4)	(52)	—	1,259
Total assets	9,941	3,683	2,486	2,821	3,247	51	1,078	4,257	(1,107)	26,457
Equity investments in unconsolidated subsidiaries	—	—	—	78	—	—	—	—	—	78
Expenditures for long-lived assets	573	206	79	481	834	45	—	44	—	2,262
As of and for the year ended December 31, 2000:										
Revenues from external customers	5,494	4,470	177	17,494	580	41	—	13	—	28,269
Intersegment revenues	—	34	207	578	—	23	—	1	(843)	—
Depreciation and amortization	507	145	56	108	76	4	—	10	—	906
Operating income (loss)	1,230	118	137	479	89	(70)	(44)	(102)	—	1,837
Total assets	10,691	4,518	2,358	11,148	2,521	151	195	1,486	(1,108)	31,960
Equity investments in unconsolidated subsidiaries	—	—	—	109	—	—	—	—	—	109
Expenditures for long-lived assets	643	195	61	1,966	995	28	—	63	—	3,951
As of and for the year ended December 31, 2001:										
Revenues from external customers	5,503	4,638	225	29,075	1,192	154	—	23	—	40,810
Intersegment revenues	2	104	190	667	—	57	—	2	(1,022)	—
Depreciation and amortization	453	147	58	118	76	11	—	48	—	911
Operating income (loss)	1,091	130	137	899	56	(13)	(75)	(232)	—	1,993
Total assets	12,012	3,732	2,361	8,290	3,380	391	8	1,438	(931)	30,681
Equity investments in unconsolidated subsidiaries	—	—	—	88	299	—	—	—	—	387
Expenditures for long-lived assets	936	209	54	658	21	117	—	58	—	2,053

	Year Ended December 31,		
	1999	2000	2001
		(In millions)	
Reconciliation of Operating Income to Net Income Attributable to Common Stockholders:			
Operating income	$ 1,259	$ 1,837	$ 1,993
(Loss) income from equity investments in unconsolidated subsidiaries	(1)	43	57
Gain (loss) on AOL Time Warner investment	2,452	(205)	(70)
(Loss) gain on indexed debt securities	(630)	102	58
Operating results from equity investments in unconsolidated Latin America assets	(26)	(41)	—
Impairment of Latin America unconsolidated equity investments	—	(131)	(4)
Loss on disposal of Latin America assets	—	(176)	—
Interest expense and other charges	(551)	(768)	(658)
Minority interest	1	1	(81)
Other income, net	60	96	124
Income tax expense	(899)	(318)	(500)
Extraordinary (loss) gain, net of tax	(183)	7	—
Cumulative effect of accounting change, net of tax	—	—	61
Net income attributable to common stockholders	$ 1,482	$ 447	$ 980
Revenues by Products and Services:			
Retail power sales	$ 4,483	$ 5,494	$ 5,503
Retail gas sales	2,742	4,383	4,546
Wholesale energy and energy related sales	6,383	18,073	30,267
Gas transport	151	177	225
Energy products and services	35	142	269
Total	$13,794	$28,269	$40,810
Revenues and Long-Lived Assets by Geographic Areas:			
Revenues:			
US	$13,524	$26,640	$37,295
Netherlands	153	580	1,192
Other	117	1,049	2,323
Total	$13,794	$28,269	$40,810
Long-lived assets:			
US	$13,605	$16,079	$16,724
Netherlands	2,648	2,371	2,424
Total	$16,253	$18,450	$19,148

After the Distribution, CenterPoint Energy's business will consist principally of regulated operations. As a result, CenterPoint Energy's business segments will consist of the following:

- Electric Transmission and Distribution;
- Electric Generation;
- Natural Gas Distribution;
- Pipelines and Gathering; and
- Other Operations.

The Wholesale Energy, European Energy, Retail Energy and unregulated portions of our Other Operations business segments will be conducted by Reliant Resources as a separate publicly traded company. The operations conducted by the Electric Generation business segment may also be acquired by Reliant Resources in January 2004 pursuant to the Texas Genco Option. For additional information, see Note 4(b).

(19) Discontinued Operations and Assets Held for Sale

Effective December 1, 2000, Reliant Energy's board of directors approved a plan to dispose of the Company's Latin America business segment through sales of its assets. Accordingly, in its 2000 consolidated financial statements, the Company reported the results of its Latin America business segment as discontinued operations in accordance with APB Opinion No. 30 for each of the three years in the period ended December 31, 2000.

In the fourth quarter of 2000, the Latin America business segment sold its investments in El Salvador, Colombia and Brazil for an aggregate $790 million in after-tax proceeds. The Company recorded a $242 million after-tax ($294 million pre-tax) loss in connection with the sale of these investments. The Company, through its subsidiaries, continues to operate investments in Argentina which include a 100% interest in a 160 MW cogeneration project, Argener, and a 90% interest in a utility, EDESE (collectively, the Argentine Investments).

In the fourth quarter of 2000 and in the first quarter of 2001, the Company recorded additional after-tax impairments related to the Argentine Investments of $89 million and $7 million ($95 million and $6 million pre-tax), respectively, based on the expected net realizable value of the businesses upon their disposition.

On December 20, 2001, negotiations for the sale of the Argentine Investments were terminated as a result of the recent adverse economic developments in Argentina. The Company will continue to evaluate options related to the future disposition of these assets.

Accordingly, the Latin America business segment is no longer reported as discontinued operations. The related operating results and loss on disposal have been reclassified within the Statements of Consolidated Income for all periods into operating income with respect to consolidated subsidiaries and other income with respect to equity investments in unconsolidated subsidiaries as required for assets held for sale by EITF 90-6.

During December 2001, the Company concluded there were indicators of impairment related to the remaining assets in this business segment, and accordingly, an impairment evaluation was conducted at the end of the fourth quarter under the guidelines of SFAS No. 121. This evaluation resulted in an after-tax impairment charge of $43 million ($80 million pre-tax), representing the excess of book value over estimated net realizable value. As of December 31, 2001, the Company had $8 million of Latin America net assets held for sale recorded in its Consolidated Balance Sheets. The fair value of the remaining net assets was determined using a net discounted cash flows approach. The charge was included as a component of operating income with respect to consolidated subsidiaries and other income with respect to equity investments in

unconsolidated subsidiaries. The impairment was primarily related to the recent economic deterioration in Argentina.

(20) Reliant Energy Communications

During the third quarter of 2001, management decided to exit the Company's Communications business which served as a facility-based competitive local exchange carrier and Internet services provider and owned network operations centers and managed data centers in Houston and Austin. Consequently, the Company determined the goodwill associated with the Communications business was impaired. The Company recorded a total of $54 million of pre-tax disposal charges in the third and fourth quarters of 2001. These charges included the write-off of goodwill of $19 million, fixed asset impairments of $22 million, and severance accruals and other incremental costs associated with exiting the Communications business, totaling $13 million.

(21) Bankruptcy of Enron Corp. and its Affiliates

During the fourth quarter of 2001, Enron filed a voluntary petition for bankruptcy. Accordingly, the Company recorded an $85 million provision, comprised of provisions against 100% of receivables of $88 million and net non-trading derivative balances of $52 million, offset by the Company's net trading and marketing liabilities to Enron of $55 million.

The non-trading derivatives with Enron were designated as Cash Flow Hedges (see Note 5). The net gain on these derivative instruments previously reported in other comprehensive income will remain in accumulated other comprehensive loss and will be reclassified into earnings during the period in which the originally designated hedged transactions occur.

(22) Subsequent Events

(a) Orion Power Holdings, Inc.

In February 2002, Reliant Resources acquired all of the outstanding shares of Orion Power for $26.80 per share in cash for an aggregate purchase price of $2.9 billion. Reliant Resources funded the Orion Power acquisition with a term loan supported by a $2.9 billion credit facility and $41 million of cash on hand. Interest rates on the term loan are based on LIBOR plus a margin or a base rate. The term loan must be repaid within one year from the date on which it was funded. As a result of the acquisition, Reliant Resources' consolidated net debt obligations also increased by the amount of Orion Power's net debt obligations. As of February 19, 2002, Orion Power's debt obligations were $2.4 billion ($2.1 billion net of cash acquired some of which is restricted pursuant to debt covenants). Orion Power is an independent electric power generating company formed in March 1998 to acquire, develop, own and operate power-generating facilities in certain deregulated wholesale markets throughout North America. As of February 28, 2002, Orion Power had 81 power plants in operation with a total generating capacity of 5,644 MW and an additional 804 MW in construction or in various stages of development.

