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

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-16455

RELIANT RESOURCES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	76-0655566
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1111 LOUISIANA HOUSTON, TEXAS 77002	(713) 207-3000
(Address and zip code of principal executive offices)	(Registrant's telephone number, including area code)

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value $.001 per share, and associated rights to purchase Series A Preferred Stock	New York Stock Exchange

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

The aggregate market value of the voting stock held by non-affiliates of Reliant Resources, Inc. (Reliant Resources) was $833,436,412 as of April 1, 2002, using the definition of beneficial ownership contained in Rule 13d-3 promulgated pursuant to the Securities Exchange Act of 1934 and excluding shares held by directors and executive officers. As of April 1, 2002, Reliant Resources had 289,354,781 shares of Common Stock outstanding including 240,000,000 shares which were held by Reliant Energy, Incorporated. Excluded from the number of shares of Common Stock outstanding are 10,449,219 shares held by Reliant Resources as treasury stock.

Portions of the definitive proxy statement relating to the 2002 Annual Meeting of Stockholders of Reliant Resources, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2001, are incorporated by reference in Item 10, Item 11, Item 12 and Item 13 of Part III of this Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. In some cases, you can identify our forward-looking statements by the words "anticipates," "believes," "continue," "could," "estimates," "expects," "forecast," "goal," "intends," "may," "objective," "plans," "potential," "predicts," "projection," "should," "will," or other similar words.

For a list of factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings" in Item 7 of this Form 10-K.

We have based our forward-looking statements on management's beliefs and assumptions based on information available at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, actual results may differ materially from those expressed or implied by our forward-looking statements.

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

The following sections of this Form 10-K contain forward-looking statements:

- Our Business --
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ITEM 1. BUSINESS.

OUR BUSINESS

GENERAL

Reliant Resources, Inc., a Delaware corporation, was incorporated in August 2000. In this Form 10-K, we refer to Reliant Resources, Inc. as "Reliant Resources," and to Reliant Resources and its subsidiaries collectively, as "we" or "us," unless the context clearly indicates otherwise. The executive offices of Reliant Resources are located at 1111 Louisiana, Houston, TX 77002 (telephone number 713-207-3000).

We provide electricity and energy services with a focus on the competitive wholesale and retail segments of the electric power industry in the United States. We acquire, develop and operate electric power generation facilities that are not subject to traditional cost-based regulation and therefore can generally sell power at prices determined by the market. We also trade and market power, natural gas and other energy-related commodities and provide related risk management services.

As of December 31, 2001, we owned or leased electric power generation facilities with an aggregate net generating capacity of 14,585 megawatts (MW), including 11,109 MW in the United States and 3,476 MW in the Netherlands. Of the 11,109 MW in the United States, 1,179 MW represent our entitlement to capacity of facilities that we lease under operating leases. For additional information regarding these operating leases, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Consolidated Capital Requirements and Uses of Cash" in Item 7 of this Form 10-K, and Note 13(c) to our consolidated financial statements, which, together with the notes related to these statements, we refer to in this Form 10-K as our "consolidated financial statements." We acquired our first power generation facilities in 1998 and have increased our net generating capacity since then through a combination of acquisitions and development of new generation projects. Since December 31, 2001, we have added 5,644 MW of additional net generating capacity to our asset portfolio through our acquisition of Orion Power Holdings, Inc. According to Resource Data International, Inc., we are the second largest independent electric power producer in the United States based on total MW of wholesale generation capacity in operation as of February 28, 2002.

As of December 31, 2001, we had 3,587 MW (3,391 MW, net of 196 MW to be retired upon completion of one facility) of additional net generating capacity under construction, including 2,120 MW of facilities owned by off-balance sheet special purpose entities that are being constructed under construction agency agreements pursuant to synthetic leasing arrangements. Upon the completion of construction, we expect that we will lease these facilities from their owners. For additional information regarding the construction agency agreements, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Off-Balance Sheet Transactions" in Item 7 of this Form 10-K and Note 13(h) to our consolidated financial statements. We consider a project to be "under construction" once we have acquired the necessary permits to begin construction, broken ground on the project site and contracted to purchase machinery for the project, including the combustion turbines.

Additionally, we became a retail electric provider (i.e., a seller of electricity to retail customers) in Texas when that market began opening to retail electric competition in late 2001 and fully opened to retail competition in January 2002. Since then, all classes of customers of most investor-owned Texas utilities, as well as those of any municipal utility or electric cooperative that opted to participate in the competitive marketplace, have been able to choose their retail electric provider. Under Texas regulation, retail electric providers procure or buy electricity from wholesale generators at unregulated rates, sell electricity at generally unregulated rates to their retail customers and pay the local transmission and distribution regulated utilities a regulated tariff rate for delivering the electricity to their customers. In January 2002, we became the retail electric provider for all of Reliant Energy HL&P's (formerly the integrated electric utility serving the Houston, Texas metropolitan area) (Reliant Energy's electric utility) approximately 1.7 million customers in the Houston area who did not take action to select another retail electric provider. At that time, we were also able to acquire and serve new retail electric customers in other Texas competitive markets.

We conduct our operations through the following business segments:

- Wholesale Energy -- provides electricity and energy services in the competitive segments of the United States wholesale energy industries,

- European Energy -- includes power generation assets in the Netherlands and a related trading and power origination business,

- Retail Energy -- provides electricity and related services to retail customers primarily in Texas, and

- Other Operations -- includes the operations of our venture capital and Communications businesses, and unallocated corporate costs.

For information about the revenues, operating income, assets and other financial information relating to our business segments, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations by Business Segment" in Item 7 of this Form 10-K and Note 18 to our consolidated financial statements. For information regarding the decision to exit our Communications business, please read Note 16 to our consolidated financial statements.

FORMATION, INITIAL PUBLIC OFFERING AND ANTICIPATED DISTRIBUTION

Reliant Energy, Incorporated (Reliant Energy) owns more than 80% of our outstanding common stock. Reliant Energy has adopted a business separation plan in response to the Texas Electric Choice Plan (Texas electric restructuring law) adopted by the Texas legislature in June 1999. The Texas electric restructuring law substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition with respect to all customer classes beginning in January 2002. Under its business separation plan filed with the Public Utility Commission of Texas (Texas Utility Commission), Reliant Energy has transferred substantially all of its unregulated businesses to us in order to separate its regulated and unregulated operations. In accordance with the plan, we completed our initial public offering (IPO) of nearly 20% of our common stock in May 2001 and received net proceeds from the IPO of $1.7 billion. Pursuant to the terms of the master separation agreement between Reliant Energy and us, we used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. We used the remainder of the net proceeds of the IPO for repayment of third party borrowings, capital expenditures, repurchases of our common stock and to increase our working capital. For additional information regarding the IPO, please read Notes 1 and 9(a) to our consolidated financial statements. For additional information regarding agreements and transactions between Reliant Resources and Reliant Energy, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Related-Party Transactions" in Item 7 of this Form 10-K and Notes 3 and 4 to our consolidated financial statements.

As part of its business separation plan, Reliant Energy has publicly disclosed that it intends to restructure its corporate organization into a public utility holding company structure (Reorganization) and to distribute, subject to further governmental and corporate approvals, market and other conditions, its remaining equity interest in our common stock to its or its successor's shareholders (Distribution). In December 2001, Reliant Energy's shareholders voted to approve the merger required for the holding company reorganization. As a result of the Reorganization and the Distribution, Reliant Energy's successor holding company will be named "CenterPoint Energy, Inc." and will own essentially all of Reliant Energy's regulated businesses (CenterPoint Energy), and we will become a separate company unaffiliated with CenterPoint Energy. Reliant Energy has publicly disclosed its goal to complete the Reorganization 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 for a private letter ruling obtained by Reliant Energy regarding tax-free treatment of the Distribution. Reliant Energy has filed an application with the SEC requesting the required approvals. The IRS private letter ruling is predicated on the completion of the Distribution by April 30, 2002. Reliant Energy is in the process of requesting an extension of this deadline. Reliant Energy currently expects to complete the Reorganization and Distribution in the summer of 2002. We cannot assure you that the Distribution will be completed as described or within the time period outlined above.

ORION POWER ACQUISITION

On February 19, 2002, we acquired all of the outstanding shares of common stock of Orion Power Holdings, Inc. (Orion Power) for $26.80 per share in cash pursuant to a definitive merger agreement for an aggregate purchase price of $2.9 billion. At the time of closing, Orion Power had approximately $2.4 billion of debt obligations ($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 that was formed in March 1998 to acquire, develop, own and operate power-generating facilities in certain deregulated wholesale markets in North America. Orion Power has a diversified portfolio of generating assets, both geographically across the states of New York, Pennsylvania, Ohio and West Virginia, and by fuel type, including gas, oil, coal and hydropower. As of February 28, 2002, Orion Power owned 81 power plants with an aggregate net generating capacity of 5,644 MW and had two development projects with an additional 804 MW of capacity under construction. We consider most of the Orion Power facilities to be part of our Northeast regional portfolio and the remainder to be part of our Midwest regional portfolio. For additional information regarding our acquisition of Orion Power and its operations, please read "-- Wholesale Energy -- Northeast Region," and "-- Midwest Region," and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Integration and Other Risks Associated with Our Orion Power Assets" and "-- Uncertainty Related to the New York Regulatory Environment" in Item 7 of this Form 10-K, and Note 19 to our consolidated financial statements.

WHOLESALE ENERGY

Our Wholesale Energy business segment provides energy and energy services with a focus on the competitive wholesale segment of the United States energy industry. We acquire, develop and operate electric power generation facilities that are not subject to traditional cost-based regulation and therefore can generally sell power at prices determined by the market, subject to regulatory limitations in certain regions. We also trade and market power, natural gas, natural gas transportation capacity and other energy-related commodities and provide related risk management services.

POWER GENERATION OPERATIONS

As of December 31, 2001, our Wholesale Energy business segment owned or leased electric power generation facilities with an aggregate net generating capacity of 11,109 MW located in five regions of the United States. We also had 3,587 MW (3,391 MW, net of 196 MW to be retired upon completion of one facility) of net generating capacity under construction as of that date. In addition, by acquiring Orion Power in February 2002, we added 81 power plants with an aggregate net generating capacity of 5,644 MW and two development projects with an additional 804 MW of capacity under construction to our regional portfolios.

The following table describes our Wholesale Energy business segment's electric power generation facilities by region as of December 31, 2001.

REGIONAL SUMMARY OF OUR GENERATION FACILITIES
(AS OF DECEMBER 31, 2001)

REGION	NUMBER OF GENERATION FACILITIES(1)	TOTAL NET GENERATING CAPACITY (MW)	DISPATCH TYPE(2)	FUEL TYPE
NORTHEAST				
Operating(3)	21	4,262	Base, Inter, Peak	Gas/Coal/Oil/Hydro
Under Construction(4)(5)(6)	1	1,120	Base, Inter, Peak	Gas/Oil/Coal
Combined	22	5,382		
MIDWEST				
Operating	2	1,063	Peak	Gas
Under Construction(7)	--	154	Peak	Gas
Combined	2	1,217		
SOUTHEAST				
Operating(8)	3	979	Inter, Peak, Cogen	Gas/Oil
Under Construction(5)(9)	1	958	Base, Inter, Peak	Gas/Oil
Combined	4	1,937		
WEST				
Operating(7)	7	4,635	Base, Inter, Peak	Gas
Under Construction	1	548	Base, Peak	Gas
Combined	8	5,183		
ERCOT(10)				
Operating	1	170	Base, CoGen	Gas
Under Construction(4)	--	611	Base, CoGen	Gas
Combined	1	781		
TOTAL				
Operating	34	11,109		
Under Construction	3	3,391		
Combined	37	14,500		

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(1) Unless otherwise indicated, we own a 100% interest in each facility listed.

(2) We use the designations "Base," "Inter," "Peak" and "CoGen" to indicate whether the facilities described are base-load, intermediate, peaking or cogeneration facilities, respectively.

(3) We lease a 100%, 16.67% and 16.45% interest in three Pennsylvania facilities having 613 MW, 285 MW and 281 MW, respectively, through facility lease agreements having terms of 26.5 years, 33.75 years and 33.75 years, respectively.

(4) One of our two construction projects in this region will replace one of our existing facilities upon completion. Therefore, this project is not included in the facility count for the "Under Construction" group of this region.

(5) Our two construction projects in the Northeast region and one of our projects in the Southeast region are owned by off-balance sheet special purpose entities and are being constructed under construction agency agreements pursuant to synthetic leasing arrangements. We expect that we will lease these facilities from their owners upon completion.

(6) The 1,120 MW of net capacity under construction is based on 1,316 MW of capacity currently under construction less 196 MW of operating capacity that will be retired upon completion of one of the projects.

(7) Five of the six generating units of one of the facilities in this region are operational while the sixth unit is under construction. This partially operational facility is included in the facility count for the "Operating" group of this region.

(8) We own a 50% interest in one of these facilities. An independent third party owns the other 50%.

(9) Two of the three generating units of one of the facilities in this region are operational while the third unit is under construction. This partially operational facility is included in the facility count for the "Operating" group of this region.

(10) We also have an option, which is exercisable in January 2004, subject to completion of the Distribution, to acquire Reliant Energy's approximate 80% interest in a company that is currently expected to own approximately 13,900 MW of net generating capacity in the Electric Reliability Council of Texas (ERCOT) in January 2004. For additional information regarding this option, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Related-Party Transactions -- Agreements between Reliant Energy and Reliant Resources -- Genco Option Agreement" in Item 7 of this Form 10-K and Note 4(b) to our consolidated financial statements.

The following table describes our Orion Power electric power generation facilities by region as of February 28, 2002.

REGIONAL SUMMARY OF OUR ORION POWER FACILITIES
(AS OF FEBRUARY 28, 2002)

REGION	NUMBER OF GENERATION FACILITIES	TOTAL NET GENERATING CAPACITY (MW)	DISPATCH TYPE(1)	FUEL TYPE
NORTHEAST				
Operating(2)	78	4,174	Base, Inter, Peak	Gas/Oil/Coal/Hydro
Under Construction	2	804	Base, Inter	Gas
Combined	80	4,978		
MIDWEST				
Operating	3	1,470	Base, Inter, Peak	Coal/Gas
TOTAL				
Operating(2)	81	5,644		
Under Construction	2	804		
Combined(2)	83	6,448		

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(1) We use the designations "Base," "Inter" and "Peak" to indicate whether the facilities described are base-load, intermediate or peaking, respectively.

(2) Two hydro plants with a net generating capacity of approximately 5 MW are not currently operational.

NORTHEAST REGION

Facilities. As of December 31, 2001, we owned or leased 21 electric power generation facilities with an aggregate net generating capacity of 4,262 MW located in the control area of PJM Interconnection, L.L.C. (PJM ISO), the independent system operator in the Pennsylvania-New Jersey-Maryland market (PJM market). These facilities are owned or leased by subsidiaries of one of our wholly owned subsidiaries, Reliant Energy Mid-Atlantic Power Holdings, LLC (REMA). The generating capacity of these facilities consists of approximately 40% of base-load, 40% of intermediate and 20% of peaking capacity, and represents approximately 7% of the total generation capacity located in the PJM ISO's control area. For additional information regarding our acquisition of these facilities, please read Note 5(a) to our consolidated financial statements.

By acquiring Orion Power in February 2002, we added 78 power generation facilities, of which 75 are currently operational, with an aggregate net generating capacity of 4,174 MW to our Northeast regional portfolio. These facilities include 70 hydroelectric facilities, of which 68 are currently operational, located in central and northern New York State, three facilities located in New York City, one facility located in East Syracuse, New York, and four facilities, three of which are currently fully operational, located in Pennsylvania. The generating capacity of these facilities consists of approximately 45% of base-load, 35% of intermediate and 20% of peaking capacity. For a discussion of factors that may affect the future earnings generated by these Orion Power facilities, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Integration and Other Risks Associated With Our Orion Power Assets" and "-- Uncertainty Related to the New York Regulatory Environment" in Item 7 of this Form 10-K.

We have begun construction on a 795 MW gas-fired base-load and intermediate facility located in Pennsylvania. We expect this facility will begin commercial operation in the second quarter of 2003. We have also begun construction on a 521 MW coal-fired base-load facility, also located in Pennsylvania, that will replace one of our existing facilities. This facility will add 325 MW of additional capacity to our Northeast regional portfolio, net of the 196 MW of capacity of the currently existing facility that will be retired upon commencement of commercial operations of the new facility. We expect this facility will begin commercial operation near the end of 2004. These facilities are owned by off-balance sheet special purpose entities and are being constructed under the terms of separate construction agency agreements pursuant to synthetic leasing arrangements. Upon completion of the construction of these facilities, we expect that we will lease these facilities from their owners, purchase or remarket each facility. For additional information regarding the construction agency agreements, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Off-Balance Sheet Transactions -- Construction Agency Agreements" in Item 7 of this Form 10-K and Note 13(h) to our consolidated financial statements.

By acquiring Orion Power in February 2002, we added two additional development projects with an additional 804 MW of capacity under construction. The first project is the construction of a 550 MW gas-fired base-load facility located south of Philadelphia, Pennsylvania. We expect this facility will begin commercial operation in the second quarter of 2002. The second project is the conversion and upgrade of a peaking facility located near downtown Pittsburgh, Pennsylvania. We expect this project will be completed by the third quarter of 2002 and will increase the aggregate generating capacity of this facility by 254 MW to a total capacity of 308 MW.

Market Framework. We currently sell the power generated by our Northeast regional facilities in the PJM market, the wholesale energy market of the State of New York (New York wholesale market) operated by the New York Independent System Operator (NYISO) and to buyers in adjacent power markets, such as the region covered by the East Central Area Reliability Coordinating Counsel (ECAR market). We also expect to sell power in a newly created extension of the PJM market in western Pennsylvania (PJM West market). Each of the PJM Market, the New York wholesale market and the PJM West market operate as centralized power pools with open-access, non-discriminatory transmission systems administered by independent system operators approved by the Federal Energy Regulatory Commission (FERC). Although the transmission infrastructure within these markets is generally well developed and independently operated, transmission constraints exist between, and to a certain extent within, these markets. In particular, transmission of power from eastern Pennsylvania to western Pennsylvania and into New York City may be constrained from time to time. Depending on the timing and nature of transmission constraints, market prices may vary from market to market, or between sub-regions of a particular market. For example, as a result of transmission constraints into New York City, power prices are generally higher there than in other parts of the state.

In addition to managing the transmission system for each market, the respective independent system operator for each of the PJM market, the New York wholesale market and the PJM West market is responsible for maintaining competitive wholesale markets, operating the spot wholesale energy market and determining the market clearing price based on bids submitted by participating generators in each market. Each independent system operator generally matches sellers with buyers within a particular market that meet specified minimum credit standards. We sell capacity, energy and ancillary services into the markets maintained by the applicable independent system operator for each of these types of products for both real-time sales and forward-sales for periods of up to one year. Our customers include the members of each market, consisting of municipalities, electric cooperatives, integrated utilities, transmission and distribution utilities, retail electric providers and power marketers. We also sell capacity, energy and ancillary services to customers in the Northeast region under negotiated bilateral contracts. Bilateral contracts, in addition to other physical and financial transactions enable us to hedge a portion of our generation portfolio. For a more complete description of our hedging strategy and a summary of the consolidated hedge position of our United States generating assets, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Risks Associated with Our Hedging and Risk Management Activities" in Item 7 of this Form 10-K.

Our markets in the Northeast region are subject to constant and significant regulatory oversight and control and the results of our operations in the region may be adversely affected by any changes or additions to the current regulatory structure. Our sales into markets administered by the PJM ISO are governed by the PJM ISO's operating

agreements, tariffs and protocols (PJM Protocols). The PJM Protocols provide the structure, rules and pricing mechanisms for the PJM ISO's energy, capacity and ancillary services markets, and establish rates, terms and conditions for transmission service in the PJM ISO's control area and the PJM West market, including transmission congestion pricing. Wholesale energy prices in the markets administered by the PJM ISO are currently capped at $1,000 per megawatt-hour. Lower caps are utilized in other regions and it is possible that this price cap might be lowered in the future.

Our sales into markets administered by the NYISO are governed by the NYISO's tariff and protocols (NYISO Protocols). The NYISO Protocols provide the structure, rules and pricing mechanisms for the NYISO's energy, capacity and ancillary services markets, and establish rates, terms and conditions for transmission service in the NYISO's control area. The NYISO Protocols allow energy demand, commonly referred to as "load," to respond to high prices in emergency and non-emergency situations. The lack of programs, however, to implement load response to prices has been cited as one of the primary reasons for retaining wholesale energy bid caps, which are currently set at $1,000 per megawatt-hour. Lower price caps are utilized in other regions and it is possible that this price cap might be lowered in the future.

A capacity market has been established by the NYISO that ensures that there is enough generation capacity to meet retail energy demand and ancillary services requirements. All power retailers are required to demonstrate commitments for capacity sufficient to meet their peak forecasted load plus a reserve requirement, currently set at 18%. As an extra reliability measure, power retailers located in New York City are required to procure the majority of this capacity, currently 80% of their peak forecasted load, from generating units located in New York City. Because New York City is currently short of this capacity requirement and the existing capacity is owned by only a few entities, a price cap has been instituted for in-city generators.

For additional discussion of the impact of current regulations on the markets in the Northeast region and the related risks of re-regulation, please read "-- Regulation -- Federal Energy Regulatory Commission" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Industry Restructuring, the Risk of Re-regulation and the Impact of Current Regulations" and "-- Uncertainty Related to the New York Regulatory Environment" in Item 7 of this Form 10-K.

MIDWEST REGION

Facilities. As of December 31, 2001, we owned two electric power generation facilities located in the State of Illinois with an aggregate net generating capacity of 1,063 MW in operation. One of these facilities is a 344 MW gas-fired peaking generation facility located in Shelby County, Illinois. The first phase of this facility was initially placed in commercial operation in June 2000 and the second phase was placed in commercial operation in May 2001. We also have an 873 MW gas-fired peaking generation facility under construction in Aurora, Illinois. As of December 31, 2001, five of the six generating units at this facility with an aggregate net generating capacity of 719 MW had been placed in commercial operation. We expect the remaining unit at this facility will begin commercial operation in the second quarter of 2002.

By acquiring Orion Power in February 2002, we added three power generation facilities with an aggregate net generating capacity of 1,470 MW to our Midwest regional portfolio. Two of these facilities are located in Ohio and one is located in West Virginia. The generating capacity of these facilities consists of approximately 50% of base-load, 15% of intermediate and 35% of peaking capacity. For a discussion of the factors that may affect the future earnings generated by these Orion Power assets, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Integration and Other Risks Associated With Our Orion Power Assets" in Item 7 of this Form 10-K.

Market Framework. We sell the power generated by our Midwest regional facilities into the ECAR market and the region covered by the Mid-America Interconnected Network Reliability Council (MAIN market). These markets include all or portions of the states of Illinois, Wisconsin, Missouri, Indiana, Ohio, Michigan, Virginia, West Virginia, Tennessee, Maryland and Pennsylvania. These markets are currently in a state of transition and are in the process of establishing regional transmission organizations (RTO) that would define the rules and

requirements around which competitive wholesale markets in the region would develop. The FERC has approved proposals by the Midwest Independent System Operator (Midwest ISO) to administer a substantial portion of the transmission facilities in the Midwest region. The FERC also has ordered the Alliance RTO, which had a separate proposal to be the RTO for parts of the Midwest region, to explore joining the Midwest ISO. As a result, the final market structure for the Midwest region remains unsettled. The timing of the development of a RTO and the extent to which the Midwest ISO and the Alliance RTO would combine is currently unknown. In addition, some states within these markets have restructured their electric power markets to competitive markets from traditional utility monopoly markets, while others have not. Currently the transmission infrastructure in these markets is generally owned by non-independent market participants, some of which are our competitors, which has the potential to create market anomalies. Transmission constraints exist in these markets and have been managed by the owners of the transmission infrastructure, subject to transmission tariffs and protocols regulated by the FERC.

We currently sell power from our facilities in the Midwest region to customers under bilateral contracts that are generally non-standard with highly negotiated terms and conditions. Our customers include municipalities, electric cooperatives, integrated utilities, transmission and distribution utilities and power marketers. Direct customer sales, in addition to other physical and financial transactions enable us to hedge a portion of our generation portfolio. For a more complete description of our hedging strategy and a summary of the consolidated hedge position of our United States generating assets, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Risks Associated with Our Hedging and Risk Management Activities" in Item 7 of this Form 10-K.

FLORIDA AND OTHER SOUTHEASTERN MARKETS

Facilities. As of December 31, 2001, we owned, or owned interests in, three power generation facilities with an aggregate net generating capacity of 979 MW located in the states of Florida and Texas. These facilities include one gas and oil-fired generation facility with an aggregate net generating capacity of 619 MW located near Titusville, Florida. This facility can be operated as either an intermediate or a peaking facility. We also own a 464 MW gas and oil-fired peaking generation facility in Osceola County, Florida. Two of the three generating units of this plant with an aggregate net generating capacity of 310 MW commenced commercial operation in December 2001. We expect the remaining generating unit at this facility will begin commercial operation in the second quarter of 2002. In addition, we own a 50% interest in a 100 MW gas-fired base-load/cogeneration facility located in Orange, Texas. Air Liquide owns the other 50% interest in this plant which has been in commercial operation since December 1999.

We have begun construction on an 804 MW gas-fired intermediate/peaking facility in Choctaw County, Mississippi. We expect this facility will begin commercial operation in the second quarter of 2003. This facility is being constructed under the terms of a construction agency agreement under a synthetic leasing arrangement. Upon completion of the construction of this facility, we will have the right to lease, purchase or remarket the facility. For additional information regarding the construction agency agreement, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Off-Balance Sheet Transactions - -- Construction Agency Agreements" in Item 7 of this Form 10-K, and Note 13(h) to our consolidated financial statements.

Market Framework. We currently conduct the majority of our Southeast regional operations in the state of Florida. The state of Florida, other than a portion of the western panhandle, constitutes a single reliability council and contains approximately 5% of the United States population. The transmission-owning utilities in Florida have proposed establishing an independent system operator to assume control of the transmission system and undertake to define the rules and requirements for a competitive wholesale market. The timing of the development of an independent system operator for the Florida market is currently unknown. Under its present structure, the Florida market is dominated by incumbent utilities. There are a number of statutory and regulatory restrictions that negatively impact the development of additional power generation facilities in the region.

We currently sell power from our facilities in the Florida market under bilateral contracts that are non-standard and highly negotiated for terms and conditions. Until the rules for system operations are established, we expect limited trading opportunities will exist in the Florida market. The customers who participate in power transactions

in this region include municipalities, electric cooperatives and integrated utilities. We sell capacity and energy to customers in the Florida market, however a market for ancillary services has not developed. Forward hedging of a portion of our Florida portfolio is generally accomplished through customer-tailored, multi-year sale agreements as no liquid, over-the-counter or auction markets currently exists in Florida. For a more complete description of our hedging strategy and a summary of the consolidated hedge position of our United States generation assets, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Risks Associated with Our Hedging and Risk Management Activities" in Item 7 of this Form 10-K.

With respect to our facilities in East Texas and Mississippi, several of the transmission-owning utilities in the Southeast region have formed the SETrans Grid Company (SETrans RTO) that they are proposing to serve as the region's RTO. The proposed SETrans RTO would manage, but not own, the transmission grid in the region and operate forward and spot markets for energy. The SETrans RTO has filed a status report with the FERC, but has not filed tariffs or protocols and has not been approved as the region's RTO.

WEST REGION

Facilities. As of December 31, 2001, we owned, or owned interests in, seven electric power generation facilities with an aggregate net generating capacity of 4,635 MW located in the states of California, Nevada and Arizona. These facilities include approximately 20% of base-load, 75% of intermediate and 5% of peaking capacity. Our facilities in the West region include five facilities with an aggregate net generating capacity of 3,800 MW located in California. We also own a 50% interest in a 490 MW gas-fired, base-load, peaking facility located near Las Vegas, Nevada. Sempra Energy owns the other 50% interest in this plant. In addition, we own a 590 MW gas-fired, base-load, peaking generation facility in Casa Grande, Arizona. This facility was placed in commercial operation in the fourth quarter of 2001. We also have a 548 MW gas-fired, base-load, peaking generation facility under construction in Nevada. We expect this facility will begin commercial operation in the fourth quarter of 2003.

Market Framework. Our West regional market includes the states of Arizona, California, Oregon, Nevada, New Mexico, Utah and Washington. Generally we sell the power generated by our California and Nevada facilities to customers located in the Los Angeles basin of southern California. We also sell power generated by our Nevada facility to customers located in southern Nevada. Our customers in these states include power marketers, investor-owned utilities, electric cooperatives, municipal utilities and the California Independent System Operator (Cal ISO) acting on behalf of load-serving entities. We sell power and ancillary services to these customers through a combination of bilateral contracts and sales made in the Cal ISO's day-ahead and hour-ahead ancillary services markets and its real-time energy market. The Cal ISO does not currently maintain a market for capacity; however, a capacity market has recently been proposed by the Cal ISO under its market mitigation plan for the California market.

We have agreed to sell up to 100% of the power generated by our Arizona facility to the Salt River Project Agricultural Improvement and Power District of the State of Arizona under a long-term power purchase agreement. Bilateral contracts, in addition to other physical and financial transactions enable us to hedge a portion of our generation portfolio. For a more complete description of our hedging strategy and a summary of the consolidated hedge position of our United States generating assets, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Risks Associated with Our Hedging and Risk Management Activities" in Item 7 of this Form 10-K. In addition, although we do not own generation facilities in the states of Oregon, New Mexico, Utah and Washington, our trading and marketing operations purchase and deliver energy commodities in these states.

Our operations in the California market are subject to numerous environmental and other regulatory restrictions. Permits issued by local air districts restrict the output of some of our generating facilities. In addition, certain air districts require us to purchase emission credits to offset Nitrogen Oxides (NOx) emissions from our facilities.

In response to California's electricity market restructuring initiative, the FERC issued a series of orders in 1996 and 1997 approving a wholesale market structure administered by two independent non-profit corporations: the Cal

ISO, responsible for operational control of the transmission system and the purchase or sale of electricity in "real-time" to balance actual supply and demand, and the California Power Exchange (Cal PX), responsible for conducting auctions for the purchase or sale of electricity on a day-ahead or day-of basis. As part of this market restructuring, California's distribution utilities sold essentially all of their gas-fired plants to third-party generators. The utilities were required to sell their remaining generation into the Cal PX markets and purchase all of their power requirements from the Cal PX markets at market-based rates approved by the FERC. California's regulatory system initially prohibited the utilities from entering into forward contracts to cover the bulk of their customers' requirements. Retail electricity rates were initially frozen at levels in effect on June 10, 1996, with a 10% rate reduction for residential and smaller commercial customers. When wholesale power costs began to rise dramatically in 2000, driven by a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand and decreases in net imports, some of the California utilities were unable to recover their purchased power costs through the retail rates they were allowed to charge. As a result, the utilities accumulated huge debts to wholesale power suppliers, including us. The Cal ISO currently is conducting a major market redesign process that, if approved by the FERC, could change the structure of the markets operated by the Cal ISO, including changes to market monitoring and mitigation, congestion management and capacity obligations. For a discussion of litigation and other legal proceedings related to energy sales in California, the impact of current regulations on our West region and related uncertainty associated with the California wholesale market, please read "-- Regulation -- Federal Energy Regulatory Commission," "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Uncertainty in the California Market" and Notes 13(e) and 13(i) to our consolidated financial statements.

In Nevada and Arizona, there is presently no RTO in place to manage the transmission systems or to operate energy markets, although one RTO working group is evaluating the establishment of an organization that would assume control, subject to FERC approval, over the transmission systems of the utilities operating in this region. The FERC has recently expressed its intention to pursue the establishment of an RTO in the West region.

Additionally, in Nevada and Arizona, state-level regulatory initiatives may impact competition in the electric sector. In Nevada, the state legislature has passed legislation prohibiting the state's investor-owned utilities from divesting generation. Similarly, in Arizona, proceedings are pending before the Arizona Corporation Commission that would allow the Arizona Public Service Company to avoid a requirement to seek competitive bids for 50% of the Arizona Public Service Company's generation needs.

ERCOT REGION

Facilities. We currently own a partially operational 781 MW gas-fired, combined cycle, cogeneration facility in Channelview, Texas. 170 MW of this facility's capacity is currently operational and 611 MW are under construction. We expect the remaining generating units for this facility will begin commercial operations in the third quarter of 2002.

In addition to our Channelview facility, we have an option exercisable in January 2004, subject to completion of the Distribution, to acquire Reliant Energy's ownership interest in a company (Texas Genco) that is currently expected to own approximately 13,900 MW of aggregate net generation capacity in Texas in January 2004 (Texas Genco Option). Reliant Energy has agreed to publicly offer or distribute to its shareholders approximately 20% of the common stock of Texas Genco before December 31, 2002. The generating capacity of these facilities consists of approximately 60% of base-load, 35% of intermediate and 5% of peaking capacity, and represents approximately 20% of the total capacity in ERCOT. As part of Reliant Energy's business separation plan, Reliant Energy's electric utility will convey its generating assets to Texas Genco. The conveyance is part of the anticipated restructuring of Reliant Energy's businesses into a holding company structure. For additional information regarding the Texas Genco Option, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Related Party Transactions -- Agreements between Reliant Energy and Reliant Resources -- Genco Option Agreement" in Item 7 of this Form 10-K, and Note 4(b) to our consolidated financial statements.

Market Framework. The state of Texas, other than a portion of the panhandle and a portion of the east bordering on Louisiana, constitutes a single reliability council (ERCOT market). As part of the transition to deregulation in Texas, ERCOT changed its operations from 10 control areas, managed by utilities in the state, to a

single control area on July 31, 2001. The ERCOT independent system operator (ERCOT ISO) is responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT market. Its responsibilities include ensuring that information relating to a customer's choice of retail electric provider is conveyed in a timely manner to anyone needing the information. It is also responsible for ensuring that electricity production and delivery are accurately accounted for among the generation resources and wholesale buyers and sellers in the ERCOT market. Unlike independent systems operators in other regions of the country, ERCOT is not a centrally dispatched pool and the ERCOT ISO does not procure energy on behalf of its members other than to maintain the reliable operation of the transmission system. Members are responsible for contracting their energy requirements bilaterally. ERCOT also serves as agent for procuring ancillary services for those who elect not to provide their own ancillary services requirement.

Members of ERCOT include retail customers, investor and municipal owned electric utilities, rural electric co-operatives, river authorities, independent generators, power marketers and retail electric providers. The ERCOT market operates under the reliability standards set by the North American Electric Reliability Council. The Texas Utility Commission has primary jurisdictional authority over the ERCOT market to ensure the adequacy and reliability of electricity across the state's main interconnected power grid. For information regarding ERCOT systems issues and delays, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Retail Energy Operations -- Operational Risks" in Item 7 of this Form 10-K.

As part of the change to a single control area, ERCOT initially established three congestion zones; north, west and south. ERCOT will perform an annual analysis of the transmission capability in ERCOT to determine if changes to the congestions zones is required. Any required changes will take effect January 1 of the following year. Such an analysis was performed in the fall of 2001 and as a result, ERCOT was divided into four congestion zones on January 1, 2002. The current zones are north, south, west and Houston. In addition, ERCOT conducts annual and monthly auctions of Transmission Congestion Rights (TCR) which provide the entity owning TCRs the ability to financially hedge price differences between zones (basis risk). Entities are currently limited to owning a maximum of 25% of the available TCRs. The retail load obligation of our Retail Energy segment that was acquired as part of full retail deregulation on January 1, 2002 is predominately in the Houston zone. For additional information regarding the retail load obligations of our Retail Energy segment, please read "-- Retail Energy -- Retail Energy Supply."

LONG-TERM PURCHASE AND SALE AGREEMENTS

In the ordinary course of business, and as part of our hedging strategy, we enter into long-term sales arrangements for power, as well as long-term purchase arrangements. For information regarding our long-term fuel supply contracts, purchase power and electric capacity contracts and commitments, electric energy and electric sale contracts and tolling arrangements, please read Notes 6, 13(a) and 13(c) to our consolidated financial statements. For information regarding our hedging strategy relating to such long-term commitments, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Risks Associated with Our Hedging and Risk Management Activities" in Item 7 of this Form 10-K.

DEVELOPMENT ACTIVITIES

As of December 31, 2001, we had 3,587 MW (3,391 MW, net of 196 MW to be retired upon completion of one facility) of additional net generating capacity under construction, including 2,120 MW of facilities owned by off-balance sheet special purpose entities, that are being constructed under construction agency agreements pursuant to synthetic leasing arrangements. Upon the completion of the construction of these facilities, we expect that we will lease these facilities from their owners. For additional information regarding the construction agency agreements, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Off-Balance Sheet Transactions -- Construction Agency Agreements" in Item 7 of this Form 10-K, Note 13(h) to our consolidated financial statements.

In addition, Orion Power had three projects totaling 1,054 MW under construction as of December 31, 2001. However, at this time, we have decided to postpone a 250 MW project in Florida because of capital market and

economic considerations. With improved capital market conditions and required approvals from Florida authorities on a newly configured 500 MW design, we would plan to proceed with construction in the future. Also, Orion Power had two projects under advanced development as of December 31, 2001, which have been deferred. A 1,088 MW project in Maryland has been postponed due to capital market considerations and because we believe that the PJM market will be sufficiently supplied for the next few years. A repowering project in New York City with a total capacity of 1,608 MW has been postponed until we see an improvement in the capital markets.

As a result of several recent events, including the United States economic recession, the price decline of our industry sector in the equity capital markets and the downgrading of the credit ratings of several of our significant competitors, the availability and cost of capital for our business and the businesses of our competitors has been adversely affected. In response to these events and the intensified scrutiny of companies in our industry sector by the rating agencies, we have reduced our planned capital expenditures by $2.7 billion over the 2002 -- 2006 time frame.

DOMESTIC TRADING, MARKETING, POWER ORIGINATION AND RISK MANAGEMENT SERVICES OPERATIONS

In addition to our power generation operations, we trade and market power, natural gas and other energy-related commodities and provide related risk management services to our customers. According to Platt's Power Markets Week and Natural Gas Intelligence Group, we were the third largest power trader and ninth largest natural gas trader in the United States in 2001. Our domestic trading, marketing, power origination and risk management operations complement our domestic power generation operations by providing a full range of energy management services. These services include management of the sales and marketing of energy, capacity and ancillary services from these facilities, and also management of the purchase and sale of fuels and emission allowances needed to operate these facilities. Generally, we seek to sell a portion of the capacity of our domestic facilities under fixed-price sale contracts, fixed-capacity payments or contracts to sell power at a predetermined multiple of either gas or oil prices. This provides us with certainty as to a portion of our margins while allowing us to maintain flexibility with respect to the remainder of our generation output. We evaluate the regional forward power market versus our own fundamental analysis of projected future prices in the region to determine the amount of our capacity we would like to sell and the terms of sale pursuant to longer-term contracts. We also take operational constraints and operating risk into consideration in making these determinations. Generally, we seek to hedge a portion of our fuel costs, which are usually linked to a percentage of our power sales. We also market energy-related commodities and offer physical and financial wholesale energy marketing and price risk management products and services to a variety of customers. These customers include natural gas distribution companies, electric utilities, municipalities, cooperatives, power generators, marketers or other retail energy providers, aggregators and large volume industrial customers.

The following table illustrates the growth of our physical power and gas trading volumes since 1999.

TRADING VOLUMES

	FOR THE YEAR ENDED DECEMBER 31		
	1999	2000	2001
Total Power (MWh(1))	112,133,103	201,938,485	380,404,604
Total Gas (Bcf(2))	1,746	2,423	3,695

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(1) Megawatt hours.

(2) Billion cubic feet.

Electric Power Trading and Marketing. We purchase electric power from other generators and marketers and sell power primarily to electric utilities, municipalities and cooperatives and other marketing companies. Our trading and marketing group is also responsible for the marketing of power produced from the power plants we own. We also provide risk management, physical and financial fuel purchase and power sales and optimization services to our customers.

Power Origination. Some of our employees focus on developing and providing customers with long-term customized products (power origination products). These products are designed and negotiated on a case-by-case

basis to meet the specific energy requirements of our customers. Our power origination teams work closely with our trading and marketing group and our power generation group to sell long-term products from our power generation assets. They also work to leverage our market knowledge to capture attractive opportunities available through selling products that combine or repackage energy products purchased from third parties with other third-party products or with products from our power generation assets. Our efforts to sell power origination products from our power generation assets have been focused on longer-term forward sales to municipalities, cooperatives and other companies that serve end users, as well as sales of near-term products that are not widely traded. Our power origination products that combine or repackage third-party products are generally highly structured and therefore require the application of our commercial capabilities (e.g., power trading and asset positions).

Natural Gas Trading and Marketing. We purchase natural gas from a variety of suppliers under daily, monthly and term, variable-load and base-load contracts that include either market sensitive or fixed pricing provisions. We sell natural gas under sales agreements that have varying terms and conditions, most of which are intended to match seasonal and other changes in demand. We sold an average of 10.1 Bcf per day of natural gas in 2001, an average of 6.6 Bcf per day in 2000 and an average of 4.8 Bcf per day in 1999, some of which was sold to the natural gas distribution company subsidiaries of Reliant Energy. We plan to continue to purchase natural gas to supply to our power plants.

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

We arrange for, schedule and balance the transportation of the natural gas we market from the supply receipt point to the purchaser's delivery point. We generally obtain pipeline transportation to serve our customers. Accordingly, we use a variety of transportation arrangements for our customers, including short-term and long-term firm and interruptible agreements with intrastate and interstate pipelines. We also utilize brokered firm transportation agreements when dealing on the interstate pipeline system. As of December 31, 2001, we held over two bcf per day of firm transportation in the United States. In the normal course of business it is common for us to hedge the risk of pipeline transportation expenses through "basis swaps." To the extent we have contractually secured pipeline transportation rights in order to fulfill our obligations to sell gas at specific delivery points, or to acquire gas for our own requirements at generation facilities as part of our hedging strategy for power sales, and a pipeline experiences a force majeure event, our ability to transport gas on a contracted capacity basis could become impaired, which could affect the integrity of our hedged position.

We also enter into various short-term and long-term firm and interruptible agreements for natural gas storage in order to offer peak delivery services to satisfy winter heating and summer electric generating demands. Natural gas storage capacity allows us to better manage the unpredictable daily or seasonal imbalances between supply volumes and demand levels. In addition to entering into contracts of natural gas storage capacity in strategic locations throughout the country, we are actively pursuing a natural gas storage development plan. These services are also intended to provide an additional level of performance security and backup services to our customers.

Other Commodities and Derivatives. We trade and market other energy-related commodities. We use derivative instruments to manage and hedge our fixed-price purchase and sale commitments and to provide fixed-price or floating-price commitments as a service to our customers and suppliers. We also use derivative instruments to reduce our exposure relative to the volatility of the cash and forward market prices and to protect our investment in storage inventories. For additional information regarding our financial exposure to derivative instruments, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Risks Associated with Our Hedging and Risk Management Activities" in Item 7 of this Form 10-K and "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

Intercontinental Exchange. In July 2000, we, along with five other natural gas and power companies, American Electric Power, Aquila Energy, Duke Energy, El Paso Corporation and Mirant Corporation, made an investment in Intercontinental-Exchange, a new, web-based, on-line trading platform (www.intcx.com) for trading various commodities including precious metals, crude oil and refined products, natural gas and electricity. The other five natural gas and power companies, along with us, own less than 50% of Intercontinental -- Exchange. In June 2001, Intercontinental-Exchange acquired the International Petroleum Exchange. With this acquisition, Intercontinental-Exchange became the first company to offer both an exchange trading over-the-counter commodity contracts and an

exchange trading commodity futures contracts. At the same time, Intercontinental-Exchange announced plans to integrate the two types of exchanges into a single electronic trading platform. Our decision to invest, as one of a group of natural gas and power companies, in Intercontinental-Exchange was based on a desire to support the development of a neutral, anonymous, electronic trading platform for bi-lateral energy transactions. We believe the commercial success of such an exchange model will benefit us by contributing to improved price transparency and transaction liquidity in the wholesale energy markets. The principal online competitors of Intercontinental-Exchange are currently TradeSpark.com and the NYMEX, a traditional futures exchange that has announced an online initiative.

Risk Management Controls. For information regarding our risk management structure and accounting policies, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Trading and Marketing Operations" in Item 7 of this Form 10-K and "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K.

COMPETITION

For a discussion of competitive factors affecting our Wholesale Energy segment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Increasing Competition in Our Industry" in Item 7 of this Form 10-K, which section is incorporated herein by reference.

EUROPEAN ENERGY

Our European Energy business segment includes 3,476 MW of power generation assets located in the Netherlands and a related trading and power origination operations. This segment includes the operations of Reliant Energy Power Generation Benelux N.V. (formerly UNA N.V.) (REPGB) and Reliant Energy Trading & Marketing B.V. and its affiliates.

In 2001, we evaluated strategic alternatives for our European Energy segment, including a possible sale. We completed our evaluation and have determined that given current market conditions and prices, it is not advisable to sell our European Energy operations. Consequently, we decided to continue to own and operate our European Energy segment and expand our trading and origination activities in Northwest Europe.

EUROPEAN POWER GENERATION OPERATIONS

Facilities. As of December 31, 2001 we owned five electric power generation facilities in the Netherlands with an aggregate net generating capacity of 3,476 MW and include approximately 39% of base-load, 36% of intermediate and 25% of peaking capacity. Our facilities are grouped in three clusters adjacent to the cities of Amsterdam, Utrecht and Velsen. In 2001, our generation facilities produced 14 million MWh, an amount which represented approximately 13% of the electricity production of the Netherlands (excluding electricity generated by cogeneration or other industrial processes). In addition to electricity, our generating stations sell heated water produced as a byproduct of the generation process for use in providing heating (district heating) to the cities of Amsterdam, Nieuwegein, Utrecht and Purmerend.

In 2001, approximately 51% of our European Energy segment's generation output was natural gas-fired, 30% was coal-fired, 18% was blast furnace gas-fired and less than 1% was oil-fired. Our European Energy segment purchases substantially all of its gas fuel requirements under medium to long-term gas purchase contracts with N.V. Nederlandse Gasunie, the primary supplier and transporter of natural gas in the Netherlands. The purchase price and transportation costs for natural gas under these contracts are calculated on the basis of regulated tariffs.

Our European Energy segment historically purchased all of its coal requirements under short-term contracts with a coal trading and supply company now owned by two of the Dutch generation companies. In December 2001, REPGB and the other shareholder of the coal trading and supply company agreed to terminate future coal purchases through this entity effective in mid-2002. Our European Energy segment intends to obtain its future coal requirements through short to medium-term forward purchase contracts on the open market through a variety of suppliers and brokers.

One of our European Energy generation stations, which has a production capacity of 144 MW, uses blast furnace gas, an industrial waste gas generated by a steel plant adjacent to the generation station, as its fuel. Two of our other European Energy segment's generation plants have the flexibility to operate using blast furnace gas. We purchase the blast furnace gas from the adjacent steel plant under a medium-term and a long-term contract. We purchase our fuel oil requirements on the open market.

We acquired REPGB in October 1999 for approximately $1.9 billion (based on the then applicable exchange rate of 2.06 Dutch Guilders (NLG) per U.S. dollar). For information regarding the acquisition, please read note 5(b) to our consolidated financial statements.

Market Framework. Our European Energy segment produces, buys and sells electricity, gas and other energy-related commodities in the Northern European wholesale market. Its generation production activities are centered in the Netherlands, where it is one of the four large-scale generation companies. It operates five generation facilities with an installed capacity of 3,476 MW. Its energy trading and origination operations concentrate their activities primarily in the Netherlands, Germany and the Scandinavian regions. In the fourth quarter of 2001, our European Energy segment expanded its electricity trading operations to the United Kingdom.

The primary customers of our European Energy segment are electric distribution companies, large industrial consumers and energy trading companies. We sell electricity and other energy-related commodities primarily in the form of forward purchase contracts transacted in the over the counter markets, on various European energy exchanges and in individually negotiated transactions with individual counterparties. To a lesser extent, we also engage in transactions involving financial energy-related derivative products.

The most significant factor affecting the markets in which our European Energy segment operates has been the recent deregulation of the Dutch and certain other European wholesale energy markets, including access on a non-discriminatory basis to high voltage transmission grid systems, the establishment of new energy exchanges and other events. Notwithstanding these factors, the scope and pace of the future liberalization of the European energy markets is uncertain. For example, access to some European markets continues to be subject to transmission and other constraints. In some cases, fuel suppliers continue to operate in largely regulated markets not yet open to full competition.

EUROPEAN TRADING AND POWER ORIGINATION OPERATIONS

Our European Energy segment's trading and power origination operations are centered in Amsterdam, Netherlands, with additional offices in London and Frankfurt. Our European Energy segment trades electricity and fuel products in the Netherlands, Germany, Austria, Switzerland, the United Kingdom and the Scandinavian countries. Our marketing operations focus on distribution companies and large industrial and commercial customers in the Benelux and German markets. As of December 31, 2001, our European Energy segment had entered into forward purchase and sale contracts, and associated hedging transactions, covering approximately 18.6 million MWh for delivery in 2002.

Our European Energy segment's trading and power origination operations seek to utilize a business model, including risk management and related control policies, similar to that utilized in our Wholesale Energy operations in the United States. There are, however, significant differences in the United States and European markets. Among other things, European energy markets involve increased currency hedging requirements (the Euro and non-Euro currencies), and more complicated cross-border tax and transmission tariff systems than in the United States. In addition, European energy markets are significantly less mature than United States energy markets in terms of liquidity, the scope and complexity of trading and marketing products, the use of standardized market-based trading contracts and other aspects.

In addition, there exist greater uncertainties in some European jurisdictions as to the enforceability of certain contract-based mechanisms to hedge risks, such as the enforceability of automatic termination rights and rights of set--off upon bankruptcy, limitations on liquidated damages and the rules by which European courts construct contracts. In many civil law jurisdictions, courts reserve the right to interpret contracts based upon principles of good faith and fairness as opposed to a literal construction of the contract

As of December 31, 2001, we had provided an aggregate of $831 million in guarantees with respect to contract obligations of the European Energy segment.

COMPETITION

For a discussion of competitive factors affecting our European Energy segment, please read "Management's Discussion and Analysis of Financial Condition and Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our European Energy Operations -- Competition in the European Market" in Item 7 of this Form 10-K, which section is incorporated herein by reference.

RETAIL ENERGY

We provide electricity and related services to retail customers primarily in Texas through our wholly owned subsidiaries Reliant Energy Retail Services, LLC (Residential Services), Reliant Energy Solutions, LLC (Solutions) and StarEn Power, LLC (StarEn Power). As a retail electric provider, generally we procure or buy electricity from wholesale generators at unregulated rates, sell electricity at generally unregulated rates to our retail customers and pay the local transmission and distribution regulated utilities a regulated tariff rate for delivering the electricity to our customers. We became a provider of retail electricity in Texas when that market began opening to retail competition in late 2001 and fully opened to retail competition in January 2002. In January 2002, we began to provide retail electricity services to all of the approximately 1.7 million customers of Reliant Energy's electric utility located in its service area who did not take action to select another retail electric provider. We provide electricity and related products and services to residential and small commercial (i.e., small and medium-sized business customers with a peak demand for power at or below one MW) customers through Residential Services, and offer customized, integrated electric commodity and energy management services to large commercial, industrial and institutional (e.g., hospitals, universities, school systems and government agencies) customers through Solutions for customers with a peak demand for power of greater than one MW. Residential Services, Solutions and StarEn Power have been certified as retail electric providers by the Texas Utility Commission. StarEn Power has been appointed by the Texas Utility Commission to be the provider of last resort (POLR) in certain areas of the State of Texas. Under the Texas electric restructuring law, a POLR is required to offer a standard retail electric service package to requesting customers of a class designated by the Texas Utility Commission within the POLR's territory at a fixed, nondiscountable rate.

In preparation for retail electric competition in Texas, we expanded our infrastructure of information technology systems, business processes and staffing levels to meet the needs of our retail businesses. These include a customer care system module and wholesale/retail energy supply, risk management, e-commerce, scheduling/settlement, customer relationship management and sales force automation systems. As of December 31, 2001, we had invested $153 million in retail infrastructure development. For additional information regarding the Texas retail electric market, please read "-- Market Framework," "-- Regulation - -- Texas -- Retail Energy" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Retail Energy Operations - -- Competition in the Texas Market" in Item 7 of this Form 10-K.

RESIDENTIAL SERVICES

Residential Services provides electricity to residential retail and small commercial customers in Texas. As of January 1, 2002, Residential Services was the retail electric provider for approximately 1.5 million residential customers located in the Houston metropolitan area, making us the second largest retail electric provider in Texas as of that date. Residential Services' marketing strategy for residential customers emphasizes reliability and trust with our customers, and focuses on savings, value and customer service. We launched an advertising campaign to reposition our brand in the Houston and Dallas/Fort Worth metropolitan areas in the second half of 2001.

As the affiliated retail electric provider, or successor in interest, to Reliant Energy's electric utility, Residential Services was also the retail electric provider for approximately 200,000 small commercial customers in the Houston metropolitan area as of January 1, 2002. Residential Services' marketing strategy for small commercial customers

uses a combination of direct marketing and individual sales calls to establish our brand and to attract additional customers.

As the affiliated retail electric provider, Residential Services will not be permitted to sell electricity to residential and small commercial customers in Reliant Energy's electric utility service territory at a price other than a fixed, specified price (price to beat) until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers in the service territory is committed to be served by other retail electric providers. In addition, the Texas electric restructuring law requires us, as the affiliated retail electric provider, to make the price to beat available to residential and small commercial customers in Reliant Energy's electric utility service territory through January 1, 2007, if requested by such customers. For more information about the price to beat, please read "-- Regulation -- Texas -- Retail Energy."

SOLUTIONS

Solutions provides electricity and energy services to large commercial, industrial and institutional customers with whom it has signed contracts. In addition, it provides electricity at previously established default rates to those large commercial, industrial and institutional customers in the service territory of Reliant Energy's electric utility who have not entered into a contract with another retail electric provider. The majority of Solutions' revenues will come from the sale of electricity to its customers. In order to be classified as a large commercial customer, an electricity customer may aggregate the purchase of electricity for its own use at multiple locations such that the total peak demand exceeds one MW.

In addition to providing electricity, Solutions provides customized, integrated energy solutions, including risk management and energy services products, and demand side and energy information services to large commercial, industrial and institutional customers. Since its formation in April 1996, Solutions has completed over 220 energy services projects for large commercial, industrial and institutional clients. The services that Solutions provides its customers include the replacement or upgrade of energy-intensive capital equipment, the financing of energy-intensive equipment, infrastructure optimization, substation development and maintenance and power quality assurance.

Solutions is recognized as the affiliated retail electric provider, or successor in interest, to Reliant Energy's electric utility for large commercial, industrial and institutional customers. Solutions targets institutional, manufacturing, industrial and other large commercial customers, including multisite retailers and restaurants, petroleum refineries, chemical companies, real estate management firms, educational institutions and healthcare providers. As of December 31, 2001, this customer segment in Texas included approximately 1,750 buying organizations consuming an aggregate of approximately 16,000 MW of electricity at peak demand. As of December 31, 2001, Solutions had signed contracts with customers representing a peak demand of approximately 3,700 MW and serving approximately 12,000 meter locations.

STAREN POWER

StarEn Power serves as the POLR in portions of the state of Texas, as designated by the Texas Utility Commission. For 2002, StarEn Power has been appointed to serve as the POLR for residential and small commercial customers in the western portion of the Dallas/Fort Worth metropolitan area formally served by TXU Electric Company. In addition, StarEn Power has been appointed as the POLR in the service territory of Reliant Energy's electric utility for large commercial, industrial and institutional customers. The rates and terms under which StarEn Power provides service are governed by the terms of a settlement agreement between StarEn Power and various interested parties approved by the Texas Utility Commission. For additional information regarding our POLR obligations, rates and terms of service, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Retail Energy Operations -- Obligations as a Provider of Last Resort" in Item 7 of this Form 10-K.

MARKET FRAMEWORK

The Texas electric restructuring law substantially amended the regulatory structure governing electric utilities in Texas in order to allow retail competition, which fully began in January 2002. In order to prepare for the opening of the retail market, a retail pilot project for up to 5% of each utility's load in all customer classes began in August 2001. For information regarding the retail market framework in Texas, please read "-- Regulation -- Texas -- Retail Energy" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Retail Energy Operations" in Item 7 of this Form 10-K. Generally, under the Texas electric restructuring law, the retail electric provider procures or buys electricity from wholesale generators, sells electricity at retail to its customers and pays the transmission and distribution utility a regulated tariffed rate for delivering electricity to its customers. All retail electric providers in an area pay the same rates and other charges for transmission and distribution, whether or not they are affiliated with the transmission and distribution utility for that area. The transmission and distribution rates in effect as of January 1, 2002 for each utility were set through rate cases before the Texas Utility Commission.

RETAIL ENERGY SUPPLY

In Texas, our Wholesale Energy group and our Retail Energy group work together in order to determine the price, demand and supply of energy required to meet the needs of our Retail Energy segment's customers. Our Wholesale Energy trading and marketing operations are responsible for commodity pricing, risk assessment and supply procurement for our Retail Energy segment. Our Retail Energy segment manages retail pricing decisions and forecasts the demand for the procurement of electricity by the Wholesale Energy segment. The costs of our trading, marketing and risk management services associated with obtaining the electricity supply for our retail customers in Texas are borne by our Retail Energy segment. Our Wholesale Energy group acquires supply for our Retail Energy segment by several means. We may purchase capacity from non-affiliated parties in the capacity auctions mandated by the Texas Utility Commission. Please read "-- Regulation -- Texas -- Retail Energy" for more information about these auctions. Under the terms of the Master Separation Agreement between Reliant Resources and Reliant Energy, we may also participate in and purchase up to approximately 50% of the remaining capacity of the generation facilities to be owned by Texas Genco sold in auctions substantially similar to, but separate from, the capacity auctions mandated by the Texas Utility Commission in which 15% of the total capacity of these facilities is required to be auctioned. In addition, we have the right to purchase 50% (but not less than 50%) of the remaining capacity of Texas Genco following the state mandated capacity auctions at prices to be established in the aforementioned Texas Genco auctions. Please read Notes 3 and 4(b) to our consolidated financial statements for a discussion of our participation in these auctions. We also enter into bilateral contracts with third parties for capacity, energy and ancillary services. We continuously monitor and update these positions based on retail sales forecasts and market conditions.

COMPETITION

For a discussion of competitive factors affecting our Retail Energy segment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Retail Energy Operations -- Competition in the Texas Market" in Item 7 of this Form 10-K, which section is incorporated herein by reference.

OTHER OPERATIONS

For 2001, our Other Operations business segment included:

- the operations of our venture capital division (New Ventures),
- the operations of our communications business (Communications), and
- unallocated corporate costs.

NEW VENTURES

Our New Ventures division manages our existing new technology investments and identifies and invests in promising new technologies and businesses that relate to our energy services operations. Focus areas for investment include distributed generation, clean energy and energy industry software and systems.

Generally, we make our investments either directly or indirectly as limited partners in venture capital funds. As of December 31, 2001, we have invested approximately $35 million in five venture capital funds with an energy and utility focus and have made commitments to invest an additional $11 million in these funds. As of December 31, 2001, these funds held investments in 43 companies. Excluding our investment in Grande Communications, Inc. discussed below, New Ventures' direct investment portfolio consists of eight companies with a total of $7 million invested as of December 31, 2001.

In September 2000, we committed to make a $25 million investment in Grande Communications, Inc., which was completed in August 2001. Grande Communications is a Texas-based communications company building a deep fiber broadband network that will offer bundled services, including high-speed Internet, all-distance telephone and advanced cable entertainment to homes and businesses. We invested a further $1 million in Grande Communications in October 2001 as part of a larger debt and equity financing for the company. Grande Communications has announced its intention to build a broadband network in the Houston area and has secured a cable franchise from the City of Houston. The Houston build out will be in addition to the Central Texas cities of Austin, San Marcos, and San Antonio which are already under development.

COMMUNICATIONS

During the third quarter of 2001, we decided to exit our Communications business. The business 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. Our exit plan was substantially completed in the first quarter of 2002. For more information regarding the exiting of our Communication business, please read Note 16 to our consolidated financial statements.

REGULATION

OVERVIEW

We are subject to regulation by various federal, state, local and foreign governmental agencies, including the regulations described below.

FEDERAL ENERGY REGULATORY COMMISSION

Electricity. Under the Federal Power Act, the FERC has exclusive rate-making jurisdiction over wholesale sales of electricity and the transmission of electricity in interstate commerce by "public utilities." Public utilities that are subject to the FERC's jurisdiction must file rates with the FERC applicable to their wholesale sales or transmission of electricity in interstate commerce. All of our generation subsidiaries sell power at wholesale and are public utilities under the Federal Power Act with the exception of two facilities in Texas, which are qualifying facilities and not regulated as public utilities. The FERC has authorized these subsidiaries to sell electricity and related services at wholesale at market-based rates. In its orders authorizing market-based rates, the FERC also has granted these subsidiaries waivers of many of the accounting, record keeping and reporting requirements that are imposed on public utilities with cost-based rate schedules.

The FERC's orders accepting the market-based rate schedules filed by our subsidiaries or their predecessors, as is customary with such orders, reserve the right to revoke or limit our market-based rate authority if the FERC subsequently determines that any of our affiliates possess excessive market power. If the FERC were to revoke or limit our market-based rate authority, we would have to file, and obtain the FERC's acceptance of, cost-based rate schedules for all or some of our sales. In addition, the loss of market-based rate authority could subject us to the accounting, record keeping and reporting requirements that the FERC imposes on public utilities with cost-based rate schedules.

The FERC issued Order No. 2000 in December 1999. Order No. 2000, which applies to all FERC jurisdictional transmission providers, describes the FERC's intention to promote the establishment of large RTOs and sets forth the minimum characteristics and functions of RTOs. Among the basic minimum characteristics are that the RTOs must be independent of market participants and must be of sufficient scope and geographical configuration. Order No. 2000 also encourages RTOs to work with each other to minimize or eliminate "seams" issues between RTOs that operate as barriers to inter-regional transactions. The FERC's goal is to encourage the growth of a robust competitive wholesale market for electricity. Although jurisdictional transmission providers are not required to join RTOs, they are encouraged to do so. Under Order No. 2000, RTOs were to be operational by December 15, 2001. However, because RTO development was in different stages in different regions of the country, the FERC issued an order on November 7, 2001 extending the deadline until it resolves issues relating to geographic scope and governance of qualifying RTOs across the country and issues relating to business and procedural needs. For organizations to accomplish the functions of Order No. 2000, the FERC is taking steps to create business standards and protocols to facilitate RTO formation. However, there can be no assurance that the FERC's goals will be achieved. Also there is considerable state-level resistance in some regions, including regions in which we operate, to the formation of RTOs. At least 14 separate organizations, covering the substantial majority of all the FERC jurisdictional transmission providers, are in various stages of organization and have made at least preliminary filings with the FERC.

Trading and Marketing. Our domestic trading and marketing operations are also subject to the FERC's jurisdiction under the Federal Power Act. As a gas marketer, we make sales of natural gas in interstate commerce at wholesale pursuant to a blanket certificate issued by the FERC, but the FERC does not otherwise regulate the rates, terms or conditions of these gas sales. We are also a "public utility" under the Federal Power Act, and our wholesale sales of electricity in interstate commerce are subject to a FERC-filed rate schedule that authorizes us to make sales at negotiated, market-based rates.

In authorizing market-based rates for various of our subsidiaries, the FERC has imposed some restrictions on these entities' transactions with Reliant Energy's electric utility, including a prohibition on the receipt of goods or services on a preferential basis. The FERC also has imposed restrictions on natural gas transactions between us and Reliant Energy's natural gas pipeline subsidiaries to preclude any preferential treatment. Similar restrictions apply to transactions between us and Reliant Energy's electric utility under Texas utility regulatory laws.

Hydroelectric Facilities. The majority of our generating facilities located in the state of New York are hydroelectric facilities, many of which are subject to the FERC's exclusive authority under the Federal Power Act to license non-federal hydroelectric projects located on navigable waterways and federal lands. These FERC licenses must be renewed periodically and can include conditions on operation of the project at issue.

TEXAS -- RETAIL ENERGY

In June 1999, Texas adopted the Texas electric restructuring law. The Texas electric restructuring law substantially amended the regulatory structure governing electric utilities in Texas. Full retail competition in the service territories of some investor-owned electric utilities began in January 2002, and in the territories of any municipally-owned utility and electric cooperative that opts to open its market to retail competition. Under the Texas electric restructuring law, the traditional, vertically-integrated utility is required to separate its generation, transmission and distribution, and retail activities. Unlike the vertically-integrated utility, which was subject to cost-of-service rate regulation, the profit earned by retail electric providers will not be subject to regulation, except for the price to beat requirement described below. 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 through retail electric providers. Wholesale power generators will continue to sell electric energy to purchasers, including retail electric providers, at unregulated rates. To facilitate a competitive market, each power generator affiliated with a transmission and distribution utility is required to sell at auction 15% of the output of its installed generating capacity. This auction obligation continues until January 1, 2007, unless the Texas Utility Commission determines before that date that at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial customers in the affiliated transmission and distribution utility's service area is being served by retail electric providers not affiliated with the incumbent utility. An affiliated retail electric provider may not purchase capacity sold by its affiliated power generation company in the state mandated capacity auctions.

The Texas electric restructuring law allows most retail electric customers of Texas investor-owned electric utilities, and those of any municipally-owned utility or electric cooperative that opts to open its market to retail competition, to take action to select their retail electric provider for service as of January 1, 2002. Retail electric providers which are affiliates of, or successors in interest to, electric utilities may compete substantially statewide for these sales, but prices they may charge to residential and small commercial customers within the affiliated electric utility's traditional service territory are subject to a fixed, specified price (price to beat) at the outset of retail competition. The price to beat is subject to potential adjustments up to two times per year, as described below. In December 2001, the Texas Utility Commission established the price to beat we are required to charge our residential and small commercial customers for electricity sales in the Houston metropolitan area. Our price to beat was set at a level resulting in an estimated 17% reduction to pre-existing rates for our residential customers and an estimated 22% reduction to pre-existing rates for our small commercial customers.

Municipally-owned utilities and electric cooperatives have the option to open their markets to retail competition any time after January 1, 2002. However, until a municipally-owned utility or electric cooperative adopts a resolution opting to open its market to retail competition, it may not offer electric energy at unregulated prices to retail customers outside its service area. In November 2001, Nueces Electric Cooperative and San Patricio Electric Cooperative received Texas Utility Commission approval of required filings necessary to open their markets to retail competition. Some large Texas cities, including San Antonio and Austin, are served by municipally-owned utilities that have not announced when or if they will open their markets to competition.

New, unaffiliated retail electric providers that enter a particular market may sell electricity to residential and small commercial customers at any price, including a price below the price to beat. By allowing non-affiliated retail electric providers to provide retail electric service to customers in an electric utility's traditional service territory at any price, including a price below the price to beat, the Texas electric restructuring law is designed to encourage competition among retail electric providers. Affiliated retail electric providers will not be permitted to sell electricity to residential and small commercial customers in the transmission and distribution utility'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 in the certificated service area of the affiliated transmission and distribution utility is committed to be served by other retail electric providers. In addition, the Texas electric restructuring law requires the affiliated retail electric provider to make the price to beat available to residential and small commercial customers in the traditional service area of the related incumbent utility through January 1, 2007. The price to beat only applies to electric services provided to residential and small commercial customers (i.e., customers with an aggregate peak demand at or below one MW). Electric services provided to large commercial, industrial and institutional customers (i.e., customers with an aggregate peak demand of greater than one MW), whether by the affiliated retail electric provider or a non-affiliated retail electric provider, may be provided at any negotiated price.

The Texas Utility Commission's regulations allow an affiliated retail electric provider to adjust the wholesale energy supply cost component or "fuel factor," included in its price to beat based on a percentage change in the price of natural gas. The fuel factor included in our price to beat was initially set by the Texas Utility Commission at the then average forward 12 month gas price strip of approximately $3.11/mmbtu. In addition, the affiliated retail electric provider may also request an adjustment as a result of changes in its price of purchased energy. In such a request, the affiliated retail electric provider may adjust the fuel factor to the extent necessary to restore the amount of headroom that existed at the time the initial price to beat fuel factor was set by the Texas Utility Commission. An affiliated retail electric provider may request that its price to beat be adjusted twice a year. Currently, we cannot estimate with any certainty the magnitude and timing of the adjustments required, if any, and the eventual impact of such adjustments on headroom. To the extent that the adjustments are not received on a timely basis, our results of operations may be adversely affected. Based on forward gas prices at the end of March 2002, we estimate that we would be able to increase our price to beat by between approximately 4% and 5%.

The Texas electric restructuring law requires the affiliated retail electric provider to reconcile and credit to the affiliated transmission and distribution utility in early 2004 any positive difference between the price to beat, reduced by a specified delivery charge, and the prevailing market price of electricity unless the Texas Utility Commission determines that, on or prior to January 1, 2004, 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers, as applicable, within the affiliated transmission

and distribution utility's traditional service territory is committed to be served by other non-affiliated retail electric providers. If the 40% test is not met, the reconciliation and credit will be in the form of a payment to Reliant Energy, not to exceed $150 per customer. For additional information regarding this payment, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Consolidated Capital Requirements and Uses of Cash -- Payment to Reliant Energy" in Item 7 of this Form 10-K and Note 13(g) to our consolidated financial statements.

The Texas electric restructuring law requires the Texas Utility Commission to designate retail electric providers as POLR in areas of the state in which retail competition is in effect. A POLR is required to offer a standard retail electric service package for each class of customers designated by the Texas Utility Commission at a fixed, nondiscountable rate approved by the Texas Utility Commission, and is required to provide the service package to any requesting retail customer in the territory for which it is the POLR. In the event that another retail electric provider fails to serve any or all of its customers, the POLR is required to offer that customer the standard retail service package for that customer class with no interruption of service to the customer. For additional information regarding our obligation as a POLR, and regarding the Texas retail market framework in general, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Retail Energy Operations" in Item 7 of this Form 10-K.

SECURITIES AND EXCHANGE COMMISSION -- PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

Under the Energy Policy Act of 1992, a company engaged exclusively in the business of owning and/or operating facilities used for the generation of electric energy exclusively for sale at wholesale and selling electric energy at wholesale may be exempted from regulation under the Public Utility Holding Company Act of 1935 (1935 Act) as an exempt wholesale generator (EWG). Qualifying facilities, such as two of our projects in Texas, are similarly exempt from regulation under the 1935 Act. Our electric generation facilities have received determinations of EWG status from the FERC. If any of these subsidiaries lose their EWG or qualifying facility status, we would have to restructure our organization or risk being subjected to regulation under the 1935 Act.

Reliant Energy is both a holding company and an electric utility as defined in the 1935 Act. However, Reliant Energy is exempt from regulation as a holding company under Section 3(a)(2) of the 1935 Act.

REPGB is a foreign utility company exempt from regulation as a "public utility company" under the 1935 Act. The Texas Utility Commission and the state regulatory commissions of Arkansas and Minnesota have imposed limitations on the amount of investments that Reliant Energy or its subsidiaries may invest in foreign utility companies and, in some cases, foreign electric wholesale generating companies. These limitations are based upon Reliant Energy's consolidated net worth, retained earnings, and debt and stockholders' equity, respectively. Subject to some limited exceptions, the 1935 Act also prohibits any public utility from issuing any security for the purpose of financing the acquisition, ownership or operation of a foreign utility company, or assuming any obligation or liability in respect of any security of a foreign utility company.

In connection with its business separation plan, Reliant Energy plans to restructure its remaining businesses and to register as a public utility holding company under the 1935 Act or to seek an exemption from the registration requirements of the 1935 Act. If Reliant Energy becomes a registered public utility holding company prior to the distribution of our common stock to its shareholders, we will be subject to regulation as a "subsidiary company" under the 1935 Act. As a result, we would be subject to limitations under the 1935 Act related to, among other things, our acquisition, ownership and operation of energy assets outside of our current business plan and payments of dividends by us and our subsidiaries from unearned surplus. Additionally, we would need to obtain approval under the 1935 Act prior to acquiring the voting securities of any public utility or taking any other actions that would result in affiliation with another public utility. Following the Distribution, we would no longer be subject to the provisions of the 1935 Act either as a subsidiary or an affiliate of Reliant Energy.

THE NETHERLANDS

Prior to the deregulation of the Dutch wholesale market in 2001, our European Energy segment sold its generating output to a national production pool and, in return, received a standardized remuneration.

The remuneration included fuel cost, return of and on capital and operation and maintenance expenses. Under a transitional agreement which expired in 2000, the non-fuel portion of this amount was fixed during the period 1997 through 2000. For additional information, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our European Energy Operations -- Competition in the European Market" and "-- Deregulation of the Dutch Market" in Item 7 of this Form 10-K.

In 2001, the wholesale energy market of our European Energy segment's primary market in the Netherlands was opened to competition. Our European Energy segment continues to be subject to regulation by a number of national and European regulatory agencies and regulations relating to the environment, labor, tax and other matters. For example, our European Energy segment's operations are subject to the regulation of Dutch and European Community anti-trust authorities, who have extensive authority to investigate and prosecute violations by energy companies of anti-monopolistic and price-fixing regulations. In addition, our European Energy segment must also comply with various national and regional grid codes and other regulations establishing access to transmission systems. Many of the significant suppliers and customers of our European Energy segment are subject to continued regulation by various energy regulatory bodies that have the authority to establish tariffs for such entities. The impact of regulations on these entities has an indirect impact on our European Energy segment.

In some European countries, it is uncertain to what extent companies trading in energy, fuel and other commodities (physical and financial) might be deemed subject to regulation as brokers and dealers under local securities laws. To the extent that its operations are deemed subject to these laws, our European Energy segment could become subject to minimum capitalization, licensing and reporting requirements similar to that which exists for securities broker and dealer firms. Although our European Energy segment believes that its operations are currently outside the scope of such regulations, no assurance can be given as to the future positions of these regulatory agencies regarding the applicability of these regulations to our European Energy segment's operations.

ENVIRONMENTAL MATTERS

GENERAL

We are subject to numerous federal, state and local requirements relating to the protection of the environment and the safety and health of personnel and the public. These requirements relate to a broad range of our activities, including the discharge of pollutants into air, water, and soil, the proper handling of solid, hazardous, and toxic materials and waste, noise, and safety and health standards applicable to the workplace. In order to comply with these requirements, we will spend substantial amounts from time to time to construct, modify and retrofit equipment, acquire air emission allowances for operation of our facilities, and to clean up or decommission disposal or fuel storage areas and other locations as necessary. For the domestic and European operations we owned as of December 31, 2001, we anticipate spending approximately $135 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance. Additionally, environmental capital expenditures for the recently acquired Orion Power assets were estimated by Orion Power to be $241 million over the same time period. We are currently reviewing these estimates.

If we do not comply with environmental requirements that apply to our operations, regulatory agencies could seek to impose on us civil, administrative and/or criminal liabilities as well as seek to curtail our operations. Under some statutes, private parties could also seek to impose upon us civil fines or liabilities for property damage, personal injury and possibly other costs.

AIR EMISSIONS

As part of the 1990 amendments to the Federal Clean Air Act (Clean Air Act), requirements and schedules for compliance were developed for attainment of health-based standards. As part of this process, standards for the emission of NOx, a product of the combustion process associated with power generation and natural gas compression, are being developed or have been finalized. The standards require reduction of emissions from our power generating units in the United States.

Our REPGB facilities in the Netherlands were in compliance with applicable Dutch NOx emission standards through the year 2001. New NOx reduction targets have recently been adopted in the Netherlands which will require a 50% reduction in NOx emissions from 2000 levels by 2010. The reductions may be achieved through the installation of emission control equipment or through the participation in a planned market-based emission trading system. We currently believe that REPGB facilities will not be required to install NOx controls or purchase emission credits until the 2005 through 2006 time period. Projected emission control costs are estimated to be approximately $30 million, although this investment may be offset to some extent or delayed if a market-based trading program develops.

The Environmental Protection Agency (EPA) has announced its determination to regulate hazardous air pollutants (HAPs), including mercury, from coal-fired and oil-fired steam electric generating units under Section 112 of the Clean Air Act. The EPA plans to develop maximum achievable control technology (MACT) standards for these types of units. The rulemaking for coal and oil-fired steam electric generating units must be completed by December 2004. Compliance with the rules will be required within three years thereafter. The MACT standards that will be applicable to the units cannot be predicted at this time and may adversely impact our results of operations. In addition, a request for reconsideration of the EPA's decision to impose MACT standards has been filed with the EPA. We cannot predict the outcome of the request.

In 1998, the United States became a signatory to the United Nations Framework Convention on Climate Change (Kyoto Protocol). The Kyoto Protocol calls for developed nations to reduce their emissions of greenhouse gases. Carbon dioxide, which is a major byproduct of the combustion of fossil fuel, is considered to be a greenhouse gas. If the United States Senate ultimately ratifies the Kyoto Protocol, any resulting limitations on power plant carbon dioxide emissions could have a material adverse impact on all fossil fuel fired facilities, including those belonging to us. The European Union, of which the Netherlands is a member, has adopted the Kyoto Protocol as the goal for greenhouse gas emission targets. We expect REPGB, through use of "green fuels" and efficiency improvements, will be able to meet its portion of the target reductions.

The EPA is conducting a nationwide investigation regarding the historical compliance of coal-fueled electric generating stations with various permitting requirements of the Clean Air Act. Specifically, the EPA and the United States Department of Justice have initiated formal enforcement actions and litigation against several other utility companies that operate these stations, alleging that these companies modified their facilities without proper pre-construction permit authority. Since June 1998, six of our coal-fired facilities have received requests for information related to work activities conducted at those sites, as have two of our recently acquired Orion Power facilities. The EPA has not filed an enforcement action or initiated litigation in connection with these facilities at this time. Nevertheless, any litigation, if pursued successfully by the EPA, could accelerate the timing of emission reductions currently contemplated for the facilities and result in the imposition of penalties.

In February 2001, the United States Supreme Court upheld a previously adopted EPA ambient air quality standards for fine particulate matter and ozone. While attaining this new standard may ultimately require expenditures for air quality control system upgrades for our facilities, regulations addressing affected sources and required controls are not expected until after 2005. Consequently, it is not possible to determine the impact on our operations at this time.

Multi-pollutant air emission initiative. On February 14, 2002, the White House announced its "Clear Skies Initiative." The proposal is aimed at long term reductions of multiple pollutants produced from fossil fuel-fired power plants. Reductions averaging 70% are targeted for Sulfur Dioxide (SO_2), NOx, and mercury. In addition, a voluntary program for greenhouse gas emissions is proposed as an alternative to the Kyoto Protocol discussed above. The implementation of the initiative, if approved by the United States Congress, would be a market-based program, modeled after the Acid Rain Program, beginning in 2008 and phased full compliance by 2018. Fossil fuel-fired power plants in the United States would be affected by the adoption of this program, or other legislation currently pending in the United States Congress addressing similar issues. Such programs would require compliance to be achieved by the installation of pollution controls, the purchase of emission allowances or curtailment of operations.

WATER ISSUES

In July 2000, the EPA issued final rules for the implementation of the Total Maximum Daily Load program of the Clean Water Act (TMDL). The goal of the TMDL rules is to establish, over the next 15 years, the maximum amounts of various pollutants that can be discharged into waterways while keeping those waterways in compliance with water quality standards. The establishment of TMDL values may eventually result in more stringent discharge limits in each facility's discharge permit. Such limits may require our facilities to install additional water treatment, modify operational practices or implement other wastewater control measures. Certain members of the United States Congress have expressed concern to the EPA about the TMDL program and the EPA, in October 2001, extended the effective date of the regulation until April 2003.

In November 2001, the EPA promulgated rules that impose additional technology based requirements on new cooling water intake structures. Draft rules for existing intake structures have also been issued. It is not known at this time what requirements the final rules for existing intake structures will impose and whether our existing intake structures will require modification as a result of such requirements. The process by which the intake structure rules were written was a contentious one and litigation is expected. Court action in response to this expected litigation could result in unforeseen changes in the requirements.

A number of efforts are under way within the EPA to evaluate water quality criteria for parameters associated with the by-products of fossil fuel combustion. These parameters include arsenic, mercury and selenium. Significant changes in these criteria could impact station discharge limits and could require our facilities to install additional water treatment equipment. The impact on us as a result of these initiatives is unknown at this time.

LIABILITY FOR PREEXISTING CONDITIONS AND REMEDIATIONS

Under the purchase agreements between Sithe Energies and Reliant Energy Power Generation, Inc. (REPG) relating to some of our Northeast regional facilities, and in the transaction with Orion Power, we, with a few exceptions, assumed liability for preexisting conditions, including some ongoing remediations at the electric generating stations. Funds for carrying out any identified actions have been included in our planning for future requirements, and we are not currently aware of any environmental condition at any of our facilities that we expect to have a material adverse effect on our financial position, results of operation or cash flows.

A prior owner of one of our Northeast facilities entered into a Consent Order Agreement with the Pennsylvania Department of Environmental Protection (PaDEP) to remediate a coal refuse pile on the property of the facility. We expect the remediation will cost between $10 million and $15 million. Under the acquisition agreements between Sithe Energies and GPU, Inc. relating to some of our Northeast regional facilities, GPU has agreed to retain responsibility for up to $6 million of environmental liabilities associated with the coal refuse site at this facility. We will be responsible for any amounts in excess of that $6 million. In August 2000 we signed a modified consent order that committed us to complete the remediation work no later than November 2004. In addition to the coal refuse site at this facility, we had liabilities associated with six future ash disposal site closures and six current site investigations and environmental remediations. We expect to pay approximately $16 million over the next five years to monitor and remediate these sites.

Under the New Jersey Industrial Site Recovery Act (ISRA), owners and operators of industrial properties are responsible for performing all necessary remediation at the facility prior to the closing of a facility and the termination of operations, or undertaking actions that ensure that the property will be remediated after the closing of a facility and the termination of operations. In connection with the acquisition of our facilities from Sithe Energies, we have agreed to take responsibility for any costs under ISRA relating to the four New Jersey properties we purchased. We estimate that the costs to fulfill our obligations under ISRA will be approximately $10 million. However, these remedial activities are still in the early stage. Following further investigation the scope of the necessary remedial work could increase, and we could, as a result, incur greater costs.

One of our Florida generation facilities discharges wastewater to percolation ponds which in turn, percolate into the groundwater. Elevated levels of vanadium and sodium have been detected in groundwater monitoring wells. A noncompliance letter has been received from the Florida Department of Environmental Protection. A study to

evaluate the cause of the elevated constituents has been undertaken. At this time, if remediation is required, the cost, if any, is not anticipated to be material.

As a result of their age, many of our facilities contain significant amounts of asbestos insulation, other asbestos containing materials, as well as lead-based paint. Existing state and federal rules require the proper management and disposal of these potentially toxic materials. We have developed a management plan that includes proper maintenance of existing non-friable asbestos installations, and removal and abatement of asbestos containing materials where necessary because of maintenance, repairs, replacement or damage to the asbestos itself. We have planned for the proper management, abatement and disposal of asbestos and lead-based paint at our facilities in our financial planning.

Under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) owners and operators of facilities from which there has been a release or threatened release of hazardous substances, together with those who have transported or arranged for the disposal of those substances, are liable for the costs of responding to that release or threatened release, and the restoration of natural resources damaged by any such release. We are not aware of any liabilities under CERCLA that would have a material adverse effect on us, our financial position, results of operations or cash flows.

EUROPEAN ENERGY

European and Dutch environmental laws are among the most stringent in the industrial world. Under Dutch environmental laws, an environmental permit is required to be maintained for each generation facility. As is customary in Dutch practice, our European Energy segment has, together with other industry participants entered into various contractual agreements with the national government on specific environmental matters, including the reduction of the use of coal and other fossil fuel. The environmental laws also address public safety. We believe our European Energy segment holds all necessary authorizations and approvals for its current operations.

The European Union, of which the Netherlands is a member, adopted the Kyoto Protocol as the goal for greenhouse gas emission targets. For further discussion of the protocol, please read "-- Air Emissions." We believe our European Energy segment will meet its current portion of target reductions because of its use of "green fuels" and efficiency improvements to its facilities.

NOx reduction targets will require a 50 percent reduction in NOx emissions from 2000 levels by 2010. The reductions may be achieved through the installation of emission control equipment or through the participation in a planned market-based emission trading system. Our European facilities are in compliance with current and applicable Dutch NOx emission standards. Based on current factors, we believe that our European facilities will not be required to install NOx controls or purchase emission credits until the 2005-2006 time period.

We estimate that we will spend approximately $30 million in emission control and other environmental costs associated with our European Energy segment for the period 2002 through 2006. In addition, we expect to spend approximately $18 million in asbestos and other environmental remediation programs during this period.

EMPLOYEES

As of December 31, 2001, we had 5,052 full-time employees. Of these employees, 1,555 are covered by collective bargaining agreements. The collective bargaining agreements expire on various dates until May 15, 2007. The following table sets forth the number of our employees by business segment as of December 31, 2001.

SEGMENT	NUMBER
Wholesale Energy	2,395
European Energy	916
Retail Energy	1,202
Other Operations	539
Total	5,052

EXECUTIVE OFFICERS
(AS OF MARCH 1, 2002)

NAME	AGE	PRESENT POSITION
R. Steve Letbetter.....	53	Chairman, President and Chief Executive Officer
Robert W. Harvey.....	46	Executive Vice President and Group President, Retail Businesses
Stephen W. Naeve.....	54	Executive Vice President and Chief Financial Officer
Joe Bob Perkins.....	41	Executive Vice President and Group President, Wholesale Businesses
Hugh Rice Kelly.....	59	Senior Vice President, General Counsel and Corporate Secretary
Mary P. Ricciardello.....	46	Senior Vice President and Chief Accounting Officer

R. STEVE LETBETTER is our Chairman, President and Chief Executive Officer. Mr. Letbetter also serves as Chairman, President and Chief Executive Officer of Reliant Energy. He has been Chairman of Reliant Energy since January 2000 and President and Chief Executive Officer since June 1999. Since 1978, he has served in various positions as an executive officer of Reliant Energy and its corporate predecessors. Mr. Letbetter has been a director of Reliant Energy since 1995. Mr. Letbetter will resign as President and Chief Executive Officer of Reliant Energy at the time of the Distribution, but will continue to serve as non-executive Chairman until 2004, subject to his re-election in 2001 as a director by shareholders to a new three-year term and annually as Chairman by the board of directors.

ROBERT W. HARVEY is our Executive Vice President and Group President, Retail Businesses. Mr. Harvey has also served as Vice Chairman of Reliant Energy since June 1999. From 1982 to 1999, Mr. Harvey was employed with the Houston office of McKinsey & Co., Inc. He was a director (senior partner) and was the leader of the firm's North American electric power and natural gas practice. Mr. Harvey will resign as Vice Chairman of Reliant Energy at the time of the Distribution.

STEPHEN W. NAEVE is our Executive Vice President and Chief Financial Officer. He has also served as Vice Chairman of Reliant Energy since June 1999 and as Chief Financial Officer of Reliant Energy since 1997. From 1997 to 1999, Mr. Naeve held the position of Executive Vice President and Chief Financial Officer of Reliant Energy. Since 1988, he served in various executive officer capacities with Reliant Energy, including Vice President -- Strategic Planning and Administration between 1993 and 1996. Mr. Naeve will resign as Vice Chairman and Chief Financial Officer of Reliant Energy at the time of the Distribution.

JOE BOB PERKINS is our Executive Vice President and Group President, Wholesale Businesses. He served as President and Chief Operating Officer, Reliant Energy Wholesale Group and as President and Chief Operating Officer of Reliant Energy Power Generation, Inc. since 1998. In 1998, Mr. Perkins served as President and Chief Operating Officer of the Reliant Energy Power Generation Group. Between 1996 and 1998, he served as Vice President -- Corporate Planning and Development.