(b) Factoring Agreement

In the first quarter of 2002, RERC reduced its trade receivables facility from $350 million to $150 million. Borrowings under the receivables facility aggregating $196 million were repaid in January 2002 with proceeds from the issuance of commercial paper under RERC's $350 million revolving credit facility and from the liquidation of short-term investments.

(c) Interest Rate Swaps

In the first quarter of 2002, the Company entered into interest rate swaps with an aggregate notional amount of $1.25 billion. Swaps with a notional amount of $250 million were entered into for the purpose of fixing rates on short-term debt subject to interest rate fluctuations and do not qualify as cash flow hedges under SFAS No. 133. The swaps with a notional amount of $1 billion were entered into to hedge the interest rate on a future offering of five-year fixed rate notes. These swaps qualify as cash flow hedges under SFAS No. 133.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Reliant Energy, Incorporated and Subsidiaries:

Houston, Texas

We have audited the accompanying consolidated balance sheets of Reliant Energy, Incorporated and its subsidiaries (the Company) as of December 31, 2000 and 2001, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2000 and 2001, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 5 to the consolidated financial statements, the Company changed its method of accounting for derivatives and hedging activities in 2001.

As discussed in Note 1 to the consolidated financial statements, the accompanying consolidated financial statements have been restated.

DELOITTE & TOUCHE LLP

March 28, 2002
(July 3, 2002 as to the effects of the restatement discussed in Note 1)

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

PART III

Item 10. ***Directors and Executive Officers***

The information called for by Item 10, to the extent not set forth in "Executive Officers of Reliant Energy" in Item 1, is or will be set forth in the definitive proxy statement relating to Reliant Energy's 2002 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 10 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

Item 11. ***Executive Compensation***

The information called for by Item 11 is or will be set forth in the definitive proxy statement relating to Reliant Energy's 2002 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 11 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management***

The information called for by Item 12 is or will be set forth in the definitive proxy statement relating to Reliant Energy's 2002 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 12 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

Item 13. ***Certain Relationships and Related Transactions***

The information called for by Item 13 is or will be set forth in the definitive proxy statement relating to Reliant Energy's 2002 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 13 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

PART IV

Item 14. ***Exhibits, Financial Statement Schedules and Reports on Form 8-K***

(a) (1) *Financial Statements.*

Statements of Consolidated Income for the Three Years Ended December 31, 2001 133

Statements of Consolidated Comprehensive Income for the Three Years Ended December 31, 2001 134

Consolidated Balance Sheets at December 31, 2001 and 2000 135

Statements of Consolidated Cash Flows for the Three Years Ended December 31, 2001 136

Statements of Consolidated Stockholders' Equity for the Three Years Ended December 31, 2001 137

Notes to Consolidated Financial Statements 138

Independent Auditors' Report 220

(a) (2) *Financial Statement Schedules for the Three Years Ended December 31, 2001.*

II — Reserves 223

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

I, III, IV and V.

(a)(3) Exhibits.

See Index of Exhibits on page 225, which index also includes the management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K.

On December 18, 2001, we filed a Current Report on Form 8-K dated December 17, 2001 announcing shareholder approval of our corporate restructuring.

On January 11, 2002, we filed a Current Report on Form 8-K dated December 18, 2001 relating to the execution of a settlement agreement regarding European stranded cost indemnification.

On February 5, 2002, we filed a Current Report on Form 8-K dated February 5, 2002 regarding a delay in the release of earnings and restatement of 2001 results.

On March 6, 2002, we filed a Current Report on Form 8-K dated February 19, 2002 regarding Reliant Resources' acquisition of Orion Power Holdings, Inc.

On March 15, 2002, we filed a Current Report on Form 8-K dated March 15, 2002 regarding our 2001 earnings and the effects of our restatement.

On April 5, 2002, we filed a Current Report on Form 8-K regarding an SEC informal inquiry.

RELIANT ENERGY, INCORPORATED AND SUBSIDIARIES

SCHEDULE II — RESERVES
For the Three Years Ended December 31, 2001

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of Period	Charged to Income(2)	Charged to Other Accounts(1)	Deductions from Reserves(2)	Balance at End of Period
	(Thousands of dollars)				
Year Ended December 31, 2001:					
Accumulated provisions:					
Uncollectible accounts receivable	$89,132	$ 89,551	$ 1,455	$44,383	$135,755
Reserves deducted from trading and marketing assets	66,132	31,717	—	—	97,849
Reserves for accrue-in-advance major maintenance	27,075	2,383	(663)	9,419	19,376
Reserves for inventory	7,227	123	(6,424)	348	578
Reserves for severance	45,162	6,439	(1,802)	28,553	21,246
Deferred tax asset valuation allowance	67,937	(36,866)	—	—	31,071
Year Ended December 31, 2000:					
Accumulated provisions:					
Uncollectible accounts receivable	33,519	79,619	(597)	23,409	89,132
Reserves deducted from trading and marketing assets	11,511	54,621	—	—	66,132
Reserves for accrue-in-advance major maintenance	47,809	41,306	(787)	61,253	27,075
Reserves for inventory	5,806	372	17,053	16,004	7,227
Reserves for severance	29,506	5,467	20,065	9,876	45,162
Deferred tax asset valuation allowance	19,139	48,798	—	—	67,937
Year Ended December 31, 1999:					
Accumulated provisions:					
Uncollectible accounts receivable	26,106	16,296	7,490	16,373	33,519
Reserves deducted from trading and marketing assets	6,464	5,047	—	—	11,511
Reserves for accrue-in-advance major maintenance	35,249	5,826	17,411	10,677	47,809
Reserves for inventory	6,574	72	—	840	5,806
Reserves for severance	33,954	232	18,080	22,760	29,506
Deferred tax asset valuation allowance	8,591	10,548	—	—	19,139

(1) Charged to Other Accounts represents obligations acquired through business acquisitions.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, the State of Texas, on the 3rd day of July, 2002.

RELIANT ENERGY, INCORPORATED
(Registrant)

By: /s/ R. STEVE LETBETTER

R. Steve Letbetter,
Chairman, President and Chief Executive Officer

RELIANT ENERGY, INCORPORATED

EXHIBITS TO THE ANNUAL REPORT ON FORM 10-K
For Fiscal Year Ended December 31, 2001