HUGH RICE KELLY is our Senior Vice President, General Counsel and Corporate Secretary. He has also served as Executive Vice President, General Counsel and Corporate Secretary of Reliant Energy since 1997. Between 1984 and 1997, he served as Senior Vice President, General Counsel and Corporate Secretary of Reliant Energy. Mr. Kelly will resign as an officer of Reliant Energy at the time of the Distribution.

MARY P. RICCIARDELLO is our Senior Vice President and Chief Accounting Officer. She has also served as Chief Accounting Officer of Reliant Energy since June 2000 and as Senior Vice President since 1999. She previously served as Vice President and Comptroller of Reliant Energy from 1996 through 1999, and in various executive officer capacities with Reliant Energy since 1993. Ms. Ricciardello will resign as an officer of Reliant Energy at the time of the Distribution.

ITEM 2. PROPERTIES.

CHARACTER OF OWNERSHIP

Our corporate offices currently occupy approximately 500,000 square feet of leased office space in Houston, Texas, which lease expires in 2003, subject to renewal options.

In addition to our corporate office space, we lease or own various real property and facilities relating to our generation assets and development activities. Our principal generation facilities are generally described under "Our Business -- Wholesale Energy" and "Our Business -- European Energy -- European Power Generation Operations" in Item 1 of this Form 10-K. We believe we have satisfactory title to our facilities in accordance with standards generally accepted in the electric power industry, subject to exceptions which, in our opinion, would not have a material adverse effect on the use or value of the facilities.

WHOLESALE ENERGY

For information regarding the properties of our Wholesale Energy segment, please read "Our Business -- Wholesale Energy" in Item 1 of this Form 10-K, which information is incorporated herein by reference.

EUROPEAN ENERGY

For information regarding the properties of our European Energy segment, please read "Our Business -- European Energy -- European Power Generation Operations" in Item 1 of this Form 10-K, which information is incorporated herein by reference.

RETAIL ENERGY

For information regarding the properties of our Retail Energy segment, please read "Our Business -- Retail Energy" in Item 1 of this Form 10-K, which information is incorporated herein by reference.

OTHER OPERATIONS

For information regarding the properties of our Other Operations segment, please read "Our Business -- Other Operations" in Item 1 of this Form 10-K, which information is incorporated herein by reference.

ITEM 3. LEGAL PROCEEDINGS.

For a description of certain legal and regulatory proceedings affecting us, please read Notes 13(e), 13(i) and 17 to our consolidated financial statements, which notes are incorporated herein by reference.

RESTATEMENT OF SECOND AND THIRD QUARTER 2001 RESULTS OF OPERATIONS

On February 5, 2002, we announced that we were restating our earnings for the second and third quarters of 2001. As more fully described in our March 15, 2002 Current Report on Form 8-K, the restatement related to a correction in accounting treatment for a series of four structured transactions that were inappropriately accounted for as cash flow hedges for the period of May 2001 through September 2001, rather than as derivatives with changes in fair value recognized through the income statement. Each structured transaction involved a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003.

At the time of the public announcement of our intention to restate our reporting of the structured transactions, the Audit Committee of our Board of Directors instructed us to conduct an internal audit review to determine whether there were any other transactions included in the asset books as cash flow hedges that failed to meet the cash flow hedge requirements under SFAS No. 133. This targeted internal audit review found no other similar transactions.

The Audit Committee also directed an internal investigation by outside legal counsel of the facts and circumstances leading to the restatement, which investigation has been completed. In connection with the restatement and related investigations, the Audit Committee has met eight times to hear and assess reports from the investigative counsel regarding its investigation and contacts with the Staff of the SEC. To address the issues identified in the investigation process, the Audit Committee and management have begun analyzing and implementing remedial actions, including, among other things, changes in organizational structure and enhancement of internal controls and procedures.

On April 5, 2002, we were advised that the Staff of the Division of Enforcement of the SEC is conducting an informal inquiry into the facts and circumstances surrounding the restatement. We are cooperating with this inquiry. Before releasing our 2001 earnings, we received concurrence from the SEC's accounting staff on the accounting treatment of the restatement, which increased our earnings for the two quarters by a total of $134 million. At this time, we cannot predict the outcome of the SEC's inquiry. In addition, we cannot predict what effect the inquiry may have on Reliant Energy's pending application to the SEC under the 1935 Act, which is required for Reliant Energy's restructuring. For more information about Reliant Energy's restructuring, please read "--Formation, Initial Public Offering and Anticipated Distribution."

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

No matters were submitted to a vote of Reliant Resources' security holders during the fourth quarter of the fiscal year ended December 31, 2001.

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

As of April 1, 2002, our common stock was held of record by approximately 41 stockholders of record and approximately 15,000 beneficial owners. Our common stock is listed on the New York Stock Exchange and is traded under the symbol "RRI."

We completed the initial public offering of our common stock in May 2001. Our common stock began trading on the New York Stock Exchange on May 1, 2001. The following table sets forth the high and low sales prices of our common stock on the New York Stock Exchange composite tape during the periods indicated, as reported by Bloomberg.

	MARKET PRICE	
	HIGH	LOW
2001		
Second Quarter (from May 1 through June 30)		
May 21	$36.75	
June 26		$24.48
Third Quarter		
July 10	$27.96	
September 27		$15.75
Fourth Quarter		
October 16	$19.65	
December 17		$13.55

The closing market price of our common stock on December 31, 2001 was $16.51 per share.

We have not paid or declared any dividends since our formation and currently intend to retain earnings for use in our business. Any future dividends will be subject to determination based upon our results of operations and financial condition, our future business prospects, any applicable contractual restrictions and other factors that our Board of Directors considers relevant.

ITEM 6. SELECTED FINANCIAL DATA.

The following tables present our selected consolidated financial data. The financial data set forth below for 1997, 1998, 1999 and 2000 are derived from the consolidated historical financial statements of Reliant Energy. The data set forth below should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations," our historical consolidated financial statements and the notes to those statements included in this Form 10-K. The historical financial information may not be indicative of our future performance and does not reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone entity during the periods presented.

	YEAR ENDED DECEMBER 31,				
	1997(1)	1998(1)	1999(1)	2000(1)	2001(2)
	(IN MILLIONS, EXCEPT PER SHARE INFORMATION)				
INCOME STATEMENT DATA:					
Revenues	$ 1,321	$ 4,371	$ 7,956	$ 19,792	$ 36,546
Expenses:					
Fuel and cost of gas sold	978	2,352	3,948	10,582	15,805
Purchased power	313	1,824	3,729	7,852	18,734
Operation and maintenance	17	65	136	435	511
General, administrative and development	20	78	100	291	487
Depreciation and amortization	2	15	29	194	247
Total	1,330	4,334	7,942	19,354	35,784
Operating (Loss) Income	(9)	37	14	438	762
Other (Expense) Income:					
Interest expense	(1)	(2)	(9)	(42)	(63)
Interest income	--	1	--	18	27
Interest income (expense) -- affiliated companies, net	2	2	(10)	(172)	12
Gains (losses) from investments	--	--	16	(17)	22
(Loss) income of equity investments of unconsolidated subsidiaries	--	(1)	21	43	57
Gain on sale of development project	--	--	--	18	--
Other, net	--	1	(6)	5	9
Total Other Income (Expense)	1	1	12	(147)	64
(Loss) Income Before Income Taxes, Extraordinary Item and Cumulative Effect of Accounting Change	(8)	38	26	291	826
Income Tax Benefit (Expense)	2	(17)	(2)	(88)	(272)
(Loss) Income Before Extraordinary Item and Cumulative Effect of Accounting Change	(6)	21	24	203	554
Extraordinary Item, net of tax	--	--	--	7	--
Cumulative effect of accounting change, net of tax	--	--	--	--	3
Net (Loss) Income	$ (6)	$ 21	$ 24	$ 210	$ 557
BASIC AND DILUTED EARNINGS PER SHARE:					
Income before cumulative effect of accounting change					$ 2.00
Cumulative effect of accounting change, net of tax					0.01
Net income					$ 2.01

	YEAR ENDED DECEMBER 31,				
	1997(1)	1998(1)	1999(1)	2000(1)	2001(2)
	(IN MILLIONS, EXCEPT OPERATING DATA)				
STATEMENT OF CASH FLOW DATA:					
Cash Flows From Operating Activities	$ (22)	$ (2)	$ 35	$ 328	$ (127)
Cash Flows From Investing Activities	(4)	(365)	(1,406)	(3,013)	(838)
Cash Flows From Financing Activities	26	379	1,408	2,721	1,000
OTHER OPERATING DATA:					
Net Power Generation Capacity (MW)	--	3,800	7,945	12,707	14,585
Domestic Wholesale Power Sales (MMWh)(3)	12	65	112	202	380
Domestic Natural Gas Sales (Bcf)(4)	366	1,115	1,746	2,423	3,695
European Power Sales (MMWh)	--	--	3	13	42

	DECEMBER 31,				
	1997	1998	1999	2000	2001
	(IN MILLIONS)				
BALANCE SHEET DATA:					
Property, Plant and Equipment, net	$ 5	$ 270	$ 2,407	$ 4,049	$ 4,602
Total Assets	822	1,409	5,624	13,214	12,254
Short-term Borrowings	--	--	170	126	297
Long-term Debt to Third Parties, including current maturities	--	--	460	892	892
Accounts and Notes Receivable (Payable) -- Affiliated Companies, net	45	(17)	(1,333)	(1,969)	445
Stockholders' Equity	291	652	741	2,332	6,104

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(1) Our results of operations include the results of the following acquisitions, all of which were accounted for using the purchase method of accounting, from their respective acquisition dates: Reliant Energy Services, Inc. and Arkla Finance Corporation acquired in August 1997, the five generating facilities in California substantially acquired in April 1998, a generating facility in Florida and REPGB both acquired in October 1999 and the REMA acquisition that occurred in May 2000. Please read Note 5 to our consolidated financial statements for further information about these acquisitions.

(2) Effective January 1, 2001, we adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" as amended (SFAS No. 133), which established accounting and reporting standards for derivative instruments. Please read Note 6 to our consolidated financial statements for further information regarding the impact of the adoption of SFAS No. 133.

(3) Million megawatt hours.

(4) Billion cubic feet.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in combination with our consolidated financial statements and notes to those statements included in Item 8 of this Form 10-K.

OVERVIEW

We provide electricity and energy services with a focus on the competitive wholesale and retail segments of the electric power industry in the United States. We acquire, develop and operate electric power generating facilities that are not subject to traditional cost-based regulation and therefore can generally sell power at prices determined by the market. We also trade and market power, natural gas and other energy-related commodities and provide related risk management services.

In this section we discuss our results of operations on a consolidated basis and on a segment basis for each of our financial reporting segments. Our segments include Wholesale Energy, European Energy, Retail Energy and Other Operations. For segment reporting information, please read Note 18 to our consolidated financial statements.

OUR SEPARATION FROM RELIANT ENERGY, INCORPORATED

In connection with our anticipated separation from Reliant Energy, Incorporated (Reliant Energy), Reliant Energy contributed to us effective December 31, 2000, our wholesale, retail and other operations. Through December 31, 2000, these operations were conducted by Reliant Energy and its direct and indirect subsidiaries. These operations consist of the following:

- non-rate regulated power generation assets and related energy trading, marketing, power origination and risk management operations in North America and Northwest Europe,

- retail electric operations, and

- other operations, including venture capital and Communications businesses.

For additional information regarding agreements with Reliant Energy entered into as a part of Reliant Energy's business separation plan, please read Note 4 to our consolidated financial statements.

The financial information for the years ended December 31, 1999 and 2000 discussed in this section is derived from the consolidated historical financial statements of Reliant Energy, which include the results of operations for all of Reliant Energy's businesses, including those businesses which we do not own. In order to prepare our financial statements for 1999 and 2000, contained in this Form 10-K and discussed in this section, we carved-out the results of operations of the businesses that we own from Reliant Energy's consolidated historical financial statements. Accordingly, the results of operations discussed in this section for such years include only revenues and costs directly attributable to the businesses we own and operate. Some of these costs are for facilities and services provided by Reliant Energy and for which our operations have historically been charged based on usage or other allocation factors. We believe these allocations are reasonable, but they are not necessarily indicative of the expenses that would have resulted if we had actually operated independently of Reliant Energy. We may experience changes in our cost structure, funding and operations as a result of our anticipated separation from Reliant Energy, including increased costs associated with reduced economies of scale, and increased costs associated with being a publicly traded, independent company. We cannot currently predict with any certainty the actual amount of increased costs we may incur, if any.

In May 2001, we offered 59.8 million shares of our common stock to the public at an initial public offering (IPO) price of $30 per share and received net proceeds of $1.7 billion. Pursuant to the master separation agreement with Reliant Energy (Master Separation Agreement), we used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. Reliant Energy has publicly disclosed that it expects to distribute (Distribution) the remaining Reliant Resources common stock that it owns to its or its successor's shareholders in the summer of 2002. The Distribution is subject to the declaration of the Distribution by the Board of Directors of

Reliant Energy, market and other conditions and government actions and approvals. We cannot assure you that the Distribution will be completed as described or within the time period outlined above.

CONSOLIDATED RESULTS OF OPERATIONS

The following table provides summary data regarding our consolidated results of operations for 1999, 2000 and 2001.

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
Revenues	$7,956	$ 19,792	$36,546
Operating Expenses	7,942	19,354	35,784
Operating Income	14	438	762
Other Income (Expense), net	12	(147)	64
Income Tax Expense	2	88	272
Income Before Extraordinary Gain and Cumulative Effect of Accounting Change	24	203	554
Extraordinary Gain	--	7	--
Cumulative Effect of Accounting Change, net of tax	--	--	3
Net Income	$ 24	$ 210	$ 557

2001 COMPARED TO 2000

Net Income. We reported consolidated net income of $557 million, or $2.01 earnings per share, for 2001 compared to $210 million for 2000. The 2001 results included a cumulative effect of accounting change of $3 million, net of tax, related to the adoption of Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended. For additional discussion of the adoption of SFAS No. 133, please read Note 6 to our consolidated financial statements. The 2000 results included an extraordinary gain of $7 million related to the early extinguishment of $272 million of long-term debt. For additional discussion of the extraordinary gain, please read Note 8(b) to our consolidated financial statements. Our consolidated net income, before cumulative effect of accounting change, was $554 million for 2001 compared to consolidated net income, before extraordinary gain, of $203 million for 2000. The increase of $351 million was primarily due to the following:

- a $674 million increase in gross margins (revenues less fuel and cost of gas sold and purchased power) from our Wholesale Energy segment, excluding the impact of a $68 million provision related to energy sales to Enron Corp. and its affiliates (Enron) which filed a voluntary petition for bankruptcy during the fourth quarter of 2001;

- a $57 million decrease in operating losses from our Retail Energy segment;

- a $37 million net gain resulting from the settlement of an indemnity agreement related to certain energy obligations entered into in connection with our acquisition of Reliant Energy Power Generation Benelux N.V. (REPGB), formerly N.V. UNA;

- a $51 million gain recorded in equity income in 2001 related to a preacquisition contingency for the value of NEA B.V. (NEA), the coordinating body for the Dutch electricity generating sector, which is an equity investment in which REPGB holds a 22.5% economic interest;

- a $184 million decrease in net interest expense related to debt with affiliated companies; and

- a $27 million pre-tax impairment loss on marketable equity securities classified as "available-for-sale" in 2000.

The above items were partially offset by:

- a $66 million decrease in European Energy's gross margins, primarily attributable to the Dutch wholesale electric market opening to competition on January 1, 2001, excluding the impact of a $17 million provision related to energy sales to Enron recorded in the fourth quarter of 2001;

- a $100 million pre-tax, non-cash charge relating to the redesign of some of Reliant Energy's benefit plans in anticipation of our separation from Reliant Energy;

- an $85 million pre-tax provision related to energy sales to Enron which was recorded in the fourth quarter of 2001;

- $54 million in pre-tax disposal charges and impairments of goodwill and fixed assets related to the exiting of our Communications business;

- a $37 million decrease in our Wholesale Energy segment's equity earnings of unconsolidated subsidiaries in 2001 as compared to 2000; and

- an $18 million pre-tax gain in 2000 on the sale of our interest in one of our development-stage electric generation projects.

Operating Income. For an explanation of changes in our operating income and margins, please read the discussion below of operating income (loss) by segment.

Other Income/Expense. We incurred net other income of $64 million during 2001 compared to net other expense of $147 million in 2000. The increase in other income of $211 million in 2001 as compared to 2000 resulted primarily from the following:

- a $184 million decrease in interest expense on debt owed to affiliated companies;

- a $51 million gain recorded in equity income with respect to our equity investment in NEA;

- a $27 million pre-tax impairment loss on marketable equity securities classified as "available-for-sale" in 2000;

- a $12 million net increase in holding gains from investments in 2001, including an $18 million increase in realized holding gains from equity and debt securities and a $1 million increase in unrealized holding gains from equity and debt securities partially offset by (a) a decrease of $1 million in realized gains by our Other Operations segment resulting from reduced cash distributions from venture capital investments, (b) a $2 million impairment of investments and (c) a $4 million decrease in foreign exchange gains on financial instruments; and

- a $9 million increase in interest income in 2001 earned by our European Energy segment related to interest receivable on our claims pursuant to an indemnity for certain energy obligations and the related settlement and by our Wholesale Energy segment on restricted deposits related to our energy trading activities and on collateral related to electric generation equipment.

The $184 million decrease in interest expense on debt owed to affiliated companies, net of interest expense capitalized on projects, in 2001 as compared to 2000 is primarily due to the following:

- the conversion into equity of $1.7 billion of debt owed to Reliant Energy and its subsidiaries in connection with the completion of the IPO in May 2001;

- the repayment in August 2000 of $1.0 billion of debt owed to Reliant Energy related to our Mid-Atlantic acquisition, which is included in our Northeast region operations, from proceeds received from the generating facilities' sale-leaseback transactions; and

- the advancing of excess cash primarily resulting from the IPO to a subsidiary of Reliant Energy.

The increase in other income noted above was partially offset by:

- a $21 million increase in interest expense to third parties, net of interest expense capitalized on projects, primarily as a result of higher levels of borrowings related to construction of power generation facilities and credit facility fees;

- an $18 million pre-tax gain in 2000 on the sale of our interest in one of our development-stage electric generation projects; and

- a $37 million decrease in our Wholesale Energy segment's equity earnings of unconsolidated subsidiaries in 2001 as compared to 2000.

Our Wholesale Energy segment reported income from equity investments in 2001 of $6 million compared to $43 million in 2000. The equity income in both years primarily resulted from an investment in an electric generation plant in Boulder City, Nevada. The plant became operational in May 2000. The equity income related to our investment in the plant declined in 2001 from 2000 primarily due to higher plant outages in 2001 and reduced power prices realized by the project company.

During the second quarter of 2001, we recorded a $51 million gain 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 our evaluation of NEA's financial position and fair value. Pursuant to the purchase agreement of REPGB, as amended, REPGB was entitled to a $51 million (NLG 125 million) dividend from NEA with any remainder owed to the former shareholders of REPGB. In December 2001, REPGB entered into a settlement agreement resolving its former shareholders' stranded cost indemnity obligations. Under the settlement agreement, the former shareholders waived all rights to claim distributions from NEA. For further information regarding the settlement agreement, please read the European Energy segment's operating income analysis below and Note 13(f) to our consolidated financial statements.

During 2000, we incurred a pre-tax impairment loss of $27 million on marketable equity securities classified as "available-for-sale" by Other Operations. Management's determination to recognize this impairment resulted from a combination of events occurring in 2000 related to this investment. Such 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 our investment in these securities continuing to be below our cost basis, caused management to believe the decline in fair value to be other than temporary. During 2001, we recognized a pre-tax gain of $14 million from the sale of a portion of this investment. For additional discussion of this investment, please read Note 2(m) to our consolidated financial statements.

Income Tax Expense. We calculate our income tax provision on a separate return basis under a tax sharing agreement with Reliant Energy. Our deferred income taxes are calculated using the liability method of accounting, which measures deferred income taxes for all significant income tax temporary differences. Our current federal and some state income taxes are payable to or receivable from Reliant Energy. Our federal statutory tax rate is 35%. During 2001 and 2000, our effective tax rate was 32.9% and 30.4%, respectively. Our reconciling items from the federal statutory tax rate to the effective tax rate totaled $18 million and $13 million for 2001 and 2000, respectively. These items primarily related to a tax holiday for income earned by REPGB and were partially offset by nondeductible goodwill, state income taxes and valuation allowances. In 2001 and prior years, under Dutch corporate income tax laws, the earnings of REPGB were subject to a zero percent Dutch corporate income tax rate as a result of the Dutch tax holiday applicable to its electric industry. In 2002, all of European Energy's earnings in the Netherlands will be subject to the standard Dutch corporate income tax rate, which currently is 34.5%.

Subsequent to the Distribution, we will cease to be a member of the Reliant Energy consolidated tax group. This separation could have future income tax implications for us. Our separation from the Reliant Energy consolidated tax group will change our overall future income tax posture. As a result, we could be limited in our future ability to effectively use future tax attributes. We have agreed with Reliant Energy that we may carry back net operating losses we generate in our tax years after deconsolidation to tax years when we were part of the Reliant Energy consolidated tax group subject to Reliant Energy's consent and any existing statutory carryback limitations. Reliant Energy has agreed not to unreasonably withhold such consent.

As discussed in Note 13(f) to our consolidated financial statements, the Dutch parliament has adopted legislation allocating to the Dutch generation sector, including REPGB, financial responsibility for certain stranded costs and other liabilities incurred by NEA prior to the deregulation of the Dutch wholesale market. These obligations include NEA's obligations under an out-of-market gas supply contract and three out-of-market electricity contracts. REPGB's allocated share of these liabilities is 22.5%. As a result, we recorded a net stranded cost liability of $369 million and a related deferred tax asset of $127 million at December 31, 2001 for our statutorily allocated share of these gas supply and electricity contracts. We believe 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, we have recorded an offsetting liability in other liabilities in our consolidated financial statements of $127 million as of December 31, 2001.

2000 COMPARED TO 1999

Net Income. We reported consolidated net income of $210 million for 2000 compared to consolidated net income of $24 million for 1999. The 2000 results included an extraordinary gain of $7 million related to the early extinguishment of $272 million of long-term debt, which gain is further described in Note 8(b) to our consolidated financial statements.

Our consolidated net income, before the extraordinary gain, was $203 million for 2000 compared to consolidated net income of $24 million for 1999. The $179 million increase in 2000 compared to 1999 was primarily due to increased earnings from our Wholesale Energy segment, the inclusion of earnings from the Mid-Atlantic generating assets, which our Wholesale Energy segment acquired in May 2000, and the inclusion of earnings from our European Energy segment, which was established in the fourth quarter of 1999 with the acquisition of REPGB. The Mid-Atlantic generating assets and European Energy segment contributed $212 million and $84 million, respectively, to operating income for 2000. For additional information on the acquisition of the Mid-Atlantic generating assets and REPGB, please read Notes 5(a) and 5(b) to our consolidated financial statements. The increases in 2000 earnings compared to 1999 earnings from our Wholesale Energy and European Energy segments were partially offset by increased losses from our Retail Energy and Other Operations segments over the same period.

Operating Income. For an explanation of changes in our operating income, please read the discussion below of operating income (loss) by segment.

Other Income/Expense. We incurred net other expense of $147 million for 2000 compared to net other income of $12 million for 1999. The increase in expense of $159 million in 2000 as compared to 1999 resulted primarily from a pre-tax impairment loss of $27 million on marketable equity securities classified as "available-for-sale" incurred in 2000 by Other Operations, increased net interest expense on obligations to Reliant Energy and its subsidiaries of $162 million and increased interest expense on obligations to third parties of $33 million, each net of interest capitalized on construction projects. Increased interest expense resulted primarily from higher levels of debt during 2000 compared to 1999. Increased debt levels were primarily associated with borrowings for the funding of the acquisition of REPGB in the fourth quarter of 1999 and the first quarter of 2000, the acquisition of our Mid-Atlantic generating facilities in the second quarter of 2000, capital expenditures and increased margin deposits on energy trading and hedging activities. In 2000, we had a decrease of $12 million in unrealized holding gains from debt and equity securities classified as "trading," a $3 million increase in foreign exchange gains on financial instruments and a $3 million increase in realized gains by our Other Operations segment primarily as a result of increased cash distributions from venture capital investments.

The increased net other expense noted above was partially offset by:

- an $18 million pre-tax gain in 2000 on the sale of our interest in one of our development-stage electric generation projects,

- a $18 million increase in interest income in 2000 earned on increased deposits primarily related to our Wholesale Energy segment,

- a $22 million increase in equity earnings in unconsolidated subsidiaries in 2000, and

- a $7 million option premium expense recorded in 1999 to economically hedge foreign currency risks for our REPGB purchase obligation.

Our Wholesale Energy segment reported income from equity investments in 2000 of $43 million compared to equity losses of $1 million in 1999. The equity income in 2000 primarily resulted from an investment in an electric generation plant in Boulder City, Nevada. The plant became operational in May 2000. In 1999, we recorded $22 million in equity income related to REPGB for the period from October 1, 1999 through November 30, 1999. For additional information about the REPGB acquisition, including our accounting treatment, please read Note 5(b) to our consolidated financial statements.

Income Tax Expense. During 2000 and 1999, our effective tax rate was 30.4% and 9.6%, respectively. Our reconciling items from the federal statutory tax rate to the effective tax rate totaled $13 million for 2000. These items primarily related to a tax holiday for income earned by REPGB and were partially offset by nondeductible goodwill, state income taxes and valuation allowances. Our reconciling items from the federal statutory tax rate to the effective tax rate totaled $7 million for 1999. These items primarily related to income earned by REPGB and were partially offset by nondeductible goodwill and valuation allowances.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

The following table presents operating income (loss) for each of our business segments for 1999, 2000 and 2001.

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
Wholesale Energy	$ 19	$ 485	$ 899
European Energy	12	84	56
Retail Energy	(13)	(70)	(13)
Other Operations	(4)	(61)	(180)
Total Consolidated	$ 14	$ 438	$ 762

WHOLESALE ENERGY

Our Wholesale Energy segment includes our non-rate regulated power generation operations in the United States and our wholesale energy trading, marketing, origination and risk management operations in North America.

As of December 31, 2001, we owned or leased electric power generation facilities with an aggregate net generating capacity of 11,109 megawatts (MW) in the United States. We acquired our first power generation facility in April 1998, and have increased our aggregate net generating capacity since that time principally through acquisitions, as well as contractual agreements and the development of new generating projects. As of December 31, 2001, we had 3,587 MW of additional net generating capacity under construction, including facilities having 2,120 MW that are being constructed under a construction agency agreement by off-balance sheet special purpose entities. We consider a project to be "under construction" once we have acquired the necessary permits to begin construction, broken ground on the project site and contracted to purchase machinery for the project, including the combustion turbines. On May 12, 2000, one of our subsidiaries 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. For additional information regarding this acquisition of our Mid-Atlantic generating assets completed in May 2000 by Wholesale Energy, including the accounting treatment of this acquisition, please read Note 5(a) to our consolidated financial statements.

On February 19, 2002, we acquired all of the outstanding shares of common stock of Orion Power Holdings, Inc. (Orion Power) for $26.80 per share in cash for an aggregate purchase price of $2.9 billion. 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 that was formed in March 1998 to acquire, develop, own and operate power-generating facilities in certain deregulated wholesale markets in 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 under construction or in various stages of development.

For a discussion of the factors that may affect the future results of operations of Wholesale Energy, please read "-- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations."

The following table provides summary data regarding the results of operations of Wholesale Energy for 1999, 2000 and 2001.

	WHOLESALE ENERGY		
	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS, EXCEPT OPERATING DATA)		
Operating Revenues	$7,866	$19,142	$35,158
Operating Expenses:			
Fuel and cost of gas sold	3,924	10,322	15,405
Purchased power	3,729	7,818	18,145
Operation and maintenance	92	237	349
General, administrative and development	81	172	242
Depreciation and amortization	21	108	118
Total Operating Expenses	$7,847	$18,657	$34,259
Operating Income	$ 19	$ 485	$ 899
Operating Data:			
Net Generation Capacity (MW)	4,469	9,231	11,109
Electricity Wholesale Power Sales (MMWh)(1)	112	202	380
Natural Gas Sales (Bcf)(2)	1,746	2,423	3,695

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(1) Million megawatt hours.

(2) Billion cubic feet.

2001 Compared to 2000. Wholesale Energy's operating income increased by $414 million in 2001 compared to 2000. The results for 2001 include a $68 million provision against net receivables, trading and marketing assets and non-trading derivative balances related to Enron, and a $29 million provision and a $12 million net write-off against receivable balances related to energy sales in California. A $39 million provision against receivable balances related to energy sales in California was recorded in 2000.

The increase in operating income was primarily due to increased gross margins. Gross margins for Wholesale Energy increased by $606 million primarily due to increased volumes on power sales from our generation facilities, increased volumes from our trading and marketing activities and the addition of our Mid-Atlantic assets and strong commercial and operational performance in other regions. Margins on power sales from our generation facilities, excluding a $63 million provision related to Enron, increased by $429 million in the West region (Arizona, California and portions of New Mexico and Nevada), $85 million in the Mid-Atlantic region, and $32 million in other regions in 2001 compared to 2000. Favorable market conditions in the first six months of 2001 in the West region resulting from a combination of factors, including reduction in available hydroelectric generation resources, increased demand and decreased electric imports, positively impacted Wholesale Energy's operating margins.

These favorable market conditions did not exist in the second half of 2001, and we do not expect them to return in 2002. Trading and marketing gross margins, excluding a $5 million provision related to Enron, increased $113 million from $197 million in 2000 to $310 million in 2001 primarily as a result of increased natural gas trading volumes. These results were partially offset by the $68 million provision related to Enron as discussed above, higher operation and maintenance expenses from facilities in the Mid-Atlantic region acquired in 2000, higher general and administrative expenses and increased depreciation expense.

The following table provides further summary data regarding gross margin by commodity of Wholesale Energy for 2000 and 2001.

	YEAR ENDED DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
Gas revenues	$ 9,353	$ 14,370
Power revenues	9,709	20,776
Other commodity revenues	80	80
Credit provision related to Enron	--	(68)
Total revenues	19,142	35,158
Cost of gas sold	9,240	14,142
Fuel and purchased power	8,813	19,344
Other commodity costs	87	64
Total cost of sales	18,140	33,550
Gross margin	$ 1,002	$ 1,608

Wholesale Energy's revenues increased by $16.0 billion (84%) in 2001 compared to 2000. The increased revenues were primarily due to increased volumes for natural gas (approximately $5.4 billion) and power sales (approximately $8.6 billion) and to a lesser extent increased prices for power sales compared to 2000, which increased approximately $2.5 billion. Wholesale Energy's fuel and cost of gas sold and purchased power increased by $15.4 billion in 2001 compared to 2000, largely due to increased volumes for natural gas and power sales and to a lesser extent increases in power generation plant output, which increased approximately 33% compared to 2000, and increased prices for power purchases.

Operation and maintenance expenses for Wholesale Energy increased $112 million in 2001 compared to the same period in 2000, primarily due to costs associated with the operation and maintenance of generating plants acquired in the Mid-Atlantic region of $53 million and higher lease expense of $38 million associated with the Mid-Atlantic generation facilities' sale-leaseback transactions that were entered into in August 2000. The higher lease expense associated with the Mid-Atlantic generating facilities was offset by lower interest expense in the consolidated results of operations in 2001 compared to 2000. General, administrative and development expenses increased $70 million in 2001 compared to 2000, primarily due to higher administrative costs to support growing wholesale commercial activities of $69 million and higher legal and regulatory expenses related to the West region of $25 million, partially offset by decreased development expenses of $12 million. Depreciation and amortization expense increased by $10 million in 2001 compared to 2000 primarily as a result of higher expense related to the depreciation of our Mid-Atlantic plants, which were acquired in May 2000, and other generating plants placed into service during 2001, partially offset by a decrease in amortization of our air emissions regulatory allowances of $8 million.

2000 Compared to 1999. Wholesale Energy's operating income increased $466 million for 2000 compared to 1999. The increase was primarily due to increased energy sales volumes, higher prices for energy and ancillary services, and improved operating results from trading and marketing activities, as well as expansion of our generation operations into regions other than the Western United States, including the Mid-Atlantic United States, Florida and Texas.

Wholesale Energy's operating revenues increased $11.3 billion (143%) for 2000 compared to 1999. The increase was primarily due to an increase in prices and volumes for both gas and power sales in 2000 compared to 1999. Wholesale Energy's fuel and cost of gas sold and purchased power costs increased $6.4 billion and $4.1 billion, respectively, in 2000 compared to 1999. The increase in fuel and cost of gas sold was primarily due to an increase in

gas volumes purchased, and to increases in plant output and in the price of gas. The increase in purchased power cost was primarily due to a higher average cost of power and higher power volumes purchased. Operation and maintenance expenses and general, administrative and development expenses increased $145 million and $91 million, respectively, in 2000 compared to 1999. These increases were primarily due to costs associated with the maintenance of facilities acquired or placed into commercial operation during the period, lease expense associated with the Mid-Atlantic generating facilities sale-leaseback transactions, higher run rates at existing facilities, increased costs associated with developing new power generation projects and higher staffing levels to support increased sales and expanded trading and marketing efforts. Depreciation and amortization expense for 2000 increased $87 million as compared to 1999, primarily as a result of our acquisition of the Mid-Atlantic generating facilities and other generating facilities in 2000.

EUROPEAN ENERGY

Our European Energy segment includes the operations of REPGB and its subsidiaries and our European trading and power origination operations. We created European Energy in the fourth quarter of 1999 with the acquisition of REPGB and the formation of our European trading and power origination operations. European Energy generates and sells power from its generation facilities in the Netherlands and participates in the emerging wholesale energy trading markets in Northwest Europe.

Effective October 7, 1999, we acquired REPGB, a Dutch generation company, for a net purchase price of $1.9 billion. Our 1999 consolidated financial statements reflect REPGB's results of operations for the period from October 1, 1999 through November 30, 1999 under the equity method of accounting rather than under the consolidation method. Subsequent to December 1, 1999, we have consolidated 100% of REPGB's operating results. For additional information regarding the acquisition of REPGB and the related accounting treatment, please read Note 5(b) to our consolidated financial statements.

In connection with our evaluation of the acquisition of REPGB, we also began to assess and formulate an employee severance plan to be undertaken as soon as reasonably possible post-acquisition. The intent of this plan was to make REPGB competitive in the Dutch electricity market when it became deregulated on January 1, 2001. This plan was finalized, approved and completed in September 2000. At that time, we recorded the severance liability as a purchase price adjustment in the amount of $19 million. During 2001, we utilized $8 million of the reserve. As of December 31, 2001, the remaining severance liability is $11 million.

REPGB and the other major Dutch generators historically operated under a protocol agreement, pursuant to which the generators provided capacity and energy to distributors in exchange for regulated production payments, plus compensation for actual fuel expended in the production of electricity over the period from 1997 through 2000. Effective January 1, 2001, these agreements expired in all material aspects. Beginning January 1, 2001, the Dutch wholesale electric market was opened to competition. Consistent with our expectations at the time that we made the acquisition, REPGB experienced a significant decline in electric margins in 2001 attributable to the deregulation of the wholesale electric market.

In 2001, we evaluated strategic alternatives for our European Energy segment, including a possible sale. We completed our evaluation, and determined that given current market conditions and prices, it is not advisable to sell our European Energy operations. Consequently, we decided to continue to own and operate our European Energy segment and to expand our trading and origination activities in Northwest Europe. During December 2001, we evaluated our European Energy segment's long-lived assets and goodwill for impairment. 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. As of December 31, 2001, pursuant to SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," no impairment has been indicated. For assessing of impairment in 2002 under SFAS No. 142 "Goodwill and Other Intangible Assets," please read "-- New Accounting Pronouncements and Critical Accounting Policies" below.

For additional information regarding these and other factors that may affect the future results of operations of European Energy, please read "-- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our European Energy Operations."

For information regarding foreign currency matters, please read Note 6(b) to our consolidated financial statements and "Quantitative and Qualitative Disclosures about Market Risk" in Item 7A of this Form 10-K.

The following table provides summary data for the results of operations of our European Energy segment for the three months ended December 31, 1999 and the years ended December 31, 2000 and 2001.

	EUROPEAN ENERGY		
	THREE MONTHS ENDED DECEMBER 31,	YEAR ENDED DECEMBER 31,	
	1999	2000	2001
	(IN MILLIONS, EXCEPT OPERATING DATA)		
Operating Revenues	$ 56	$ 580	$1,192
Operating Expenses:			
Fuel	24	260	400
Purchased power	--	34	589
Operation and maintenance	8	87	30
General and administrative	6	39	41
Depreciation and amortization	6	76	76
Total Operating Expenses	$ 44	$ 496	$1,136
Operating Income	$ 12	$ 84	$ 56
Operating Data:			
Net Generation Capacity (MW)	3,476	3,476	3,476
Electric Sales (MMWh)	3	13	42

2001 Compared to 2000. European Energy's operating income decreased by $28 million for 2001 compared to 2000. This decrease was primarily due to the anticipated decline in electric power generation gross margins (revenues less fuel and purchased power), as the Dutch electric market was completely opened to wholesale competition on January 1, 2001. Further contributing to the decline in operating margins were a number of unscheduled outages at our electric generating facilities. We estimate that these unplanned outages resulted in losses of $11 million. Increased margins from ancillary services of $33 million and district heating sales of $9 million in 2001 compared to 2000 and efficiency and energy payments from NEA totaling $30 million in 2001 partially offset this decline. Trading gross margins decreased $12 million from a $3 million gross margin in 2000 to a $9 million gross margin loss in 2001 primarily as a result of a $17 million provision against receivable and trading and marketing asset balances related to Enron. Excluding this provision, trading gross margins increased primarily due to a significant increase in power trading volumes, trading origination transactions and increased volatility in the Dutch and German markets. In addition, the decrease in operating income was partially offset by a $37 million net gain related to the settlement of an indemnity agreement with the former shareholders of REPGB in the fourth quarter of 2001, as discussed below.

European Energy's operating revenues increased by $612 million for 2001 compared to 2000. The increase was primarily due to increased trading revenues in the Dutch, German and Austrian power markets of $544 million and, to a lesser extent, increased volumes of electric generation sales, which increased 41%, partially offset by a 29% decrease in prices for power sales. Fuel and purchased power costs increased $695 million for 2001 compared to 2000 primarily due to increased purchased power for trading activities, and to a lesser extent increased cost of natural gas due to higher gas prices, increased output from our generating facilities and increased transmission and grid charges as a result of a change in the tariff structure.

Operation and maintenance and general and administrative expenses decreased by $55 million for 2001 compared to 2000. These expenses declined primarily due to (a) the net gain of $37 million recorded in operation expenses related to the settlement of the former shareholders' indemnity obligation, as discussed below, (b) provisions in 2000 against environmental tax subsidies receivable from Dutch distribution companies, REPGB's former shareholders and the Dutch government, coupled with the reversal of such accrual in 2001 due to the indemnity obligation settlement with REPGB's former shareholders and (c) decreases in provisions for environmental liabilities, employee benefits and other accruals totaling $6 million. This decrease was partially offset by an increase in personnel and operating expenses related to our trading operations, facilities costs and systems upgrades.

In December 2001, REPGB and its former shareholders entered into a settlement agreement resolving the former shareholders' stranded cost indemnity obligations under the purchase agreement of REPGB. During the fourth quarter of 2001, we recognized a net settlement gain of $37 million in operation expenses for the difference between the sum of (a) the cash settlement consideration of $202 million, and REPGB's rights to claim future distributions of our NEA investment of an estimated $248 million and (b) the amount recorded as "stranded cost indemnity receivable" related to the stranded cost gas and electric commitments of $369 million and claims receivable related to stranded costs incurred in 2001 of $44 million both previously recorded in our consolidated balance sheet. Future changes in the valuation of the stranded cost import contracts that remain an obligation of REPGB will be recorded as adjustments to our consolidated statement of income, thus introducing potential earnings volatility. For additional information regarding the settlement, please read Note 13(f) to our consolidated financial statements.

2000 Compared to 1999. For the year ended December 31, 2000, European Energy reported operating income of $84 million. European Energy reported operating income of $12 million for the three months ended December 31, 1999. In 1999, we recorded $22 million in equity income related to REPGB for the period from October 1, 1999 through November 30, 1999.

RETAIL ENERGY

Our Retail Energy segment provides energy products and services to end-use customers, ranging from residential and small commercial customers to large commercial, institutional and industrial customers. In addition, Retail Energy provided billing, customer service, credit and collection and remittance services to Reliant Energy's regulated electric utility and two of its natural gas distribution divisions. The service agreement governing these services terminated on December 31, 2001. Retail Energy charged the regulated electric and natural gas utilities for these services at cost. We acquired approximately 1.7 million electric retail customers in the Houston metropolitan area when the Texas market opened to competition in January 2002. During the first half of 2002, the Texas electric retail market will be largely focused on the extensive efforts necessary to transition customers from the utilities to the affiliated retail electric providers. We expect to expand our marketing efforts for small residential and commercial customers (i.e., customers with an aggregate peak demand at or below one MW) to other areas in Texas outside of the Houston territory during the second quarter of 2002. We signed 246 contracts with large commercial, industrial and institutional (e.g., hospitals, universities, school systems and government agencies) customers (i.e., customers with an aggregate peak demand of more than one MW) during 2001, with an aggregate peak electric energy demand of approximately 3,700 MW and serving approximately 12,000 meter locations. These customers are both in the Houston metropolitan area as well as outside of the Houston territory. Our marketing efforts for large commercial, industrial and institutional customers are continuing throughout the competitive region of the Electric Reliability Council of Texas (ERCOT).

For a discussion of the factors that may affect the future results of operations of Retail Energy, please read "-- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Operations of Our Retail Energy Operations."

The following table provides summary data regarding the results of operations of Retail Energy for 1999, 2000 and 2001.

	RETAIL ENERGY		
	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
Operating Revenues	$ 34	$ 64	$ 211
Operating Expenses:			
Purchased power	--	--	27
Operation and maintenance	35	101	110
General and administrative	12	29	76
Depreciation and amortization	--	4	11
Total Operating Expenses	$ 47	$ 134	$ 224
Operating Loss	$(13)	$ (70)	$ (13)

2001 Compared to 2000. Our Retail Energy segment's operating loss decreased by $57 million for 2001 compared to 2000. The operating loss reduction was primarily due to increased sales of energy and energy services to commercial, industrial and institutional customers, partially offset by (a) increased personnel costs and employee related costs and (b) increased costs associated with developing an infrastructure necessary to prepare for competition in the retail electric market in Texas. Contracted energy sales to large commercial, industrial and institutional customers are accounted for under the mark-to-market method of accounting. These energy contracts are recorded at fair value in revenue upon contract execution. The net changes in their market values are recognized in the income statement in revenue in the period of the change. During 2001, our Retail Energy segment recognized $74 million of mark-to-market revenues related to commercial, industrial and institutional energy contracts of which $73 million relates to energy that will be supplied in future periods ranging from one to three years.

Operating revenues increased by $147 million for 2001 compared to 2000 largely due to increased revenues from sales of energy and energy services to large commercial, industrial and institutional customers, as well as increased revenues for the billing and remittance services provided to Reliant Energy. Purchased power expenses increased by $27 million in 2001 primarily due to a $22 million increase in wholesale electricity purchases and a $5 million increase in the cost of transmission service both related to the Texas retail pilot program during the last half of 2001. Our Wholesale Energy segment purchases and manages Retail Energy's wholesale purchased power requirements needed to fulfill its retail energy commitments. The Wholesale Energy segment charges Retail Energy for the purchased power at its actual cost and charges an administrative fee for such service.

Operations and maintenance costs increased by $9 million and general and administrative expenses increased $47 million in 2001 as compared to 2000, primarily due to increased personnel and employee-related costs and costs related to building an infrastructure necessary to prepare for competition in the retail electric market in Texas totaling $35 million and increased costs incurred in performing billing, customer service, credit and collections and remittance service for Reliant Energy of $31 million.