INDEX OF EXHIBITS

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

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
2(a)(1)	— Agreement and Plan of Merger among former Houston Industries Incorporated ("HI"), Houston Lighting & Power ("HL&P" or "Reliant Energy"), HI Merger, Inc. and NorAm dated August 11, 1996	HI's Form 8-K dated August 11, 1996	1-7629	2
2(a)(2)	— Amendment to Agreement and Plan of Merger among HI, HL&P, HI Merger, Inc. and NorAm dated August 11, 1996	Registration Statement on Form S-4	333-11329	2(c)
2(b)(1)	— Share Subscription Agreement dated March 29, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc, Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsdedrijf, Reliant Energy Power Generation, Inc. and UNA	Form 10-Q for the quarter ended March 31, 1999	1-3187	10.2
2(b)(2)	— Share Purchase Agreement dated March 29, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc, Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsdedrijf, Reliant Energy Power Generation, Inc. and UNA	Form 10-Q for the quarter ended March 31, 1999	1-3187	10.3
2(b)(3)	— Deed of Amendment dated September 2, 1999 among Reliant Energy Wholesale Holdings (Europe) Inc, Provincie Noord Holland, Gemeente Amsterdam, N.V. Provinciaal En Gemeenelijk Utrechts Stroomleveringsdedrijf, Reliant Energy Power Generation, Inc. and UNA	Form 10-K for the year ended December 31, 1999	1-3187	2(b)(3)
2(c)	— Purchase Agreement dated as of February 19, 2000 among Reliant Energy Power Generation, Inc., Reliant Energy, Sithe Energies, Inc. and Sithe Northeast Generating Company, Inc.	Form 10-K for the year ended December 31, 1999	1-3187	2(c)
2(d)	— Agreement and Plan of Merger dated as of September 26, 2001 by and among Reliant Resources, Inc., Reliant Energy Power Generation Merger Sub, Inc and Orion Power Holdings, Inc. (incorporated by reference from Reliant Energy's Current Report on Form 8-K dated September 27, 2001), Exhibit 2.1, SEC File No. 1-3187	Form 10-Q for the quarter ended September 30, 2001	1-3187	2(a)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
3(a)	— Restated Articles of Incorporation of Reliant Energy, restated as of September 1997	Form 10-K for the year ended December 31, 1997	1-3187	3(a)
3(b)	— Amendment to Restated Articles of Incorporation of Reliant Energy, as of May 5, 1999	Form 10-Q for the quarter ended March 31, 1999	1-3187	3(b)
3(c)	— Amended and Restated Bylaws of Reliant Energy adopted May 3, 2000	Form 10-Q for the quarter ended March 31, 2000	1-3187	3
3(d)	— Statement of Resolution Establishing Series of Shares designated Series C Preference Stock	Form 10-Q for the quarter ended March 31, 1998	1-3187	3(c)
3(e)	— Statement of Resolution Establishing Series of Shares designated Series D Preference Stock	Form 10-K for the year ended December 31, 1999	1-3187	3(e)
3(f)	— Statement of Resolution Establishing Series of Shares designated Series E Preference Stock	Form 10-K for the year ended December 31, 1999	1-3187	3(f)
3(g)	— Statement of Resolution Establishing Series of Shares designated Series F Preference Stock	Form 10-K for the year ended December 31, 1999	1-3187	3(g)
3(h)	— Articles/Certificate of Correction relating to the Statement of Resolution Establishing Series of Shares designated Series F Preference Stock	Form 10-K for the year ended December 31, 1999	1-3187	3(h)
3(i)	— Statement of Resolution Establishing Series of Shares designated Series G Preference Stock	Form 10-K for the year ended December 31, 1999	1-3187	3(i)
3(j)	— Statement of Resolution Establishing Series of Shares designated Series H Preference Stock	Form 10-Q for quarter ended June 30, 2000	1-3187	3(a)
3(k)	— Statement of Resolution Establishing Series of Shares designated Series I Preference Stock	Form 10-Q for quarter ended June 30, 2000	1-3187	3(b)
3(l)	— Statement of Resolution Establishing Series of Shares designated Series J Preference Stock	Form 10-Q for quarter ended June 30, 2000	1-3187	3(c)
3(m)	— Statement of Resolution Establishing Series of Shares designated Series K Preference Stock	Form 10-Q for quarter ended September 30, 2000	1-3187	3
3(n)	— Statement of Resolution Establishing Series of Shares designated Series L Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(n)
3(o)	— Statement of Resolution Establishing Series of Shares designated Series M Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(o)
3(p)	— Statement of Resolution Establishing Series of Shares designated Series N Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(p)
3(q)	— Statement of Resolution Establishing Series of Shares designated Series O Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(q)
3(r)	— Statement of Resolution Establishing Series of Shares designated Series P Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(r)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
3(s)	— Statement of Resolution Establishing Series of Shares designated Series Q Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(s)
3(t)	— Statement of Resolution Establishing Series of Shares designated Series R Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(t)
3(u)	— Statement of Resolution Establishing Series of Shares designated Series S Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(u)
3(v)	— Statement of Resolution Establishing Series of Shares designated Series T Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(v)
3(w)	— Statement of Resolution Establishing Series of Shares designated Series U Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(w)
3(x)	— Statement of Resolution Establishing Series of Shares designated Series V Preference Stock	Form 10-K for the year ended December 31, 2000	1-3187	3(x)
3(y)	— Statement of Resolution Establishing Series of Shares designated Series W Preference Stock	Form 10-Q for the quarter ended June 30, 2001	1-3187	3(a)
3(z)	— Statement of Resolution Establishing Series of Shares designated Series X Preference Stock	Form 10-Q for the quarter ended June 30, 2001	1-3187	3(b)
4(a)(1)	— Mortgage and Deed of Trust, dated November 1, 1944 between HL&P and Chase Bank of Texas, National Association (formerly, South Texas Commercial National Bank of Houston), as Trustee, as amended and supplemented by 20 Supplemental Indentures thereto	Form S-7 of HL&P filed on August 25, 1977	2-59748	2(b)
4(a)(2)	— Twenty-First through Fiftieth Supplemental Indentures to Exhibit 4(a)(1)	HL&P's Form 10-K for the year ended December 31, 1989	1-3187	4(a)(2)
4(a)(3)	— Fifty-First Supplemental Indenture to Exhibit 4(a)(1) dated as of March 25, 1991	HL&P's Form 10-Q for the quarter ended June 30, 1991	1-3187	4(a)
4(a)(4)	— Fifty-Second through Fifty-Fifth Supplemental Indentures to Exhibit 4(a)(1) each dated as of March 1, 1992	HL&P's Form 10-Q for the quarter ended March 31, 1992	1-3187	4
4(a)(5)	— Fifty-Sixth and Fifty-Seventh Supplemental Indentures to Exhibit 4(a)(1) each dated as of October 1, 1992	HL&P's Form 10-Q for the quarter ended September 30, 1992	1-3187	4
4(a)(6)	— Fifty-Eighth and Fifty-Ninth Supplemental Indentures to Exhibit 4(a)(1) each dated as of March 1, 1993	HL&P's Form 10-Q for the quarter ended March 31, 1993	1-3187	4
4(a)(7)	— Sixtieth Supplemental Indenture to Exhibit 4(a)(1) dated as of July 1, 1993	HL&P's Form 10-Q for the quarter ended June 30, 1993	1-3187	4

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
4(a)(8)	— Sixty-First through Sixty-Third Supplemental Indentures to Exhibit 4(a)(1) each dated as of December 1, 1993	HL&P's Form 10-K for the year ended December 31, 1993	1-3187	4(a)(8)
4(a)(9)	— Sixty-Fourth and Sixty-Fifth Supplemental Indentures to Exhibit 4(a)(1) each dated as of July 1, 1995	HL&P's Form 10-K for the year ended December 31, 1995	1-3187	4(a)(9)
4(b)(1)	— Rights Agreement, dated July 11, 1990, between the Company and Texas Commerce Bank, National Association, as Rights Agent (Rights Agent), which includes form of Statement of Resolution Establishing Series of Shares designated Series A Preference Stock and form of Rights Certificate	HI's Form 8-K dated July 11, 1990	1-7629	4(a)(1)
4(b)(2)	— Agreement and Appointment of Agent, dated as of July 11, 1990, between the Company and the Rights Agent	HI's Form 8-K dated July 11, 1990	1-7629	4(a)(2)
4(b)(3)	— Form of Amended and Restated Rights Agreement executed on August 6, 1997, including form of Statement of Resolution Establishing Series of Shares Designated Series A Preference Stock and form of Rights Agreement	Registration Statement on Form S-4	333-11329	4(b)(1)
4(b)(4)	— Amendment No. 1 to Rights Agreement, dated as of May 8, 2000, between Reliant Energy and Chase Bank of Texas, National Association as Rights Agent	Form 10-Q for the quarter ended March 31, 2000	1-3187	4
4(c)	— Indenture, dated as of April 1, 1991, between the Company and NationsBank of Texas, National Association, as Trustee	HI's Form 10-Q for the quarter ended June 30, 1991	1-7629	4(b)

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

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(a)(1)	— Executive Benefit Plan of the Company and First and Second Amendments thereto effective as of June 1, 1982, July 1, 1984, and May 7, 1986, respectively	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(a)(1), 10(a)(2), and 10(a)(3)
*10(a)(2)	— Third Amendment dated September 17, 1999 to the Executive Benefit Plan of the Company	Form 10-K for the year ended December 31, 2000	1-3187	10(a)(2)
*10(b)(1)	— Executive Incentive Compensation Plan of the Company effective as of January 1, 1982	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(b)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(b)(2)	— First Amendment to Exhibit 10(b)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(a)
*10(b)(3)	— Second Amendment to Exhibit 10(b)(1) effective as of November 4, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(b)
*10(b)(4)	— Third Amendment to Exhibit 10(b)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(b)(4)
*10(b)(5)	— Fourth Amendment to Exhibit 10(b)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(b)(5)
*10(c)(1)	— Executive Incentive Compensation Plan of the Company effective as of January 1, 1985	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(1)
*10(c)(2)	— First Amendment to Exhibit 10(c)(1) effective as of January 1, 1985	HI's Form 10-K for the year ended December 31, 1988	1-7629	10(b)(3)
*10(c)(3)	— Second Amendment to Exhibit 10(c)(1) effective as of January 1, 1985	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(c)(3)
*10(c)(4)	— Third Amendment to Exhibit 10(c)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(b)
*10(c)(5)	— Fourth Amendment to Exhibit 10(c)(1) effective as of November 4, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(c)(5)
*10(c)(6)	— Fifth Amendment to Exhibit 10(c)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(c)(6)
*10(c)(7)	— Sixth Amendment to Exhibit 10(c)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(c)(7)
*10(d)	— Executive Incentive Compensation Plan of Houston Lighting & Power Company effective as of January 1, 1985	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(b)(2)
*10(e)(1)	— Executive Incentive Compensation Plan of the Company effective as of January 1, 1989	HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(b)
*10(e)(2)	— First Amendment to Exhibit 10(e)(1) effective as of January 1, 1989	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(e)(2)
*10(e)(3)	— Second Amendment to Exhibit 10(e)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(c)
*10(e)(4)	— Third Amendment to Exhibit 10(e)(1) effective as of November 4, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(c)(4)
*10(e)(5)	— Fourth Amendment to Exhibit 10(e)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(e)(5)
*10(f)(1)	— Executive Incentive Compensation Plan of the Company effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(b)
*10(f)(2)	— First Amendment to Exhibit 10(f)(1) effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(f)(2)
*10(f)(3)	— Second Amendment to Exhibit 10(f)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(d)
*10(f)(4)	— Third Amendment to Exhibit 10(f)(1) effective as of November 4, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(f)(4)
*10(f)(5)	— Fourth Amendment to Exhibit 10(f)(1) effective as of January 1, 1993	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(f)(5)
*10(f)(6)	— Fifth Amendment to Exhibit 10(f)(1) effective in part, January 1, 1995, and in part, September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(f)(6)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(f)(7)	— Sixth Amendment to Exhibit 10(f)(1) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(a)
*10(f)(8)	— Seventh Amendment to Exhibit 10(f)(1) effective as of January 1, 1996	HI's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(a)
*10(f)(9)	— Eighth Amendment to Exhibit 10(f)(1) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(a)
*10(f)(10)	— Ninth Amendment to Exhibit 10(f)(1) effective in part, January 1, 1997, and in part, January 1, 1998	Form 10-K for the year ended December 31, 1997	1-3187	10(f)(10)
*10(g)	— Benefit Restoration Plan of the Company, effective as of June 1, 1985	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(c)
*10(h)	— Benefit Restoration Plan of the Company as amended and restated effective as of January 1, 1988	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(2)
*10(i)(1)	— Benefit Restoration Plan of the Company, as amended and restated effective as of July 1, 1991	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(g)(3)
*10(i)(2)	— First Amendment to Exhibit 10(i)(1) effective in part, August 6, 1997, in part, September 3, 1997, and in part, October 1, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(i)(2)
*10(j)(1)	— Deferred Compensation Plan of the Company effective as of September 1, 1985	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(d)
*10(j)(2)	— First Amendment to Exhibit 10(j)(1) effective as of September 1, 1985	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(2)
*10(j)(3)	— Second Amendment to Exhibit 10(j)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(e)
*10(j)(4)	— Third Amendment to Exhibit 10(j)(1) effective as of June 2, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(h)(4)
*10(j)(5)	— Fourth Amendment to Exhibit 10(j)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(h)(5)
*10(j)(6)	— Fifth Amendment to Exhibit 10(j)(1) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(d)
*10(j)(7)	— Sixth Amendment to Exhibit 10(j)(1) effective as of December 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(j)(8)	— Seventh Amendment to Exhibit 10(j)(1) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(b)
*10(j)(9)	— Eighth Amendment to Exhibit 10(j)(1) effective as of September 1, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(j)(9)
*10(j)(10)	— Ninth Amendment to Exhibit 10(j)(1) effective as of September 3, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(j)(10)
*10(k)(1)	— Deferred Compensation Plan of the Company effective as of January 1, 1989	HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(a)
*10(k)(2)	— First Amendment to Exhibit 10(k)(1) effective as of January 1, 1989	HI's Form 10-K for the year ended December 31, 1989	1-7629	10(e)(3)
*10(k)(3)	— Second Amendment to Exhibit 10(k)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(f)
*10(k)(4)	— Third Amendment to Exhibit 10(k)(1) effective as of June 2, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(i)(4)
*10(k)(5)	— Fourth Amendment to Exhibit 10(k)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(i)(5)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(k)(6)	— Fifth Amendment to Exhibit 10(k)(1) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(k)(7)	— Sixth Amendment to Exhibit 10(k)(1) effective December 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(c)
*10(k)(8)	— Seventh Amendment to Exhibit 10(k)(1) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(c)
*10(k)(9)	— Eighth Amendment to Exhibit 10(k)(1) effective in part October 1, 1997 and in part January 1, 1998	Form 10-K for the year ended December 31, 1997	1-3187	10(k)(9)
*10(k)(10)	— Ninth Amendment to Exhibit 10(k)(1) effective as of September 3, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(k)(10)
*10(l)(1)	— Deferred Compensation Plan of the Company effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(d)(3)
*10(l)(2)	— First Amendment to Exhibit 10(l)(1) effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(j)(2)
*10(l)(3)	— Second Amendment to Exhibit 10(l)(1) effective as of March 30, 1992	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(g)
*10(l)(4)	— Third Amendment to Exhibit 10(l)(1) effective as of June 2, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(4)
*10(l)(5)	— Fourth Amendment to Exhibit 10(l)(1) effective as of December 1, 1993	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(j)(5)
*10(l)(6)	— Fifth Amendment to Exhibit 10(l)(1) effective as of September 7, 1994	HI's Form 10-K for the year ended December 31, 1994	1-7629	10(j)(6)
*10(l)(7)	— Sixth Amendment to Exhibit 10(l)(1) effective as of August 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10(b)
*10(l)(8)	— Seventh Amendment to Exhibit 10(l)(1) effective as of December 1, 1995	HI's Form 10-Q for the quarter ended June 30, 1996	1-7629	10(d)
*10(l)(9)	— Eighth Amendment to Exhibit 10(l)(1) effective as of January 1, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(d)
*10(l)(10)	— Ninth Amendment to Exhibit 10(l)(1) effective in part August 6, 1997, in part October 1, 1997, and in part January 1, 1998	Form 10-K for the year ended December 31, 1997	1-3187	10(l)(10)
*10(l)(11)	— Tenth Amendment to Exhibit 10(l)(1) effective as of September 3, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(i)(11)
*10(m)(1)	— Long-Term Incentive Compensation Plan of the Company effective as of January 1, 1989	HI's Form 10-Q for the quarter ended June 30, 1989	1-7629	10(c)
*10(m)(2)	— First Amendment to Exhibit 10(m)(1) effective as of January 1, 1990	HI's Form 10-K for the year ended December 31, 1989	1-7629	10(f)(2)
*10(m)(3)	— Second Amendment to Exhibit 10(m)(1) effective as of December 22, 1992	HI's Form 10-K for the year ended December 31, 1992	1-7629	10(k)(3)
*10(m)(4)	— Third Amendment to Exhibit 10(m)(1) effective as of August 6, 1997	HI's Form 10-K for the year ended December 31, 1997	1-3187	10(m)(4)
*10(n)	— Form of stock option agreement for non-qualified stock options granted under the Company's 1989 Long-Term Incentive Compensation Plan	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(h)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
*10(o)	— Forms of restricted stock agreement for restricted stock granted under the Company's 1989 Long-Term Incentive Compensation Plan	HI's Form 10-Q for the quarter ended March 31, 1992	1-7629	10(i)
*10(p)(1)	— 1994 Long-Term Incentive Compensation Plan of the Company effective as of January 1, 1994	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(1)
*10(p)(2)	— Form of stock option agreement for non-qualified stock options granted under the Company's 1994 Long-Term Incentive Compensation Plan	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(n)(2)
*10(p)(3)	— First Amendment to Exhibit 10(p)(1) effective as of May 9, 1997	HI's Form 10-Q for the quarter ended June 30, 1997	1-7629	10(e)
*10(p)(4)	— Second Amendment to Exhibit 10(p)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(p)(4)
*10(p)(5)	— Third Amendment to Exhibit 10(p)(1) effective as of January 1, 1998	Form 10-K for the year ended December 31, 1998	1-3187	10(p)(5)
*10(q)(1)	— Savings Restoration Plan of the Company Effective as of January 1, 1991	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(f)
*10(q)(2)	— First Amendment to Exhibit 10(q)(1) effective as of January 1, 1992	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(l)(2)
*10(q)(3)	— Second Amendment to Exhibit 10(q)(1) effective in part, August 6, 1997, and in part, October 1, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(q)(3)
*10(r)(1)	— Director Benefits Plan, effective as of January 1, 1992	HI's Form 10-K for the year ended December 31, 1991	1-7629	10(m)
*10(r)(2)	— First Amendment to Exhibit 10(r)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1998	1-7629	10(m)(1)
*10(s)(1)	— Executive Life Insurance Plan of the Company effective as of January 1, 1994	HI's Form 10-K for the year ended December 31, 1993	1-7629	10(q)
*10(s)(2)	— First Amendment to Exhibit 10(s)(1) effective as of January 1, 1994	HI's Form 10-Q for the quarter ended June 30, 1995	1-7629	10
*10(s)(3)	— Second Amendment to Exhibit 10(s)(1) effective as of August 6, 1997	Form 10-K for the year ended December 31, 1997	1-3187	10(s)(3)
*10(t)	— Employment and Supplemental Benefits Agreement between HL&P and Hugh Rice Kelly	HI's Form 10-Q for the quarter ended March 31, 1987	1-7629	10(f)
*10(u)(1)	— Houston Industries Incorporated Savings Trust between the Company and The Northern Trust Company, as Trustee (as amended and restated effective April 1, 1999)	Company's Form 10-K for the year ended December 31, 1995	1-7629	10(s)(4)
10(u)(2)	— Note Purchase Agreement between the Company and the ESOP Trustee, dated as of October 5, 1990	HI's Form 10-K for the year ended December 31, 1990	1-7629	10(j)(3)
10(u)(3)	— Reliant Energy, Incorporated Master Retirement Trust (as amended and restated effective January 1, 1999 and renamed effective May 5, 1999)	Form 10-K for the year ended December 31, 1999	1-3187	10(u)(3)