2000 Compared to 1999. Retail Energy's operating loss increased $57 million for 2000 compared to 1999. Operating revenues increased $30 million (88%) for 2000 as compared to 1999. This increase was primarily the result of the inclusion of revenues generated by the operations acquired during November 1999, additional revenue generated by an increase in the number of new energy service contracts and additional revenues for the billing and remittance services provided to Reliant Energy. For 2000 as compared to 1999, operations and maintenance costs increased $66 million and general and administrative costs increased $17 million. Increased operation and maintenance costs resulted primarily from costs associated with servicing contracts acquired during 1999 as well as new contracts entered into in 2000, costs incurred in performing billing, customer service, credit and collection and remittance services for Reliant Energy, and costs related to building an infrastructure necessary to prepare for competition in the retail electric market in Texas. General and administrative costs increased as a result of building the infrastructure necessary to prepare for competition in the retail electric market in Texas. In addition, during the fourth quarter of 2000, we incurred an obligation to pay $12 million in order to secure the naming rights to a Houston sports complex and for the initial advertising of which $10 million was expensed in 2000. Starting in 2002, when the new stadium in the sports complex is operational, we will pay $10 million each year through 2032 for annual advertising associated with the sports complex.

OTHER OPERATIONS

Our Other Operations segment includes the operations of our venture capital and Communications businesses, and unallocated corporate costs.

During the third quarter of 2001, we decided to exit our Communications business. The business served as a facility-based competitive local exchange carrier and Internet services provider and owns network operations centers and managed data centers in Houston and Austin. Our exit plan was substantially completed in the first quarter of 2002.

The following table provides summary data for the results of operations for Other Operations for 1999, 2000 and 2001.

	OTHER OPERATIONS		
	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
Operating Revenues	$ --	$ 6	$ 11
Operating Expenses:			
Operation and maintenance	--	9	21
General and administrative	2	52	128
Depreciation and amortization	2	6	42
Total Operating Expenses	$ 4	$ 67	$ 191
Operating Loss	$ (4)	$ (61)	$(180)

2001 Compared to 2000. Other Operation's operating loss increased by $119 million for 2001 compared to 2000. During 2001, we recognized $54 million of restructuring charges related to exiting our Communications business as discussed above. In addition, we incurred a non-cash charge of $100 million during 2001 relating to the redesign of some of Reliant Energy's benefit plans in anticipation of our separation from Reliant Energy. These items were partially offset by decreased corporate operating expenses of $12 million and decreased charitable contributions of $15 million of equity securities classified as "trading" to a charitable foundation. For additional information about the benefit charge noted above, please read Notes 11(b) and 11(d) to our consolidated financial statements.

In connection with our decision to exit the Communication business, we determined that the goodwill associated with the Communications business was impaired. We recorded $54 million of pre-tax disposal charges in 2001, including the impairment of goodwill of $19 million and fixed assets of $22 million, and severance accruals, lease cancellation costs and other incremental costs associated with exiting the Communications business, totaling $13 million. The goodwill and fixed asset impairments are included in depreciation and amortization expense.

In connection with our anticipated separation from Reliant Energy, we expect to record in the quarter in which the Distribution is completed, a pre-tax net loss of approximately $36 million related to the settlement of pension and post retirement obligations for former employees of Reliant Energy, who transferred to us.

2000 Compared to 1999. During 2000, Other Operations had operating revenues of $6 million primarily from its Communications business, which was formed in June 1999. General and administrative and operation and maintenance costs in 2000 of $61 million, compared to $2 million for 1999, resulted primarily from costs related to our Communications business and a $15 million non-cash contribution of equity securities, as discussed above. The increase in depreciation and amortization of $4 million is primarily related to increased capital expenditures in 2000 as compared to the same period in 1999.

TRADING AND MARKETING OPERATIONS

We trade and market power, natural gas and other energy-related commodities and provide related risk management services to our customers. We apply mark-to-market accounting for all of our non-asset based energy trading, marketing, power origination and risk management services activities. For information regarding mark-to-market accounting, please read Notes 2(d) and 6 to our consolidated financial statements. These trading and marketing activities consist of:

- the domestic energy trading, marketing, power origination and risk management services operations of our Wholesale Energy segment;
- the European energy trading and power origination operations of our European Energy segment; and
- the large contracted commercial, industrial and institutional retail electricity business of our Retail Energy segment.

Our domestic and European energy trading and marketing operations enter into derivative transactions as a means of optimization of our current power generation asset position and to take a market position. For additional information regarding the types of contracts and activities of our trading and marketing operations, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K and Note 6 to our consolidated financial statements.

Below is a detail of our net trading and marketing assets (liabilities) by segment:

	AS OF DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
Wholesale Energy	$ 31	$ 154
European Energy	1	(9)
Retail Energy	--	73
Net trading and marketing assets and liabilities	$ 32	$ 218

Our trading and marketing and risk management services margins realized and unrealized are as follows:

	FOR THE YEAR ENDED DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
Realized	$ 202	$184
Unrealized	(2)	186
Total	$ 200	$370

Below is an analysis of our net trading and marketing assets and liabilities for 2001 (in millions):

Fair value of contracts outstanding at December 31, 2000	$ 32
Fair value of new contracts when entered into during the year	119
Contracts realized or settled during the year	(184)
Changes in fair values attributable to changes in valuation techniques and assumptions	(23)
Changes in fair values attributable to market price and other market changes	274
Fair value of contracts outstanding at December 31, 2001	$ 218

During 2001, our Retail Energy segment entered into contracts with large commercial, industrial and institutional customers, with a peak demand of approximately 3,700 MW, ranging from one to three years. These contracts had an aggregated fair value of $97 million at the contract inception dates. Subsequent to the inception dates, the fair values of these contracts were adjusted to $74 million due to changes in assumptions used in the valuation models, as described below. The fair value of these Retail Energy electric supply contracts was determined by comparing the contractual pricing to the estimated market price for the retail energy delivery and applying the estimated volumes under the provisions of these contracts. This calculation involves estimating the customer's anticipated load volume, and using the forward ERCOT over-the-counter (OTC) commodity prices, adjusted for the customer's anticipated load pattern. Load characteristics in the valuation model include: the customer's expected hourly electricity usage profile, the potential variability in the electricity usage profile (due to weather or operational uncertainties), and the electricity usage limits included in the customer's contract. In addition, some estimates include anticipated delivery costs, such as regulatory and transmission charges, electric line losses, ERCOT system operator administrative fees and other market interaction charges, estimated credit risk and administrative costs to serve. The weighted-average duration of these transactions is approximately one year.

The remaining fair value of new contracts recorded at inception of $22 million primarily relates to Wholesale Energy fixed and variable-priced power purchases and sales. The fair values of these Wholesale Energy contracts at inception are estimated using OTC forward price and volatility curves and correlation among power and fuel prices, net of estimated credit risk. A significant portion of the value of these contracts required utilization of internal models. For the contracts extending beyond December 31, 2001, the weighted-average duration of these transactions is less than two years.

Below are the maturities of our contracts related to our trading and marketing assets and liabilities as of December 31, 2001 (in millions):

	FAIR VALUE OF CONTRACTS AT DECEMBER 31, 2001						
SOURCE OF FAIR VALUE	2002	2003	2004	2005	2006	2007 AND THEREAFTER	TOTAL FAIR VALUE
Prices actively quoted	$ (43)	$ 4	$ 1	$ --	$ --	$ --	$ (38)
Prices provided by other external sources	142	58	(5)	(3)	6	(1)	197
Prices based on models and other valuation methods	34	(1)	3	3	(1)	21	59
Total	$ 133	$ 61	$ (1)	$ --	$ 5	$ 20	$ 218

The "prices actively quoted" category represents our New York Mercantile Exchange (NYMEX) futures positions in natural gas and crude oil. As of December 31, 2001, the NYMEX had quoted prices for natural gas and crude oil for the next 36 and 30 months, respectively.

The "prices provided by other external sources" category represents our forward positions in natural gas and power at points for which OTC broker quotes are available. On average, OTC quotes for natural gas and power extend 60 and 36 months into the future, respectively. We value these positions against internally developed forward market price curves that are continuously compared to and recalibrated against OTC broker quotes. This category also includes some transactions whose prices are obtained from external sources and then modeled to hourly, daily or monthly prices, as appropriate.

The "prices based on models and other valuation methods" category contains (a) the value of our valuation adjustments for liquidity, credit and administrative costs, (b) the value of options not quoted by an exchange or OTC broker, (c) the value of transactions for which an internally developed price curve was constructed as a result of the long-dated nature of the transaction or the illiquidity of the market point, and (d) the value of structured transactions. In certain instances structured transactions can be composed and modeled by us as simple forwards and options based on prices actively quoted. Options are typically valued using Black-Scholes option valuation models. Although the valuation of the simple structures might not be different than the valuation of contracts in other categories, the effective model price for any given period is a combination of prices from two or more different instruments and therefore have been included in this category due to the complex nature of these transactions.

The fair values in the above table are subject to significant changes based on fluctuating market prices and conditions. Changes in the assets and liabilities from trading, marketing, power origination and price risk management services result primarily from changes in the valuation of the portfolio of contracts, newly originated transactions and the timing of settlements. The most significant parameters impacting the value of our portfolio of contracts include natural gas and power forward market prices, volatility and credit risk. For the Retail Energy sales discussed above, significant variables affecting contract values also include the variability in electricity consumption patterns due to weather and operational uncertainties (within contract parameters). Market prices assume a normal functioning market with an adequate number of buyers and sellers providing market liquidity. Insufficient market liquidity could significantly affect the values that could be obtained for these contracts, as well as the costs at which these contracts could be hedged. Please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K for further discussion and measurement of the market exposure in the trading and marketing businesses and discussion of credit risk management.

For additional information about price volatility and our hedging strategy, please read "-- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility," and "-- Risks Associated with Our Hedging and Risk Management Activities."

For information regarding our counterparty credit risk, including credit ratings, exposure and collateral held by us, please read, "Quantitative and Qualitative Disclosures About Market Risk -- Credit Risk" in Item 7A of this Form 10-K.

For a description of accounting policies for our trading and marketing activities, please read Notes 2(d) and 6 to our consolidated financial statements.

We seek to monitor and control our trading risk exposures through a variety of processes and committees. For additional information, please read "Quantitative and Qualitative Disclosures About Market Risk -- Risk Management Structure" in Item 7A of this Form 10-K.

RELATED-PARTY TRANSACTIONS

In the normal course of operations and in anticipation of our separation from Reliant Energy, we have entered into transactions and agreements with related parties, including Reliant Energy. For a discussion of historical related party transactions, please read Note 3 to our consolidated financial statements. Below are details of significant current related party transactions, arrangements and agreements.

AGREEMENTS BETWEEN RELIANT ENERGY AND RELIANT RESOURCES

Master Separation Agreement. Shortly before the IPO, we entered into the Master Separation Agreement with Reliant Energy. The Master Separation Agreement provides for the separation of our assets and businesses from those of Reliant Energy. It also contains agreements governing the relationship between us and Reliant Energy after the IPO, and in some cases after the Distribution, and specifies the related ancillary agreements that we have signed with Reliant Energy, some of which are described in further detail below.

The Master Separation Agreement provides for cross-indemnities intended to place sole financial responsibility on us and our subsidiaries for all liabilities associated with the current and historical businesses and operations we conduct after giving effect to the separation, regardless of the time those liabilities arise, and to place sole financial responsibility for liabilities associated with Reliant Energy's other businesses with Reliant Energy and its other subsidiaries. Each party has also agreed to assume and be responsible for some specified liabilities associated with activities and operations of the other party and its subsidiaries to the extent performed for or on behalf of the other party's current or historical business.

Genco Option Agreement. In connection with the separation of our businesses from those of Reliant Energy, Reliant Energy has granted us an option to purchase, subject to the completion of the Distribution, all of the shares of capital stock owned by Reliant Energy in January 2004 of an entity (Texas Genco) that will hold the Texas generating assets of Reliant Energy's electric utility division. For additional information regarding the Texas Genco option and various agreements between Reliant Energy and us related to the Texas Genco option, please read Note 4(b) to our consolidated financial statements.

Service Agreements. We have entered into agreements with Reliant Energy under which Reliant Energy will provide us, on an interim basis, various corporate support services, information technology services and other previously shared services such as corporate security, facilities management, accounts receivable, accounts payable and payroll, office support services and purchasing and logistics. The charges we will pay Reliant Energy for these services are generally intended to allow Reliant Energy to recover its fully allocated costs of providing the services, plus out-of-pocket costs and expenses. In addition, pursuant to lease agreements, Reliant Energy will lease us office space in its headquarters building and various other locations in Houston, Texas for various terms. For additional information regarding these agreements, please read Note 4(a) to our consolidated financial statements.

Payment to Reliant Energy. To the extent that our price for providing retail electric service to residential and small commercial customers in Reliant Energy's Houston service territory during 2002 and 2003, which price is mandated by the Texas electric restructuring law, exceeds the market price of electricity, we may be required to make a payment to Reliant Energy in early 2004 unless the Texas Utility Commission determines that, on or prior to January 1, 2004, 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers, as applicable, within Reliant Energy's electric utility's Houston service territory as of January 1, 2002 is committed to be served by retail electric providers other than us. For additional information regarding this payment, please read Note 13(g) to our consolidated financial statements.

Guarantee of Certain Benefit Payments. We have guaranteed, in the event Reliant Energy becomes insolvent, certain non-qualified benefits of Reliant Energy's and its subsidiaries' existing retirees at the Distribution totaling approximately $55 million.

Transportation Agreement. Prior to the IPO, Reliant Energy Services entered into an agreement whereby a subsidiary of Reliant Energy agreed to reimburse Reliant Energy Services for any transportation payments made under a transportation agreement with ANR Pipeline Company and for the refund of $41 million due to ANR Pipeline Company, an unaffiliated company. For additional information regarding this transportation agreement, please read Note 13(b) to our consolidated financial statements.

Commodity Risk Hedges Entered Into by Us on Behalf of Subsidiaries of Reliant Energy. Reliant Energy Services enters into derivative instruments on behalf of affiliated entities within the Reliant Energy consolidated group in accordance with Reliant Energy's risk management policies. Historically, Reliant Energy Services was subject to the related counterparty credit risk. During 2001, related to the Enron bankruptcy, we recognized a $6 million loss related to such transactions.

Various Other Agreements. In connection with the separation of our businesses from those of Reliant Energy, we have entered into other agreements providing for, among other things, mutual indemnities and releases with respect to our respective businesses and operations, matters relating to corporate governance, matters relating to responsibility for employee compensation and benefits, and the allocation of tax liabilities. In addition, we and Reliant Energy have entered into various agreements relating to ongoing commercial arrangements including, among other things, the leasing of optical fiber and related maintenance activities, gas purchasing and agency matters, and subcontracting energy services under existing contracts. For additional information regarding these agreements, please read Note 4(c) to our consolidated financial statements.

COMMON DIRECTORS ON RELIANT RESOURCES' AND RELIANT ENERGY'S BOARD OF DIRECTORS

Three of our directors are also directors of Reliant Energy. One of these directors is our chairman, president and chief executive officer. These directors owe fiduciary duties to the stockholders of each company. As a result, in connection with any transaction or other relationship involving both companies, these directors may need to recuse themselves and not participate in any board action relating to these transactions or relationships. It is anticipated that at the time of the Distribution, two of these directors will resign as director of Reliant Energy.

CONSTRUCTION AGENCY AGREEMENTS

In 2001, we, through several of our subsidiaries, entered into operative documents with special purpose entities to facilitate the development, construction, financing and leasing of several power generation projects. Upon completion of an individual project and exercise of the lease option, our subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the investors. If we do not exercise our option to lease any project upon its completion, we must purchase the project or remarket the project on behalf of the special purpose entities. We have guaranteed the performance and payment of our subsidiaries' obligations during the construction periods and, if the lease option is exercised, each lessee's obligations during the lease period. For additional information regarding the construction agency agreements and our generating equipment agreements, please read Note 13(h) to our consolidated financial statements.

CERTAIN FACTORS AFFECTING OUR FUTURE EARNINGS

Our past earnings are not necessarily indicative of our future earnings and results of operations. The magnitude of our future earnings and results of our operations will depend on numerous factors including:

- state, federal and international legislative and regulatory developments, including deregulation, re-regulation and restructuring of the electric utility industry, changes in or application of environmental and other laws and regulations to which we are subject, and changes in or application of laws or regulations applicable to other aspects of our business, such as commodities trading and hedging activities,

- the timing of our separation from Reliant Energy,

- the effects of competition, including the extent and timing of the entry of additional competitors in our markets,

- liquidity concerns in our markets,

- the degree to which we successfully integrate the operations and assets of Orion Power into our Wholesale Energy segment,

- the successful and timely completion of our construction programs, as well as the successful start-up of completed projects,

- our pursuit of potential business strategies, including acquisitions or dispositions of assets or the development of additional power generation facilities,

- the timing and extent of changes in commodity prices and interest rates,

- the availability of adequate supplies of fuel, water, and associated transportation necessary to operate our generation portfolio,

- weather variations and other natural phenomena, which can effect the demand for power from or our ability to produce power at our generating facilities,

- financial market conditions, our access to capital and the results of our financing and refinancing efforts, including availability of funds in the debt/capital markets for merchant generation companies,

- the credit worthiness or bankruptcy or other financial distress of our trading, marketing and risk management services counterparties,

- actions by rating agencies with respect to us or our competitors,

- acts of terrorism or war,

- the availability and price of insurance,

- the reliability of the systems, procedures and other infrastructure necessary to operate our retail electric business, including the systems owned and operated by ERCOT,

- political, legal, regulatory and economic conditions and developments in the United States and in foreign countries in which we operate or into which we might expand our operations, including the effects of fluctuations in foreign currency exchange rates,

- the successful operation of deregulating power markets, and

- the resolution of the refusal by California market participants to pay our receivables balances due to the recent energy crisis in the West region.

In order to adapt to the increasingly competitive environment in our industry, we continue to evaluate a wide array of potential business strategies, including business combinations or acquisitions involving other utility or non-utility businesses or properties, dispositions of currently owned businesses, as well as developing new generation projects, products, services and customer strategies.

FACTORS AFFECTING THE RESULTS OF OUR WHOLESALE ENERGY OPERATIONS

Price Volatility. We sell electricity from our facilities into spot markets under short and long-term contractual arrangements. We are not guaranteed any rate of return on our capital investments through cost of service rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for electricity and fuel in our regional markets. In addition to our power generation operations, we trade and market power. Market prices may fluctuate substantially over relatively short periods of time. Demand for electricity can

fluctuate dramatically, creating periods of substantial under- or over-supply. During periods of over-supply, prices are depressed. During periods of under-supply, there is frequently regulatory or political pressure to regulate prices to compensate for product scarcity.

In addition, the FERC, which has jurisdiction over wholesale power rates, as well as independent system operators that oversee some of these markets, have imposed price limitations, bidding rules and other mechanisms to attempt to address some of the volatility in these markets and mitigate market prices. For a discussion of the implementation of price limitations and other rules in the California market, please read Note 13(i) to our consolidated financial statements.

Most of our Wholesale Energy business segment's domestic power generation facilities purchase fuel under short-term contracts or on the spot market. Fuel prices may also be volatile, and the price we can obtain for power sales may not change at the same rate as changes in fuel costs. In addition, we trade and market natural gas and other energy-related commodities. These factors could have an adverse impact on our revenues, margins and results of operations.

Volatility in market prices for fuel and electricity may result from:

- weather conditions,
- seasonality,
- forced or unscheduled plant outages,
- addition of generating capacity,
- changes in market liquidity,
- disruption of electricity or gas transmission or transportation, infrastructure or other constraints or inefficiencies,
- availability of competitively priced alternative energy sources,
- demand for energy commodities and general economic conditions,
- availability and levels of storage and inventory for fuel stocks,
- natural gas, crude oil and refined products, and coal production levels,
- natural disasters, wars, embargoes and other catastrophic events, and
- federal, state and foreign governmental regulation and legislation.

Risks Associated with Our Hedging and Risk Management Activities. To lower our financial exposure related to commodity price fluctuations, our trading, marketing and risk management services operations routinely enter into contracts to hedge a portion of our purchase and sale commitments, exposure to weather fluctuations, fuel requirements and inventories of natural gas, coal, crude oil and refined products, and other commodities. As part of this strategy, we routinely utilize fixed-price forward physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets and on exchanges. However, we do not expect to cover the entire exposure of our assets or our positions to market price volatility, and the coverage will vary over time. This hedging activity fluctuates according to strategic objectives, taking into account the desire for cash flow or earnings certainty and our view on market prices. To the extent we have unhedged positions, fluctuating commodity prices could negatively impact our financial results and financial position. For additional information regarding the accounting treatment for our hedging, trading and marketing and risk management activities, please read Notes 2(d) and 6 to our consolidated financial statements. For additional information regarding the types of contracts and activities of our trading and marketing operations, please read "-- Trading and Marketing Operations" and "Qualitative and Quantitative Disclosures about Market Risk" in Item 7A of this Form 10-K.

We manage our power generation hedge objectives in the context of market conditions while targeting certain hedge percentages of future earnings through hedge actions in the current year. As of December 31, 2001, we had hedged 39% and 29% of our planned Wholesale Energy margins for 2002 and 2003, respectively, excluding margins related to Orion Power. Margins for 2002 and 2003 are expected to be positively impacted by the acquisition of Orion Power and negatively affected by lower forward electric power prices as they relate to unhedged positions and an estimated decline in our trading and marketing operations due to projected decreases in volatility in energy commodity markets.

At times, we have open trading positions in the market, within established corporate risk management guidelines, resulting from the management of our trading portfolio. To the extent open trading positions exist, changes in commodity prices could negatively impact our financial results and financial position.

The risk management procedures we have in place may not always be followed or may not always work as planned. As a result of these and other factors, we cannot predict with precision the impact that our risk management decisions may have on our businesses, operating results or financial position. For information regarding our risk management policies, please read "Quantitative and Qualitative Disclosures about Market Risk -- Risk Management Structure" in Item 7A to this Form 10-K.

Our trading, marketing and risk management services operations (as well as some of our operations conducted on behalf of Reliant Energy) are also exposed to the risk that counterparties who owe us money or physical commodities, such as power, natural gas or coal, will not perform their obligations. Should the counterparties to these arrangements fail to perform, we might be forced to acquire alternative hedging arrangements or replace the underlying commitment at then-current market prices. In this event, we might incur additional losses to the extent of amounts, if any, already paid to the counterparties. For information regarding our credit risk, including exposure to Enron and utilities in California, please read "Quantitative and Qualitative Disclosure About Market Risk -- Credit Risk" in Item 7A of this Form 10-K and Notes 6(d), 13(i) and 17 to our consolidated financial statements.

In the ordinary course of business, and as part of our hedging strategy, we enter into long-term sales arrangements for power, as well as long-term purchase arrangements. For information regarding our long-term fuel supply contracts, purchase power and electric capacity contracts and commitments, electric energy and electric sale contracts and tolling arrangements, please read Notes 6, 13(a) and 13(c) to our consolidated financial statements.

Uncertainty in the California Market. During portions of 2000 and 2001, prices for wholesale electricity in California increased dramatically as a result of a combination of factors, including higher natural gas prices and emission allowance costs, reduction in available hydroelectric generation resources, increased demand, decreased net electric imports and limitations on supply as a result of maintenance and other outages. Because of the high prices that prevailed during this period, Reliant Energy, and several of our subsidiaries, including Reliant Energy Services and REPG, as well as some of the officers of some of these companies, have been named as defendants in class action lawsuits and other lawsuits filed against a number of companies that own generation plants in California and other sellers of electricity in California markets.

In response to the filing of a number of complaints challenging the level of these wholesale prices, the FERC initiated a staff investigation and issued a number of orders implementing a series of wholesale market reforms and modifications to those reforms. On February 13, 2002, the FERC issued an order initiating a staff investigation into potential manipulation of electric and natural gas prices in the West region for the period January 1, 2000 forward. Some of our long-term bilateral contracts already have been challenged by one of our many counterparties based on the alleged market dysfunction in Western power markets in 2000 and 2001. If these challenges are successful, the precedent set by the challenge could have larger ramifications to our business and operations beyond the challenged contracts at issue. Furthermore, in addition to FERC investigations, several state and other federal regulatory investigations have commenced in connection with the wholesale electricity prices in California and other neighboring Western states to determine the causes of the high prices and potentially to recommend remedial action.

Finally, there have been proposals in the California state legislature to regulate the operations of our California generating subsidiaries, beyond the existing state regulation regarding siting, environmental and other health and

safety matters. For additional information regarding the litigation and market uncertainty in California, please read Notes 13(e) and 13(i) to our consolidated financial statements.

Industry Restructuring, the Risk of Re-regulation and the Impact of Current Regulations. The regulatory environment applicable to the United States electric power industry is undergoing significant changes as a result of varying restructuring initiatives at both the state and federal levels and the reassessment of existing regulatory mechanisms stemming from the California power market situation and the bankruptcy of Enron. These initiatives have had a significant impact on the nature of the industry and the manner in which its participants conduct their business. These changes are ongoing and we cannot predict the future development of restructuring in these markets or the ultimate effect that this changing regulatory environment will have on our business.

Moreover, existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us, our facilities or our commercial activities, and future changes in laws and regulations may have a detrimental effect on our business. Some restructured markets, particularly California, have experienced supply problems and price volatility. These supply problems and volatility have been the subject of a significant amount of press coverage, much of which has been critical of the restructuring initiatives. In some markets, including California, proposals have been made by governmental agencies and/or other interested parties to delay or discontinue proposed restructuring or to re-regulate areas of these markets, especially with respect to residential retail customers, that have previously been deregulated. In this connection, state officials, the California Independent System Operator (Cal ISO) and the investor-owned utilities in California have argued to the FERC that our California generating subsidiaries should not continue to have market-based rate authority. While the FERC to date has consistently refused petitions to force entities with market-based rates to return to cost-based rates, some of these proceedings are ongoing and we cannot predict what action the FERC may take on such petitions in the future. If we were forced to adopt cost-based rates, future earnings would be affected. Furthermore, the Cal ISO is undertaking a market redesign process to fundamentally change the structure of wholesale electricity markets and transmission service in California. These changes, if approved by the FERC, could include a revised market monitoring and mitigation structure, a revised congestion management mechanism and an obligation for load-serving entities in California to maintain capacity reserves. The Cal ISO's stated goal is to complete the first phase of this redesign by September 30, 2002, when the existing FERC market mitigation scheme for California will expire.

On November 20, 2001, the FERC instituted an investigation under Section 206 of the Federal Power Act regarding the tariffs of all sellers with market-based rates authority, including the Company. For information regarding this FERC proceeding and other FERC actions relating to the California market, please read Note 13(i) to our consolidated financial statements. If the FERC does not modify or reject its proposed approach for dealing with anti-competitive behavior, our future earnings may be affected by the open-ended refund obligation.

Additionally, federal legislative initiatives have been introduced and discussed to address the problems being experienced in some of these markets, including legislation seeking to impose price caps on sales. We cannot predict whether other proposals to re-regulate will be made or whether legislative or other attention to the restructuring of the electric power industry will cause the restructuring to be delayed or reversed. If the trend towards competitive restructuring of the wholesale power markets is reversed, discontinued or delayed, the business growth prospects and financial results of our Wholesale Energy and Retail Energy segments could be adversely affected.

If Regional Transmission Organizations (RTOs) are established as envisioned by Order No. 2000, "rate pancaking," or multiple transmission charges that apply to a single point-to-point delivery of energy will be eliminated within a region, and wholesale transactions within the region, and between regions will be facilitated. The end result could be a more competitive, transparent market for the sale of energy and a more economic and efficient use and allocation of resources; however, considerable opposition exists in some arenas to the development of RTOs.

The FERC also has initiated a rulemaking proceeding to establish standardized transmission service throughout the United States, a standard wholesale electric market design, including forward and spot markets for energy and an ancillary services market, and specifications regarding the entities that administer these markets and for market

monitoring and mitigation, that could be used in all RTOs. We cannot predict at this time what effect FERC's standard market design will have on our business growth prospects and financial results.

Partly in response to the bankruptcy of Enron, there have been proposals in the United States Congress to make online platforms that trade energy and metals derivatives subject to oversight by the Commodities Futures Trading Commission (CFTC), to prohibit market price manipulation and fraud. Under some of these proposals, dealers in energy derivatives would be required to file reports with the CFTC and maintain amounts of capital, as determined by the CFTC, to support the risks of their transactions. Other proposals would require the CFTC to review these markets for potential regulatory recommendations. We do not know what impact, if any, these proposals would have on our business if enacted. Additionally, there may be other broader proposals introduced to submit energy trading to comprehensive regulation by the FERC or by the CFTC.

The acquisition, ownership and operation of power generation facilities require numerous permits, approvals and certificates from federal, state and local governmental agencies. The operation of our generation facilities must also comply with environmental protection and other legislation and regulations. At present, we have operations in Arizona, California, Florida, Illinois, Maryland, Nevada, New Jersey, New York, Ohio, Pennsylvania, Texas and West Virginia. Most of our existing domestic generation facilities are exempt wholesale generators that sell electricity exclusively into the wholesale market. These facilities are subject to regulation by the FERC regarding rate matters and by state public utility commissions regarding siting, environmental and other health and safety matters. The FERC has authorized us to sell our generation from these facilities at market prices. The FERC retains the authority to modify or withdraw our market-based rate authority and to impose "cost of service" rates if it determines that market pricing is not in the public interest.

Uncertainty Related to the New York Regulatory Environment. The New York market is subject to significant regulatory oversight and control. Our operating results are as dependent on the continuance of the regulatory structure as they are on fluctuations in the market price for electricity. The rules governing the current regulatory structure are subject to change. We cannot assure you that we will be able to adapt our business in a timely manner in response to any changes in the regulatory structure, which could have a material adverse effect on our revenues and costs. The primary regulatory risk in this market is associated with the oversight activity of the New York Public Service Commission, the New York Independent System Operator (NYISO) and the FERC.

Our assets located in New York are subject to "lightened regulation" by the New York Public Service Commission, including provisions of the New York Public Service Law that relate to enforcement, investigation, safety, reliability, system improvements, construction, excavation, and the issuance of securities. Because "lightened regulation" was accomplished administratively, it could be revoked.

The NYISO has the ability to revise wholesale prices, which could lead to delayed or disputed collection of amounts due to us for sales of energy and ancillary services. The NYISO also has the ability, in some cases subject to FERC approval, to impose cost-based pricing and/or price caps. The NYISO has implemented a measure known as the "Automated Mitigation Procedure" (AMP) under which day-ahead energy bids will be automatically reviewed and, if necessary, mitigated if economic or physical withholding is determined. Proposed modifications to the AMP provide a level of uncertainty over the impacts of that procedure in the summer of 2002. FERC has also directed the NYISO to adopt mitigation measures for all limits in New York City consistent with its overall market-monitoring plan. NYISO has filed in-city mitigation measures with the FERC, which it is proposing to be implemented beginning in late spring of 2002. The full impact of these revisions may not be known until the summer of 2002.

Integration and Other Risks Associated with Our Orion Power Assets. We have made a substantial investment in our recent acquisition of Orion Power. If we are unable to profitably integrate, operate, maintain and manage our newly acquired power generation facilities, our results of operations will be adversely affected.

Duquesne Light Company is obligated to supply electricity at predetermined tariff rates to all retail customers in its existing service territory who do not select another electricity supplier. Orion Power has committed to provide 100% of the energy that Duquesne Light Company needs to meet this obligation under a contract that was recently extended through December 2004. If our obligation under this contract exceeds the available output from the combination of Orion Power's generation facilities and our additional generation facilities in the region, we would

be forced to buy additional energy at prevailing market prices and, in certain cases where we failed to deliver the required amount, we could incur penalties during periods of peak demand of up to $1,000 per megawatt hour. If this situation were to occur during periods of peak energy prices, we could suffer substantial losses that could materially adversely affect our results of operations. In addition, our revenues generated under this contract may be adversely impacted if a substantial number of Duquesne Light Company's retail customers select other retail electric providers.

Operating Risks. Our Wholesale Energy operations and our European Energy operations are exposed to risks relating to the breakdown or failure of equipment or processes, fuel supply interruptions, shortages of equipment, material and labor, and operating performance below expected levels of output or efficiency. A significant portion of our facilities were constructed many years ago. Older generating equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to add or upgrade equipment to keep it operating at peak efficiency, to comply with changing environmental requirements, or to provide reliable operations. Such changes could affect operating costs. Any unexpected failure to produce power, including failure caused by breakdown or forced outage, could result in reduced earnings.

We depend on transmission and distribution facilities owned and operated by utilities and other power companies to deliver the electricity we sell from our power generation facilities to our customers, who in turn deliver these products to the ultimate consumers of the power. If transmission is disrupted, or transmission capacity is inadequate, our ability to sell and deliver our products may be hindered.

Factors Affecting Our Acquisition and Project Development Activities. Our plans indicate a shift in emphasis from identifying and pursuing acquisition and development candidates to construction and integration of generation facilities. We believe this is a temporary shift based on the requirements of integrating the Orion Power assets and the maturation of both our and Orion Power's development projects and by the current state of the wholesale electricity capital markets.

There are numerous risks relating to the acquisition and development of power generation plants and construction and integration of these facilities. We may not be able to identify attractive acquisitions or development opportunities, complete acquisitions or development projects we undertake, or we may not be able to integrate these plants, especially larger acquisitions, into our portfolios and achieve the synergies, including cost savings, we originally envisioned.

Currently, we have a select number of power generation facilities under development and many under construction (either owned or leased). Our completion of these facilities is subject to the following:

- market prices,
- shortages and inconsistent quality of equipment, material and labor,
- financial market conditions and the results of our financing efforts,
- actions by rating agencies with respect to us or our competitors,
- work stoppages, due to plant bankruptcies and contract labor disputes,
- permitting and other regulatory matters,
- unforeseen weather conditions,
- unforeseen equipment problems,
- environmental and geological conditions, and
- unanticipated capital cost increases.

Any of these factors could give rise to delays, cost overruns or the termination of the plant expansion, construction or development. Many of these risks cannot be adequately covered by insurance. While we maintain insurance, obtain warranties from vendors and obligate contractors to meet specified performance standards, the proceeds of such insurance, warranties or performance guarantees may not be adequate to cover lost revenues, increased expenses or liquidated damages payments we may owe.

If we were unable to complete the development of a facility, we would generally not be able to recover our investment in the project. The process for obtaining initial environmental, siting and other governmental permits and approvals is complicated, expensive, lengthy and subject to significant uncertainties. Transmission interconnection, fuel supply and cooling water represent some cost uncertainties during project development that may also result in termination of the project. In addition, construction delays and contractor performance shortfalls can result in the loss of revenues and may, in turn, adversely affect our results of operations. The failure to complete construction according to specifications can result in liabilities, reduced plant efficiency, higher operating costs and reduced earnings. We may not be successful in the development or construction of power generation facilities in the future.

As a result of several recent events, including the United States economic recession, the price decline of our industry sector in the equity capital markets and the downgrading of the credit ratings of several of our significant competitors, the availability and cost of capital for our business and the businesses of our competitors has been adversely affected. In response to these events and the intensified scrutiny of companies in our industry sector by the rating agencies, we have reduced our planned capital expenditures by $2.7 billion over the 2002 -- 2006 time frame.

Successful integration of plants, especially acquisitions, is subject to a number of risks, including the following:

- unforeseen liabilities or other exposures,

- inaccurate due diligence of acquired facilities, such as underestimates of outage rates and operating costs,

- inability to achieve adequate cost savings in both overhead and operations,

- inability to achieve various commercial synergies with existing operations, and

- market prices for power and fuels.

Any of these factors could significantly affect the economic impact of an acquisition on our results of operations.

As part of this integration process and our temporary shift in emphasis, the Orion Power plants will be part of an operations improvement process that strives to achieve both reduced operating and maintenance costs and increase gross margins through improved availability and reliability of plants. This process is currently underway at our other plants and will be introduced at the Orion Power facilities beginning in the third quarter of 2002.

Increasing Competition in Our Industry. Our Wholesale Energy business segment competes with other energy merchants. In order to successfully compete, we must have the ability to aggregate supplies at competitive prices from different sources and locations and must be able to efficiently utilize transportation services from third-party pipelines and transmission services from electric utilities. We also compete against other energy merchants on the basis of our relative skills, financial position and access to credit sources. Energy customers, wholesale energy suppliers and transporters often seek financial guarantees and other assurances that their energy contracts will be satisfied. As pricing information becomes increasingly available in the energy trading and marketing business, we anticipate that our operations will experience greater competition and downward pressure on per-unit profit margins. Furthermore, demands for liquidity to support trading and merchant asset businesses are increasing at the same time that the credit rating agencies are reviewing the liquidity and other credit criteria for trading, marketing and merchant generation firms. Other companies we compete with may not have similar credit ratings pressure or may have higher credit ratings. The growth of electronic trading platforms has increased the number of transactions, potential counterparties and level of price transparency in the energy commodity market. As a result, we are likely

to transact with a wide range of customers potentially increasing our risk due to their changing credit circumstances, while at the same time potentially diversifying our reliance on a smaller number of customers.

Developments with respect to our competitors frequently have a collateral and tangible impact on us. Credit and liquidity concerns impact our ability to do business with counterparties. Adverse regulatory and political ramifications can result from activities and investigations directed at our competitors.

Hydroelectric Facilities Licensing. The Federal Power Act gives the FERC exclusive authority to license non-federal hydroelectric projects on navigable waterways and federal lands. The FERC hydroelectric licenses are issued for terms of 30 to 50 years. Some of our hydroelectric facilities, representing approximately 90 MW of capacity, have licenses that expire within the next ten years. Facilities that we own representing approximately 160 MW of capacity have new or initial license applications pending before the FERC. Upon expiration of a FERC license, the federal government can take over the project and compensate the licensee, or the FERC can issue a new license to either the existing licensee or a new licensee. In addition, upon license expiration, the FERC can decommission an operating project and even order that it be removed from the river at the owner's expense. In deciding whether to issue a license, the FERC gives equal consideration to a full range of licensing purposes related to the potential value of a stream or river. It is not uncommon for the relicensing process to take between four and ten years to complete. Generally, the relicensing process begins at least five years before the license expiration date and the FERC issues annual licenses to permit a hydroelectric facility to continue operations pending conclusion of the relicensing process. We expect that the FERC will issue to us new or initial hydroelectric licenses for all the facilities with pending applications. Presently, there are no applications for competing licenses and there is no indication that the FERC will decommission or order any of the projects to be removed.

FACTORS AFFECTING THE RESULTS OF OUR EUROPEAN ENERGY OPERATIONS

General. Our European Energy segment intends to focus its activities in existing trading markets in the Netherlands, the United Kingdom, Germany, the Scandinavian countries, Austria and Switzerland. Historical results of operations may not be indicative of future results of operations. In particular, results of operations for our European Energy segment prior to 2001 reflect the impact of a regulated generation price system that has been discontinued. In addition, in 2001 and prior years, under Dutch corporate income tax laws, the earnings of REPGB were subject to a zero percent Dutch corporate income tax rate as a result of the Dutch tax holiday applicable to its electric industry. In 2002, all of European Energy's earnings in the Netherlands will be subject to the standard Dutch corporate income tax rate, which currently is 34.5%. Furthermore, European Energy's results of operations for 2001 include the effect of a number of non-recurring items, including the $37 million net gain resulting from the settlement of a stranded cost indemnity agreement.

Future results of operations of our European Energy segment could be affected by, among other things, the following:

- increasing competition in the Dutch wholesale energy market, resulting in declining electric power margins,

- the timing and pace of the deregulation of other sectors of the European energy markets,

- the continuing negative impact of the bankruptcy of Enron on market liquidity and credit requirements in European trading markets,

- the mark-to-market price risk exposure associated with certain stranded cost electricity and natural gas supply contracts,

- the impact of any renegotiation of European Energy's stranded cost contracts,

- the impact and changes of natural gas tariffs pursuant to changes in the regulatory structure,

- the ability to negotiate new contracts or renew contracts with customers on favorable terms, and

- the impact of slowing economic growth on power generation demand in the markets in which our European Energy segment operates.

Competition in the European Market. Competition for energy customers in the markets in which our European Energy segment operates is high. The primary factors affecting our European Energy segment's competitive position are price, regulation, the economic resources of its competitors, and its market reputation and perceived creditworthiness.

Our European Energy segment competes in the Dutch wholesale market against a variety of other companies, including other Dutch generation companies, co-generators, various producers of alternate sources of power and non-Dutch generators of electric power, primarily from France and Germany. As of December 31, 2001, the Dutch electricity system had three operational interconnection points with Germany and two interconnection points with Belgium. There are also a number of projects that are at various stages of development and that may increase the number of interconnections in the future (post 2005), including interconnections with Norway and the United Kingdom. The Belgian interconnections are primarily used to import electricity from France, but a larger portion of Dutch electricity imports comes from Germany. It is anticipated that over time, transmission constraints between the Netherlands and other European markets will be reduced, thereby exposing our European Energy segment to even greater competitive pressures.

Our European Energy segment's trading and marketing operations are also subject to increasing levels of competition. Competition among power generators for customers is intense and is expected to increase as more participants enter increasingly deregulated markets. Many of our European Energy segment's existing competitors have geographic market positions far more extensive than that of our European Energy segment. In addition, many of these competitors possess significantly greater financial, personnel and other resources than our European Energy segment.

Deregulation of the Dutch Market. The Dutch wholesale electric market was completely opened to competition on January 1, 2001. Consistent with our expectations at the time we acquired our operations in the Netherlands, the gross margin of our European Energy segment declined in 2001 as a result of the deregulation of the market and the termination of an agreement with the other Dutch generators and the Dutch distributors. Commercial markets were generally opened to retail competition in January 2002. We expect the remainder of the market, consisting of mainly residential customers, will be open to competition by January 1, 2003. The timing of opening of the residential segment of the market is subject to change, however, at the discretion of the Dutch Minister of Economic Affairs. Since our European Energy segment's operations focus on the wholesale market, we do not expect that the opening of the Dutch commercial or residential electric market will have a significant impact on the segment's results of operations.

Plant Outages. During 2001, our margins were negatively impacted by unplanned outages at some of our Dutch generation facilities. The unplanned outages were primarily due to malfunctions of the generation turbines and related equipment and complications encountered in the maintenance of one of our facilities. We estimate that these unplanned outages resulted in losses of approximately $11 million, a significant portion of which is covered by property damage and business interruption insurance. For additional information regarding operational risks applicable to our European Energy segment, including unplanned plant outages, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Operating Risks."

Other Factors. In December 2001, REPGB and its former shareholders entered into a settlement agreement resolving the former shareholders' stranded cost indemnity obligations under the purchase agreement of REPGB. For additional information regarding the stranded cost indemnity settlement and the potential impact on earnings from changes in the valuation in the future of the related stranded cost contracts, please read Notes 6(b) and 13(f) to our consolidated financial statements. We have begun discussions with the other parties to these contracts to modify the terms of certain of the out-of-market contracts. The structure of these settlements, if consummated, likely would entail an upfront cash payment to the counterparty in exchange for amendments to price and other terms intended to make the contracts more market conforming. REPGB would seek to fund these payments, if made, to the extent possible through the proceeds from the settlement of its stranded cost indemnity agreement and, possibly, anticipated distributions from NEA. We cannot currently predict the outcome of these negotiations. However, to the extent that these discussions result in amendments to the contracts, we could realize a gain.

We are in the process of reviewing our European Energy segment's goodwill and certain intangibles for impairment pursuant to SFAS No. 142. For information regarding assessing the impairment in 2002 under SFAS No. 142, please read "-- New Accounting Pronouncements and Critical Accounting Policies."

Our European operations are subject to various risks incidental to investing or operating in foreign countries. These risks include economic risks, such as fluctuations in currency exchange rates, restrictions on the repatriation of foreign earnings and/or restrictions on the conversion of local currency earnings into U.S. dollars. For example, we estimate that the impact of the devaluation of the Euro relative to the U.S. dollar during 2001 negatively affected U.S. dollar net income by approximately $2 million.