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
10(u)(4)	— Contribution and Registration Agreement dated December 18, 2001 among the Company, CenterPoint Energy, Inc and the Northern Trust Company, trustee under the Reliant Energy, Incorporated Master Retirement Trust	Form 10-K for the year ended December 31, 2001	1-3187	10(u)(4)
10(v)(1)	— Stockholder's Agreement dated as of July 6, 1995 between the Company and Time Warner Inc.	Schedule 13-D dated July 6, 1995	5-19351	2
10(v)(2)	— Amendment to Exhibit 10(v)(1) dated November 18, 1996	HI's Form 10-K for the year ended December 31, 1996	1-7629	10(x)(4)
*10(w)(1)	— Houston Industries Incorporated Executive Deferred Compensation Trust, effective as of December 19, 1995	Form 10-K for the year ended December 31, 1995	1-7629	10(7)
*10(w)(2)	— First Amendment to Exhibit 10(w)(1) effective as of August 6, 1997	Form 10-Q for the quarter ended June 30, 1998	1-3187	10
*10(x)	— Consulting Agreement, dated January 14, 1997, between the Company and Milton Carroll	HI's Form 10-K for the year ended December 31, 1996	1-7629	10(bb)
*10(y)	— Reliant Energy, Incorporated Common Stock Participation Plan for Designated New Employees and Non-Officer Employees effective as of March 4, 1998	Form 10-K for the year ended December 31, 2000	1-3187	10(y)
*10(z)	— Reliant Energy, Incorporated Annual Incentive Compensation Plan, as established effective January 1, 1999	Definitive Proxy Statement for 2000 Annual Meeting of Shareholders	1-3187	Appendix I
*10(aa)(1)	— Long Term Incentive Plan of Reliant Energy, Incorporated, effective as of January 1, 2001	Registration Statement on Form S-8 dated May 4, 2001	333-60260	4 6
*10(aa)(2)	— First Amendment to Long Term Incentive Plan of Reliant Energy, Incorporated, effective as of January 1, 2001	Registration Statement on Form S-8 dated May 4, 2001	333-60260	4 7
10(bb)(1)	— Master Separation Agreement entered into as of December 31, 2000 between Reliant Energy, Incorporated and Reliant Resources, Inc	Form 10-Q for the quarter ended March 31, 2001	1-3187	10.1
10(bb)(2)	— Transition Services Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.	Form 10-Q for the quarter ended March 31, 2001	1-3187	10 2
10(bb)(3)	— Technical Services Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.	Form 10-Q for the quarter ended March 31, 2001	1-3187	10 3
10(bb)(4)	— Texas Genco Option Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.	Form 10-Q for the quarter ended March 31, 2001	1-3187	10 4
10(bb)(5)	— Employee Matters Agreement, entered into as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.	Form 10-Q for the quarter ended March 31, 2001	1-3187	10.5

Exhibit Number	Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
10(bb)(6)	— Retail Agreement, entered into as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.	Form 10-Q for the quarter ended March 31, 2001	1-3187	10 6
10(bb)(7)	— Registration Rights Agreement, dated as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.	Form 10-Q for the quarter ended March 31, 2001	1-3187	10 7
10(bb)(8)	— Tax Allocation Agreement, entered into as of December 31, 2000, between Reliant Energy, Incorporated and Reliant Resources, Inc.	Form 10-Q for the quarter ended March 31, 2001	1-3187	10 8
10(cc)	— $2,500,000,000 Senior A Credit Agreement dated as of July 13, 2001 among Houston Industries FinanceCo LP, Reliant Energy, Incorporated and the lender thereto.	Form 10-K for the year ended December 31, 2001	1-3187	10(cc)
10(dd)	— $1,800,000,000 Senior B Credit Agreement dated as of July 13, 2001 among Houston Industries FinanceCo LP, Reliant Energy, Incorporated and the lender parties thereto.	Form 10-K for the year ended December 31, 2001	1-3187	10(dd)
10(ee)	— $400,000,000 Amended and Restated Revolving Credit and Competitive Advance Facilities Agreement dated as of July 13, 2001 among Reliant Energy, Incorporated and the banks named therein.	Form 10-K for the year ended December 31, 2001	1-3187	10(ee)
†*10(ff)	— Retention Agreement effective May 4, 2001 between Reliant Resources, Inc. and R. Steve Letbetter			
†*10(gg)	— Retention Agreement effective May 4, 2001 between Reliant Resources, Inc. and Robert W. Harvey			
†*10(hh)	— Retention Agreement effective May 4, 2001 between Reliant Resources, Inc. and Stephen W. Naeve			
†*10(ii)	— Retention Agreement effective May 4, 2001 between Reliant Resources, Inc. and Joe Bob Perkins			
†*10(jj)	— Retention Agreement effective October 15, 2001 between Reliant Energy, Incorporated and David G. Tees			
†*10(kk)	— Retention Agreement effective October 15, 2001 between Reliant Energy, Incorporated and Michael A. Reed			
†12	— Computation of Ratios of Earnings to Fixed Charges			
†21	— Subsidiaries of Reliant Energy			
†23	— Consent of Deloitte & Touche LLP			
†99	— Investor's Choice Plan Notice of Temporary Suspension of Stock Purchases			

South Texas Project Electric Generating Station

Special Purpose Project Statements for the Years Ended December 31, 2001 and 2000 and Independent Auditors' Report

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT FOR THE YEAR ENDED DECEMBER 31, 2001	1
SPECIAL PURPOSE PROJECT STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000:	
Statements of Owners' Assets and Related Liabilities	3
Balance Sheets	4
Statements of Expenses and Miscellaneous Income (Deductions)	5
Combined Statements of Selected Cash Flows	7
Combined Statements of Owners' Liabilities	9
Notes to Special Purpose Project Statements	10

Deloitte & Touche LLP
Suite 2300
333 Clay Street
Houston, Texas 77002-4196

Tel (713) 982-2000
Fax (713) 982-2001
www.us.deloitte.com

Deloitte & Touche

INDEPENDENT AUDITORS' REPORT

To the City of San Antonio (acting through
the City Public Service Board),
AEP-Central Power and Light, Reliant Energy Inc. and the
City of Austin (collectively, the "Participants"):

We have audited the following special purpose project statements as of or for the year ended December 31, 2001 for South Texas Project Electric Generating Station ("STPEGS"), STP Nuclear Operating Company ("STPNOC") and combined STPEGS and STPNOC, collectively, the "2001 special purpose project statements":

(i) STPEGS's statement of owners' assets and related liabilities as of December 31, 2001 and statement of expenses and miscellaneous income (deductions) for the year ended December 31, 2001,

(ii) STPNOC's balance sheet as of December 31, 2001,

(iii) Combined STPEGS's and STPNOC's statements of selected cash flows for the year ended December 31, 2001 and statements of owners' liabilities as of December 31, 2001.