FACTORS AFFECTING THE RESULTS OF OUR RETAIL ENERGY OPERATIONS

General. The Texas retail electricity market fully opened to competition in January 2002. Therefore, we do not expect the earnings from our Retail Energy segment for past years to be indicative of our future earnings and results. The level of future earnings generated by our Retail Energy segment will depend on numerous factors including:

- legislative and regulatory developments related to the newly-opened retail electricity market in Texas and changes in the application of such laws and regulations,

- the effects of competition, including the extent and timing of the entry or exit of competitors in our markets and the impact of competition on retail prices and margins,

- customer attrition rates and cost associated with acquiring and retaining new customers,

- our ability to negotiate new contracts or renew contracts with customers on favorable terms,

- the timing and extent of changes in wholesale commodity prices and transmission and distribution rates,

- our ability to procure adequate electricity supply upon economic terms,

- our ability to effectively hedge commodity prices,

- our ability to pass increased supply costs on to customers in a timely manner,

- our ability to timely perform our obligations under our customer contracts,

- market liquidity for wholesale power,

- the financial condition and payment patterns of our customers,

- weather variations and other natural phenomena,

- the timely and accurate implementation of the new internal and external information technology systems and processes necessary to provide customer information and to implement customer switching in the retail electricity market in Texas which was established in late 2001,

- the costs associated with operating our internal customer service and other operating functions, and

- the timing and accuracy of ERCOT settlements, and the exchange of information between ERCOT, the transmission and distribution utility and our retail electric provider, which facilitates our Retail Energy segment's billing, collection and supply management processes.

Competition in the Texas Market. 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 full retail competition. Beginning in 2002, all classes of Texas customers of most investor-owned utilities, and those of any municipal utility and electric cooperative that opted to participate in the competitive marketplace, were able to choose their retail electric provider. In January 2002, we began to provide retail electric services to all customers of

Reliant Energy's electric utility who did not take action to select another retail electric provider. Under the market framework established by the Texas electric restructuring law, we are recognized as the affiliated retail electric provider of Reliant Energy's electric utility. The Distribution will not change this treatment, even though we will cease to be a subsidiary of Reliant Energy after the Distribution. As an affiliated retail electric provider, we are initially required to sell electricity to these Houston area residential and small commercial customers at a specified price, which is referred to in the law as the "price to beat," whereas other retail electric providers are allowed to sell electricity to these customers at any price. Our price to beat was set at a level resulting in an estimated average 17% reduction from December 31, 2001 rates for our residential customers and an estimated average 22% reduction from December 31, 2001 rates for our pre-existing small commercial customers. The wholesale energy supply cost component, or "fuel factor," included in our price to beat was initially set by the Texas Utility Commission at the then average forward 12 month gas price strip of approximately $3.11/mmbtu.

We are not permitted to offer electricity to these customers at a price other than the price to beat until January 1, 2005, unless before that date the Texas Utility Commission determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers in the Houston metropolitan area is committed to be served by retail electric providers other than us. Because we will not be able to compete for residential and small commercial customers on the basis of price in the Houston area, we may lose a significant number of these customers to other retail electric providers. Customers were given the opportunity to switch beginning in August 2001 through the retail pilot project. Due to system related problems which restricted the timely switching of customers during the pilot project and in early 2002, we cannot be sure of the number of customers that have attempted to switch to other retail electric providers. For additional information regarding retail market systems problems, please read "-- Operational Risks." Between the beginning of the pilot project in August 2001 and February 28, 2002, we estimate that approximately 67,000 customers (or approximately 4% of our residential and small commercial customers) have switched to other retail electric providers. Due to the switching systems problems, the actual numbers of customers that switched or attempted to switch by this date may actually be higher.

As discussed above, as the affiliated retail electric provider, we may only sell electricity to residential and small commercial customers in Reliant Energy's electric utility service territory at the price to beat for a period of up to three years. In addition, as the affiliated retail electric provider, we are obligated to offer the price to beat to requesting residential and small commercial customers in Reliant Energy's electric utility service territory through January 1, 2007.

We are providing commodity service to the large commercial, industrial and institutional customers previously served by Reliant Energy's electric utility who did not take action to select another retail electric provider. In addition, we have signed contracts to provide electricity and services to large commercial, industrial and institutional customers, both in the Houston area as well as outside of the Houston market. We or any other retail electric provider can provide services to these customers at any negotiated price. The market for these customers is very competitive, and any of these customers that select us as their provider may subsequently decide to switch to another provider at the conclusion of the term of their contract with us.

In most retail electric markets outside the Houston area, our principal competitor may be the local incumbent utility company's retail affiliate. These retail affiliates have the advantage of long-standing relationships with their customers. In addition to competition from the incumbent utilities' affiliates, we may face competition from a number of other retail providers, including affiliates of other non-incumbent utilities, independent retail electric providers and, with respect to sales to large economical and industrial customers, independent power producers acting as retail electric providers. Some of these competitors or potential competitors may be larger and better capitalized than we are.

Generally, retail electric providers will purchase electricity from the wholesale generators at unregulated rates, sell electricity to their retail customers and pay the transmission and distribution utility a regulated tariffed rate for delivering the electricity to their customers. Retail electric providers will then bill and collect payments from the customers. Because we are required to sell electricity to residential and small commercial customers in the Houston area at the price to beat, we may lose a significant number of these customers to non-affiliated retail electric providers if their cost to provide electricity to these customers is lower than the price to beat. In addition, the results of our Retail Energy operations for sales to residential and small commercial customers over the next several years in Texas will be largely dependent upon the amount of gross margin, or "headroom," available in our price to beat.

Until 2004, when we will have the option to acquire Reliant Energy's ownership interest in Texas Genco, our results will be largely based on the ability of our Wholesale Energy segment to buy power at prices that yield acceptable gross margins at revenue levels determined by the price to beat set by the Texas Utility Commission. The available headroom in the price to beat is equal to the difference between the price to beat and the sum of the charges, fees and transmission and distribution utility rates approved by the Texas Utility Commission and the price we pay for power to serve our price to beat customers. The larger the amount of headroom, the more incentive new market entrants should have to provide retail electric services in that particular market. The Texas Utility Commission's regulations allow affiliated retail electric providers to adjust their price to beat fuel factor based on the percentage change in the price of natural gas. In addition, they may also request an adjustment as a result of changes in their price of purchased energy. In such a request, they may adjust the fuel factor to the extent necessary to restore the amount of headroom that existed at the time the initial price to beat fuel factor was set by the Texas Utility Commission. Affiliated retail electric providers may not request that their price to beat be adjusted more than twice a year. We cannot estimate with any certainty the magnitude and frequency of the adjustments we may seek, if any, and the eventual impact of such adjustments on the amount of headroom. Based on forward gas prices at the end of March 2002, we would be able to increase our price to beat rates by approximately 4-5%. Available headroom in the Houston market, as well as in other Texas markets where we intend to compete, will be affected by any changes in transmission and distribution rates that may be requested by the transmission and distribution provider in the respective service territory and in taxes, fees and other charges assessed or levied by third parties. Any changes in transmission and distribution rates must be approved by the Texas Utility Commission. The Texas Utility Commission has initiated a proceeding to determine what taxes a municipality or other local taxing authority can charge retail electric providers relating to the provision of electricity.

In Texas, our Wholesale Energy group and our Retail Energy group work together in order to determine the price, demand and supply of energy required to meet the needs of our Retail Energy segment's customers. We may purchase capacity from non-affiliated parties in the capacity auctions mandated by the Texas Utility Commission and from Texas Genco in auctions substantially similar to, but separate from, the mandated auctions. These positions are continuously monitored and updated based on retail sales forecasts and market conditions. However, we do not expect to cover the entire exposure of these positions to market price volatility, and the coverage will vary over time. For a discussion of risks similar to those associated with our Retail Energy segment's hedging activities, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility," and "-- Risks Associated with Our Hedging and Risk Management Activities." In addition to the factors noted in these sections, our ability to adequately hedge our retail electricity requirements is also dependent on the accurate forecast of the number of our customers in each customer class and uncertainties associated with the recently established ERCOT settlement procedures.

Obligations as a Provider of Last Resort. The Texas electric restructuring law requires the Texas Utility Commission to designate certain retail electric providers as providers of last resort in areas of the state in which retail competition is in effect. A provider of last resort is required to offer a standard retail electric service package for each class of customers designated by the Texas Utility Commission at a fixed, nondiscountable rate approved by the Texas Utility Commission, and is required to provide the service package to any requesting retail customer in the territory for which it is the provider of last resort. In the event that another retail electric provider fails to serve any or all of its customers, the provider of last resort is required to offer that customer the standard retail service package for that customer class with no interruption of service to the customer. The Texas Utility Commission designated our subsidiary, StarEn Power, to serve as the provider of last resort for residential and small commercial customers in the western portion of the Dallas/Fort Worth metropolitan area formally served by Texas Utilities, Inc., a subsidiary of TXU, Inc. In addition, StarEn Power has been appointed as the provider of last resort for large commercial, industrial and institutional customers in Reliant Energy's electric utility service territory. StarEn Power will serve two consecutive six month terms as the provider of last resort. The first term began on January 1, 2002. The second six-month term, beginning July 1, 2002, will include a potential adjustment to the energy component of our provider of last resort rate based on a NYMEX Henry Hub natural gas index. The terms and rates for provider of last resort service are governed by a settlement between us and various interested parties, which settlement was approved by the Texas Utility Commission. In this role, StarEn Power retains the rights to require customer deposits and disconnect service in accordance with Texas Utility Commission rules, and to petition the Texas Utility Commission for a price change in the event it is determined that StarEn power will experience a net financial loss over the term of its provider of last resort obligations. In the first quarter of 2002, the Texas Utility Commission

initiated a proceeding to review and possibly amend both the governing rules and structure of provider of last resort service and obligations. This proceeding is in its initial stages and we cannot be sure whether the structure of provider of last resort service and obligations will change, how they will change or what effect, if any, any changes would have on the financial condition, results of operations or cash flows of StarEn Power or our Retail Energy segment.

"Clawback" Payment to Reliant Energy. To the extent the price to beat exceeds the market price of electricity, we will be required to make a payment to Reliant Energy in 2004 unless the Texas Utility Commission determines that, on or prior to January 1, 2004, 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers (at or below one MW), as applicable, within Reliant Energy's electric utility service territory is committed to be served by retail electric providers other than us. If the 40% test is not met and the reconciliation and a retail payment is required, the amount of this retail payment will be equal to (a) the amount that the price to beat, less non-bypassable delivery charges, is in excess of the market price of electricity per customer, but not to exceed $150 per customer, multiplied by (b) the number of residential or small commercial customers, as the case may be, that we serve on January 1, 2004 in Reliant Energy's electric utility service territory, less the number of new retail electric customers we serve in other areas of Texas.

Operational Risks. The price of purchased power could have an adverse effect on the costs incurred by our Retail Energy segment in acquiring power to serve the demand of its retail customers. For additional information regarding commodity price volatility, please read "-- Factors Affecting the Results of Our Wholesale Energy Operations -- Price Volatility."

We are dependent on local transmission and distribution utilities for maintenance of the infrastructure through which we deliver electricity to our retail customers. Any infrastructure failure that interrupts or impairs delivery of electricity to our customers could negatively impact the satisfaction of our customers with our service. Additionally, we are dependent on the local transmission and distribution utilities for the reading of our customers' energy meters. We are required to rely on the local utility or, in some cases, the independent transmission system operator, to provide us with our customers' information regarding energy usage, and we may be limited in our ability to confirm the accuracy of the information. The provision of inaccurate information or delayed provision of such information by the local utilities or system operators could have a material negative impact on our business and results of operations and cash flows.

The ERCOT ISO is the independent system operator responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT market. Its responsibilities include ensuring that information relating to a customer's choice of retail electric provider is conveyed in a timely manner to anyone needing the information. Problems in the flow of information between the ERCOT ISO, the transmission and distribution utility and the retail electric providers have resulted in delays in switching customers. While the flow of information is improving, operational problems in the new system and processes are still being worked out. In some instances, large commercial, industrial and institutional customers who have not yet been switched to be customers of Solutions due to system delays are paying for electricity at the default rate which is higher than their contracted price of electricity. Until the customer is switched to us, Solutions cannot provide it electricity. This delay in switching has also caused us, at times, to sell in the spot market or through bilateral contracts at prices below the contracted prices the electricity that we had intended to provide to such customers.

The ERCOT ISO is also responsible for handling scheduling and settlement for all electricity supply volumes in the Texas deregulated electricity market. In addition, the ERCOT ISO plays a vital role in the collection and dissemination of metering data from the transmission and distribution utilities to the retail electric providers. We and other retail electric providers schedule volumes based on forecasts. As part of settlement, the ERCOT ISO communicates the actual volumes delivered compared to the forecast volumes scheduled. The ERCOT ISO calculates an additional charge or credit based on the difference between the actual and forecast volumes, based on a market clearing price for the difference. Settlement charges also include allocated costs such as unaccounted-for energy. Currently, there is a three to four month delay in receiving final settlement information. As a result, we must estimate our supply costs. Timing delays in receiving final settlement information creates supply cost estimation risk.

FACTORS RELATED TO OUR SEPARATION FROM RELIANT ENERGY

Distribution. Although Reliant Energy has advised us that it currently intends to complete the distribution of our common stock to its shareholders promptly upon the receipt of certain regulatory approvals related to its restructuring, which it currently expects to obtain in the next few months, we cannot assure you whether or when the Distribution will occur. Reliant Energy is not obligated to complete the Distribution, and it may decide not to do so.

Upon completion of the Distribution, substantially all of the 240,000,000 shares of our common stock that Reliant Energy owns would be eligible for immediate resale in the public market. We are unable to predict whether significant amounts of our common stock will be sold in the open market in anticipation of, or following, the Distribution. We are also unable to predict whether a sufficient number of buyers would be in the market at that time, such that an imbalance of sellers and buyers could eventually affect the price of our stock.

A portion of Reliant Energy's common stock is held by index funds tied to the Standard & Poor's 500 Index, the Standard & Poor's Electric Utilities Index and the Dow Jones Utilities Index or other stock indices. If our stock is not included in these indices at the time of the Distribution, these index funds will be required to sell our stock. Similarly, other institutional stockholders are not allowed by their charters to hold the stock of companies that do not pay dividends. Since we currently do not intend to pay dividends, we expect that these stockholders will sell the shares of our common stock distributed to them. Any sales of substantial amounts of our common stock in the public market, or the expectation that such sales might occur, whether as a result of the Distribution or otherwise, could adversely affect the market price of our common stock.

Reliant Energy as a 80+% Stockholder. Reliant Energy owns over 80% of our outstanding common stock. As long as Reliant Energy owns a majority of our outstanding common stock, Reliant Energy will continue to be able to elect our entire board of directors without calling a special meeting. As a result, Reliant Energy, subject to any fiduciary duty owed to our minority stockholders under Delaware law, will be able to control all matters affecting us.

In addition, Reliant Energy may enter into credit agreements, indentures or other contracts that limit the activities of its subsidiaries. While we would not likely be contractually bound by these limitations, Reliant Energy would likely cause its representatives on our board of directors to direct our business so as not to breach any of these agreements. Moreover, the Texas Utility Commission and the state regulatory commissions of Arkansas and Minnesota have imposed limitations on the amount Reliant Energy or its subsidiaries may invest in foreign utility companies and, in some cases, foreign electric wholesale generating companies. These limitations are based upon Reliant Energy's consolidated net worth, retained earnings, and debt and stockholders' equity.

Possible Conflicts of Interest. We may have potential business conflicts of interest with Reliant Energy with respect to our past and ongoing relationships, and because of Reliant Energy's controlling ownership prior to the Distribution, we may not be able to resolve these conflicts on terms commensurate with those possible in arms' length transactions. In anticipation of our separation from Reliant Energy, we have entered into many agreements with Reliant Energy. These agreements may be amended upon agreement of the parties. While we are controlled by Reliant Energy, Reliant Energy may be able to require us to agree to amendments to these agreements. We may not be able to resolve any potential conflicts with Reliant Energy, and even if we do, the resolution may be less favorable than if we were dealing with an unaffiliated party.

Our executive officers and some of our directors own a substantial amount of Reliant Energy common stock and options to purchase Reliant Energy common stock. Ownership of Reliant Energy common stock by our directors and officers after the Distribution could create, or appear to create, potential conflicts of interest when directors and officers are faced with decisions that could have different implications for Reliant Energy than they do for us.

We expect that even after the Distribution, two of our directors will also be directors of Reliant Energy. One of these directors will be our chairman, president and chief executive officer. These directors will owe fiduciary duties to the stockholders of each company. As a result, in connection with any transaction or other relationship involving both companies, these directors may need to recuse themselves and to not participate in any board action relating to these transactions or relationships.

Adverse Tax Consequences. If we take actions which cause the Distribution to fail to qualify as a tax-free transaction, we will be required to indemnify Reliant Energy for any resulting taxes. Under an agreement with Reliant Energy, if we breach any representation in the agreement relating to the IRS ruling that Reliant Energy receives in connection with the Distribution, take any action that causes our representations in the agreement relating to the ruling to be untrue or engage in a transaction after the Distribution that causes the Distribution to be taxable to Reliant Energy, we will be required to indemnify Reliant Energy for any resulting taxes. The amount of any indemnification payments could be substantial.

Current tax law provides that, depending on the facts and circumstances, the Distribution may be taxable to Reliant Energy if we undergo a 50% or greater change in stock ownership within two years after the Distribution. Under agreements with Reliant Energy, Reliant Energy is entitled to require us to reimburse any tax costs incurred by Reliant Energy as a result of a transaction resulting in a change in control of our company. These costs may be so great that they delay or prevent a strategic acquisition or change in control of our company.

Deconsolidation from the Reliant Energy Consolidated Tax Group. Subsequent to the Distribution, we will cease to be a member of the Reliant Energy consolidated tax group. This separation will have both current and future income tax implications to us. The event of deconsolidation itself will result in the triggering of deferred intercompany gains. We will recognize taxable income related to these gains, which will not have a material impact on our net income and cash flow. In addition to the current income tax consequences triggered by the act of deconsolidation discussed above, our separation from the Reliant Energy consolidated tax group will change our overall future income tax posture. As a result, we could be limited in our ability to effectively use future tax attributes. We have agreed with Reliant Energy that we may carry back net operating losses we generate in our tax years after deconsolidation to tax years when we were part of the Reliant Energy consolidated group subject to Reliant Energy's consent. Reliant Energy has agreed not to unreasonably withhold such consent. Additionally, we may also be able to utilize such net operating losses in our tax years after deconsolidation (subject to the applicable carryforward limitation periods) but only to the extent of our income in such tax years.

OTHER FACTORS

Terrorist Attacks and Acts of War. We are currently unable to measure the ultimate impact of the terrorist attacks of September 11, 2001 on our industry and the United States economy as a whole. The uncertainty associated with the retaliatory military response of the United States and other nations and the risk of future terrorist activity may impact our results of operations and financial condition in unpredictable ways. These actions could result in adverse changes in the insurance markets and disruptions of power and fuel markets. In addition, our generation facilities or the power transmission and distribution facilities on which we rely could be directly or indirectly harmed by future terrorist activity. The occurrence or risk of occurrence of future terrorist attacks or related acts of war could also adversely affect the United States economy. A lower level of economic activity could result in a decline in energy consumption which could adversely affect our revenues, margins and limit our future growth prospects. The occurrence or risk of occurrence could also increase pressure to regulate or otherwise limit the prices charged for electricity or gas. Also, these risks could cause instability in the financial markets and adversely affect our ability to access capital.

Environmental Regulation. Our wholesale business is subject to extensive environmental regulation by federal, state and local authorities. We are required to comply with numerous environmental laws and regulations, and to obtain numerous governmental permits, in operating our facilities. We may incur significant additional costs to comply with these requirements. If we fail to comply with these requirements, we could be subject to civil or criminal liability and fines. Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to us or our facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. If any of these events occur, our business, operations and financial condition could be adversely affected.

We may not be able to obtain or maintain from time to time all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if we fail to obtain and comply with them, the operation of our facilities could be prevented or become subject to additional costs.

We are generally responsible for all on-site liabilities associated with the environmental condition of our power generation facilities which we have acquired and developed, regardless of when the liabilities arose and whether they are known or unknown. These liabilities may be substantial.

Holding Company Organizational Structure. All of our operations are conducted by our subsidiaries. Our cash flow and our ability to service parent-level indebtedness when due is dependent upon our receipt of cash dividends, distributions or other transfers from our subsidiaries. The terms of some of our subsidiaries' indebtedness restrict their ability to pay dividends or make restricted payments to us in some circumstances. As of December 31, 2001, all of the specified conditions in these agreements were satisfied. Under the credit agreements of certain of Orion Power's subsidiaries, these subsidiaries are restricted from distributing cash to Orion Power.

In addition, the ability of REMA, our subsidiary that owns some of the power generation facilities in our Northeast regional portfolio, to pay dividends or make restricted payments to us is restricted under the terms of three lease agreements under which we lease all or an undivided interest in these generating facilities. These agreements allow our Mid-Atlantic subsidiary to pay dividends or make restricted payments only if specified conditions are satisfied, including maintaining specified fixed charge coverage ratios.

Liquidity Concerns. As of February 19, 2002, we have $2.9 billion of credit facilities which will expire in 2002. To the extent that we continue to need access to this amount of committed credit, we expect to extend or replace these facilities. The current credit environment currently impacting our industry may require our future facilities to include terms that are more restrictive or burdensome or at higher borrowing rates than those of our current facilities. In addition, the terms of any new credit facilities may be adversely affected by any delay in the date of the Distribution. For a discussion of other factors affecting our sources of cash and liquidity, please read "Liquidity and Capital Resources."

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The net cash provided by or used in operating, investing and financing activities for 1999, 2000 and 2001 is as follows (in millions).

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
Cash provided by (used in):			
Operating activities	$ 35	$ 328	$ (127)
Investing activities	(1,406)	(3,013)	(838)
Financing activities	1,408	2,721	1,000

Cash Provided by Operating Activities

Net cash provided by operating activities during 2001 decreased by $455 million compared to 2000. This decrease was primarily due to changes in working capital and other changes in assets and liabilities. Changes in working capital and other assets and liabilities in 2001 resulted in net cash outflows of approximately $720 million primarily due to the following:

- a $409 million net cash outflow due to a reduction in accounts payable partially offset by a reduction in accounts receivable and net intercompany accounts receivable during 2001 due to the timing of cash receipts and cash payments at our European Energy segment and the payment of a significant gas payable by Wholesale Energy in 2001 which was accrued in 2000;

- a lease prepayment of $181 million related to the REMA sale-leaseback agreements (please see Note 13(c) to our consolidated financial statements);

- increased restricted cash of $117 million related to our REMA operations (please see Note 2(j) to our consolidated financial statements); and

- increased deposits of $145 million in a collateral account related to an equipment financing structure (please see Note 13(h) to our consolidated financial statements);

- the foregoing items were partially offset by $167 million of reduced net margin deposits on energy trading and hedging activities as a result of reduced commodity volatility and relative price levels of natural gas and power compared to the fourth quarter of 2000.

Changes in working capital and other assets and liabilities in 2000 resulted in net cash outflows of approximately $27 million primarily due to the following:

- increased restricted cash of $50 million related to our REMA operations;

- increased deposits of $85 million in a collateral account related to an equipment financing structure;

- increased net margin deposits of $206 million on energy trading and hedging activities as a result of increased commodity volatility and relative price levels of natural gas and power in the fourth quarter of 2000; and

- other changes in working capital;

- the foregoing items were partially offset by a $142 million net cash inflow due to an increase in accounts payable partially offset by an increase in accounts receivable and net intercompany accounts receivable due to the timing of cash receipts and cash payments related to a significant gas payable which was accrued in 2000 and $123 million of proceeds from the sale of an investment in marketable debt securities during 2000.

Cash flows from operations, excluding changes in working capital and other changes in assets and liabilities, were approximately $593 million in 2001 compared to approximately $355 million in 2000. This increase was primarily due to a $498 million increase in operating margins from Wholesale Energy's power generation operations in 2001 compared to 2000. This increase was partially offset by increased costs related to Retail Energy's increased staffing levels and preparation for competition in the retail electric market in Texas and reduced cash flows from our European Energy segment primarily resulting from a decline in electric power generation gross margins as the Dutch electric market was completely opened to wholesale competition on January 1, 2001.

Net cash provided by operating activities during 2000 increased by $293 million compared to 1999. This increase primarily resulted from proceeds from the sale of an investment in marketable debt securities, improved operating results of Wholesale Energy's California generating facilities, incremental cash flows provided by REPGB, acquired in the fourth quarter of 1999, and cash flows from the Mid-Atlantic generating facilities, acquired in the second quarter of 2000.

Cash Used in Investing Activities

Net cash used in investing activities decreased by $2.2 billion during 2001 compared to 2000. This decrease was primarily due to the funding of the remaining purchase obligation for REPGB for $982 million on March 1, 2000, and the acquisition of REMA for $2.1 billion on May 12, 2000, partially offset by proceeds from the REMA sale-leaseback transactions of $1.0 billion, each as more fully described below, partially offset by reduced capital expenditures of $93 million primarily by our Wholesale Energy segment partially offset by increased capital expenditures by our Retail Energy segment related to acquiring and developing information technology systems.

Net cash used in investing activities increased by $1.6 billion during 2000 compared to 1999. This increase was primarily due to the funding of the remaining purchase obligation for REPGB for $982 million on March 1, 2000 and the purchase of REMA for $2.1 billion on May 12, 2000, as well as increased capital expenditures related to the construction of domestic power generation projects. Proceeds of $1.0 billion from the REMA sale-leaseback partially offset these increases, as well as 1999 payments related to the acquisition of REPGB and a generating facility located in Florida.

Acquisition of REMA and REMA Sale-Leaseback. On May 12, 2000, we completed the acquisition of REMA from Sithe Energies, Inc. for an aggregate purchase price of $2.1 billion. The acquisition was originally financed

through bridge loans from Reliant Energy, of which $1.0 billion was converted to equity. In August 2000, we entered into separate sale-leaseback transactions with each of the three owner-lessors for our respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, which we acquired as part of the REMA acquisition. As consideration for the sale of our interest in the facilities, we received a total of $1.0 billion in cash that we used to repay indebtedness owed by us to Reliant Energy. For additional information about the acquisition and these transactions, please read Notes 5(a) and 13(c) to our consolidated financial statements.

Acquisition of REPGB. In the fourth quarter of 1999, we funded $833 million of the REPGB purchase obligation. On March 1, 2000, we funded the $982 million remaining REPGB purchase obligation. We obtained a portion of the funds for this purchase from a Euro 600 million ($596 million) three-year term loan facility established in February 2000 that matures in March 2003. For more information about the acquisition, please read Notes 5(b) to our consolidated financial statements.

Cash Used in/Provided by Financing Activities

Cash flows provided by financing activities decreased by $1.7 billion in 2001 compared to 2000, primarily due to a decrease in borrowings from Reliant Energy coupled with advancing excess cash on a short-term basis to a subsidiary of Reliant Energy which provides a cash management function for Reliant Energy, reduced contributions from Reliant Energy, a decrease in long-term borrowings and purchase of treasury stock during the second half of 2001. These items were partially offset by an increase in short-term borrowings from third parties, primarily used to fund Wholesale Energy's capital expenditures and for general corporate purposes, and by $1.7 billion in net proceeds from the IPO.

Cash flows provided by financing activities increased by $1.3 billion in 2000 compared to 1999. The increase resulted primarily from an increase in contributions from Reliant Energy and net proceeds from long-term debt from third parties. We utilized the net borrowings incurred during 2000 to fund the remaining REPGB purchase obligation, to fund the acquisition of REMA, to support increased capital expenditures by Wholesale Energy and for general corporate purposes.

Our Initial Public Offering. In May 2001, we offered 59.8 million shares of our common stock to the public at an IPO price of $30 per share and received net proceeds from the IPO of $1.7 billion. Pursuant to the terms of the Master Separation Agreement with Reliant Energy, we used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. We used the remainder of the net proceeds of the IPO for repayment of third party borrowings, capital expenditures, repurchase of common stock and to increase our working capital. Proceeds not initially utilized from the IPO during 2001 were advanced on a short-term basis to a subsidiary of Reliant Energy which provides a cash management function for Reliant Energy. As of December 31, 2001, we have $390 million of outstanding advances to this subsidiary of Reliant Energy. In May 2001, prior to the closing of the IPO, Reliant Energy converted to equity or contributed to us an aggregate of $1.7 billion of indebtedness owed by us to Reliant Energy and it subsidiaries of which $35 million was related to accrued intercompany interest expense. Following the IPO, Reliant Energy no longer provided us financing or credit support, except for specified transactions or for a limited period of time. For additional information, please read Note 4 to our consolidated financial statements.

Treasury Stock Purchase. During 2001, we purchased 11 million shares of our common stock at an average price of $17.22 per share, for an aggregate purchase price of $189 million.

CONSOLIDATED CAPITAL REQUIREMENTS AND USES OF CASH

Our liquidity and capital requirements are affected primarily by the results of operations, capital expenditures, debt service requirements and working capital needs. We expect to grow through the construction of new generation facilities and the acquisition of generation facilities, the expansion of our energy trading and marketing activities and the expansion of our energy retail business. We expect any resulting capital requirements to be met with cash flows from operations, and proceeds from debt and equity offerings, project financings, securitization of assets, other borrowings and off-balance sheet financings. Additional capital expenditures, some of which may be substantial, depend to a large extent upon the nature and extent of future project commitments which are discretionary. In the

discussion below, we have provided several tables outlining our expected future capital requirements by category of expenditure followed by more detailed descriptions of the most significant of our currently known future capital requirements and descriptions of known uncertainties that could impact these items.

The following table sets forth our consolidated capital requirements for 2001, and estimates of our consolidated capital requirements for 2002 through 2006 (in millions).

	2001	2002	2003	2004	2005	2006
Wholesale Energy(1)(2)(3)	$ 658	$3,579	$ 322	$ 147	$ 215	$ 146
European Energy	21	22	--	--	--	--
Retail Energy	117	40	19	18	14	16
Other Operations	44	75	46	31	32	33
Major maintenance cash outlays	88	94	87	106	86	85
Total	$ 928	$3,810	$ 474	$ 302	$ 347	$ 280

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(1) Capital requirements for 2002 includes $2.9 billion for the acquisition of Orion Power.

(2) In connection with our separation from Reliant Energy, Reliant Energy has granted us an option, subject to completion of the Distribution, to purchase all of the shares of capital stock owned by Reliant Energy in January 2004 of an entity (Texas Genco) that will hold the Texas generating assets of Reliant Energy's electric utility division. This option may be exercised between January 10, 2004 and January 24, 2004. The purchase of Texas Genco has been excluded from the above table. For additional information regarding this option to purchase Texas Genco, please read Note 4(b) to our consolidated financial statements.

(3) We currently estimate the capital expenditures by off-balance sheet special purpose entities to be $704 million, $343 million, $163 million and $48 million in 2002, 2003, 2004 and 2005, respectively. Capital expenditures for these projects have been excluded from the table above. Please read "-- Off-Balance Sheet Transactions -- Construction Agency Agreements" and "-- Equipment Financing Structure" for additional information regarding these transactions.

Acquisition of Orion Power. On February 19, 2002, we acquired all of the outstanding shares of common stock of Orion Power for $26.80 per share in cash for an aggregate purchase price of $2.9 billion. As of February 19, 2002, Orion Power's debt obligations were $2.4 billion ($2.1 billion net of cash acquired, some of which is restricted pursuant to debt covenants). We funded the purchase of Orion Power with a $2.9 billion credit facility (Orion Bridge Facility) and $41 million of cash on hand. Please read "-- Consolidated Sources of Cash -- Orion Bridge Facility" for further information.

Generating Projects. As of December 31, 2001, we had three generating facilities under construction. Total estimated costs of constructing these facilities are $1.1 billion, including $304 million in commitments for the purchase of combustion turbines. As of December 31, 2001, we had incurred $690 million of the total projected costs of these projects, which were funded primarily from equity and debt facilities. In addition, we have options to purchase additional combustion turbines for a total estimated cost of $42 million. We are actively attempting to market these turbines, having determined that they are in excess of our current needs. In addition to these facilities, we are constructing facilities as construction agents under construction agency agreements under synthetic leasing arrangements, which permit us to lease or buy each of these facilities at the conclusion of their construction. For more information regarding the construction agency agreements, please read "-- Off-Balance Sheet Transactions -- Construction Agency Agreements."

Environmental Expenditures. We anticipate investing up to $135 million in capital and other special project expenditures between 2002 and 2006 for environmental compliance, totaling approximately $53 million, $20 million, $9 million, $29 million and $24 million in 2002, 2003, 2004, 2005 and 2006, respectively, which is included in the above table. Additionally, environmental capital expenditures for the recently acquired Orion Power assets were estimated by Orion Power to be approximately $241 million over the same time period. We are currently reviewing Orion Power's estimates.

The following table sets forth estimates of our consolidated contractual obligations as of December 31, 2001 to make future payments for 2002 through 2006 and thereafter (in millions):

CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006	2007 AND THEREAFTER
Long-term debt	$ 892	$ 24	$ 539	$ 42	$ 12	$ 12	$ 263
Short-term borrowing, including credit facilities	297	297	--	--	--	--	--
Mid-Atlantic generating assets operating lease payments	1,560	136	77	84	75	64	1,124
Other operating lease payments	859	52	72	87	89	90	469
Trading and marketing liabilities	1,840	1,478	216	85	33	13	15
Non-trading derivative liabilities	853	323	115	80	61	35	239
Other commodity commitments	3,134	465	242	207	207	207	1,806
Other long-term obligations	300	10	10	10	10	10	250
Total contractual cash obligations	$9,735	$2,785	$1,271	$ 595	$ 487	$ 431	$4,166

Long-term debt obligations as of December 31, 2001, include $829 million of borrowings under credit facilities that have been classified as long-term debt, based upon the availability of committed credit facilities and management's intention to maintain these borrowings in excess of one year.

As of December 31, 2001, we have issued $396 million of letters of credit of which $345 million were issued under two credit facilities expiring in 2003 and $51 million were issued under a credit facility expiring in 2004.

Mid-Atlantic Assets Lease Obligation. In August 2000, we entered into separate sale-leaseback transactions with each of the three owner-lessors for our respective 16.45%, 16.67% and 100% interests in the Conemaugh, Keystone and Shawville generating stations, respectively, which we acquired as part of the REMA acquisition. As lessee, we lease an interest in each facility from each owner-lessor under a facility lease agreement. The equity interests in all the subsidiaries of REMA are pledged as collateral for REMA's lease obligations. In addition, the subsidiaries have guaranteed the lease obligations. The lease documents contain restrictive covenants that restrict REMA's ability to, among other things, make dividend distributions unless REMA satisfies various conditions. The covenant restricting dividends would be suspended if the direct or indirect parent of REMA, meeting specified criteria, including having a credit rating on its long-term unsecured senior debt of at least BBB from Standard & Poor's and Baa2 from Moody's, guarantees the lease obligations. For additional discussion of these lease transactions, please read Notes 5(a) and 13(c) to our consolidated financial statements. We expect to make lease payments through 2029 under these leases, with total cash payments of $1.6 billion. The lease terms expire in 2034. During 2000 and 2001, we made cash lease payments totaling $1 million and $259 million, respectively.

Other Operating Lease Commitments. For a discussion of other operating leases, please read Note 13(c) to our consolidated financial statements.

Other Commodity Commitments. For a discussion of other commodity commitments, please read Note 13(a) to our consolidated financial statements.

Naming Rights to Houston Sports Complex. In October 2000, we acquired the naming rights for the new football stadium for the Houston Texans, the National Football League's thirty-second franchise. The agreement extends for 31 years. The aggregate undiscounted cost of the naming rights under this agreement is expected to be $300 million. Starting in 2002, when the new stadium is operational, we will pay $10 million each year through 2032 for annual advertising under this agreement. For additional information on the naming rights agreement, please read Note 13(a) to our consolidated financial statements.

Payment to Reliant Energy. To the extent that our price for providing retail electric service to residential and small commercial customers in Reliant Energy's Houston service territory during 2002 and 2003, which price is mandated by the Texas electric restructuring law, exceeds the market price of electricity, we will be required to make a payment to Reliant Energy in early 2004. For discussion of possible payment, please read Note 13 (g) to our

consolidated financial statements. Due to the nature of this possible payment, we currently cannot reasonably estimate this payment, accordingly it is excluded from the above table.

Treasury Stock Purchases. On December 6, 2001, our Board of Directors authorized us to purchase up to 10 million additional shares of common stock through June 2003. Purchases will be made on a discretionary basis in the open market or otherwise at times and in amounts as determined by management subject to market conditions, legal requirements and other factors. Since the date of such authorization through April 1, 2002, we have not purchased any of these shares of our common stock under this program.

In addition to the capital requirements discussed above, the following items, among others, could impact our future capital requirements.

Downgrade in our Credit Rating. In accordance with industry practice, we have entered into commercial contracts or issued guarantees related to our trading, marketing and risk management operations that require us to maintain an investment grade credit rating. If one or more of our credit ratings decline below investment grade, we may be obligated to provide additional or other credit support to the guaranteed parties in the form of a pledge of cash collateral, a letter of credit or other similar credit support.

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

CONSOLIDATED SOURCES OF CASH

We believe that our current level of cash and borrowing capability, along with our future anticipated cash flows from operations and assuming successful refinancings of credit facilities as they mature, will be sufficient to meet the existing operational needs of our business for the next 12 months. If cash generated from operations is insufficient to satisfy our liquidity requirements, we may seek to sell either equity or debt securities or obtain additional credit facilities or long-term financings from financial institutions. In the discussion below, we have provided a description of the significant factors that could impact our cash flows from operations, our currently available liquidity sources, currently contemplated future liquidity sources and known uncertainties that could impact these sources.

The following items will affect our future cash flows from operations:

Reliant Resources Restricted Cash. Covenants under the Mid-Atlantic assets lease, discussed above, restrict REMA's ability to make dividend distributions. The restricted cash is available for REMA's working capital needs and for it to make future lease payments. As of December 31, 2001, REMA had $167 million of restricted cash. We currently anticipate that REMA will be able to satisfy the conditions necessary to distribute these restricted funds in 2002. In addition, the terms of two of our subsidiaries' indebtedness restrict their ability to pay dividends or make restricted payments to us in some circumstances. Specifically, our subsidiary which holds an electric power generation facility in Channelview, Texas (Channelview) and our subsidiary which holds an equity investment in the entity owning and operating an electric power generation facility in Nevada (El Dorado) are each party to credit agreements used to finance construction of their generating plants. Both the Channelview credit agreement and the El Dorado credit agreement allow the respective subsidiary to pay dividends or make restricted payments only if specified conditions are satisfied, including maintaining specified debt service coverage ratios and debt service reserve account balances. In both cases, the amount of the dividends or restricted payments that may be paid if the conditions are met is limited to a specified level and may be paid only from a particular account.

Orion Power Restricted Cash. Substantially all of Orion Power's operations are conducted by its subsidiaries. The terms of some of its subsidiaries' indebtedness restrict their ability to pay dividends to Orion Power or us. Restricted funds are available for such subsidiaries to make debt service payments and to meet their working capital needs. In addition, covenants under some indebtedness of Orion Power restrict its ability to pay dividends to us unless Orion Power meets certain conditions, including the ability to incur additional indebtedness without violating

the required fixed charge coverage ratio of 2.0 to 1.0. A credit facility of Orion Power also restricts its ability to pay dividends to us unless the restrictions contained in certain of its subsidiaries' credit agreements have terminated and no restrictions remain under their credit agreements.

California Trade Receivables. As of December 31, 2001, we were owed $302 million by the Cal ISO, the California Power Exchange (Cal PX) and the California Department of Water Resources (CDWR) and California Energy Resource Scheduling for energy sales in the California wholesale market, during the fourth quarter of 2000 through December 31, 2001 and have recorded an allowance against such receivables of $68 million. From January 1, 2002 through March 26, 2002, we have collected $45 million of these receivable balances. For additional information regarding uncertainties in the California wholesale market, please read Notes 13(e) and 13(i) to our consolidated financial statements.

Other Items. For other items that may affect our future cash flows from operations, please read "-- Certain Factors Affecting Future Earnings."

The following discussion summarizes our currently available liquidity sources and material factors that could impact that availability.

Credit Facilities. The following table provides a summary of the amounts owed and amounts available under our various credit facilities (in millions).

	TOTAL COMMITTED CREDIT	DRAWN AMOUNT	LETTERS OF CREDIT	UNUSED AMOUNT	EXPIRING BY DECEMBER 31, 2002(1)
Reliant Resources, as of December 31, 2001	$5,563	$1,078	$396	$4,089	$1,114
Orion Power, as of February 19, 2002	2,028	1,827	95	106	1,736
Total					$2,850

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(1) Excludes $383 million of facilities expiring in November 2002 as borrowings under such facilities are convertible into a long-term loan.

As of February 19, 2002, we have $2.9 billion of credit facilities which will expire in 2002. To the extent that we continue to need access to this amount of committed credit, we expect to extend or replace these facilities. The current credit environment currently impacting our industry may require our future facilities to include terms that are more restrictive or burdensome or at higher borrowing rates than those of our current facilities.

Reliant Resources Credit Facilities Covenants. As of December 31, 2001, we, including certain of our subsidiaries, had committed credit facilities of $5.6 billion. Of these facilities, $5.0 billion contain various business and financial covenants requiring us to, among other things, maintain a ratio of net balance sheet debt to the sum of net balance sheet debt, subordinated affiliate balance sheet debt and stockholders' equity not to exceed 0.60 to 1.00. These covenants are not anticipated to materially restrict us from borrowing funds or obtaining letters of credit under these facilities. The remaining credit facilities of $0.6 billion, which were held by certain of our domestic power generation subsidiaries, contain various business and financial covenants that are typical for limited or non-recourse project financings. Such covenants include restrictions on dividends and capital expenditures, as well as requirements regarding insurance, approval of operating budgets and commercial contracts. These covenants are not anticipated to materially restrict us from borrowing funds or obtaining letters of credit under our credit facilities. None of the above committed bank credit facilities have any defaults or prepayments triggered by changes in credit ratings, or in any way linked to the price of our common stock or any other traded instrument.

For additional information regarding the terms and related interest rates of these credit facilities, please read Note 8 of our consolidated financial statements.

Orion Power Credit Facilities. The credit facilities of Orion Power and its subsidiaries contain various business and financial covenants that are typical for limited or non-recourse project financings. Such covenants include restrictions on dividends and capital expenditures, as well as requirements regarding insurance, approval of operating budgets and commercial contracts. These include covenants that require two of Orion Power's significant

subsidiaries which have credit facilities with outstanding borrowings of $1.6 billion as of December 31, 2001, to, among other things, maintain a debt service coverage ratio of at least 1.5 to 1.0 and for Orion Power, which has a $75 million credit facility, to, among other things, maintain a debt service coverage ratio of at least 1.4 to 1.0. One of the subsidiaries may not be able to meet this debt service coverage ratio for the quarter ended June 30, 2002, and Orion Power did not meet the debt service coverage ratio for the quarter ended March 31, 2002. In the event that Orion Power is unable to meet this financial covenant for a second consecutive fiscal quarter it would constitute a default under its credit facility. It is our current intention to arrange for the repayment, refinancing or amendment of these facilities prior to June 30, 2002. If these facilities are not repaid, refinanced or amended prior to that date, and if a waiver is required under either or both of these credit facilities, we believe that we will be able to obtain such a waiver on or prior to June 30, 2002. However, we currently have no assurance that we will be able to obtain such a waiver or amendment from the respective lender groups if required under either or both of these credit facilities.

Orion Bridge Facility. In November 2001, we entered into a $2.2 billion term loan facility to be utilized for the acquisition of Orion Power. In January 2002, the facility was increased to $2.9 billion. On February 19, 2002, in connection with the Orion Power acquisition we borrowed $2.9 billion under the Orion Bridge Facility, which is required to be repaid on or before February 19, 2003.

Potential Future Liquidity Sources. We are currently considering pursuing the following sources of cash to meet our future capital requirements.

Commercial Paper Program. We plan to commence a commercial paper program in 2002, which will be supported by our existing credit facilities. Although we have not yet determined the size of such program, we do not expect that it would exceed $300 million initially, due to market conditions and our current credit ratings. To the extent that we are not successful in placing commercial paper consistently, we will borrow directly under our existing credit facilities.

Debt Securities in the Capital Markets. As part of refinancing the Orion Bridge Facility, we currently expect that we will issue various fixed and floating rate debt securities in 2002 having maturities up to ten years or greater depending upon market conditions. We expect to offer debt securities in the amount of $2.5 to $3.0 billion, depending on market conditions. Our ability to complete such debt offerings in the capital markets will depend on our future performance and prevailing market conditions. This Form 10-K does not constitute an offer to sell or the solicitation of an offer to buy our debt securities.

Settlement of Indemnification of REPGB Stranded Costs. In December 2001, REPGB and its former shareholders entered into a settlement agreement resolving the former shareholders' stranded cost indemnity obligations under the purchase agreement of REPGB. Under the settlement agreement, the former shareholders paid to REPGB NLG 500 million ($202 million based on an exchange rate of 2.48 NLG per U.S. dollar as of December 31, 2001) in January and February 2002. In addition, under the settlement agreement, the former shareholders waived all rights under the original indemnification agreement to claim distributions from NEA, a 22.5% owned equity investment. We estimate that there will be future distributions from 2002 through 2005 from NEA to REPGB totaling approximately $299 million. For additional information regarding the settlement agreement, our investment in NEA and indemnification of district heat contract obligations, please read Note 13(f) to our consolidated financial statements.

Factors Affecting Our Sources of Cash and Liquidity. As a result of several recent events, including the United States economic recession, the price decline of the common stock of participants in our industry sector and the downgrading of the credit ratings of several of our significant competitors, the availability and cost of capital for our business and the businesses of our competitors have been adversely affected. Any future acquisition or development projects will likely require us to access substantial amounts of capital from outside sources on acceptable terms. We may also need external financing to fund capital expenditures, including capital expenditures necessary to comply with air emission regulations or other regulatory requirements. If we are unable to obtain outside financing to meet our future capital requirements on terms that are acceptable to us, our financial condition and future results of operations could be materially adversely affected. In order to meet our future capital requirements we may increase the proportion of debt in our overall capital structure. Increases in our debt levels may adversely affect our credit ratings thereby increasing the cost of our debt. In addition, the capital constraints currently impacting our industry may require our future indebtedness to include terms and or pricing that are more restrictive or burdensome than

those of our current indebtedness. This may negatively impact our ability to operate our business, or severely restrict or prohibit distributions from our subsidiaries.

Our ability to arrange financing, including refinancing, and our cost of capital are dependent on the following factors:

- general economic and capital market conditions,
- maintenance of acceptable credit ratings,
- credit availability from banks and other financial institutions,
- investor confidence in us, our competitors and peer companies and our wholesale power markets,
- market expectations regarding our future earnings and probable cash flows,
- market perceptions of our ability to access capital markets on reasonable terms,
- the success of current power generation projects,
- the perceived quality of new power generation projects, and
- provisions of relevant tax and securities laws.

Credit Ratings. Our credit ratings for our senior unsecured debt are as follows:

DATE ASSIGNED	RATING AGENCY	RATING
March 22, 2002	Moody's	Baa3, stable
February 14, 2002	Fitch (1)	BBB, negative outlook
March 21, 2002	Standard & Poor's	BBB, stable

(1) Fitch assigned a negative rating outlook to reflect its analysis of our plan for financing and integrating the acquisition of Orion Power.

We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities and may be revised or withdrawn at any time by rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms. We have commercial contracts and/or guarantees related to our trading, marketing and risk management and hedging operations that require us to maintain an investment grade credit rating. If our credit rating declines below investment grade, we estimate that we could be obligated to provide significant credit support to the counterparties in the form of a pledge of cash collateral, a letter of credit or other similar credit support.

Furthermore, if our credit ratings decline below an investment grade credit rating, our trading partners may refuse to trade with us or trade only on terms less favorable to us. As of December 31, 2001, we had $214 million of margin deposits on energy trading and hedging activities posted as collateral with counterparties. As of December 31, 2001, we had $1.5 billion available under our credit facilities to satisfy future commodity obligations.

OFF-BALANCE SHEET TRANSACTIONS

Construction Agency Agreements. In 2001, we, through several of our 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 us. 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 cash 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. We, through several of our subsidiaries, act as construction agent for the special purpose entities and are responsible for completing construction of these projects by December 31, 2004, but we have generally limited our 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, our subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If we do not exercise our option to lease any project upon its completion, we must purchase the project or remarket the project on behalf of the special purpose entities. Our ability to exercise the lease option is subject to certain conditions. We 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), our 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. We have guaranteed the performance and payment of our subsidiaries' obligations during the construction periods and, if the lease option is exercised, each lessee's obligations during the lease period. At anytime during the construction period or during the lease, we may purchase a facility by paying an amount approximately equal to the outstanding balance plus costs. As of December 31, 2001, the special purpose entities had property, plant and equipment of $428 million, net other assets of $52 million, which were primarily restricted cash, and debt obligations of $465 million. As of December 31, 2001, the special purpose entities had equity from unaffiliated third parties of $15 million. We currently estimate the aggregate cost of the three generating facilities that are currently under construction by the special purpose entities to be approximately $1.8 billion

Equipment Financing Structure. We, through our subsidiary, REPG, have 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 of 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 the London inter-bank offered rate (LIBOR) less 0.15%. Under certain circumstances, the collateral deposit or a portion of it will be returned to REPG or its designee. Otherwise, it will be retained by the bank. At December 31, 2001, REPG and its subsidiary had deposited $230 million into the collateral account. The bank's payments for equipment under the contracts totaled $227 million as of December 31, 2001. In January 2002, the bank sold to the parties to the construction agency agreements discussed above, equipment contracts with a total contractual obligation of $258 million under which payments and interest during construction totaled $142 million. Accordingly, $142 million of our collateral deposits were returned to us. 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, we anticipate that we will either purchase the equipment, assist in the remarketing of the equipment or negotiate to cancel the related contracts.

NEW ACCOUNTING PRONOUNCEMENTS

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. We 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 our historical results of operations or financial position. On January 1, 2002, we discontinued amortizing goodwill into our results of operations pursuant to SFAS No. 142. We recognized $32 million of goodwill amortization expense in our statement of consolidated income during 2001, excluding a $19 million write-off of our Communications business goodwill balance which was recorded as goodwill amortization expense (please read Note 16 to our consolidated financial statements). We are in the process of determining further effects of adoption of SFAS No. 142 on our consolidated financial statements, including the review of goodwill and certain intangibles for impairment. We have not completed our review pursuant to SFAS No. 142. However, based on our preliminary review, we believe an impairment of our European Energy segment goodwill is reasonably possible. As of December 31, 2001, net goodwill associated with our European Energy segment is $632 million. We anticipate finalizing our review of goodwill and certain intangibles for our reporting units during 2002. We do not believe impairments of goodwill and certain intangibles, if any, related to our other reporting units will have a material impact on our results of operations or financial position.

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. We plan to adopt SFAS No. 143 on January 1, 2003 and are in the process of determining the effect of adoption on our consolidated financial statements.

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

Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended. The application of SFAS No. 133 is still evolving as the FASB clears issues 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 our results of operations. Certain criteria of this previously approved guidance were revised in October 2001 and December 2001 and will become effective on April 1, 2002. We are currently in the process of determining the effect of adoption of this 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 we are currently assessing the impact of this recently cleared issue and do not believe it will have a material impact on our consolidated financial statements.

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

CRITICAL ACCOUNTING POLICIES

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

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

- determination of fair value of trading and marketing assets and liabilities for our energy trading, marketing and price risk management services operations, and non-trading derivative assets and liabilities, including stranded costs obligations related to our European Energy operations (please read "-- Trading and Marketing Operations" and "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this Form 10-K and Notes 2(d) and 6 to our consolidated financial statements); and

- impairment of long-lived assets and intangibles (please read "European Energy" and Notes 2(f) and 2(q) to our consolidated financial statements).

For a description of all significant accounting policies, please read Note 2 to our consolidated financial statements.

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

MARKET RISK

We are exposed to various market risks. These risks arise from transactions entered into in the normal course of business and are inherent in our consolidated financial statements. Most of the revenues and income from our business activities are impacted by market risks. Categories of market risks include exposures to commodity prices through trading and marketing and non-trading activities, interest rates, foreign currency exchange rates and equity prices. A description of each market risk category is set forth below:

- Commodity price risk results from exposures to changes in spot prices, forward prices and price volatilities of commodities, such as electricity, natural gas and other energy commodities.

- Interest rate risk primarily results from exposures to changes in the level of borrowings and changes in interest rates.

- Currency rate risk results from exposures to changes in the value of foreign currencies relative to our reporting currency, the U.S. dollar, and exposures to changes in currency rates in transactions executed in currencies other than a business segment's reporting currency.

- Equity price risk results from exposures to changes in prices of individual equity securities.

We seek to manage these risk exposures through the implementation of our risk management policies and framework. We seek to manage our exposures through the use of derivative financial instruments and derivative commodity instruments. During the normal course of business, we review our hedging strategies and determine the hedging approach we deem appropriate based upon the circumstances of each situation.

Derivative instruments are financial instruments, such as futures, forward contracts, swaps or options, that derive their value from underlying assets, indices, reference rates or a combination of these factors. These derivative instruments include negotiated contracts, which are referred to as over-the-counter derivatives, and instruments that are listed and traded on an exchange.

Our trading operations enter into derivative instrument transactions as a means of risk management, optimization of our current power generation asset position, and to take a market position. Derivative instrument transactions are entered into in our non-trading operations to manage and hedge certain exposures, such as exposure to changes in electricity and fuel prices, exposure to interest rate risk on our floating-rate borrowings and foreign currency exposures related to our foreign investments. We believe that the associated market risk of these instruments can best be understood relative to the underlying assets or risk being hedged and our trading strategy.

TRADING MARKET RISK

Trading and marketing operations often involve market risk associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis, through derivative instruments (Trading Energy Derivatives). Our trading and marketing businesses depend on price movements and volatility levels to create business opportunities, but these businesses must control risk within authorized limits.

We assess the risk of Trading Energy Derivatives using a value-at-risk (VAR) method, in order to maintain our total exposure within authorized limits. VAR is the potential loss in value of trading positions due to adverse market movements over a defined time period within a specified confidence level. We utilize the variance/covariance model of VAR, which relies on statistical relationships to describe how changes in different markets can affect a portfolio of instruments with different characteristics and market exposures.

For the VAR numbers reported below, a one-day holding period and a 95% confidence level were used, except for our European trading operations which uses a two-day to five-day holding period. This means that if VAR is calculated at $10 million, we may state that there is a one in 20 chance that if prices move against our consolidated

diversified positions, our pre-tax loss in liquidating or offsetting with hedges our portfolio in a one-day period would exceed $10 million.

The VAR methodology employs a seasonally adjusted volatility-based approach with the following critical parameters: forward prices and volatility estimates, appropriate market-oriented holding periods and seasonally adjusted correlation estimates. We use the delta approximation method for reporting option positions. The instruments being evaluated could have features that may trigger a potential loss in excess of calculated amounts if changes in commodity prices exceed the confidence level of the model used. An inherent limitation of VAR is that past changes in market risk may not produce accurate predictions of future market risk. Moreover, VAR calculated for a one-day holding period does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within one day. We cannot assure you that market volatility, failure of counterparties to meet their contractual obligations, future transactions or a failure of risk controls will not lead to significant losses from our trading, marketing and risk management activities.

While we believe that our assumptions and approximations are reasonable for calculating VAR, there is no uniform industry methodology for estimating VAR, and different assumptions and/or approximations could produce materially different VAR estimates.

Our VAR limits are set by our Board of Directors, as further discussed below. Violations in overall VAR limits are required to be reported to the Audit Committee of our Board of Directors pursuant to our corporate-wide risk limit parameters. For further discussion on our risk management framework, please read "-- Risk Management Structure" below.

The following presents the daily VAR for substantially all of our Trading Energy Derivative positions (in millions).

	2000	2001
As of December 31, ...	$15	$27
Year Ended December 31:		
Average	6	9
High	36	27
Low	1	3

The following chart presents the daily VAR for substantially all of our Trading Energy Derivatives during 2001 (in millions).

COMBINED DOMESTIC AND EUROPEAN VAR
FOR THE YEAR ENDED DECEMBER 31, 2001

(PERFORMANCE GRAPH)

YEAR ENDED DECEMBER 31, 2001 ------------
------------------------------ WHOLESALE
EUROPE RETAIL TOTAL --------- -------- ---
------ --------- First
Quarter.....
5.040953 0.976000 6.016953 Second
Quarter.....
7.938367 0.838000 8.776367 Third
Quarter.....
4.785587 0.832000 5.617587 Fourth
Quarter.....
8.714555 0.551000 17.785732 27.051287

During the beginning of 2001, the high VAR levels were due to high natural gas and power prices and volatility levels, which continued from late 2000. VAR exposure was lower in the second and third quarters of 2001 due to the significant decline in natural gas and power prices and volatility levels. During the fourth quarter of 2001, VAR levels increased due to increased power marketing activities in ERCOT related to our Retail Energy segment.

NON-TRADING MARKET RISK

Commodity Price Risk

Commodity price risk is an inherent component of our electric power generation businesses because the profitability of our generation assets depends significantly on commodity prices sufficient to create gross margin. During 2001, the majority of our non-trading commodity price risk was related to our electric power generation businesses. Prior to the energy delivery period, we attempt to hedge, in part, the economics of our electric power facilities by selling power and purchasing equivalent fuel. Some power capacity is held in reserve and sold in the spot market. Derivative instruments are used to mitigate exposure to variability in future cash flows from probable, anticipated future transactions attributable to a commodity risk. In this way, more certainty is provided as to the financial contribution associated with the operation of these assets. Beginning in 2002, our commodity price risk exposures related to our Retail Energy operations increased, as we began to provide retail electric services to all customers of Reliant Energy's electricity utility division who did not select another retail electric provider. For a discussion of risk factors affecting our Retail Energy operations, please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors Affecting Our Future Earnings -- Factors Affecting the Results of Our Retail Energy Operations" in Item 7 of this Form 10-K.

Derivative instruments, which we use as economic hedges, create exposure to commodity prices, which we use to offset the commodity exposure inherent in our businesses. The stand-alone commodity risk created by these instruments, without regard to the offsetting effect of the underlying exposure these instruments are intended to hedge, is described below. We measure the commodity risk of our non-trading derivatives (Non-trading Energy Derivatives) using a sensitivity analysis. The sensitivity analysis performed on our Non-trading Energy Derivatives measures the potential loss in earnings based on a hypothetical 10% movement in energy prices. An increase of 10% in the market prices of energy commodities from their December 31, 2001 levels would have decreased the fair value of our Non-trading Energy Derivatives by $52 million, excluding non-trading derivatives liabilities associated with our European Energy segment's stranded cost import contracts.

The above analysis of the Non-trading Energy Derivatives utilized for hedging purposes does not include the favorable impact that the same hypothetical price movement would have on our physical purchases and sales of natural gas and electric power to which the hedges relate. Furthermore, the Non-trading Energy Derivative portfolio, excluding the stranded cost import contracts, is managed to complement the physical transaction portfolio, thereby reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Non-trading Energy Derivatives held for hedging purposes associated with the hypothetical changes in commodity prices referenced above would be offset by a favorable impact on the underlying hedged physical transactions, assuming:

- the Non-trading Energy Derivatives are not closed out in advance of their expected term,

- the Non-trading Energy Derivatives continue to function effectively as hedges of the underlying risk, and

- as applicable, anticipated underlying transactions settle as expected.

If any of the above-mentioned assumptions cease to be true, a loss on the derivative instruments may occur, or the options might be worthless as determined by the prevailing market value on their termination or maturity date, whichever comes first. Non-trading Energy Derivatives intended as hedges, and which are effective as hedges, may still have some percentage which is not effective. The change in value of the Non-trading Energy Derivatives which represents the ineffective component of the hedges, is recorded in our results of operations. During 2001, we recognized revenues of $8 million in our statement of consolidated income due to hedge ineffectiveness.

Our European Energy segment's stranded cost import contracts have exposure to commodity prices. For information regarding these contracts, please read Notes 6(b) and 13(f) our consolidated financial statements. A decrease of 10% in market prices of energy commodities from their December 31, 2001 levels would result in a loss of earnings of $98 million.

Interest Rate Risk

We have issued long-term debt and have obligations under bank facilities that subject us to the risk of loss associated with movements in market interest rates. We utilize interest-rate swaps in order to hedge a portion of our floating-rate obligations.

Our floating-rate obligations borrowed from third parties aggregated $3.0 billion and $1.1 billion at December 31, 2000 and 2001, respectively. If the floating interest rates were to increase by 10% from December 31, 2001 rates, our combined interest expense to third parties would increase by a total of $0.4 million each month in which such increase continued.

At December 31, 2000 and 2001, we had issued fixed-rate debt to third parties aggregating $67 million and $121 million. As of December 31, 2000 and 2001, fair values were estimated to be equivalent to the carrying amounts of these instruments. These instruments are fixed-rate and, therefore, do not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of these instruments would increase by $3 million if interest rates were to decline by 10% from their rates at December 31, 2001.

During 2001, we have entered into interest-rate swaps in order to adjust the interest rate on some of our floating-rate debt to a fixed-rate. As of December 31, 2001, these interest rate swaps had an aggregate notional amount of $200 million and the fair value was a $4 million liability. A decrease of 10% in the interest rate level at December 31, 2001 would increase the fair value of the interest rate swaps by $4 million.

Foreign Currency Exchange Rate Risk

Our European operations expose us to risk of loss in the fair value of our foreign investments due to the fluctuation in foreign currencies relative to our reporting currency, the U.S. dollar. Additionally, our European Energy segment transacts in several European currencies, although the majority of its business is conducted in the Euro and prior to January 2001, the Dutch Guilder. As of December 31, 2001, we had entered into foreign currency swaps and foreign currency forward contracts and had issued Euro-denominated borrowings to hedge our foreign currency exposure of our net European investment. Changes in the value of the foreign currency hedging instruments and Euro--denominated borrowings are recorded as foreign currency translation adjustments as a component of accumulated other comprehensive income (loss) in stockholders' equity. As of December 31, 2000 and 2001, we had recorded a loss of $2 million and $96 million, respectively, in cumulative net translation adjustments. The cumulative translation adjustments will be realized in earnings and cash flows only upon the disposition of the related investments. During the normal course of business, we review our currency hedging strategies and determine the hedging approach we deem appropriate based upon the circumstances of each situation.

As of December 31, 2001, our European Energy 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. As of December 31, 2001, the fair value of these financial instruments was a $3 million asset. An increase in the value of the Euro of 10% compared to the U.S. dollar from its December 31, 2001 level would result in loss in the fair value of these foreign currency financial instruments of $27 million.

Our European Energy segment's stranded cost import contracts have foreign currency exposure. An increase of 10% in the U.S. dollar relative to the Euro from their December 31, 2001 levels would result in a loss of earnings of $6 million.

Equity Market Value Risk

We have equity investments, which are classified as "available-for-sale" under SFAS No. 115. As of December 31, 2001, the value of these securities was $12 million. A 10% decline in the market value per share of these securities from December 31, 2001 would result in a loss in fair value of $1 million.

RISK MANAGEMENT STRUCTURE

We have a risk control framework to limit, monitor, measure and manage the risk in our existing portfolio of assets and contracts and to risk-measure and authorize new transactions. These risks include market, credit, liquidity and operational exposures. We believe that we have effective procedures for evaluating and managing these risks to which we are exposed. Key risk control activities include limits on trading and marketing exposures and products, credit review and approval, credit and performance risk measurement and monitoring, validation of transactions, portfolio valuation and daily portfolio reporting including mark-to-market valuation, VAR and other risk measurement metrics.

We seek to monitor and control our risk exposures through a variety of separate but complementary processes and committees which involve business unit management, senior management and our Board of Directors, as detailed below.

Board of Directors. Our Board of Directors affirms the overall strategy and approves overall risk limits for commodity trading and marketing.

Audit Committee. The Audit Committee of our Board of Directors assesses the adequacy of the risk control organization and policies. The Audit Committee of our Board of Directors meets at least three times a year to:

- approve the risk control organization structure,
- approve the corporate-wide risk control policy,
- monitor compliance with trading limits,
- review significant risk control issues, and
- recommend to our Board of Directors corporate-wide commodity risk limit parameters for trading and marketing activities.

Executive Management. Our executive management appoints the Risk Oversight Committee members, reviews and approves recommendations of the Risk Oversight Committee prior to presentations to the Audit Committee of our Board of Directors, and approves and monitors broad risk limit allocations to the business segments and product types. Our executive management receives daily position reports of our trading and marketing activities.

Risk Oversight Committee. The Risk Oversight Committee, which is comprised of corporate and business segment officers, oversees all of our trading, marketing and hedging activities and other activities involving market risks. These activities expose us to commodity price, credit, foreign currency and interest rate risks. The Risk Oversight Committee meets at least monthly. For trading, marketing and hedging activities, the Risk Oversight Committee:

- monitors compliance of our trading units,
- reviews daily position reports for trading and marketing activities,
- recommends adjustments to trading limits, products and policies to the Audit Committee of our Board of Directors,
- approves business segment's detailed policies and procedures,
- allocates Board of Director-approved trading and marketing risk capital limits, including VAR limits,
- approves new trading, marketing and hedging products and commodities,

- approves entrance into new trading markets,

- monitors processes and information systems related to the management of our risk to market exposures, and

- places guidelines and limits around hedging activities.

Commitment Review Committee. The Commitment Review Committee, which is comprised of corporate officers, establishes corporate-wide standards for the evaluation of capital projects and other significant commitments, evaluates proposed capital projects and other significant commitments, and makes recommendations to the chief executive officer. The Commitment Review Committee is scheduled to meet on an as needed basis.

Corporate Risk Control Organization. Our Corporate Risk Control Organization is headed by a chief risk control officer who has corporate-wide oversight for maintaining consistent application of corporate risk policies within individual business segments. The Corporate Risk Control Organization:

- recommends the corporate-wide risk management policies and procedures which are approved by the Audit Committee of our Board of Directors;

- provides updates of trading and marketing activities to the Audit Committee of our Board of Directors on a regular basis;

- provides oversight of our ongoing development and implementation of operational risk policies, framework and methodologies;

- monitors effectiveness of the corporate-wide risk management policies, procedures and risk limits;

- evaluates the business segment risk control organizations, including information systems and reporting;

- evaluates all significant valuation methodologies, assumptions and models;

- evaluates allocation of risk limits within our business segments;

- reviews daily position reports of trading and marketing activities; and

- reviews inherent risks in proposed transactions.

Business Segment Risk Control Organizations. Each of our business segments has a Business Segment Risk Control Organization, which is headed by a risk control officer who reports to the Corporate Risk Control Organization and the business segment's executive management outside of the commercial trading organization. The Business Segment Risk Control Organization:

- develops and maintains the risk control infrastructure, including policies, processes, personnel and information and valuation systems, to analyze and report the daily risk positions to Executive Management, the Risk Oversight Committee, the Corporate Risk Control Organization, the Internal Audit Department and the Controllers Organization;

- reviews credit exposures for customers and counterparties;

- reviews all significant valuation methodologies, assumptions and models used for risk measurement, mark-to-market valuations and structured transaction evaluations;

- ensures risk systems can adequately measure positions and related risk exposures for new products and transactions;

- evaluates new transactions for compliance with risk policies and limits; and

- evaluates effectiveness of hedges.

The management of each of the business segments is responsible for the management of its risks and for maintaining a conducive environment for effective risk control activities as part of its overall responsibility for the proper management of the business unit. Commercial management has in-depth knowledge of the primary sources of risk in their individual markets and the instruments available to hedge our exposures. Commercial management allocates risk limits that have been allocated to specific markets and to individual traders, within the limits imposed by the Risk Oversight Committee. Risk limits are monitored on a daily basis. Risk limit violations, including VAR, are reported to the appropriate level of management in the business segment and corporate organizations, depending on the type and severity of the violations.

Segregation of duties and management oversight are fundamental elements of our risk management process. There are segregation of duties among the trading and marketing functions; transaction validation and documentation; risk measurement and reporting; settlements function; accounting and financial reporting functions; and treasury function. These risk management processes and related controls are reviewed by our corporate Internal Audit Department on a regular basis. When appropriate, external advisors or consultants with relevant experience will assist the Internal Audit Department with their reviews.

The effectiveness of our policies and procedures for managing risk exposure can never be completely estimated or fully assured. For example, we could experience losses, which could have a material adverse effect on our financial condition, results of operations or cash flows, from unexpectedly large or rapid movements or disruptions in the energy markets, from regulatory-driven market rules changes and bankruptcy of customers or counterparties.

CREDIT RISK

Credit risk is inherent in our commercial activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. Broad credit policies and parameters are set by the Risk Oversight Committee. The Business Segment Risk Control Organizations prepare daily analysis of credit exposures. We enter into derivative instruments primarily with counterparties having 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, we seek to enter into netting agreements that permit us to offset receivables and payables with a given counterparty. We also attempt to enter into agreements that enable us to obtain collateral from a counterparty or to terminate upon the occurrence of credit-related events. We are re-evaluating our current credit risk practices in light of changes in the marketplace, recent corporate failures and higher scrutiny of credit practices by the rating agencies.

It is our policy that all transactions must be within approved counterparty or customer credit limits. For each business segment, counterparty credit limits are established by the applicable segment's credit risk control group. We employ tiered levels of approval authority for counterparty credit limits, with authority increasing from the operating segment's credit analysts through the business segment's risk control officer, the Risk Oversight Committee and our executive management. The Business Segment Risk Control Organization monitors credit exposure daily. The mark-to-market values and cash settlement values for all transactions are compared to the authorized credit threshold for each counterparty. For long-term arrangements, we periodically review the financial condition of these counterparties in addition to monitoring the effectiveness of these contracts in achieving our objectives.

For information regarding our provision related to our energy sales in the California market, please read Note 13(i) to our consolidated financial statements. For information regarding our net provision related to energy sales to Enron which filed a voluntary petition for bankruptcy, please read Note 17 to our consolidated financial statements.

The following table presents the distribution by credit ratings of our total trading and marketing assets and total non-trading derivative assets as of December 31, 2001, after taking into consideration netting and set-off agreements with counterparties within each balance sheet caption (in millions).

CREDIT RATING EQUIVALENT	EXPOSURE	COLLATERAL HELD(3)	EXPOSURE NET OF COLLATERAL	PERCENTAGE OF EXPOSURE NET OF COLLATERAL
AAA/Aaa	$ 136	$ --	$ 136	5%
AA/Aa2	191	--	191	7%
A/A2	1,049	(4)	1,045	39%
BBB/Baa2	1,143	(137)	1,006	38%
BB/Ba2 or lower	251	(26)	225	9%
Unrated (1)(2)	49	--	49	2%
	2,819	(167)	2,652	100%
Less: Credit and other reserves	114	--	114	
	$ 2,705	$ (167)	$ 2,538	

The following table presents credit exposure by maturity for total trading and marketing assets and non-trading derivative assets, net of collateral, as of December 31, 2001 (in millions).

CREDIT RATING EQUIVALENT	0-12 MONTHS	1 YEAR OR GREATER	EXPOSURE NET OF COLLATERAL
AAA/Aaa	$ 95	$ 41	$ 136
AA/Aa2	142	49	191
A/A2	860	185	1,045
BBB/Baa2	653	353	1,006
BB/Ba2 or lower	125	100	225
Unrated (1)(2)	31	18	49
	1,906	746	2,652
Less: Credit and other reserves	69	45	114
	$1,837	$ 701	$2,538

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(1) For unrated counterparties, we perform financial statement analysis, considering contractual rights and restrictions, and collateral, to create a synthetic credit rating.

(2) In lieu of making an individual assessment of the credit of unrated counterparties, we may make a determination that the collateral held in respect of such obligations is sufficient to cover a substantial portion of our exposure. In making this determination, we take into account various factors, including market volatility.

(3) Collateral consists of cash and standby letters of credit.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO FINANCIAL STATEMENTS

RELIANT RESOURCES, INC. AND SUBSIDIARIES

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Reliant Resources, Inc. and Subsidiaries
Houston, Texas

We have audited the accompanying consolidated balance sheets of Reliant Resources, Inc. and Subsidiaries (the Company), as of December 31, 2000 and 2001, and the related consolidated statements of income, cash flows, and stockholders' equity and comprehensive income for each of the three years in the period ended December 31, 2001. Our audits also included the Company's financial statement schedule listed in Item 14(a)(2). These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 consolidated financial position of the Company at December 31, 2000 and 2001, and the consolidated results of its operations and its consolidated 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 6 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.

DELOITTE & TOUCHE LLP

Houston, Texas
March 28, 2002

RELIANT RESOURCES, INC. AND SUBSIDIARIES

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

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
REVENUES	$ 7,956,052	$ 19,791,922	$ 36,545,739
EXPENSES:			
Fuel and cost of gas sold	3,948,118	10,581,827	15,805,156
Purchased power	3,728,762	7,852,084	18,734,328
Operation and maintenance	135,620	435,006	510,759
General, administrative and development	100,480	291,661	486,973
Depreciation and amortization	28,584	193,682	246,764
Total	7,941,564	19,354,260	35,783,980
OPERATING INCOME	14,488	437,662	761,759
OTHER (EXPENSE) INCOME:			
Interest expense	(8,795)	(42,337)	(63,268)
Interest income	--	17,732	26,645
Interest (expense) income -- affiliated companies, net	(9,802)	(172,269)	12,477
Gains (losses) from investments, net	15,972	(16,509)	22,040
Income of equity investment of unconsolidated subsidiaries	20,805	42,860	57,440
Gain on sale of development project	--	18,011	--
Other, net	(6,062)	5,963	8,890
Total other income (expense)	12,118	(146,549)	64,224
INCOME BEFORE INCOME TAXES, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND EXTRAORDINARY ITEM	26,606	291,113	825,983
INCOME TAX EXPENSE	2,560	88,593	271,594
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND EXTRAORDINARY ITEM	24,046	202,520	554,389
Cumulative effect of accounting change, net of tax	--	--	3,062
Extraordinary item, net of tax	--	7,445	--
NET INCOME	$ 24,046	$ 209,965	$ 557,451
BASIC AND DILUTED EARNINGS PER SHARE:			
Income before cumulative effect of accounting change			$ 2.00
Cumulative effect of accounting change, net of tax			0.01
Net income			$ 2.01

See Notes to the Company's Consolidated Financial Statements

RELIANT RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS)

	DECEMBER 31, 2000	DECEMBER 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 89,755	$ 118,453
Restricted cash	50,000	167,421
Accounts and notes receivable, principally customer, net	1,811,355	1,182,140
Accounts and notes receivable -- affiliated companies, net	--	415,081
Inventory	99,445	174,035
Stranded costs settlement receivable	--	201,503
Trading and marketing assets	4,290,803	1,611,393
Non-trading derivative assets	--	392,900
Margin deposits on energy trading and hedging activities	521,004	213,727
Collateral for electric generating equipment	--	141,701
Prepayments and other current assets	130,334	126,936
Total current assets	6,992,696	4,745,290
PROPERTY, PLANT AND EQUIPMENT, NET	4,049,495	4,601,542
OTHER ASSETS:		
Goodwill, net	1,006,782	847,912
Air emissions regulatory allowances and other intangibles, net	283,952	315,438
Notes receivable -- affiliated companies, net	--	30,278
Equity investments in unconsolidated subsidiaries	108,727	386,841
Trading and marketing assets	544,909	446,610
Non-trading derivative assets	--	254,168
Stranded costs indemnification receivable	--	203,693
Accumulated deferred income taxes	--	8,172
Collateral for electric generating equipment	84,879	88,268
Other	142,952	325,344
Total other assets	2,172,201	2,906,724
TOTAL ASSETS	$ 13,214,392	$ 12,253,556
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 591	$ 23,769
Short-term borrowings	126,175	296,769
Accounts payable, principally trade	2,083,556	1,002,326
Accounts and notes payable -- affiliated companies, net	1,321,120	--
Trading and marketing liabilities	4,272,771	1,478,336
Non-trading derivative liabilities	--	323,277
Margin deposits from customers on energy trading and hedging activities	284,603	144,700
Accumulated deferred income taxes	--	63,634
Other	315,592	253,800
Total current liabilities	8,404,408	3,586,611
OTHER LIABILITIES:		
Accumulated deferred income taxes	31,181	--
Notes payable -- affiliated companies, net	647,499	--
Trading and marketing liabilities	530,263	361,786
Non-trading derivative liabilities	--	530,211
Major maintenance reserve	19,899	16,784
Non-derivative stranded costs liability	--	203,693
Benefit obligations	44,413	127,012
Other	312,543	455,865
Total other liabilities	1,585,798	1,695,351
LONG-TERM DEBT	891,736	867,712
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
STOCKHOLDERS' EQUITY:		
Preferred stock; par value $0.001 per share (125,000,000 shares authorized; none outstanding)	--	--
Common Stock, par value $0.001 per share (2,000,000,000 shares authorized; 240,000,000 and 299,804,000 issued and outstanding; respectively)	1	61
Additional paid-in capital	2,336,993	5,777,169
Treasury stock at cost, 0 and 11,000,000 shares	--	(189,460)
Retained earnings	--	557,451
Accumulated other comprehensive loss	(4,544)	(41,339)
Stockholders' equity	2,332,450	6,103,882
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 13,214,392	$ 12,253,556

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See Notes to the Company's Consolidated Financial Statements

RELIANT RESOURCES, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 24,046	$ 209,965	$ 557,451
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	28,583	193,682	246,764
Deferred income taxes	15,556	(27,476)	22,440
Net trading and marketing assets and liabilities	(11,703)	(3,984)	(185,136)
Net non-trading derivative assets and liabilities	--	--	(65,831)
Curtailment and related benefit enhancement	--	--	99,523
Contributions of marketable securities to charitable foundation	--	15,172	--
Impairment of marketable equity securities	--	26,504	--
Undistributed loss (income) of unconsolidated subsidiaries	793	(24,931)	(30,280)
Gain on sale of development project	--	(18,011)	--
Stranded cost indemnification settlement gain	--	--	(36,881)
Cumulative effect of accounting change	--	--	(3,062)
Extraordinary item	--	(7,445)	--
Other, net	(15,948)	(2,034)	(11,712)
Changes in other assets and liabilities:			
Restricted cash	--	(50,000)	(117,421)
Accounts and notes receivable, net	(225,257)	(1,174,918)	582,629
Accounts receivable/payable -- affiliated companies, net	32,939	(168,692)	92,906
Inventory	69,076	(9,468)	(59,153)
Collateral for electric generating equipment, net	--	(84,879)	(145,090)
Margin deposits on energy trading and hedging activities, net	(59,467)	(206,480)	167,374
Prepaid lease obligation	--	--	(180,531)
Proceeds from sale of debt securities	--	123,428	--
Other current assets	(11,905)	(92,719)	102,348
Other assets	(8,199)	(103,692)	(39,882)
Accounts payable	274,054	1,485,925	(1,084,239)
Taxes accrued	(21,450)	49,716	(6,068)
Other current liabilities	23,974	209,216	(55,984)
Other liabilities	(80,038)	(11,337)	22,814
Net cash provided by (used in) operating activities	35,054	327,542	(127,021)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(293,197)	(933,180)	(839,908)
Payment of business purchase obligation	--	(981,789)	--
Business acquisitions, net of cash acquired	(1,065,013)	(2,121,408)	--
Proceeds from sale-leaseback transactions	--	1,000,000	--
Investments in unconsolidated subsidiaries	(36,582)	(5,755)	--
Other, net	(11,680)	28,830	1,839
Net cash used in investing activities	(1,406,472)	(3,013,302)	(838,069)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	61,601	770,009	--
Proceeds from issuance of stock, net	--	--	1,696,074
Purchase of treasury stock	--	--	(189,460)
Payments of long-term debt	--	(307,201)	(4,084)
(Decrease) increase in short-term borrowings, net	(18,591)	(31,906)	217,323
Increase (decrease) in notes with affiliated companies, net	1,306,576	1,219,946	(731,894)
Contributions from owner	235,877	1,094,259	9,441
Distribution to owner	(170,211)	--	--
Other, net	(7,691)	(23,951)	2,140
Net cash provided by financing activities	1,407,561	2,721,156	999,540
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	460	5,088	(5,752)
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,603	40,484	28,698
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,668	49,271	89,755
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 49,271	$ 89,755	$ 118,453
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash Payments:			
Interest (net of amounts capitalized)	$ 37,126	$ 205,103	$ 84,650
Income taxes	16,496	72,784	243,740

See Notes to the Company's Consolidated Financial Statements

RELIANT RESOURCES, INC. AND SUBSIDIARIES

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

	COMMON STOCK	TREASURY STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
BALANCE DECEMBER 31, 1998				$ 668,039
COMPREHENSIVE INCOME:				
Net income				24,046
Contributions from owner				235,877
Distribution to owner				(170,211)
Other comprehensive loss:				
Unrealized loss on available-for-sale securities, net of tax of $0.4 million				
Foreign currency translation adjustments				
Comprehensive income				
BALANCE DECEMBER 31, 1999				757,751
COMPREHENSIVE INCOME:				
Net income				209,965
Contributions from owner				1,369,278
Transfer to common stock and additional paid-in capital	$ 1		$2,336,993	(2,336,994)
Other comprehensive income (loss):				
Foreign currency translation adjustments				
Additional minimum non-qualified pension liability adjustment, net of tax of $0.4 million				
Reclassification adjustment for impairment loss on available-for-sale securities realized in net income, net of tax of $9 million				
Unrealized loss on available-for-sale securities, net of tax of $1 million				
Comprehensive income				
BALANCE DECEMBER 31, 2000	1		2,336,993	--
Net income				557,451
Contributions from owner			1,787,311	
Purchases of treasury stock		(189,460)		
Majority owner effect of treasury stock purchases			(43,149)	
IPO proceeds, net	60		1,696,014	
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax of $98 million				
Changes in minimum non-qualified pension liability, net of tax of $4 million				
Cumulative effect of adoption of SFAS No. 133, net of tax of $145 million				
Deferred gain from cash flow hedges, net of tax of $228 million				
Reclassification of net deferred gain from cash flow hedges into net income, net of tax of $51 million				
Unrealized gain on available-for-sale securities, net of tax of $9 million				
Reclassification adjustments for gains on sales of available-for-sale securities realized in income, net of tax of $5 million				
Comprehensive income				
BALANCE DECEMBER 31, 2001	$ 61	$ (189,460)	$5,777,169	$ 557,451

	UNREALIZED (LOSS) GAIN ON AVAILABLE FOR SALE SECURITIES	DEFERRED DERIVATIVE GAINS (LOSSES)	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	ADDITIONAL MINIMUM BENEFITS LIABILITY
BALANCE DECEMBER 31, 1998	$ (16,004)			
COMPREHENSIVE INCOME:				
Net income				
Contributions from owner				
Distribution to owner				
Other comprehensive loss:				

Unrealized loss on available-for-sale securities, net of tax of $0.4 million	(1,224)			
Foreign currency translation adjustments			$ 162	
Comprehensive income				
BALANCE DECEMBER 31, 1999	(17,228)		162	
COMPREHENSIVE INCOME:				
Net income				
Contributions from owner				
Transfer to common stock and additional paid-in capital				
Other comprehensive income (loss):				
Foreign currency translation adjustments			(1,726)	
Additional minimum non-qualified pension liability adjustment, net of tax of $0.4 million				(716)
Reclassification adjustment for impairment loss on available-for-sale securities realized in net income, net of tax of $9 million	17,228			
Unrealized loss on available-for-sale securities, net of tax of $1 million	(2,264)			
Comprehensive income				
BALANCE DECEMBER 31, 2000	(2,264)		(1,564)	(716)
Net income				
Contributions from owner				
Purchases of treasury stock				
Majority owner effect of treasury stock purchases				
IPO proceeds, net				
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax of $98 million			(94,066)	
Changes in minimum non-qualified pension liability, net of tax of $4 million				(6,799)
Cumulative effect of adoption of SFAS No. 133, net of tax of $145 million		$ (290,294)		
Deferred gain from cash flow hedges, net of tax of $228 million		427,994		
Reclassification of net deferred gain from cash flow hedges into net income, net of tax of $51 million		(81,944)		
Unrealized gain on available-for-sale securities, net of tax of $9 million	16,984			
Reclassification adjustments for gains on sales of available-for-sale securities realized in income, net of tax of $5 million	(8,670)			
Comprehensive income				
BALANCE DECEMBER 31, 2001	$ 6,050	$ 55,756	$ (95,630)	$ (7,515)

	TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL STOCKHOLDERS' EQUITY	COMPREHENSIVE INCOME (LOSS)
BALANCE DECEMBER 31, 1998	$ (16,004)	$ 652,035	
COMPREHENSIVE INCOME:			
Net income		24,046	$ 24,046
Contributions from owner		235,877	
Distribution to owner		(170,211)	
Other comprehensive loss:			
Unrealized loss on available-for-sale securities, net of tax of $0.4 million	(1,224)	(1,224)	(1,224)
Foreign currency translation adjustments	162	162	162
Comprehensive income			$ 22,984
BALANCE DECEMBER 31, 1999	(17,066)	740,685	
COMPREHENSIVE INCOME:			
Net income		209,965	$ 209,965
Contributions from owner		1,369,278	
Transfer to common stock and additional paid-in capital		--	
Other comprehensive income (loss):			
Foreign currency translation adjustments	(1,726)	(1,726)	(1,726)
Additional minimum non-qualified pension liability adjustment, net of tax of $0.4 million	(716)	(716)	(716)
Reclassification adjustment for impairment loss on available-for-sale securities realized in net income, net of tax of $9 million	17,228	17,228	17,228

Unrealized loss on available-for-sale securities, net of tax of $1 million ..	(2,264)	(2,264)	(2,264)
Comprehensive income			$ 222,487
BALANCE DECEMBER 31, 2000	(4,544)	2,332,450	
Net income		557,451	$ 557,451
Contributions from owner		1,787,311	
Purchases of treasury stock		(189,460)	
Majority owner effect of treasury stock purchases		(43,149)	
IPO proceeds, net		1,696,074	
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax of $98 million	(94,066)	(94,066)	(94,066)
Changes in minimum non-qualified pension liability, net of tax of $4 million	(6,799)	(6,799)	(6,799)
Cumulative effect of adoption of SFAS No. 133, net of tax of $145 million	(290,294)	(290,294)	(290,294)
Deferred gain from cash flow hedges, net of tax of $228 million	427,994	427,994	427,994
Reclassification of net deferred gain from cash flow hedges into net income, net of tax of $51 million	(81,944)	(81,944)	(81,944)
Unrealized gain on available-for-sale securities, net of tax of $9 million ..	16,984	16,984	16,984
Reclassification adjustments for gains on sales of available-for-sale securities realized in income, net of tax of $5 million	(8,670)	(8,670)	(8,670)
Comprehensive income			$ 520,656
BALANCE DECEMBER 31, 2001	$ (41,339)	$ 6,103,882	

See Notes to the Company's Consolidated Financial Statements

(1) BACKGROUND AND BASIS OF PRESENTATION

On July 27, 2000, Reliant Energy, Incorporated (Reliant Energy) announced its intention to form a company, Reliant Resources, Inc. (Reliant Resources), to own and operate a substantial portion of its unregulated operations and to offer no more than 20% of the common stock of Reliant Resources in an initial public offering. Reliant Resources and its subsidiaries are collectively referred to herein as the "Company." In May 2001, Reliant Resources offered 59.8 million shares of its common stock to the public at an initial offering price of $30 per share (IPO) and received net proceeds from the IPO of $1.7 billion. Reliant Energy expects to distribute the remaining common stock of Reliant Resources owned by Reliant Energy or its successors to its shareholders (Distribution) in the summer of 2002. The Distribution is subject to the declaration of the Distribution by the Board of Directors of Reliant Energy, market and other conditions, and government actions and approvals. There can be no assurances that the Distribution will be completed as described or within the periods outlined above. Reliant Energy, together with its subsidiaries, is a diversified international energy services company consisting of regulated and unregulated energy operations. For information regarding the IPO, see Note 9(a).