These accompanying 2001 special purpose project statements are the responsibility of STPNOC's management. Our responsibility is to express an opinion on these 2001 special purpose project statements based on our audit. The special purpose project statements for the year ended December 31, 2000 were audited by other auditors whose report, dated March 21, 2001, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 2001 special purpose project statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 2001 special purpose project statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 2001 special purpose project statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these 2001 special purpose project statements were prepared for the purpose of complying with the requirements of Paragraph 9.3.4 of the Amended and Restated South Texas Project Participation Agreement ("Participation Agreement") dated November 17, 1997, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, such 2001 special purpose project statements described in the first paragraph above present fairly, in all material respects, the project statement information for STPEGS, STPNOC and combined STPEGS and STPNOC, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the Participants and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

February 14, 2002

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION

STATEMENTS OF OWNERS' ASSETS AND RELATED LIABILITIES, DECEMBER 31, 2001 AND 2000

Account Number	ASSETS	2001	2000
101.0	Electric plant in-service	$ 5,842,428,022	$ 5,882,746,129
107	Construction work-in-progress	120,366,604	72,417,179
108	Accumulated provision for depreciation of electric plant in-service	(22,513,480)	(30,130,119)
120.1	Nuclear fuel in process	3,182,087	43,475,286
120.2	Nuclear fuel in stock	5,312,446	1,229,475
120.3	Nuclear fuel assemblies	212,824,922	221,712,197
120.4	Spent nuclear fuel	716,746,279	629,890,871
120.5	Accumulated provision for amortization of nuclear fuel	(824,367,874)	(770,112,769)
131	Cash	57,225	60,803
135	Working funds	10,136	12,347
143	Other accounts receivable	132,578	198,453
154	Materials and supplies	86,556,949	86,213,712
163	Stores expense undistributed	1,176,797	1,219,056
165	Prepayments	3,405,527	3,744,198
184	Clearing accounts	61,701	190,188
186.1	Retirement work-in-progress		77,104
186.2	Other work-in-progress	1,874,118	1,764,483
186.4	Enrichment decommissioning and decontamination receivable from owners	21,309,085	20,961,608
186.5	Accumulated provision for amortization of enrichment decommissioning and decontamination	(8,731,120)	(6,587,083)
	TOTAL	$ 6,159,832,002	$ 6,159,083,118
	LIABILITIES		
232	Accounts payable	$ 11,328,095	$ 36,260,690
242	Accrued spent fuel disposal fee	4,372,389	5,103,617
242	Other miscellaneous accrued liabilities	354,225	375,496
228.2	Injuries and damages reserve	1,167,822	1,344,619
242	Enrichment decommissioning and decontamination liability - current	2,187,472	2,129,559
228.4	Enrichment decommissioning and decontamination liability- noncurrent	8,749,888	10,647,797
	TOTAL	$ 28,159,891	$ 55,861,778

The accompanying notes are an integral part of these special purpose project statements.

STP NUCLEAR OPERATING COMPANY

BALANCE SHEETS, DECEMBER 31, 2001 AND 2000

Account Number	ASSETS	2001	2000
146	Total receivables from owners	$45,329,342	$47,043,668
	TOTAL	$45,329,342	$47,043,668
	LIABILITIES		
232	Accrued payroll and related expenses	$ 1,140,725	$ 1,473,588
236	Accrued payroll taxes	66,490	66,100
242	Incentive compensation and benefit accruals - current	9,991,384	9,904,240
253	Incentive compensation and benefit accruals - noncurrent	5,100,244	3,781,856
228.3	Postemployment benefit liability	368,000	378,000
228.3	Pension liability	12,778,585	15,762,048
228.3	Other postretirement benefit liability	15,883,914	15,677,836
	TOTAL	$45,329,342	$47,043,668

The accompanying notes are an integral part of these special purpose project statements.

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION

STATEMENTS OF EXPENSES AND MISCELLANEOUS INCOME (DEDUCTIONS) FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Account Number		2001	2000
	Miscellaneous Income (Deductions)		
421	Miscellaneous nonoperating income	$ 11,742	$ 9,364
426	Other income (deductions)	(48,385)	(128,019)
	Total miscellaneous income (deductions)	(36,643)	(118,655)
	Production Expenses		
	OPERATIONS:		
517	Supervision and engineering	32,474,588	32,614,373
519	Coolants and water	4,193,512	4,003,279
520	Steam expenses	5,626,172	4,323,858
523	Electric expenses	18,812,099	16,274,008
524	Miscellaneous nuclear power expenses	30,369,625	29,346,887
525	Rent		10,991
	Total operations expenses	91,475,996	86,573,396
	MAINTENANCE:		
528	Supervision and engineering	19,568,285	17,551,597
529	Structures	5,876,844	4,858,668
530	Reactor plant equipment	33,677,485	15,476,328
531	Electric plant	21,784,573	17,874,120
532	Miscellaneous nuclear plant	7,089,813	5,676,530
	Total maintenance expenses	87,997,000	61,437,243
	FUEL:		
518.101/201	Nuclear fuel amortization	54,255,105	56,388,326
518.103/203	Nuclear fuel disposal fees	18,722,559	17,915,787
518.104/204	Amortization of enrichment decomissioning and decontamination	2,144,038	2,076,872
518.105/205	Nuclear fuel credits	(692,000)	(89,000)
	Total fuel expenses	74,429,702	76,291,985
	Total production expenses	253,902,698	224,302,624

(Continued)

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION

STATEMENTS OF EXPENSES AND MISCELLANEOUS INCOME (DEDUCTIONS) FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

Account Number		2001	2000
	TRANSMISSION EXPENSES		
570	MAINTENANCE - Station equipment	$ 6,077	$ (66,035)
	Total maintenance expenses	6,077	(66,035)
	Total transmission expenses	6,077	(66,035)
	ADMINISTRATIVE AND GENERAL EXPENSES		
920	Administrative and general salaries	13,735,462	13,997,027
921	Office supplies and expenses	2,749,140	3,708,500
923	Outside services employed	4,832,222	4,105,977
924	Nuclear property insurance	196,236	458,803
925	Injuries and damages	840,039	1,057,237
926	Employee pensions and other benefits	19,698,912	36,869,535
930	Miscellaneous general expenses	3,960,130	2,996,690
935	Maintenance of general plant	2,878,050	2,328,968
408	Taxes other than income taxes	6,845,128	7,102,101
	Total administrative and general expenses	55,735,319	72,624,838
	TOTAL OPERATING EXPENSES	309,644,094	296,861,427
	TOTAL EXPENSES AND MISCELLANEOUS INCOME (DEDUCTIONS)	$ 309,680,737	$ 296,980,082

The accompanying notes are an integral part of these special purpose project statements. (Concluded)

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION AND STP NUCLEAR OPERATING COMPANY

COMBINED STATEMENTS OF SELECTED CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	2001	2000
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Net expenses and miscellaneous income (deductions)	$(309,680,737)	$(296,980,082)
Adjustments to reconcile net expenses and miscellaneous income (deductions) to net cash used in operating activities:		
Amortization of enrichment decommissioning and decontamination assessment	2,144,038	2,076,872
Amortization of nuclear fuel	54,255,105	56,388,326
Change in accumulated provision for depreciation of electric plant in service	10,762,328	85,236
Change in inventory - nuclear fuel	(41,757,905)	(39,414,344)
Change in inventory - materials and supplies	(343,237)	(374,939)
Change in other accounts receivable	65,875	(131,402)
Change in prepayments	338,671	(724,631)
Change in undistributed stores expense	42,259	171,955
Change in enrichment decommissioning and decontamination assessment	(347,477)	(491,751)
Change in clearing accounts	128,487	91,198
Change in other assets	(30,320)	(28,223,628)
Change in accounts payable	(24,932,595)	(15,282,764)
Change in accrued payroll and related expenses	(332,473)	117,214
Change in enrichment decommissioning and decontamination - current	57,913	70,250
Change in enrichment decommissioning and decontamination - noncurrent	(1,897,909)	(1,708,059)
Change in incentive compensation accrued	1,405,532	(1,372,734)
Change in injuries and damages reserve	(176,797)	(114,979)
Change in accrued spent fuel disposal fee	(731,228)	824,618
Change in other miscellaneous accrued liabilities	(21,271)	27,496
Change in postemployment benefits liability	(10,000)	
Change in pension liability	(2,983,463)	6,113,756
Change in other postretirement benefits liability	206,078	9,105,415
Total adjustments	(4,158,389)	(12,766,895)
Net cash used in operating activities	(313,839,126)	(309,746,977)
CASH FLOWS FROM INVESTING ACTIVITIES - Capital expenditures	(26,010,287)	(2,933,288)
CASH FLOWS FROM FINANCING ACTIVITIES - Cash funding from owners	339,845,835	312,680,529
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,578)	264
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	60,803	60,539
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 57,225	$ 60,803

The accompanying notes are an integral part of these special purpose project statements.

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION AND STP NUCLEAR OPERATING COMPANY

COMBINED STATEMENTS OF SELECTED CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	Reliant Energy, Inc.	City Public Service Board	AEP-Central Power and Light	City of Austin	Total
Year Ended December 31, 2001					
Cash funding from owners:					
Operations	$ 98,680,751	$89,709,773	$80,738,796	$51,262,728	$320,392,048
Spent fuel disposal fee	6,066,669	5,427,682	4,808,364	3,151,072	19,453,787
Total	$104,747,420	$95,137,455	$85,547,160	$54,413,800	$339,845,835
Year Ended December 31, 2000					
Cash funding from owners:					
Operations	$ 91,029,164	$82,753,785	$74,518,534	$47,287,877	$295,589,360
Spent fuel disposal fee	5,324,745	4,786,924	4,212,846	2,766,654	17,091,169
Total	$ 96,353,909	$87,540,709	$78,731,380	$50,054,531	$312,680,529

The accompanying notes are an integral part of these special purpose project statements.