The unregulated operations included in the consolidated financial statements of Reliant Resources for 1999 and 2000 consist of Reliant Energy's, or its direct and indirect subsidiaries', unregulated power generation and related energy trading, marketing, power origination and risk management services in North America and Europe; a portion of its retail electric operations; and other operations, including a communications business and a venture capital operation. Throughout 1999 and 2000, these operations were conducted by Reliant Energy and its direct and indirect subsidiaries. On August 9, 2000, Reliant Energy formed Reliant Resources, a Delaware corporation, as a wholly owned subsidiary. Reliant Resources was incorporated with 1,000 shares of common stock. Effective December 31, 2000, Reliant Energy consolidated its unregulated operations under Reliant Resources (Consolidation). A subsidiary of Reliant Energy, Reliant Energy Resources Corp. (RERC Corp.), transferred some of its subsidiaries, including its trading and marketing subsidiaries, to Reliant Resources. In connection with the transfer from RERC Corp., Reliant Resources paid $94 million to RERC Corp. Also effective December 31, 2000, Reliant Energy transferred its wholesale power generation businesses, its unregulated retail electric operations, its communications business and most of its other unregulated businesses to Reliant Resources. In accordance with accounting principles generally accepted in the United States of America, the transfers from RERC Corp. and Reliant Energy were accounted for as a reorganization of entities under common control.

The accompanying consolidated financial statements for 1999 and 2000 are presented on a carve-out basis and include the historical operations of the Company. These financial statements have been prepared from Reliant Energy's historical accounting records.

The Statements of Consolidated Income include all revenues and costs directly attributable to the Company, including costs for facilities and costs for functions and services performed by centralized Reliant Energy organizations and directly charged to the Company based on usage or other allocation factors. The results of operations in these Consolidated Financial Statements also include general corporate expenses allocated by Reliant Energy to the Company. All of the allocations in the Consolidated Financial Statements are based on assumptions that management believes are reasonable under the circumstances. However, these allocations may not necessarily be indicative of the costs and expenses that would have resulted if the Company had been operated as a separate entity.

The Company's financial reporting segments include the following: Wholesale Energy, European Energy, Retail Energy and Other Operations. The Wholesale Energy segment engages in the acquisition, development and operation of domestic non-rate regulated electric power generation facilities as well as wholesale energy trading, marketing, power origination and risk management activities related to energy and energy-related commodities in North America. The European Energy segment, which was formed in the fourth quarter of 1999, operates power generation facilities in the Netherlands and conducts wholesale energy trading and power origination activities in Europe. The Retail Energy segment includes the Company's retail electric operations. This segment provides

customized, integrated energy services to large commercial, industrial and institutional customers and electricity and related services to residential and small commercial customers in Texas. In addition, Retail Energy historically included billing and remittance services provided to Reliant Energy's regulated electric utility and two of its natural gas utilities. Such services will not be provided to Reliant Energy's electric utility and its natural gas utilities after December 31, 2001. Retail Energy charged the regulated electric and gas utilities for the services provided to these utilities at the Company's cost. The Other Operations segment includes unallocated general corporate expenses and non-operating investments.

(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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 and hedging activities. For additional information regarding these risks, see Notes 6, 13(i) and 17. The Company is also subject to risks, among others, relating to the timing of the implementation of the business separation plan of Reliant Energy, supply and prices of fuel and electricity, effects of competition, changes in interest rates, results of financing efforts, operation of deregulating power markets, seasonal weather patterns, technological obsolescence and the regulatory environment in the United States and Europe. In addition, the Company is subject to risks relating to the reliability of the systems, procedures and other infrastructure necessary to operate the Company's retail electric business.

(c) PRINCIPLES OF CONSOLIDATION.

The accounts of the Company 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 investments recorded using the equity method of accounting, see Note 7. Other investments, excluding marketable securities, are generally carried at cost. The results of the Company's European Energy 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 segment's accounts to include the effect for the settlement of an indemnity for certain energy obligations in December 2001, see Note 13(f).

(d) REVENUES.

The Company records gross revenue for energy sales and services related to its electric power generation facilities under the accrual method and these revenues generally are recognized upon delivery. Energy sales and services related to its electric power generation facilities not billed by month-end are accrued based upon estimated energy and services delivered. Domestic electric power and other 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 determined 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 records gross revenue for energy sales and services to retail customers except, for sales to large contracted commercial, industrial and institutional customers, under the accrual method and these revenues generally are recognized upon delivery.

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 the mark-to-market method of accounting. Under the mark-to-market method of accounting, derivative instruments and contractual commitments are recorded at market value in revenues upon contract execution. The net changes in their fair values are recognized in the Statement 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 6.

The gains and losses related to financial instruments and contractual commitments qualifying and designated as hedges related to the sale of electric power and purchase of fuel 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 6.

(e) GENERAL, ADMINISTRATIVE AND DEVELOPMENT EXPENSES.

The general, administrative and development expenses in the Statements of Consolidated Income include employee related costs of the trading, marketing, power origination and risk management services operations, corporate and administrative services (including management services, financial and tax accounting, cash management and treasury support, legal, information technology system support, office management and human resources); business development costs; and certain benefit costs.

(f) 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 "accrue in advance" method for its power generation operations acquired or developed prior to December 31, 1999. Planned major maintenance cycles primarily range from two to ten years. Under the accrue 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 major maintenance reserve was $27 million and $19 million, respectively, of which $7 million and $2 million, respectively, were included in other current liabilities. The Company expenses all other repair and maintenance costs as incurred. For power generation operations acquired or developed subsequent to January 1, 2000, the Company expenses all repair and maintenance costs as incurred, including planned major maintenance. Property, plant and equipment includes the following:

	ESTIMATED USEFUL LIVES (YEARS)	DECEMBER 31, 2000	DECEMBER 31, 2001
		(IN MILLIONS)	
Electric generation facilities	10--40	$2,794	$2,871
Building and building improvements	15--20	12	14
Other	3--10	76	164
Land and land improvements		141	147
Assets under construction		1,177	1,682
Total		4,200	4,878
Accumulated depreciation		(151)	(276)
Property, plant and equipment, net		$4,049	$4,602

The Company records goodwill for the excess of the purchase price over the fair value assigned to the net assets of an acquisition. Historically, goodwill is amortized on a straight-line basis over 5 to 40 years. See Notes 2(q) and 5 and the following table for additional information regarding goodwill and the related amortization periods.

ACQUISITION	AMORTIZATION PERIOD (YEARS)	DECEMBER 31, 2000	DECEMBER 31, 2001
		(IN MILLIONS)	
Reliant Energy Mid-Atlantic Power Holdings, LLC	35	$7	$ 5
Reliant Energy Power Generation Benelux N.V.	30	897	834
Florida Generation Plant	35	2	2
California Generation Plants	30	70	70
Reliant Energy Services, Inc	40	131	131
Other	5--15	59	40
Total		1,166	1,082
Accumulated amortization		(52)	(84)
Foreign currency exchange impact		(107)	(150)
Total goodwill, net		$1,007	$ 848

The Company recognizes specifically identifiable intangibles, including air emissions regulatory allowances, water rights and permits, when specific rights and contracts are acquired. 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 20 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 the Communications business was impaired and accordingly recognized $22 million of fixed asset impairments and $19 million of goodwill impairments (see Note 16). 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).

(g) DEPRECIATION AND AMORTIZATION EXPENSE.

Depreciation is computed using the straight-line method based on economic lives. Other amortization expense includes amortization of air emissions regulatory allowances and other intangibles. The 2001 goodwill amortization expense includes the $19 million in goodwill impairment related to the Communications business (see Note 16). 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	$ 18	$105	$152
Goodwill amortization expense	11	35	51
Other amortization expense	--	54	44
Total depreciation and amortization expense	$ 29	$194	$247

(h) CAPITALIZATION OF INTEREST EXPENSE.

Interest expense is capitalized as a component of projects under construction and is amortized over the assets' estimated useful lives. During 1999, 2000 and 2001, the Company capitalized interest of $8 million, $35 million and $59 million, respectively.

(i) INCOME TAXES.

The Company is included in the consolidated income tax returns of Reliant Energy. The Company calculates its income tax provision on a separate return basis under a tax sharing agreement with Reliant Energy. The Company

uses the liability method of accounting for deferred income taxes and measures deferred income taxes for all significant income tax temporary differences. Current federal and some state income taxes are payable to or receivable from Reliant Energy. 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 12.

(j) CASH AND RESTRICTED CASH.

The Company records as cash and cash equivalents all highly liquid short-term investments with original maturities of three months or less. 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 for it to make future lease payments. For additional discussion regarding REMA's lease transactions, see Note 13(c).

(k) ALLOWANCE FOR DOUBTFUL ACCOUNTS.

Accounts and notes receivable, principally from customers, on the Consolidated Balance Sheets are net of an allowance for doubtful accounts of $51 million and $90 million at December 31, 2000 and 2001, respectively. The provision for doubtful accounts in the Statements of Consolidated Income for 1999, 2000 and 2001 was $1 million, $43 million and $38 million, respectively. In addition, during 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 13(i) and 17, respectively.

(l) INVENTORY.

Inventory consists of materials and supplies, coal, natural gas and heating oil. Inventories used in the production of electricity are valued at the lower of average cost or market. Heating oil and natural gas used in the trading and marketing operations are accounted for under mark-to-market accounting as discussed in Note 6. Below is a detail of inventory:

	DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
Materials and supplies	$ 44	$ 65
Coal	10	35
Natural gas	16	41
Heating oil	29	33
Total inventory	$ 99	$174

(m) INVESTMENT IN OTHER DEBT AND EQUITY SECURITIES.

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." 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 in other long-term assets in the Consolidated Balance Sheets and any unrealized gain or loss, net of tax, as a separate component of stockholders' equity and accumulated other comprehensive loss. At December 31, 2000, the accumulated unrealized loss, net of tax, relating to these equity securities was $2 million. At December 31, 2001, the Company had an accumulated unrealized gain, net of tax, relating to these securities of $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.

In addition, the Company has held debt and equity securities classified as "trading." 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 gains (losses) from investments in the Statements of Consolidated Income. As of December 31, 2000, the Company did not hold debt or equity securities that are classified as "trading." As of December 31, 2001, the Company held equity securities classified as "trading" totaling $1 million. The Company recorded unrealized holding gains on "trading" securities 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.

(n) 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.

(o) 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.

(p) 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.

(q) CHANGES IN ACCOUNTING PRINCIPLES AND NEW ACCOUNTING PRONOUNCEMENTS.

Staff Accounting Bulletin No. 101, "Revenue Recognition" (SAB No. 101), was issued by the Securities and Exchange Commission (SEC) staff 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 its results of operations pursuant to SFAS No. 142. The Company recognized $32 million of goodwill amortization expense in the Statement of Consolidated Income during 2001, excluding a $19 million write-off of a Communications business goodwill balance which was recorded as goodwill amortization expense (see Note 16). 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 intangibles 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 segment goodwill is reasonably possible. As of December 31, 2001, net goodwill associated with the European Energy segment is $632 million. The Company anticipates finalizing its review of goodwill and certain intangibles for its reporting units during 2002. The Company does not believe impairments of goodwill and certain intangibles, if any, related to the Company's other reporting units will have a material impact on the Company's results of operations or financial position.

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.

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

See Note 6 for the Company's adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133) on January 1, 2001 and adoption of subsequent cleared guidance.

(3) HISTORICAL RELATED PARTY TRANSACTIONS

The Consolidated Financial Statements include significant transactions between the Company and Reliant Energy involving services, including various corporate support services (including accounting, finance, investor relations, planning, legal, communications, governmental and regulatory affairs and human resources), information technology services and other shared services such as corporate security, facilities management, accounts receivable, accounts payable and payroll, office support services and purchasing and logistics. The costs of services have been directly charged or allocated to the Company using methods that management believes are reasonable. These methods include negotiated usage rates, dedicated asset assignment, and proportionate corporate formulas based on assets, operating expenses and employees. These charges and allocations are not necessarily indicative of what would have been incurred had the Company been a separate entity. Amounts charged and allocated to the Company

for these services were $11 million, $34 million and $9 million for 1999, 2000 and 2001, respectively, and are included primarily in operation and maintenance expenses and general and administrative expenses. In addition, during 2001, the Company incurred costs primarily related to corporate support services which were billed to Reliant Energy and its affiliates of $27 million. Some subsidiaries of the Company have entered into office rental agreements with Reliant Energy. During 1999, 2000 and 2001, the Company incurred $1 million, $4 million and $16 million, respectively, of rent expense to Reliant Energy.

Certain of these services and the office space lease arrangements between the Company and Reliant Energy will continue after the Distribution under transition service agreements or other long-term agreements. It is not anticipated that a change, if any, in these costs and revenues would have a material effect on the Company's consolidated results of operations, cash flows or financial position. For additional information regarding these services and office space lease arrangements between the Company and Reliant Energy, see Note 4(a).

Below is a detail of accounts and notes receivable (payable) to affiliated companies that are not part of the Company:

	DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
Net accounts receivable -- affiliated companies	$ 94	$ 27
Net short-term notes (payable) receivable -- affiliated companies	(1,415)	388
Net long-term notes (payable) receivable -- affiliated companies	(648)	30
Total net accounts and notes (payable) receivable -- affiliated companies	$(1,969)	$ 445

Net accounts receivable -- affiliated companies, representing primarily current month balances of transactions between the Company and Reliant Energy or its subsidiaries, relate primarily to natural gas purchases and sales, interest, charges for services and office space rental. Net short-term notes payable/receivable -- affiliated companies represent the accumulation of a variety of cash transfers and operating transactions and specific negotiated financing transactions with Reliant Energy or its subsidiaries and generally bear interest at market-based rates. Net long-term notes payable/receivable -- affiliated companies primarily relate to specific negotiated financing transactions with Reliant Energy or its subsidiaries that bear interest at market-based rates. See the discussion below for information regarding the notes payable entered into by the Company with Reliant Energy during 2000 related to the acquisition of Reliant Energy Power Generation Benelux, N.V. (REPGB), a Dutch power generation company, and the acquisition of certain assets and operations held by REMA during May 2000. Net interest expense related to these net borrowings/receivables was $10 million and $172 million during 1999 and 2000, respectively. Net interest income related to these net borrowings/receivables was $12 million during 2001.

Funds for the acquisition of REMA were made available through loans from Reliant Energy. In May 2000, $1.0 billion of these loans were converted to equity and $1.0 billion of these loans were repaid in August 2000 from proceeds received from the sale-leaseback transactions (see Note 5(a)). The loans bore interest at 9.4%.

In connection with funding its purchase of REPGB (see Note 5(b)), a subsidiary of the Company entered into a 560 million Euro-denominated note (approximately $528 million based on the December 31, 2000, exchange rate of 1.0616 Euros per U.S. dollar) with Reliant Energy, which matured on July 1, 2001. At December 31, 2000, the entire Euro 560 million was outstanding on this note. Outstanding indebtedness under the note bore interest at the inter-bank offered rate for Euros (EURIBOR) plus 0.75% per annum. The applicable interest rate was 5.7% at December 31, 2000. In March 2001, the Company paid $236 million of the debt owed to Reliant Energy, along with the accrued interest on the amount. The repayment was made with general corporate funds of the Company, including amounts borrowed under the Company's credit facilities.

In May 2001, Reliant Energy converted or contributed an aggregate of $1.7 billion of the indebtedness owed by the Company to Reliant Energy and its subsidiaries to equity without the issuance of any additional shares of common stock of the Company, pursuant to the master separation agreement by recording an increase to additional paid-in capital of the Company. In addition, the Company used $147 million of the net proceeds of the IPO to repay certain indebtedness owed to Reliant Energy in May 2001.

During 2001, proceeds not initially utilized from the IPO were advanced to a subsidiary of Reliant Energy (the Reliant Energy money fund) on a short-term basis. The Company has reduced its advance to the Reliant Energy money fund following the IPO to fund capital expenditures and to meet its working capital needs. As of December 31, 2001, the Company had outstanding advances to the Reliant Energy money fund of $390 million which is included in accounts and notes receivable in the Company's Consolidated Balance Sheet.

The Company purchases natural gas and transportation services from, supplies natural gas to, and provides marketing and risk management services to affiliates of Reliant Energy that are not part of the Company. Purchases of transportation services and natural gas from Reliant Energy and its subsidiaries were $200 million, $178 million and $188 million in 1999, 2000 and 2001, respectively. During 1999, 2000 and 2001, the sales and services to Reliant Energy and its subsidiaries totaled $330 million, $601 million and $701 million, respectively.

During 2001, REPGB received efficiency and energy payments from BV Nederlands Elektriciteit Administratiekantoor (NEA), an equity investment (see Note 7), totaling $30 million pursuant to a protocol agreement under which the Dutch generators provided capacity and energy to distributors in exchange for regulated production payments. In addition, during 2001 REPGB received payments from NEA totaling $14 million related to environmental tax subsidies for previous periods.

Pursuant to the provisions of the master separation agreement between the Company and Reliant Energy, during 2001 the Company has participated in generation capacity auctions by Reliant Energy's electric utility generation assets (Texas Genco). The Company has also exercised its option included in the master separation agreement to purchase 50% of the capacity, energy and ancillary services of Texas Genco not auctioned in the aforementioned auctions, at the prices established in these auctions. As of December 31, 2001, the Company has minimum commitments to purchase capacity of Texas Genco averaging 6,471 megawatts (MW) per month in 2002 and 775 MW per month in 2003. The Company has no minimum obligations for energy or ancillary services under the master separation agreement. The Company's anticipated payments related to these minimum obligations are $213 million in 2002 and $58 million in 2003. For additional information regarding agreements relating to Texas Genco, see Note 4(b).

During 1999, 2000 and 2001, Reliant Energy or its subsidiaries made equity contributions to the Company of $236 million, $1.4 billion and $1.8 billion, respectively. During 1999, the Company made distributions to a subsidiary of Reliant Energy of $170 million. The contributions received by the Company in 1999 primarily related to cash contributions used to fund (a) the acquisition of a generating facility in Florida (see Note 5(c)) and (b) general operating costs. In addition, during 1999, Arkla Finance Corporation, a subsidiary of the Company, received payment of $170 million on a long-term note receivable from an affiliate. Arkla Finance Corporation distributed the $170 million to its parent company, RERC Corp. The contributions in 2000 primarily related to (a) conversion of $1 billion of the borrowings from Reliant Energy used to fund the acquisition of REMA (see Note 5(a)), (b) the forgiveness of $284 million of debt held by subsidiaries that were transferred from RERC Corp. to the Company (see Note 1) and (c) general operating costs. The contributions in 2001, primarily related to the conversion into equity of debt owed to Reliant Energy and its subsidiaries and some related interest expense totaling $1.7 billion and the contribution of net benefit assets and liabilities, net of deferred income taxes.

(4) RELATED PARTY TRANSACTIONS -- AGREEMENTS BETWEEN RELIANT ENERGY AND THE COMPANY

(a) SERVICES AGREEMENTS.

The Company has entered into agreements with Reliant Energy under which Reliant Energy will provide the Company, on an interim basis, various corporate support services, information technology services and other previously shared services such as corporate security, facilities management, accounts receivable, accounts payable and payroll, office support services and purchasing and logistics.

These arrangements will continue under a transition services agreement providing for their continuation until December 31, 2004, or, in the case of some corporate support services, until the Distribution. The charges the Company will pay Reliant Energy for these services are generally intended to allow Reliant Energy to recover its fully allocated costs of providing the services, plus out-of-pocket costs and expenses. In each case, the Company will have the right to terminate categories of services at an earlier date. It is not anticipated that termination of these

service arrangements will have a material effect on the Company's financial position, results of operations or cash flows.

Pursuant to lease agreements, Reliant Energy will lease the Company office space in its headquarters building and in various other locations in Houston, Texas, for an interim period.

Under a service agreement, the Company provided customer service call center operations, credit and collections and revenue accounting services for Reliant Energy's electric utility division and received and processed payments for the accounts of Reliant Energy's electric utility division and two of Reliant Energy's natural gas distribution divisions. Reliant Energy provided the office space and equipment for the Company to perform these services. The charges Reliant Energy paid the Company for these services were generally intended to allow the Company to recover its fully allocated costs of providing the services, plus out-of-pocket costs and expenses. The service agreement governing these services terminated on December 31, 2001.

(b) AGREEMENTS RELATING TO TEXAS GENCO.

Pursuant to the Texas electric restructuring law, Texas Genco, as the affiliated power generator of Reliant Energy's transmission and distribution utility, is required to sell at auction 15% of the output of its installed generating capacity. This obligation continues until January 1, 2007, unless before that date the Public Utility Commission of Texas (Texas Utility Commission) determines at least 40% of the quantity of electric power consumed in 2000 by residential and small commercial customers in the utility's service area is being served by retail electric providers other than us. The master separation agreement requires Texas Genco to auction all of its capacity that remains subsequent to capacity auctioned pursuant to Texas Utility Commission rules and after certain other deductions (Texas Genco remaining capacity). The Company has the right to purchase 50% (but not less than 50%) of Texas Genco's remaining capacity at the prices to be established in the auction. For a discussion of the Company's purchases of capacity from Texas Genco in 2001, see Note 3. It is expected that Texas Genco will have a total of six auctions in 2002 and 2003.

In connection with the separation of the Company's businesses from those of Reliant Energy, Reliant Energy has agreed either to issue and sell in an initial public offering or to distribute no more than 20% of the common stock of Texas Genco by December 31, 2002. Reliant Energy has granted the Company an option to purchase, subject to the completion of the Distribution, all of the shares of capital stock of Texas Genco that will hold the Texas generating assets of Reliant Energy's electric utility division that will be owned by Reliant Energy after the initial public offering or distribution noted below. 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 ending January 9, 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 per share dividends paid during the period there is a public ownership interest in Texas Genco and Texas Genco's per share earnings during that period. If the disposition to the public of common stock of Texas Genco is by means of a primary or secondary public offering, the public offering may be of as little as 17% of Texas Genco's outstanding common stock, in which case Reliant Energy will have the right to subsequently reduce its interest to a level not less than 80%. The Company has agreed that if it exercises the Texas Genco option and purchases the shares of Texas Genco common stock, the Company 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 Reliant Energy, the Company will assume Reliant Energy's obligations in exchange for a payment to the Company by Reliant Energy of an amount equal to the principal plus accrued interest.

The Company has entered into a support agreement with Reliant Energy, pursuant to which the Company will provide engineering and technical support services and environmental, safety and industrial health services to support operations and maintenance of Texas Genco's facilities. The Company will also provide systems, technical, programming and consulting support services and hardware maintenance (but excluding plant-specific hardware) necessary to provide dispatch planning, dispatch and settlement and communication with the independent system operator. The fees charged for these services will be designed to allow the Company to recover its fully allocated direct and indirect costs and reimbursement of out-of-pocket expenses. Expenses associated with capital investment

in systems and software that benefit both the operation of Texas Genco's facilities and the Company's facilities in other regions will be allocated on an installed megawatt basis. The term of this agreement will end on the first to occur of (a) the closing date of the Texas Genco option, (b) Reliant Energy's sale of Texas Genco, or all or substantially all of the assets of Texas Genco, if the Company does not exercise the Texas Genco option, or (c) May 31, 2005, provided the Texas Genco option is not exercised; however, Texas Genco may extend the term of this agreement until December 31, 2005.

When Texas Genco is organized, it 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. 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 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 ratepayers.

(c) OTHER AGREEMENTS.

In connection with the separation of the Company's businesses from those of Reliant Energy, the Company has also entered into other agreements providing for, among other things, mutual indemnities and releases with respect to the Company's respective businesses and operations, matters relating to corporate governance, matters relating to responsibility for employee compensation and benefits, and the allocation of tax liabilities. In addition, the Company and Reliant Energy have entered into various agreements relating to ongoing commercial arrangements, including among other things, the leasing of optical fiber and related maintenance activities, gas purchasing and agency matters and subcontracting energy services under existing contracts.

The Company has guaranteed, in the event Reliant Energy becomes insolvent, certain non-qualified benefits of Reliant Energy's and its subsidiaries' existing retirees at the Distribution totaling approximately $55 million.

(5) 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 the Company 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 loans from Reliant Energy. In May 2000, $1.0 billion of these loans were subsequently converted to equity.

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 entered into separate sale-leaseback transactions with each of three owner-lessors covering the Company's 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, the Company leases an interest in each facility from each owner-lessor under a leveraged 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 intercompany indebtedness owed by the Company to Reliant Energy.

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	PRO FORMA	ACTUAL	PRO FORMA
	(IN MILLIONS)			
Revenues	$ 7,956	$ 7,986	$19,792	$19,958
Income after tax and before extraordinary item	24	14	203	194
Net income	24	14	210	201

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, 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 (see Note 8(a)).

For the two month period ended November 30, 1999, the Company accounted for its interest in REPGB using the equity method rather than the consolidation method. This resulted in income of equity investment of unconsolidated subsidiaries of $22 million for the year ended December 31, 1999.

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. In 2002, the Company recorded a $43 million reduction in goodwill related to the accounting for the purchase of treasury shares (see Note 9(b)). The Company finalized a severance plan (REPGB Plan) in connection with the REPGB acquisition in September 2000 (commitment date) and in accordance with EITF 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 5 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	$7,956	$8,533
Net income (loss)	24	(3)

(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.

(6) DERIVATIVE 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 $3 million and a cumulative after-tax increase in accumulated other comprehensive loss of $290 million. The adoption also increased current assets, long-term assets, current liabilities and long-term liabilities by $615 million, $248 million, $811 million and $339 million, respectively, in the Company's Consolidated Balance Sheet. During the year ended December 31, 2001, $199 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 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 will become 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 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:

- Futures 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 or a 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 SERVICES 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 by using quoted prices where available, other valuation techniques when market data is not available, for example in illiquid markets, and other factors such as the 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, the Company may enter into Energy Derivatives in order to hedge some expected purchases of electric power, natural gas and other commodities and sales of electric power (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 loss. During 2001, there were no deferred gains or losses 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. 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 transactions, (b) purchased power, in the case of electric power purchase transactions, (c) revenues, in the case of electric power sales transactions and (d) interest expense, in the case of interest rate swap transactions. 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.

The maximum length of time the Company is hedging its exposure to the payment of variable interest rates is four years.

During the year ended December 31, 2001, the Company entered into interest-rate swaps in order to adjust the interest rate on $200 million of its floating rate debt. In addition, as of December 31, 2001, European Energy has entered into transactions to purchase $271 million at a fixed exchange rate in order to hedge future fuel purchases payable in U.S. dollars.

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 Statement 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 13(f).

During 2001, the Company entered into two structured transactions which were recorded on the balance sheet in non-trading derivative assets and liabilities involving a series of forward contracts to buy and sell an energy commodity in 2001 and to buy and sell an energy commodity in 2002 or 2003. The change in fair value of these derivative assets and liabilities must be recorded in the statement of income for each reporting period. 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, the Company 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 us 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 13(i). For information regarding the net provision recorded in 2001 related to energy sales to Enron, see Note 17.

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

	DECEMBER 31, 2000		DECEMBER 31, 2001	
TRADING AND MARKETING ASSETS	INVESTMENT GRADE(1)(2)	TOTAL	INVESTMENT GRADE(1)(2)	TOTAL
		(IN MILLIONS)		
Energy marketers	$ 2,291	$ 2,481	$ 683	$ 757
Financial institutions	1,099	1,228	495	495
Gas and electric utilities	472	542	538	544
Oil and gas producers	474	566	135	176
Commercial, industrial and institutional customers	73	85	119	184
Total	$ 4,409	4,902	$ 1,970	2,156
Credit and other reserves		(66)		(98)
Trading and marketing assets		$ 4,836		$ 2,058

	DECEMBER 31, 2001	
NON-TRADING DERIVATIVE ASSETS	INVESTMENT GRADE(1)(2)	TOTAL
	(IN MILLIONS)	
Energy marketers	$ 371	$ 408
Financial institutions	76	76
Gas and electric utilities	89	90
Oil and gas producers	8	76
Commercial, industrial and institutional customers	7	8
Others	5	5
Total	$ 556	663
Credit and other reserves		(16)
Non-trading derivative assets		$ 647

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

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

(d) TRADING AND NON-TRADING -- GENERAL POLICY.

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

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

(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. The Company has a 50% partnership interest in a 100 MW cogeneration plant in Orange, Texas which began commercial operations in December 1999. In addition, the Company, through REPGB, has a 22.5% interest in NEA, which was formerly the coordinating body for the Dutch electricity generating sector. For information regarding the Company's investment in NEA and financial impacts, see Note 13(f). See Note 5(b) for a description of 1999 equity accounting related to REPGB during 1999.

The Company's 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

The Company's 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
REPGB	22	--	--
Income from equity investments in unconsolidated subsidiaries	$ 21	$ 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) SHORT-TERM BORROWINGS AND LONG-TERM DEBT TO THIRD PARTIES

The following table presents the components of short-term borrowings and long-term debt to third parties as of December 31, 2000 and 2001.

	2000		2001	
	LONG-TERM	CURRENT(1)	LONG-TERM	CURRENT(1)
	(IN MILLIONS)			
Total short-term borrowings(2)	$ --	$126	$ --	$297
Long-term debt:				
Reliant Energy Power Generation, Inc. notes payable	260	--	295	2
European Energy(2)(3)	631	1	572	22
Debentures unamortized premium(3)	1	--	1	--
Total long-term borrowings	892	1	868	24
Total borrowings	$892	$127	$868	$321

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

(2) Borrowings were primarily denominated in Euros and the assumed exchange rate was 1.0616 Euros per U.S. dollar and 1.1242 Euros per U.S. dollar at December 31, 2000 and 2001, respectively, except for $92 million included in short-term borrowings at December 31, 2001.

(3) REPGB debt was adjusted to fair market value as of the acquisition date. The unamortized premium is related to these fair value adjustments and was amortized over the respective remaining term of the related long-term debt.

(a) SHORT-TERM BORROWINGS.

As of December 31, 2001, the Company had $5.6 billion in committed credit facilities, including facilities of subsidiaries of REPG and REPGB, of which $4.1 billion remained unused. These facilities expire as follows: $1.1 billion in 2002, $3.3 billion in 2003 and $800 million in 2004. These expirations exclude $383 million of facilities that will be converted to long-term loans in 2002, as further discussed below. Credit facilities aggregating $4.6 billion were unsecured. As of December 31, 2001, letters of credit outstanding under these facilities aggregated $396 million. As of December 31, 2001, borrowings of $1.1 billion were outstanding under these facilities of which $829 million were classified as long-term debt, based upon the availability of committed credit facilities and management's intention to maintain these borrowings in excess of one year.

As of December 31, 2000, the Company had $1.8 billion of committed credit facilities in effect, which included facilities of subsidiaries of REPG and REPGB. As of December 31, 2000, $470 million was unused. As of December 31, 2000, letters of credit outstanding under two of the facilities aggregated $384 million. As of December 31, 2000, borrowings of $825 million were outstanding under these facilities that were classified as long-term debt, based upon the availability of committed credit facilities with expiration dates exceeding one year and management's intention to maintain these amounts in excess of one year.

In 2001, the Company entered into two syndicated revolving credit facilities with financial institutions, which provide for $800 million each or an aggregate of $1.6 billion in committed credit. As of December 31, 2001, letters of credit outstanding under these two facilities aggregated $51 million. At December 31, 2001, there were no outstanding borrowings under these facilities. One of these facilities expires on August 22, 2002, with any outstanding loans on such date being converted at the Company's option to term loans with a maturity of one year from the date of conversion, provided the Company meets certain conditions. The other facility has a maturity date of August 22, 2004. Interest rates on the borrowings are based on the London inter-bank offered rate (LIBOR) plus a margin, a base rate or a rate determined through a bidding process. The credit facilities are subject to facility and usage fees that are calculated based on the amount of the facility commitments and on the amounts outstanding under the facilities, respectively.

During the fourth quarter of 2001 the Company also entered into a term loan facility that provided for $2.2 billion in funding to finance the purchase of Orion Power Holdings, Inc. (Orion Power). Interest rates on the borrowings are based on LIBOR plus a margin or a base rate. The facility was subject to commitment fees that were calculated based on the amount of the unused facility. In January 2002, the facility was increased to $2.9 billion. This facility was funded on February 19, 2002 for $2.9 billion. This term loan must be repaid within one year from the date on which it was funded. For discussion of the acquisition of Orion Power, see Note 19. At December 31, 2001, there were no outstanding borrowings under this facility.

The three facilities, as discussed above, contain various business and financial covenants requiring us to, among other things, maintain a ratio of net balance sheet debt to the sum of net balance sheet debt, subordinated affiliate balance sheet debt and stockholders' equity not to exceed 0.60 to 1.00. These covenants are not anticipated to materially restrict us from borrowing funds or, in the case of the revolvers, obtaining letters of credit under these facilities.

In July 2000, REPGB entered into two credit facilities which include (a) a 364-day revolving credit facility for Euro 250 million ($222 million assuming the December 31, 2001 exchange rate of 1.1242 Euros per U.S. dollar), which was extended one year in July 2001, and (b) a three-year letter of credit facility for $420 million. These credit facilities will be used by REPGB for working capital purposes and to support REPGB's contingent obligations under its cross border leases (see Note 13(d)). Under the two facilities, there is no recourse to any affiliate of the Company other than REPGB. The 364-day revolving credit facility for Euro 250 million bears interest at EURIBOR plus a margin. A commitment fee of 0.175% per annum was payable on the average daily unused portion of the

Euro 250 million facility. At December 31, 2000 and 2001, borrowings of $126 million and $155 million, respectively, were outstanding under the REPGB facility. The weighted-average interest rate on these short-term borrowings as of December 31, 2000 and 2001 was 5.65% and 4.18%, respectively. Under the letter of credit facility, a fee is payable by the Company on each letter of credit that is outstanding based on REPGB's credit rating. A commitment fee of 0.25% per annum is payable on the average daily unused portion of the $420 million letter of credit facility. At December 31, 2000 and 2001, letters of credit of $274 million and $272 million were outstanding under this facility. These facilities contain covenants and requirements that must be met by REPGB to borrow funds or obtain letters of credit, that require REPGB to, among other things, maintain a ratio of net balance sheet debt to the sum of net balance sheet debt and total equity of 0.60 to 1.00. These covenants are not anticipated to materially restrict the Company from borrowing funds or obtaining letters of credit, as applicable, under these facilities.

As of December 31, 2001, the Company, through REPGB, has $50 million (assuming the exchange rate of 1.1242 Euros per U.S. dollar at December 31, 2001) of short-term borrowings arranged via brokers or directly from financial institutions. These borrowings were used by REPGB to meet its short-term liquidity needs.

(b) LONG-TERM DEBT.

In February 2000, a subsidiary of the Company established a Euro 600 million term loan facility ($534 million assuming the December 31, 2001 exchange rate of 1.1242 Euros per U.S. dollar) that terminates in March 2003. The facility bears interest at EURIBOR plus a margin. At December 31, 2000 and 2001, $565 million and $534 million (assuming the exchange rate of 1.0616 and 1.1242 Euros per U.S. dollar, respectively) under this facility was outstanding at an interest rate of 5.873% and 4.6396%, respectively. This facility is secured by a pledge of the shares of REPGB's indirect holding company. This facility contains covenants that require the Company's subsidiary to, among other things, maintain a ratio of net balance sheet debt to the sum of net balance sheet debt and total equity of 0.60 to 1.00.

On December 15, 1999, a special purpose project subsidiary of REPG entered into a $475 million syndicated credit facility to finance the construction and start-up operations of an electric power generation plant located in Channelview, Texas. The maximum availability under this facility is (a) $92 million in equity bridge loans for the purpose of paying or reimbursing project costs, (b) $369 million in non-recourse loans to finance the construction of the project and (c) $14 million in revolving loans for general working capital purposes. As of December 31, 2000 and 2001, the project subsidiary had drawn $260 million and $389 million in equity bridge and construction loans, respectively. As of December 31, 2001, $92 million related to the equity bridge loan is classified in short-term borrowings and $2 million is classified in current portion of long-term debt. The loans bear interest at either (a) at the borrower's option (i) a base rate or (ii) a Euro dollar rate plus a margin, or (b) a fixed rate of 9.547%. The applicable interest rate was 7.9466% and 5.6565% at December 31, 2000 and 2001, respectively. Notes issued under the facility are pre-payable at any time and are due at various expiration dates beginning November 2002 through August 2024. Amounts drawn under the construction loan facility is convertible into term loans at project completion. Under the credit agreement, the equity bridge loans will be repaid no later than November 2002 and the construction loans will be converted into term loans at completion. Final maturities of the term loans range from 15 to 22 years following the plant's commercial operation. Commercial operation is expected no later than November 2002. Advances under the working capital facility mature five years after the plant begins commercial operations. A commitment fee of 0.35% per annum is payable on the average daily unused portions of the equity and construction loan commitments and working capital commitment once available. The Company incurred $7 million in debt financing costs in 1999 associated with this project financing. These costs are being amortized over the term of the facility. Obligations under the construction and term loans and revolving credit facility are secured by a first priority security interest in the assets and future revenues of the plant and a pledge of the ownership interest in the plant. Although the loans are non-recourse in nature, an indemnification agreement exists that may require REPG, in some circumstances, to reimburse the lenders for amounts up to the total contract price for the construction of the plant (approximately $331 million). This indemnity agreement terminates upon achievement of certain performance standards under the construction agreement. The $475 million credit facility contains covenants and requirements that must be met by the project subsidiary to borrow funds. These covenants are not anticipated to materially restrict the borrowing of funds under the facility.

Outstanding long-term indebtedness of REPGB of $67 million and $61 million at December 31, 2000 and 2001, respectively, consisted primarily of loans maturing through 2006. Some covenants under these loans restrict some

actions by REPGB. The weighted-average interest rate of these loans at December 31, 2000 and 2001 was 7.93% and 7.35%, respectively. 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.

As of December 31, 2001, maturities of borrowings classified as long-term debt were $24 million in 2002, $539 million in 2003, $42 million in 2004, $12 million in 2005, $12 million in 2006 and $263 million in 2007 and beyond.

(c) OFF-BALANCE SHEET FINANCINGS.

For information regarding off-balance sheet financings and REMA sale-leaseback transactions, see Notes 13(c) and 13(h).

(9) STOCKHOLDERS' EQUITY

(a) INITIAL PUBLIC OFFERING.

In May 2001, Reliant Resources offered 59.8 million shares of its common stock to the public at an IPO price of $30 per share and received net proceeds from the IPO of $1.7 billion. Pursuant to the terms of the master separation agreement between Reliant Energy and Reliant Resources, the Company used $147 million of the net proceeds to repay certain indebtedness owed to Reliant Energy. The Company used the remainder of the net proceeds of the IPO for repayment of third party borrowings, capital expenditures, repurchases of common stock and to increase the Company's working capital.

(b) TREASURY STOCK PURCHASES.

In July 2001, the Board of Directors authorized the Company to purchase up to one million shares of its common stock in anticipation of funding benefit plan obligations expected to be funded prior to the Distribution. On September 18, 2001, the Board of Directors authorized the Company to purchase up to 10 million additional shares of common stock through February 2003, and on December 6, 2001, the Board of Directors authorized the Company to purchase up to an additional 10 million shares of its common stock through June 2003. During 2001, the Company purchased 11 million shares of its common stock at an average price of $17.22 per share, or an aggregate purchase price of $189 million. The 11 million shares in treasury stock purchases increased Reliant Energy's percentage ownership in the Company from approximately 80% to approximately 83%. Reliant Energy recorded the acquisition of treasury shares under the purchase method of accounting and pushed-down the effect to the Company. As such, the Company recorded a decrease in goodwill related to REPGB and additional paid-in capital of $43 million.

(10) EARNINGS PER SHARE

The following table presents Reliant Resources' basic and diluted earnings per share (EPS) calculation for the year ended December 31, 2001 (shares in thousands). There were no dilutive reconciling items to net income.

Diluted Weighted Average Shares Calculation:	
Weighted average shares outstanding	277,144
Plus: Incremental shares from assumed conversions:	
Stock options	2
Restricted stock	244
Employee stock purchase plan	83
Weighted average shares assuming dilution	277,473
Basic and Diluted EPS:	
Income before cumulative effect of accounting change	$ 2.00
Cumulative effect of accounting change, net of tax	0.01
Net income	$ 2.01

For 2001, the computation of diluted EPS excludes purchase options for 8,528,098 shares of common stock that have an exercise price (ranging from $23.20 to $34.03) greater than the per share average market price ($22.11) for the period and would thus be anti-dilutive if exercised.

Prior to August 9, 2000, Reliant Resources, Inc. was not a separate legal entity and therefore had no historical capital structure. Accordingly, earnings per share have not been presented for 2000.

Reliant Resources' Certificate of Incorporation was amended to effect a 240,000 to 1 stock split of Reliant Resources' common stock on January 5, 2001.

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

(a) Stock-Based Incentive Compensation Plans.

Subsequent to the IPO, the Company's eligible employees and non-employee directors began participating in Reliant Resources' Long-Term Incentive Plan (LTIP) that provides for the issuance of stock-based incentives, including performance-based shares or units, restricted shares, stock options and stock appreciation rights, to key employees of the Company, including officers.

Prior to the IPO, the Company's eligible employees participated in Reliant Energy's Long-Term Incentive Compensation Plan (Reliant Energy LICP) and other incentive compensation plans that provide for the issuance of stock-based incentives, including performance-based shares, restricted shares, stock options and stock appreciation rights, to key employees of the Company, including officers. No stock appreciation rights have ever been issued under the Reliant Energy LICP. Stock-based incentive grants and expense information presented herein represents the Company's portion of the overall plans.

Performance-based shares and restricted shares have been granted to employees without cost to the participants under the Reliant Energy LICP and the LTIP. The performance-based shares generally vest three years after the grant date based upon performance objectives 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. During 1999, 2000 and 2001, the Company recorded compensation expense of $0.9 million, $6.7 million and $8.2 million, respectively, related to performance-based shares and restricted share grants. The following table summarizes performance-based shares and restricted share grant activity related to the Company for the years 1999 through 2001:

	RELIANT ENERGY		RELIANT RESOURCES	
	NUMBER OF PERFORMANCE-BASED SHARES	NUMBER OF RESTRICTED SHARES	NUMBER OF PERFORMANCE-BASED SHARES	NUMBER OF RESTRICTED SHARES
Outstanding at December 31, 1998	135,301	8,626		
Granted	115,501	87,429		
Released to participants	(14,764)	(2,869)		
Outstanding at December 31, 1999	236,038	93,186		
Granted	106,125	143,727		
Released to participants	(16,225)	(3,473)		
Canceled	(40,610)	--		
Outstanding at December 31, 2000	285,328	233,440		
Shares relating to transferred employees	224,325	72,390		
Granted	--	--	693,135	156,674
Released to participants	(57,735)	(99,561)	--	--
Canceled	(26,843)	(330)	--	--
Outstanding at December 31, 2001	425,075	205,939	693,135	156,674
Weighted average fair value of performance and restricted stock granted for 1999	$ 26.16	$ 26.97		
Weighted average fair value of performance and restricted stock granted for 2000	$ 24.18	$ 30.87		
Weighted average fair value of performance and restricted stock granted for 2001			$ 22.50	$ 33.11

Assuming the Distribution occurs during 2002, as of the Distribution, Reliant Energy's compensation committee will convert outstanding performance shares under the Reliant Energy LICP 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 Reliant Energy or with the Company through December 31, 2002. On the date of the Distribution, holders of these time-based restricted shares will receive shares of the Company's common stock in the same manner as other holders of Reliant Energy common stock, but these shares of the Company's 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-based shares were granted. Thus, following the Distribution, employees who held performance-based shares under Reliant Energy's LICP for the performance cycle ending December 31, 2002 will hold time-based restricted shares of Reliant Energy's common stock and time-based restricted shares of the Company's common stock which will vest following continuous employment through December 31, 2002.

In 2001, some employees of Reliant Energy, primarily corporate support and executive officers, transferred to the Company. These employees held Reliant Energy performance-based shares and restricted shares of approximately 224,000 and approximately 72,000, respectively.