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION AND STP NUCLEAR OPERATING COMPANY

COMBINED STATEMENTS OF OWNERS' LIABILITIES, DECEMBER 31, 2001 AND 2000

	Reliant Energy, Inc.	City Public Service Board	AEP-Central Power and Light	City of Austin	Total
December 31, 2001					
South Texas Project Electric Generating Station:					
Accrued spent fuel disposal fee	$ 1,368,213	$ 1,220,956	$ 1,084,911	$ 698,309	$ 4,372,389
Enrichment decommissioning and decontamination liability	3,368,707	3,062,461	2,756,215	1,749,977	10,937,360
Accounts payable	3,489,053	3,171,867	2,854,680	1,812,495	11,328,095
Other liabilities	468,790	426,173	383,556	243,528	1,522,047
STP Nuclear Operating Company:					
Incentive compensation and benefit accruals	4,648,222	4,225,656	3,803,090	2,414,660	15,091,628
Other liabilities	9,313,216	8,466,560	7,619,904	4,838,034	30,237,714
Total owners' liabilities	$22,656,201	$20,573,673	$18,502,356	$11,757,003	$ 73,489,233
December 31, 2000					
South Texas Project Electric Generating Station:					
Accrued spent fuel disposal fee	$ 1,586,256	$ 1,422,309	$ 1,255,781	$ 839,271	$ 5,103,617
Enrichment decommissioning and decontamination liability	3,935,426	3,577,660	3,219,894	2,044,376	12,777,356
Accounts payable	11,168,293	10,152,993	9,137,694	5,801,710	36,260,690
Other liabilities	529,796	481,632	433,469	275,218	1,720,115
STP Nuclear Operating Company:					
Incentive compensation and benefit accruals	4,215,318	3,832,107	3,448,896	2,189,775	13,686,096
Other liabilities	10,274,132	9,340,120	8,406,108	5,337,212	33,357,572
Total owners' liabilities	$31,709,221	$28,806,821	$25,901,842	$16,487,562	$102,905,446

The accompanying notes are an integral part of these special purpose project statements.

SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION AND STP NUCLEAR OPERATING COMPANY

NOTES TO SPECIAL PURPOSE PROJECT STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

1. THE PROJECT AND ITS SIGNIFICANT ACCOUNTING POLICIES

The South Texas Project Electric Generating Station ("STPEGS") consists of two 1,250-megawatt nuclear steam electric generating units and all interests in property, facilities and structures used therewith or related thereto on or adjacent to the South Texas Project ("STP") site, a parcel of land in Matagorda County, Texas, consisting of approximately 12,200 acres.

The Amended and Restated South Texas Project Participation, Operating and Transition Agreements (the "Agreements"), dated November 17, 1997, provide for the licensing, construction, operation and maintenance of the jointly owned and operated electric generation facilities of STPEGS. The Participants are: Reliant Energy Incorporated ("Reliant Energy"), the City of San Antonio, acting through the City Public Service Board of San Antonio ("San Antonio"), AEP-Central Power and Light ("AEP-CPL") and the City of Austin, acting through Austin Energy ("Austin") (collectively, the "Participants"). Ownership percentages are 30.8%, 28.0%, 25.2% and 16.0% for Reliant Energy, San Antonio, AEP-CPL and Austin, respectively.

Effective October 1, 1997, the Participants formed an operating company, STP Nuclear Operating Company ("STPNOC"), which performs all responsibilities previously performed by Reliant Energy, as project manager. STPNOC is considered a not-for-profit entity for taxation purposes and all operating expenses are incurred on behalf of STPEGS and are fully reimbursed by the Participants. As of December 31, 2001 and 2000, and for the years then ended, STPNOC was the project manager for all aspects of STPEGS except for the construction, operation and maintenance of power and transmission lines, for which AEP-CPL is responsible, and switchyard maintenance, for which Reliant Energy is responsible. Procurement of nuclear fuel (other than fabrication) is the responsibility of the owners.

Basis of Accounting and Account Classifications - The accounting records of STPEGS and STPNOC, collectively "the Project," are maintained on the accrual basis of accounting, as required by the Agreements. Because certain items including, but not limited to, project financing, ad valorem and sales taxes, depreciation and decommissioning expenses are not considered in the accounting records of the Project or in these special purpose project statements, these statements are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

The accounting records are also maintained and the accompanying amounts are classified in accordance with the Agreements and with the Federal Energy Regulatory Commission's (FERC) "Uniform System of Accounts Prescribed for Public Utilities and Licensees," as adopted by the Public Utility Commission of Texas.

Use of Estimates - Preparation of these special purpose project statements in conformity with the Agreements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and reported amounts of expenses during the period. Actual results could differ from these estimates.

Electric Plant In-Service - Electric plant in-service is stated at the original cost of construction which includes the cost of contracted services, direct labor, materials and overhead items. Additions to electric plant in-service, betterments to existing property and replacements of units of property are capitalized at cost. Maintenance repairs and minor replacement costs are charged to operating expense when incurred.

Construction Work in Progress - Construction work-in-progress includes capital modifications or additions to electric plant in-service. Expenditures are accumulated and classified through work orders. As work orders are completed and the asset is placed in-service, the related costs are transferred to electric plant in-service.

Accumulated Provision for Depreciation of Electric Plant In-Service - Upon retirement, the historical cost of the asset removed from service, net of salvage value plus the cost to retire, is accumulated through work orders and transferred from electric plant in-service to accumulated provision for depreciation of electric plant in-service on the Statements of Owners' Assets and Related Liabilities. The historical cost of the asset is the unitized value which is based on allocated construction costs determined principally from engineering estimates. At December 31, 2001 and 2000, this account includes warranty credits received from equipment vendors. STPEGS accounts for these credits as salvage value received prior to the retirement of warranty equipment.

Nuclear Fuel - Nuclear fuel includes nuclear fuel materials as well as refinement, conversion, enrichment and fabrication costs incurred to produce nuclear fuel assemblies. Nuclear fuel assemblies are amortized using a units-of-production method whereby an amortization rate is derived by dividing the unamortized value of an assembly by the calculated remaining million British thermal units ("MMBTUs") for such assembly. Amortization expense is then computed from measurements of MMBTUs produced by each fuel assembly, multiplied by the previously determined amortization rate.

Materials and Supplies - Materials and supplies are carried at the lower of average cost or net realizable value. During the years ended December 31, 2001 and 2000, STPEGS wrote off $1.23 million and $1.26 million, respectively, of excess and obsolete materials and supplies as a result of the Project's ongoing assessment of its inventory.

Enrichment Decommissioning and Decontamination Assessment and Liability - As of December 31, 2001, STPEGS has five years remaining for payment of a Department of Energy (DOE) Enrichment Decommissioning and Decontamination Assessment. STPEGS accounts for the remaining amount as a liability and a receivable from the Participants. Included in the receivable amount is an asset for the prepayment of nine months of Enrichment Decommissioning and Decontamination Assessment.

Operating Costs - Under the provisions of the Agreements, costs incurred to operate STPEGS are shared by the Participants in the same proportion as their respective ownership percentages in the generating unit and common facilities, except for the spent fuel disposal fee which is shared in the proportion of net generation received by each Participant.

Federal Income Tax Status - No provision for federal income taxes has been recorded in the accompanying project statements as each Participant is responsible for the reporting and payment of such taxes. STPNOC has filed a corporate tax return for 2000 which indicates that it has no taxable income. A similar tax filing requirement exists for 2001.

2. RETIREMENT OF TRANSMISSION ASSETS

In connection with the deregulation of the electric power industry in Texas, the Texas Legislature required the separation of generation assets from transmission assets prior to January 1, 2002. Accordingly, the Owners' Committee formed several sub-committees to oversee the project of identifying the separation point between generation and transmission assets, and adjusting STPEGS's books and records to retire the appropriate transmission assets. Upon completion of this project in November 2001, STPEGS recorded the retirement of $34 million of existing transmission assets. The Owners now have the sole responsibility for accounting for these transmission assets.

3. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

STPNOC has a noncontributory defined benefit pension plan covering most employees. This plan provides benefits that are based on years of service and the employee's highest paid consecutive 36 months during the last 120 months before termination of employment. The assets in the plan at December 31, 2001 and 2000 were invested in various equity and fixed income securities. A total contribution of approximately $4.3 million is required for the 2001 plan year, and the final payment of approximately $0.9 million will be due no later than September 15, 2002.

Employees whose pension benefits exceed $170,000 (ERISA) limitations are covered by a supplementary nonqualified, unfunded pension plan which is being provided for by charges to STPEGS's expense sufficient to meet the projected benefit obligations. The accruals for the cost of this plan are based on substantially the same actuarial methods and economics as the noncontributory defined benefit pension plan.

STPNOC has a defined benefit postretirement plan that provides medical, dental and life insurance benefits for substantially all retirees and eligible dependents. STPNOC retains the right to change or terminate these benefits. The cost of these benefits is recognized in the financial statements during an employee's active working career with STPNOC. In October 2000 Reliant Energy transferred approximately $2.1 million into a trust that STPNOC established to partially meet the obligations of the plan. As of December 31, 2001, STPNOC does not plan to make any further contribution to the trust.

	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
Change in benefit obligation:				
Benefit obligation at beginning of period	$ 63,988,561	$ 47,244,746	$ 26,533,836	$ 13,232,826
Service cost	3,555,150	3,357,028	1,997,650	1,840,296
Interest cost	4,891,163	4,160,499	1,753,693	1,592,335
Amendments	51,933			
Special termination benefits		9,079,674		3,578,204
Net curtailment (gain) loss		(1,464,344)		4,744,840
Actuarial (gain) loss	3,802,788	2,862,459	(396,549)	2,106,480
Benefits paid	(1,944,580)	(1,251,501)	(2,692,877)	(561,145)
Benefit obligation at end of period	74,345,015	63,988,561	27,195,753	26,533,836
Change in plan assets:				
Fair value of plan assets at beginning of period	56,177,666	51,262,558	10,548,400	8,000,000
Actual return on plan assets	(4,660,706)	2,576,829	(336,314)	500,728
Additional transfer				2,117,310
Employer contributions	5,979,280	3,589,780	2,623,239	491,507
Benefits paid	(1,944,580)	(1,251,501)	(2,692,877)	(561,145)
Fair value of plan assets at end of period	55,551,660	56,177,666	10,142,448	10,548,400
Funded status at end of period	(18,793,355)	(7,810,895)	(17,053,305)	(15,985,436)
Unrecognized net actuarial (gain) loss	5,563,509	(8,350,746)	(3,609,807)	(4,844,972)
Unrecognized prior service cost	539,743	612,987		
Unrecognized transition (asset) obligation	(88,482)	(213,394)	4,779,198	5,152,572
Accrued benefit cost	$(12,778,585)	$(15,762,048)	$(15,883,914)	$(15,677,836)
Weighted-average assumptions:				
Discount rate	7.25%	7.50%	7.25%	7.50%
Expected return on plan assets	9.50%	9.50%	9.50%	9.50%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%

	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
Components of net periodic benefit cost:				
Service cost	$ 3,555,150	$ 3,357,028	$1,997,650	$1,840,296
Interest cost	4,891,163	4,160,499	1,753,693	1,592,335
Expected return on plan assets	(5,450,760)	(4,899,743)	(996,041)	(760,000)
Amortization of prior service cost	125,176	125,176		
Amortization of transition (asset) obligation	(124,912)	(124,912)	373,374	426,621
Recognized net actuarial gain		(529,842)	(299,359)	(179,484)
Special termination benefits		9,079,674		3,578,204
Net curtailment (gain) loss		(1,464,344)		3,098,950
Net periodic benefit cost	$ 2,995,817	$ 9,703,536	$2,829,317	$9,596,922

Actuarial estimates for STPNOC's postretirement benefit plan assumed a weighted average annual rate of increase in the per capita costs of covered health care benefits 8.25% to 8.65% for 2002 trending down to 5.25% for 2006 and beyond. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care trend rates would have the following effects:

	2001	2000
One-percentage-point increase:		
Effect on total of service and interest cost components	$ 647,034	$ 530,000
Effect on postretirement benefit obligation	4,113,425	3,467,000
One-percentage-point decrease:		
Effect on total of service and interest cost components	(522,193)	(432,000)
Effect on postretirement benefit obligation	(3,386,158)	(2,887,000)

STPNOC has a contributory savings plan for substantially all employees. STPNOC contributes 70% of an employee's contribution up to 6% of an employee's salary. Expenses recognized for contributions during 2001 and 2000 were approximately $3,591,000 and $3,609,000, respectively.

STPNOC has deferred compensation program and supplemental retirement plans with certain key individuals. These additional benefits are non-funded. As of December 31, 2001 and 2000, accrued liabilities associated with these additional benefits were approximately $4,073,000 and $2,958,000, respectively.

4. SEVERANCE PROGRAM

On November 17, 1999, the Board of Directors approved the offering of a Voluntary Severance Program and an Early Retirement Program to be offered simultaneously to eligible employees of STPNOC. A total of approximately 230 employees accepted the Voluntary Severance Program or the Early Retirement Program. Those employees accepting the Early Retirement Program were also eligible for the Voluntary Severance Program. Termination benefit costs of $21.1 million were charged to employee pension and benefits expense for these employees through December 31, 2000 with $18.4 million and $2.7 million of payments made during the years ended December 31, 2001 and 2000, respectively.

5. COMMITMENTS, CONTINGENCIES AND OTHER

The Project is a party to various claims and lawsuits resulting from normal construction and operating activities. While the ultimate outcome is not currently determinable, project management believes that any future costs associated with these actions will be immaterial to these statements.

Employers National Insurance Company (ENIC), the Project's Insurance Carrier for Workers' Compensation and General Liability for the policy periods October 1983 through December 1990, is currently in "receivership" status. STPEGS and the Special Deputy Receiver are currently in settlement negotiations related to these policy periods. Although management cannot predict the Project's ultimate liability for these policy periods, management believes such amount will not exceed $350,000. Such amount has been recorded as a component of the injuries and damages reserve in the accompanying STPEGS Statements of Owners' Assets and Related Liabilities.

The Participants maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. There can be no

assurance that all potential losses or liabilities will be insurable or that the amount of insurance will be sufficient to cover them. Any losses not covered by insurance would be borne by the Participants.

6. SUPPLEMENTAL DISCLOSURES TO THE STATEMENT OF SELECTED CASH FLOWS

Noncash investing activities excluded from the statement of cash flows were approximately $(18.3) million and $72.1 million for the years ended December 31, 2001 and 2000, respectively. These items represent capital retirements (net of salvage) and other noncash items related to the plant.

7. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." In June of 1999, the FASB extended the adoption date of SFAS No. 133 through the issuance of SFAS No. 137, "Deferral of the Effective Date of SFAS No. 133." In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which also amended SFAS No. 133. SFAS No. 133, and its amendments and interpretations, establishes accounting and reporting standards for derivative instruments, including derivative instruments embedded in other contracts, and derivative instruments used for hedging activities. It requires, effective January 1, 2001, the Project to measure all derivative instruments at their fair values and classify them as either assets or liabilities on the balance sheet, with a corresponding offset to income depending on their designation, their intended use, or their ability to qualify as hedges under the standard.

The Project adopted SFAS No. 133 beginning January 1, 2001. There was no impact on the Project's special purpose statements as a result of adopting SFAS No. 133. However, if the Project enters into any future derivative transactions, these transactions could have an impact on its special purpose project statements.

In July 2001 the FASB issued SFAS No. 141, "Business Combinations," effective for all business combinations initiated after June 30, 2001 and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination at acquisition. SFAS No. 142 addresses financial accounting and reporting for intangible assets acquired individually or with a group of other assets (but not those acquired in a business combination) at acquisition. It also addresses financial accounting and reporting for goodwill and other intangible assets subsequent to their acquisition.

The Project adopted SFAS No. 141 and SFAS No. 142 on January 1, 2002. There was no impact on the project statements as a result of adopting SFAS No. 141 and SFAS No. 142 because the Project did not have any business combination activity or intangible assets at the date of adoption.

In August 2001 the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement legal obligation to be recognized in the period in which it is incurred. When the liability is initially recorded, associated costs are capitalized by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. SFAS No. 143 requires entities to record a cumulative effect of change in accounting principle in the income statement in the period of adoption. SFAS No. 143 will not have any impact on the Project as such retirement obligations are the legal and financial reporting responsibility of each respective owner.

In August 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. SFAS No. 144 supersedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principle Board Opinion No. 30, while retaining many of the requirements of these two statements. Under SFAS No. 144, assets held for sale (APB Opinion No. 30) that are a component of an entity will be included in discontinued operations if the operations and cash flows will be or have been eliminated from the ongoing operations of the entity and the entity will not have any significant continuing involvement in the operations prospectively. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with early adoption encouraged. SFAS No. 144 will not have any impact on the Project as all impairment losses (if any) will be recorded on Owners' books.

* * * * * *