Under both Reliant Energy's 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 based on the average of the high and low sales price of the applicable common stock on the New York Stock Exchange on the grant date. The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 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 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	681,109	$ 25.11		
Options granted	1,311,657	27.06		
Options exercised	(21,836)	14.47		
Options canceled	(145,345)			
Outstanding at December 31, 1999	1,825,585	26.47		
Options granted	2,100,239	23.33		
Options exercised	(700,863)	21.67		
Options canceled	(128,706)			
Outstanding at December 31, 2000	3,096,255	24.71		
Options relating to transferred employees	3,714,223	24.31		
Options granted	116,492	41.62	8,826,432	$ 29.82
Options exercised	(817,563)	24.06	--	
Options canceled	(223,288)		(245,830)	
Outstanding at December 31, 2001	5,886,119	24.81	8,580,602	29.86
Options exercisable at December 31, 1999	256,958	24.92		
Options exercisable at December 31, 2000	458,659	26.64		
Options exercisable at December 31, 2001	2,683,755	25.62	6,500	30.00

Exercise prices for Reliant Energy stock options outstanding and held by Company employees ranged from $17.75 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 at December 31, 2001:

	RELIANT ENERGY		
	OPTIONS OUTSTANDING	AVERAGE EXERCISE PRICE	REMAINING AVERAGE CONTRACTUAL LIFE (YEARS)
Ranges of Exercise Prices Exercisable at:			
$17.75 -- $26.00	3,586,020	$21.46	7.7
$26.01 -- $50.00	2,300,099	30.03	7.6
Total	5,886,119	24.81	7.7

	RELIANT RESOURCES		
	OPTIONS OUTSTANDING	AVERAGE EXERCISE PRICE	REMAINING AVERAGE CONTRACTUAL LIFE (YEARS)
Ranges of Exercise Prices Exercisable at:			
$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 exercisable Reliant Energy stock options held by the Company's employees at December 31, 2001:

	RELIANT ENERGY	
	OPTIONS EXERCISABLE	AVERAGE EXERCISE PRICE
Ranges of Exercise Prices Exercisable at:		
$17.75 -- $26.00	1,413,013	$22.69
$26.01 -- $47.22	1,270,742	28.88
Total	2,683,755	25.62

At December 31, 2001, there were 6,500 exercisable Reliant Resources stock options with an exercise price of $30.00 and a remaining contractual life of 9.2 years.

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the Company applies the guidance contained in APB 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 below 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 net income would have been reduced by $1.3 million, $2.6 million and $22.5 million in 1999, 2000 and 2001, respectively.

Subject to the Distribution, Reliant Energy expects to convert all outstanding Reliant Energy stock options granted prior to May 4, 2001 to a combination of adjusted Reliant Energy stock options and Company stock options. For the converted stock options, the sum of the intrinsic value of 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 Company stock options granted immediately after the record date of the Distribution. As such, Reliant Energy employees who do not work for the Company will hold stock options of the Company.

(b) PENSION.

Effective March 1, 2001, the Company no longer accrued benefits under a noncontributory pension plan for its domestic non-union 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 Reliant Energy pension plan, (b) rolled over to a new Company savings plan or an individual IRA account, or (c) paid in a lump-sum or annuity distribution. During 2001, the Company incurred a charge to earnings of approximately $83 million (pre-tax) for the one-time benefit enhancement discussed above and a gain of $23 million (pre-tax) related to the curtailment of Reliant Energy's noncontributory and non-qualified pension plans. In connection with the Distribution, the Company expects to incur a loss of $57 million (pre-tax) related to the settlement of Reliant Energy's pension plan and non-qualified pension plans. These charges include costs incurred for former employees of Reliant Energy, primarily corporate support and executive officers, who transferred to the Company on January 1, 2001.

Except for its foreign subsidiaries and REMA union employees, prior to March 1, 2001, the Company participated in Reliant Energy's noncontributory pension plan. REMA union employees participate in a REMA noncontributory pension plan. Effective January 1, 1999, Reliant Energy amended and restated its pension plan and converted the present value of the accrued benefits under the existing pension plan into a cash balance pension plan. Under the cash balance formula, each participant has an account, for recordkeeping purposes only, to which credits are allocated annually based on a percentage of the participant's pay. The applicable percentage for 1999, 2000 and first two months of 2001 was 4% in each period.

Reliant Energy's funding policy is to review amounts annually in accordance with applicable regulations in order to achieve adequate funding of projected benefit obligations. The assets of the pension plans consist principally of common stocks and high-quality, interest-bearing obligations. As of December 31, 2001, approximately 9% of the Reliant Energy noncontributory pension plan assets was an investment in Reliant Energy common stock.

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 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 $1.7 million for the three months ended December 31, 1999, and $6.4 million and $5.6 million for 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	$ 1.8	$ 3.6	$ 3.5
Interest cost on projected benefit obligation	1.8	2.1	8.2
Expected return on plan assets	(2.3)	(3.3)	(11.9)
Curtailment and benefits enhancements	--	--	44.9
Net amortization	0.1	(0.3)	0.6
Net pension cost	$ 1.4	$ 2.1	$45.3

Following are reconciliations of the Company's beginning and ending balances of its retirement plan benefit obligation, plans assets and funded status for 2000 and 2001 (excluding REPGB). The prepaid pension asset is primarily recorded in other long-term assets.

	YEAR ENDED DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of year	$ 24.0	$ 28.7
Service cost	3.6	3.5
Interest cost	2.1	8.2
Curtailments and benefits enhancement	--	55.8
Transfers from affiliates	--	35.4
Acquisitions	1.0	--
Actuarial (gain) loss	(2.0)	6.0
Benefit obligation, end of year	$ 28.7	$137.6
CHANGE IN PLANS ASSETS		
Plans assets, beginning of year	$ 31.0	$ 27.3
Transfers/allocations from affiliates	--	124.8
Employer contributions	--	0.7
Acquisitions	1.0	--
Actual investment return	(4.7)	--
Plans assets, end of year	$ 27.3	$152.8
RECONCILIATION OF FUNDED STATUS		
Funded status	$ (1.4)	$ 15.2
Unrecognized transition asset	--	(0.2)
Unrecognized prior service cost	(2.8)	--
Unrecognized actuarial loss	4.6	14.8
Net amount recognized at end of year	$ 0.4	$ 29.8
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%

As all distributions from the Reliant Energy noncontributory plan to Resources Participants after the Distribution will be made from Reliant Energy plan assets, actual investment returns on plan assets above or below expected returns on plan assets are included in "transfers/allocations from affiliates" in the above reconciliation in 2001.

The accumulated benefit obligation and fair value of plan assets for the REMA noncontributory pension plan were $4.7 million and $1.7 million, respectively, as of December 31, 2001.

The actuarial loss during 2001 was primarily due to the decrease in discount rate and changes in demographics of the participants.

In addition to the noncontributory pension plans discussed above, the Company participates in Reliant Energy's non-qualified pension plans which allow participants to retain the benefits to which they would have been entitled under Reliant Energy's qualified 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 $2 million in 2001 and was immaterial in 1999 and 2000. The accrued benefit liability for the nonqualified pension plan was $1 million and $30 million of December 31, 2000 and December 31, 2001, respectively. In addition, the accrued benefit liabilities as of December 31, 2001 include the recognition of minimum liability adjustments of $11 million, which is reported as a component of comprehensive income net of income tax effects. Effective March 1, 2001, the Company no longer provides future non-qualified pension benefits to its employees.

(c) SAVINGS PLAN.

Except for its foreign subsidiaries and REMA employees, the Company participates in Reliant Energy's employee savings plan that is a tax qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (Code), and includes a cash or deferred arrangement under Section 401(k) of the Code. REMA employees participate in REMA employee savings plans that are tax-qualified plans under Section 401(a) of the Code and include cash or deferred arrangements under Section 401(k) of 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 a portion of each employee's compensation contributed, with some matching contributions subject to a vesting schedule. Through March 1, 2001, a substantial portion of Reliant Energy's employee savings plan match was made in Reliant Energy common stock.

Effective March 1, 2001, Reliant Energy amended its savings plan 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 benefit expense was $2 million, $6 million and $20 million in 1999, 2000 and 2001, respectively.

On February 1, 2002, the Company established an employee savings plan that is a tax-qualified plan under Section 401(a) of the Code and includes a cash or deferred arrangement under Section 401(k) of the Code for substantially all its non-union employees except for its foreign subsidiaries' employees. The Company savings plan match and any payroll period discretionary employer contribution will be made in cash; any discretionary annual employer contribution may be made in the Company's common stock, cash or both. Beginning January 1, 2002, the Company established a separate savings plan for its union employees.

(d) POSTRETIREMENT BENEFITS.

Effective March 1, 2001, the Company discontinued providing subsidized postretirement benefits to its domestic non-union employees. 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. In connection with the Distribution, the Company expects to incur a pre-tax gain of $21 million related to the settlement of the postretirement benefit obligation. These charges include the effect of the curtailment and settlement of the postretirement obligation for former employees of Reliant Energy, primarily corporate support and executive officers, who transferred to the Company on January 1, 2001. Prior to March 1, 2001, through a Reliant Energy subsidized postretirement plan, the Company provided some postretirement benefits for substantially all of its retired employees. The Company continues to provide subsidized postretirement benefits to certain union employees.

REPGB provides some postretirement benefits (primarily medical care and life insurance benefits) for its retired employees, substantially all of whom may become eligible for these benefits when they retire.

Under SFAS No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions" (SFAS No. 106), postretirement benefits are accounted for on an accrual basis using a specified actuarial method based on benefits and years of service. The Company was amortizing over a 20-year period approximately $4 million to cover the "transition cost" of adopting SFAS No. 106. Upon curtailment of the plan, the remaining transition cost was recognized. The Company funds its portion of the postretirement benefits on a pay-as-you-go basis.

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

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
Service cost -- benefits earned during the period	$ 0.5	$ 1.4	$ 2.0
Interest cost on projected benefit obligation	1.0	2.0	2.7
Curtailment	--	--	39.5
Net amortization	0.4	0.4	0.1
Net postretirement benefit cost	$ 1.9	$ 3.8	$44.3

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

	YEAR ENDED DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation, beginning of year	$ 31.5	$ 35.0
Service cost	1.4	2.0
Interest cost	2.0	2.7
Benefit payments	(1.0)	(1.4)
Transfers from affiliates	--	9.8
Acquisitions	2.2	--
Foreign exchange impact	(1.4)	(2.5)
Actuarial loss	0.3	2.9
Benefit obligation, end of year	$ 35.0	$ 48.5
RECONCILIATION OF FUNDED STATUS		
Funded status	$(35.0)	$(48.5)
Unrecognized transition obligation	2.7	--
Unrecognized prior service cost	2.9	--
Unrecognized actuarial loss	1.2	5.7
Net amount recognized at end of year	$(28.2)	$(42.8)
ACTUARIAL ASSUMPTIONS		
Discount rate	6.6--7.5%	6.6--7.25%
Rate of increase in compensation levels	2.0%	2.0%

(e) POSTEMPLOYMENT BENEFITS.

The Company records postemployment benefits based on SFAS No. 112, "Employer's Accounting for Postemployment Benefits," which requires the recognition of a liability for benefits provided to former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily health care and life insurance benefits for participants in the long-term disability plan). Net postemployment benefit costs were not material in 1999, 2000 and 2001.

(f) EMPLOYEE STOCK PURCHASE PLAN.

In the second quarter 2001, the Company established the Employee Stock Purchase Plan (ESPP). Under the ESPP, employees may contribute up to 15% of their compensation, as defined, towards the purchase of shares of the Company's common stock at a price of 85% of the lower of the market value at the beginning of the purchase period or end of each six-month purchase period. The initial purchase period began on the date of the IPO and ended December 31, 2001. The market value of the shares acquired by a participant in any year may not exceed $25,000. In January 2002, 550,781 shares were sold to employees under the ESPP at a price of $14.07 per share, related to the initial purchase period.

(g) OTHER NON-QUALIFIED PLANS.

Through December 31, 2001, certain eligible employees participated in Reliant Energy's deferred compensation plans, which permit participants to elect each year to defer a percentage of that year's salary (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 Reliant Energy'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. On January 1, 2001, some employees of Reliant Energy, primarily corporate support and executive officers, transferred to the Company. As of January 1, 2001, the discounted deferred compensation obligation of $13 million attributable to these employees was transferred to the Company. The Company recorded interest expense related to its deferred compensation obligation of approximately $1 million during 1999 and 2000 and $4 million during 2001. The discounted deferred compensation obligation recorded by the Company was $7 million and $29 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 Company nonqualified deferred compensation and restoration 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. In addition, the plan allows participants to retain the benefits which they would have been entitled to under Reliant Resources' qualified savings plans, except for the federally mandated limits on these benefits or on the level of salary on which these benefits may be calculated. The Company funds these deferred compensation and restoration liabilities by making contributions to a rabbi trust. Plan participants direct the allocation of their deferrals and restoration benefits between one or more of the Company's designated investment funds within the rabbi trust.

(h) OTHER EMPLOYEE MATTERS.

As of December 31, 2001, approximately 31% of the Company's employees are subject to collective bargaining arrangements, of which contracts covering 17% of the Company's employees will expire prior to December 31, 2002. Of these employees subject to collective bargaining agreements, 48% are employed by REPGB in the Netherlands.

(12) INCOME TAXES

The components of income before taxes are as follows:

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
United States	$ 0.3	$178.5	$720.5
Foreign	26.3	112.6	105.5
Income before income taxes	$ 26.6	$291.1	$826.0

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

	YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
Current			
Federal	$(13.6)	$ 99.7	$247.6
State	0.6	16.4	4.3
Foreign	--	--	(2.7)
Total current	(13.0)	116.1	249.2
Deferred			
Federal	16.4	(28.2)	10.7
State	(0.8)	0.7	15.7
Foreign	--	--	(4.0)
Total deferred	15.6	(27.5)	22.4
Income tax expense	$ 2.6	$ 88.6	$271.6

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	$ 26.6	$291.1	$826.0
Federal statutory rate	35%	35%	35%
Income tax expense at statutory rate	9.3	101.9	289.1
Net addition (reduction) in taxes resulting from:			
State income taxes, net of valuation allowances and federal income tax benefit	(0.1)	11.1	13.0
REPGB tax holiday	(10.1)	(37.8)	(49.9)
Goodwill amortization	1.4	2.1	8.6
Federal and foreign valuation allowance	1.6	12.8	3.3
Other, net	0.5	(1.5)	7.5
Total	(6.7)	(13.3)	(17.5)
Income tax expense	$ 2.6	$ 88.6	$271.6
Effective rate	9.6%	30.4%	32.9%

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% which 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.

Undistributed Earnings of Foreign Subsidiaries. The undistributed earnings of foreign subsidiaries aggregated $266 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.

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:

	YEAR ENDED DECEMBER 31,	
	2000	2001
	(IN MILLIONS)	
Deferred tax assets:		
Current:		
Allowance for doubtful accounts and credit provisions	$ 16.0	$ 59.5
Other	--	4.8
Total current deferred tax assets	16.0	64.3
Non-current:		
Employee benefits	17.8	44.3
Operating loss carryforwards	21.8	18.1
Environmental reserves	19.5	15.0
Foreign exchange gains	11.5	11.1
Non-trading derivative liabilities, net	--	95.5
Non-derivative stranded costs liability	--	73.1
Other	34.7	30.1
Valuation allowance	(20.3)	(15.6)
Total non-current deferred tax assets	85.0	271.6
Total deferred tax assets	$101.0	$335.9
Deferred tax liabilities:		
Current:		
Trading and marketing assets, net	$ 16.0	$ 48.4
Non-trading derivative assets, net	--	27.4
Hedges of net investment in foreign subsidiaries	--	52.1
Total current deferred tax liabilities	16.0	127.9
Non-current:		
Depreciation	108.5	133.6
Trading and marketing assets, net	--	27.5
Stranded costs indemnification receivable	--	73.1
Other	7.7	29.3
Total non-current deferred tax liabilities	116.2	263.5
Total deferred tax liabilities	$132.2	$391.4
Accumulated deferred income taxes, net	$ 31.2	$ 55.5

Tax Attribute Carryforwards. At December 31, 2001, the Company had approximately $6 million, $132 million and $45 million of federal, state and foreign net operating loss carryforwards, respectively. The federal and state loss carryforwards can be carried forward to offset future income through the year 2021. The foreign losses can be carried forward indefinitely.

The valuation allowance reflects a net increase of $17 million in 2000 and a $5 million net decrease 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.

As discussed in Note 13(f), 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 a stranded cost gas supply contract and three stranded cost electricity contracts. As a result of the above, the Company recorded an out-of-market, 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 the 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.

(13) COMMITMENTS AND CONTINGENCIES

(a) COMMITMENTS AND GUARANTEES.

As of December 31, 2001, the Company's Wholesale Energy 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, Wholesale Energy has options to purchase additional generating equipment for a total estimated cost of $42 million for future generation projects. The Company is actively attempting to remarket this equipment.

The Company 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 Company's Consolidated Balance Sheet as of December 31, 2001 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" (see Note 6) 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.

The Company's 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 acquired through an affiliate of the Company. For additional discussion of this related party commitment, see Note 3.

As of December 31, 2001, the Company has sale commitments, including electric energy and capacity sale contracts and district heating contracts (see Note 13(f)) which are not classified as non-trading derivative assets and liabilities or trading and marketing assets and liabilities in the Company's Consolidated Balance Sheet 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, the Company 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. The Company 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.

In October 2000, the Company 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 the Company with significant sponsorship rights. The aggregate cost of the naming rights will be approximately $300 million. During the fourth quarter of 2000, the Company 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, the Company will pay $10 million each year through 2032 for annual advertising under this agreement.

The Company 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, the Company has issued letters of credit totaling $51 million in connection with its trading activities. The Company 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, the Company's other commitments have various quantity requirements and durations and are not considered material either individually or in the aggregate to the Company's results of operations or cash flows.

(b) TRANSPORTATION AGREEMENT.

Prior to the merger of a subsidiary of Reliant Energy and RERC Corp., a predecessor of Reliant Energy Services Inc. (Reliant Energy Services) (a wholly owned subsidiary of the Company) entered into a transportation agreement (ANR Agreement) with ANR Pipeline Company (ANR) that contemplated a transfer to ANR of an interest in some of RERC Corp.'s pipelines and related assets that are not a part of the Company. The interest represented capacity of 250 million cubic feet (Mmcf)/day. Under the ANR agreement, an ANR affiliate advanced $125 million to Reliant Energy Services. Subsequently, the parties restructured the ANR Agreement and Reliant Energy Services refunded in 1993 and 1995, $34 million and $50 million, respectively, to ANR. As of December 31, 2000 and 2001, Reliant Energy Services had recorded $28 million and $31 million, respectively, in long-term other liabilities in the Consolidated Balance Sheets to reflect the Company's discounted obligation to ANR for the use of 130 Mmcf/day of capacity in some of RERC Corp.'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 the remaining balance of $36 million.

Prior to the IPO, Reliant Energy Services and a subsidiary of Reliant Energy entered into an agreement whereby the subsidiary of Reliant Energy agreed to reimburse Reliant Energy Services for any transportation payments made under the ANR Agreement and for the refund of the $41 million discussed above. In the Consolidated Balance Sheets, the Company has recorded a long-term notes receivable from an affiliate of $28 million and $31 million as of December 31, 2000 and 2001, respectively.

(c) LEASE COMMITMENTS.

In August 2000, the Company entered into separate sale-leaseback transactions with each of three owner-lessors the Company's 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, the Company 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. The Company anticipates construction to be completed by the summer of 2002, at which time the Company will commence tolling payments. The tolling arrangements qualify as operating leases.

In February 2001, Reliant Energy entered into a lease for office space for the Company in a building under construction. The lease agreement was assigned by Reliant Energy to the Company 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. The Company 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 as of December 31, 2001, which primarily relate to the REMA leases mentioned above. Other non-cancelable, long-term operating leases principally consist of tolling arrangements, as discussed above, rental agreements for building space, including the office space lease discussed above, data processing equipment and vehicles, including major work equipment:

	REMA SALE-LEASE OBLIGATION	OTHER	TOTAL
		(IN MILLIONS)	
2002	$ 136	$ 52	$ 188
2003	77	72	149
2004	84	87	171
2005	75	89	164
2006	64	90	154
2007 and beyond	1,124	469	1,593
Total	$1,560	$ 859	$2,419

Total lease expense for all operating leases was $2 million, $24 million and $75 million during 1999, 2000 and 2001, respectively. During 2001, the Company made lease payments related to the REMA sale-leaseback 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.

(d) 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.

(e) ENVIRONMENTAL AND LEGAL MATTERS.

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

Legal Matters.

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 the Company's 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 the Company's 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.

Environmental.

REMA Ash Disposal Site Closures and Site Contaminations. Under the agreement to acquire REMA (see Note 5(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 5(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

(f) INDEMNIFICATION AND SETTLEMENT 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 5549 terajoules (TJ) increasing annually to 7955 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 6). 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 the REPGB.

Under the settlement agreement, the former shareholders will continue to indemnify REPGB for the certain 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.

The Company 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 the Company's 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 Company's Consolidated Balance Sheet.

Investment in NEA. During the second quarter of 2001, the Company recorded a $51 million pre-tax gain (NLG 125 million) recorded as equity income for the preacquisition gain contingency related to the acquisition of REPGB for the value of its equity investment in NEA. This gain was based on the Company's evaluation of NEA's financial position and fair value. The fair value of the Company's investment in NEA is dependent upon the ultimate resolution of its existing contingencies and proceeds received from liquidating its remaining net assets. Prior to the settlement agreement discussed above, pursuant to the purchase agreement of REPGB, as amended, REPGB was entitled to a NLG 125 million dividend from NEA with any remainder owing to the former shareholders. 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, the Company recorded a $248 million increase in its investment in NEA. As of December 31, 2001, the Company has recorded $299 million in equity investments of unconsolidated subsidiaries for its investment in NEA.

(g) PAYMENT TO RELIANT ENERGY IN 2004.

To the extent the Company's price to beat mandated by the Texas electric restructuring law for providing retail electric service to residential and small commercial customers in Reliant Energy's Houston service territory during 2002 and 2003 exceeds the market price of electricity, the Company may be required to make a payment to Reliant Energy in early 2004. This payment will be required unless the Texas Utility Commission determines that, on or prior to January 1, 2004, 40% or more of the amount of electric power that was consumed in 2000 by residential or small commercial customers, as applicable, within Reliant Energy's Houston service territory is committed to be served by retail electric providers other than the Company. If the 40% test is not met and a payment is required, the amount of this payment will be equal to (a) the amount that the price to beat, less non-bypassable delivery charges, is in excess of the prevailing market price of electricity during such period per customer, but not to exceed $150 per customer, multiplied by (b) the number of residential or small commercial customers, as the case may be, that the Company serves on January 1, 2004 in Reliant Energy's Houston service territory, less the number of new retail electric customers the Company serves in other areas of Texas. As of December 31, 2001, Reliant Energy had approximately 1.5 million residential and small commercial customers. In the master separation agreement between the Company and Reliant Energy, the Company has agreed to make this payment, if any, to Reliant Energy.

(h) CONSTRUCTION AGENCY AGREEMENTS AND EQUIPMENT FINANCING STRUCTURE.

In 2001, the Company, 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 cash collaterized. The availability of the commitment is subject to satisfaction of various conditions, including the obligation to provide cash collateral for the loans and letters of credit outstanding on November 27, 2004. The Company, 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 the Company 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, the Company's subsidiaries will be required to make lease payments in an amount sufficient to provide a return to the Investors. If the Company does not exercise its option to lease any project upon its completion, the Company must purchase the project or remarket the project on behalf of the special purpose entities. The Company's ability to exercise the lease option is subject to certain conditions.

The Company 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), the Company's 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. The Company 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, the Company may purchase a facility by paying an amount approximately equal to the outstanding balance plus costs.

The Company, 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 the Company's collateral deposits were returned to the Company. 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.

(i) 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 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 modification 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 West 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 13(e)). 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.

(14) 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 and long-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 6). The fair values of non-trading derivative assets and liabilities are recognized in the Consolidated Balance Sheet at December 31, 2001 (see Note 6). 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	$ --	$427
Financial liabilities:		
Energy derivatives -- non-trading	--	35
Foreign currency swaps	62	68

(15) UNAUDITED QUARTERLY INFORMATION

Summarized quarterly financial data is as follows:

	YEAR ENDED DECEMBER 31, 2000			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN MILLIONS)			
Revenues	$ 2,321	$3,613	$6,886	$ 6,972
Operating income (loss)	2	173	301	(38)
(Loss) income before extraordinary item	(23)	104	164	(42)
Net (loss) income	(23)	111	164	(42)

	YEAR ENDED DECEMBER 31, 2001			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN MILLIONS)			
Revenues	$ 9,871	$ 9,698	$ 10,348	$ 6,629
Operating income	114	294	352	2
Income before cumulative effect of accounting change	79	228	214	33
Net income	82	228	214	33
BASIC EARNINGS PER SHARE:				
Income before cumulative effect of accounting change	$ 0.33	$ 0.83	$ 0.71	$ 0.11
Cumulative effect of accounting change, net of tax	0.01	--	--	--
Net income	$ 0.34	$ 0.83	$ 0.71	$ 0.11
DILUTED EARNINGS PER SHARE:				
Income before cumulative effect of accounting change	$ 0.33	$ 0.82	$ 0.71	$ 0.11
Cumulative effect of accounting change, net of tax	0.01	--	--	--
Net income	$ 0.34	$ 0.82	$ 0.71	$ 0.11

The quarterly operating results incorporate the results of operations of REMA from its May 2000 acquisition date as discussed in Note 5(a). The variances in revenues from quarter to quarter were primarily due to the REMA acquisition, the seasonal fluctuations in demand for energy and energy services and changes in energy commodity prices. Changes in operating income (loss) and net (loss) income from quarter to quarter were primarily due to the acquisition, the seasonal fluctuations in demand for energy and energy services, changes in energy commodity prices and the timing of maintenance expenses on electric generation plant and provisions related to energy sales in California and Enron. In addition, in the first quarter of 2001, the Company recognized a $100 million pre-tax, non-cash charge relating to the redesign of some of Reliant Energy's benefit plans in anticipation of the Company's separation from Reliant Energy (see Note 11).

(16) 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.

(17) 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 6). 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.

(18) REPORTABLE SEGMENTS

The Company has identified the following reportable segments: Wholesale Energy, European Energy, Retail Energy and Other Operations. For descriptions of the financial reporting segments, see Note 1. The Company's determination of reportable segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers. Financial information for REMA, REPGB and Indian River are included in the segment disclosures only for periods beginning on their respective acquisition dates. The Company evaluates performance based on operating income. The Company accounts for intersegment revenue as if the sales were to third parties, that is, at current market prices.

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.

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

	WHOLESALE ENERGY	EUROPEAN ENERGY	RETAIL ENERGY	OTHER OPERATIONS	ELIMINATIONS	CONSOLIDATED
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1999:						
Revenues from external customers	7,866	56	34	--	--	7,956
Depreciation and amortization	21	6	--	2	--	29
Operating income (loss)	19	12	(13)	(4)	--	14
Total assets	2,710	2,782	70	62	--	5,624
(Loss) income of equity investment of unconsolidated subsidiaries	(1)	22	--	--	--	21
Equity investments in unconsolidated subsidiaries	78	--	--	--	--	78
Expenditures for long-lived assets	501	839	55	--	--	1,395
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2000:						
Revenues from external customers	19,142	580	64	6	--	19,792
Depreciation and amortization	108	76	4	6	--	194
Operating income (loss)	485	84	(70)	(61)	--	438
Total assets	10,505	2,473	131	105	--	13,214
Income of equity investments of unconsolidated subsidiaries	43	--	--	--	--	43
Equity investments in unconsolidated subsidiaries	109	--	--	--	--	109
Expenditures for long-lived assets	1,966	995	22	59	--	3,042
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2001:						
Revenues from external customers	35,137	1,192	206	11	--	36,546
Intersegment revenues	21	--	5	--	(26)	--
Depreciation and amortization	118	76	11	42	--	247
Operating income (loss)	899	56	(13)	(180)	--	762
Total assets	8,252	3,380	391	599	(368)	12,254
Income of equity investment of unconsolidated subsidiaries	6	51	--	--	--	57
Equity investments in unconsolidated subsidiaries	88	299	--	--	--	387
Expenditures for long-lived assets	658	21	117	44	--	840

	AS OF AND FOR THE YEAR ENDED DECEMBER 31,		
	1999	2000	2001
	(IN MILLIONS)		
RECONCILIATION OF OPERATING INCOME TO NET INCOME:			
Operating income	$ 14	$ 438	$ 762
Other income (expense)	12	(147)	64
Income tax expense	(2)	(88)	(272)
Cumulative effect of accounting change	--	--	3
Extraordinary item	--	7	--
Net income	$ 24	$ 210	$ 557
REVENUES BY PRODUCTS AND SERVICES:			
Wholesale energy and energy related sales	$ 7,922	$ 19,722	$ 36,350
Energy products and services	34	70	222
Eliminations	--	--	(26)
Total	$ 7,956	$ 19,792	$ 36,546
REVENUES AND LONG-LIVED ASSETS BY GEOGRAPHIC AREAS:			
REVENUES:			
United States	$ 7,783	$ 18,163	$ 33,031
Netherlands	56	580	1,192
Canada	117	1,049	2,323
Total	$ 7,956	$ 19,792	$ 36,546
LONG-LIVED ASSETS:			
United States	$ 1,065	$ 3,078	$ 3,728
Netherlands	2,572	2,371	2,424
Total	$ 3,637	$ 5,449	$ 6,152

(19) SUBSEQUENT EVENTS

In February 2002, the Company 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. The Company funded the Orion Power acquisition with a $2.9 billion credit facility (see Note 8(a)) and $41 million of cash on hand. As a result of the acquisition, the Company's 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.

* * *

RELIANT RESOURCES, INC. AND SUBSIDIARIES

SCHEDULE II -- RESERVES
FOR THE THREE YEARS ENDED DECEMBER 31, 2001
(THOUSANDS OF DOLLARS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		ADDITIONS			
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO INCOME	CHARGED TO OTHER ACCOUNT(1)	DEDUCTIONS FROM RESERVES(2)	BALANCE AT END OF PERIOD
For the Year Ended December 31, 2001:					
Accumulated provisions:					
Uncollectible accounts receivable	$51,466	$ 38,274	$ 1,455	$ 1,487	$89,708
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
Reserve for inventory	6,828	51	(6,424)	--	455
Reserves for severance	32,500	5,003	(1,802)	16,050	19,651
Deferred tax assets valuation	20,260	(4,628)	--	--	15,632
For the Year Ended December 31, 2000:					
Accumulated provisions:					
Uncollectible accounts receivable	7,803	43,100	--	(563)	51,466
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
Reserve for inventory	5,716	--	17,053	15,941	6,828
Reserves for severance	17,760	--	20,065	5,325	32,500
Deferred tax assets valuation	3,028	17,232	--	--	20,260
For the Year Ended December 31, 1999:					
Accumulated provisions:					
Uncollectible accounts receivable	6,703	1,100	--	--	7,803
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
Reserve for inventory	6,505	--	--	789	5,716
Reserves for severance	--	--	18,080	320	17,760
Deferred tax assets valuation	1,404	1,624	--	--	3,028

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(1) Charged to other account 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.

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" in Item 1, will be set forth in the definitive proxy statement relating to Reliant Resources' 2002 annual meeting of stockholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of stockholders 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 will be set forth in the definitive proxy statement relating to Reliant Resources' 2002 annual meeting of stockholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of stockholders 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 will be set forth in the definitive proxy statement relating to Reliant Resources' 2002 annual meeting of stockholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of stockholders 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.

Please read "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Related-Party Transactions" in Item 7 of this Form 10-K and Notes 3 and 4 to our consolidated financial statements for a discussion of related party transactions. Additional information called for by Item 13 will be set forth in the definitive proxy statement relating to Reliant Resources' 2002 annual meeting of stockholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of stockholders 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.

(a)(2) Financial Statement Schedules for the Years Ended December 31,1999, 2000 and 2001.

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 (page IV-3), which index also include the management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

(b) Reports on Form 8-K.

On November 28, 2001, we filed a Current Report on Form 8-K dated September 26, 2001 filing pro forma financial statements for the acquisition of Orion Power Holdings, Inc..

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 our 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 March 28, 2002, we filed an Amended Current Report on Form 8-K/A, amending our Current Report on Form 8-K dated September 26, 2001 filing pro forma financial statements for the acquisition of Orion Power Holdings, Inc.

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

On April 9, 2002, we filed an Amended Current Report on Form 8-K/A, amending our Current Report on Form 8-K dated February 19, 2002 regarding our acquisition of Orion Power Holdings, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, the State of Texas, on the 12th day of April, 2002.

RELIANT RESOURCES, INC.
(Registrant)

By: /s/ R. Steve Letbetter

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on April 12th, 2002.

SIGNATURE	TITLE
/s/ R. Steve Letbetter (R. Steve Letbetter)	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Stephen W. Naeve (Stephen W. Naeve)	Executive Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Mary P. Ricciardello (Mary P. Ricciardello)	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
/s/ James A. Baker, III (James A. Baker, III)	Director
/s/ Milton Carroll (Milton Carroll)	Director
/s/ L. Lowry Mays (L. Lowry Mays)	Director
/s/ Philip B. Miller (Philip B. Miller)	Director

RELIANT RESOURCES, INC.

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		DOCUMENT DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
2.1	-	Agreement Plan of Merger dated as of September 26, 2001 by and Among Orion Power Holdings, Inc., Reliant Resources, Inc. and Reliant Energy Power Generation Merger Sub, Inc.	Reliant Resources, Inc. Current Report on Form 8-K dated September 27, 2002	1-16455	2.1
3.1	-	Restated Certificate of Incorporation.	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	3.1
3.2	-	Amended and Restated Bylaws.	Reliant Resources, Inc. Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-16455	3
4.2	-	Rights Agreement effective as of January 15, 2001 Manhattan Bank, as between Reliant Resources, Inc. and The Chase Rights Agent, including a form of Rights Certificate.	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	4.2
10.1	-	Master Separation Agreement between Reliant Resources and Reliant Energy, dated December 31, 2001.	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	10.1
10.2	-	Transition Services Agreement between Reliant Resources and Reliant Energy, dated December 31, 2001.	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	10.2
10.3	-	Technical Services Agreement between Reliant Resources and Reliant Energy, dated December 31, 2001.	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	10.3
10.4	-	Texas Genco Option Agreement between Reliant Resources and Reliant Energy, dated December 31, 2001.	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	10.4
10.5	-	Employee Matters Agreement between Reliant Resources and Reliant Energy, dated December 31, 2001	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	10.5
10.6	-	Retail Agreement between Reliant Resources and Reliant Energy, dated December 31, 2001	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	10.6

EXHIBIT NUMBER		DOCUMENT DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
10.7	-	Registration Rights Agreement between Reliant Resources and Reliant Energy, dated December 31, 2001	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	10.7
10.8	-	Tax Allocation Agreement between Reliant Resources and Reliant Energy, dated December 31, 2001	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the Quarterly Period Ended March 31, 2001	1-3187	10.8
*+10.9	-	Reliant Resources, Inc. Annual Incentive Compensation Plan effective January 1, 2001			
*+10.10	-	Reliant Resources, Inc. 2001 Long-Term Incentive Plan effective January 1, 2001			
*10.11	-	Reliant Energy, Incorporated's Executive Benefits Plan effective June 1, 1982, including the first, second and third amendments thereto (Reliant Resources has adopted certain obligations under this plan with respect to some of its officers).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.11
*10.12	-	Reliant Energy, Incorporated's Benefit Restoration Plan, as amended and restated effective July 1, 1991, including the first amendment thereto (Reliant Resources has adopted certain obligations under this plan with respect to some of its employees).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.12
10.13	-	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.	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.	1-3187	10.2
10.14	-	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.	Reliant Energy, Incorporated's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.	1-3187	10.3
10.15	-	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.	Reliant Energy, Incorporated's Annual Report on Form 10-K for the year ended December 31, 1999.	1-3187	2(b)(3)
10.16	-	Purchase Agreement dated as of February 19, 2000 among Reliant Energy Power Generation, Reliant Energy Sithe Energies, Inc. and Sithe Northeast Generating Company, Inc.	Reliant Energy, Incorporated's Annual Report on Form 10-K for the year ended December 31, 1999.	1-3187	2(c)
10.17	-	Facility Lease Agreement dated as of August 14, 2000 between Conemaugh Lessor Genco LLC and Reliant Energy Mid-Atlantic Power Holding, LLC (REMA).	Registration Statement on Form S-4 of REMA.	333-51464	4.6a
10.18	-	Schedule identifying substantially identical agreements to Facility Lease Agreement constituting Exhibit 10.17.	Registration Statement on Form S-4 of REMA.	333-51464	4.6b

EXHIBIT NUMBER		DOCUMENT DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
10.19	-	Series A Pass Through Trust Agreement dated as of August 24, 2000 between Reliant Energy Mid-Atlantic Power Holding, LLC and Bankers Trust Company, made with respect to the formation of the Series A Pass Through Trust and the issuance of Series A Pass Through Certificates.	Registration Statement on Form S-4 of REMA.	333-51464	4.4a
10.20	-	Schedule identifying substantially identical agreements to Pass Through Trust Agreement constituting Exhibit 10.19.	Registration Statement on Form S-4 of REMA.	333-51464	4.4b
10.21	-	Participation Agreement dated as of August 24, 2000 among Conemaugh Lessor Genco LLC, as Owner Lessor, Reliant Energy Mid-Atlantic Power Holding, LLC, as Facility Lessee, Wilmington Trust Company, as Lessor Manager, PSEGR Conemaugh Generation, LLC, as Owner Participant, Bankers Trust Company, as Lease Indenture Trustee, and Bankers Trust Company, as Pass Through Trustee.	Registration Statement on Form S-4 of REMA.	333-51464	4.5a
10.22	-	Schedule Identifying substantially identical agreements to Participation Agreement constituting Exhibit 10.21.	Registration Statement on Form S-4 of REMA.	333-51464	4.5b
10.23	-	Lease Indenture of Trust, Mortgage and Security Agreement dated as of August 24, 2000 between Conemaugh Lessor Genco LLC and Bankers Trust Company.	Registration Statement on Form S-4 of REMA.	333-51464	4.8a
10.24	-	Schedule identifying substantially identical agreements to Lease Indenture of Trust constituting Exhibit 10.23.	Registration Statement on Form S-4 of REMA.	333-51464	4.8b
*10.25	-	Reliant Energy, Incorporated's Deferred Compensation Plan effective as of September 1, 1985, including the first nine amendments thereto (Reliant Resources has adopted certain obligations under this plan with respect to some of its employees).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.25
*10.26	-	Reliant Energy, Incorporated's Deferred Compensation Plan, as amended and restated effective January 1, 1989, including the first nine amendments thereto (Reliant Resources has adopted certain obligations under this plan with respect to some of its employees).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.26
*10.27	-	Reliant Energy, Incorporated's Deferred Compensation Plan, as amended and restated effective January 1, 1991, including the first ten amendments thereto (Reliant Resources has adopted certain obligations under this plan with respect to some of its employees).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.27
*10.28	-	Reliant Energy, Incorporated's Savings Restoration Plan effective January 1, 1991, including the first and second amendments thereto (Reliant Resources has adopted certain obligations under this plan with respect to some of its employees).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.28
*10.29	-	Reliant Energy, Incorporated's Director Benefits Plan effective January 1, 1992, including the first amendment thereto (Reliant Resources has adopted certain obligations under this plan with respect to members of its board of directors).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.29

EXHIBIT NUMBER		DOCUMENT DESCRIPTION	REPORT OR REGISTRATION STATEMENT	SEC FILE OR REGISTRATION NUMBER	EXHIBIT REFERENCE
*10.30	-	Reliant Energy, Incorporated's Executive Life Insurance Plan effective January 1, 1994, including the first and second amendments thereto (Reliant Resources has adopted certain obligations under this plan with respect to some of its officers).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.30
*10.31	-	Employment and Supplemental Benefits Agreement dated September 4, 1984 between Reliant Energy, Incorporated and Hugh Rice Kelly (Reliant Resources has adopted Reliant Energy, Incorporated's obligations under this agreement).	Reliant Resources, Inc. Registration Statement on Form S-1	333-48038	10.31
+10.32	-	REPGB Stranded Cost Settlement Agreement			
+*10.33	-	Retention Agreement effective May 4, 2001 between Reliant Resources, Inc. and R. Steve Letbetter			
+*10.34	-	Retention Agreement effective May 4, 2001 between Reliant Resources, Inc. and Robert W. Harvey			
+*10.35	-	Retention Agreement effective May 4, 2001 between Reliant Resources, Inc. and Stephen W. Naeve			
+*10.36	-	Retention Agreement effective May 4, 2001 between Reliant Resources, Inc. and Joe Bob Perkins			
+*10.37	-	Reliant Resources, Inc. Transition Stock Plan, effective May 4, 2001			
+10.38	-	Form of Amended and Restated Construction Agency Agreement for a Facility			
+10.39	-	Form of Amended and Restated Guaranty regarding Restated Construction Agency Agreement			
+21.1	-	Subsidiaries of Reliant Resources, Inc.			
+23.1	-	Consent of Deloitte & Touche LLP			

RELIANT RESOURCES, INC.
ANNUAL INCENTIVE COMPENSATION PLAN

(As Established Effective January 1, 2001)

RECITALS

Reliant Resources, Inc., a Delaware corporation (the "Company"), with its principal place of business in Houston, Harris County, Texas, hereby establishes the Reliant Resources, Inc. Annual Incentive Compensation Plan (the "Plan"), for the benefit of its eligible employees as follows:

1. PURPOSE: The purpose of the Plan is to encourage a high level of corporate performance through the establishment of predetermined corporate, Subsidiary or business unit and/or individual goals, the attainment of which will require a high degree of competence and diligence on the part of those Employees (including officers) of the Company or of its participating Subsidiaries selected to participate in the Plan, and which will be beneficial to the owners and customers of the Company.

2. DEFINITIONS: Unless the context otherwise clearly requires, the following definitions are applicable to the Plan:

AWARD: An incentive compensation award payable in cash granted to a Participant with respect to a particular Plan Year pursuant to any applicable terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.

BOARD OF DIRECTORS or BOARD: The Board of Directors of the Company.

CODE: The Internal Revenue Code of 1986, as amended from time to time.

COMMITTEE: The Compensation Committee of the Board of Directors.

COMPANY: Reliant Resources, Inc., or any successor thereto.

COMPENSATION: The annual base salary paid to the Participant. Overtime is not included in Compensation for exempt Employees, but overtime pay for non-exempt Employees is adjusted based on Awards under this Plan in a manner consistent with the requirements of applicable labor law. Notwithstanding the foregoing, any Participant covered by the terms of a collective bargaining agreement shall have his Compensation calculated in the manner specified in the collective bargaining agreement.

EMPLOYEE: An employee of the Company or any of its Subsidiaries who is a regular full or part-time employee and who regularly works at least 20 hours per week.

EMPLOYER: The Company and each Subsidiary which is designated by the Committee as an Employer under this Plan.

PARTICIPANT: An Employee who is selected to participate in the Plan.

PERFORMANCE AWARD: An Award made to a Participant pursuant to this Plan that is subject to the attainment of one or more Performance Goals.

PERFORMANCE GOALS: The performance objectives of the Company, its Subsidiaries or its business units and/or individual Participants established for the purpose of determining the level of Awards, if any, earned during a Plan Year.

PLAN: This Reliant Resources, Inc. Annual Incentive Compensation Plan, as amended from time to time.

PLAN YEAR: The calendar year.

SAVINGS PLAN: The Reliant Energy, Incorporated Savings Plan, as amended and restated effective April 1, 1999 and as thereafter amended, and any successor thereto contributed to by the Company.

SUBSIDIARY: A subsidiary corporation with respect to the Company as defined in Section 424(f) of the Code.

A pronoun or adjective in the masculine gender includes the feminine gender, and the singular includes the plural, unless the context clearly indicates otherwise.

3. PARTICIPATION: The Committee (or its appropriately designated delegate) shall select the Employees who will be Participants for each Plan Year. Only Employees who are employed at least 90 days during the Plan Year and are employed on the last day of the Plan Year are eligible for the payment of an Award under the Plan, except as provided in Section 7(c). No Employee shall at any time have the right (a) to be selected as a Participant in the Plan for any Plan Year, (b) if so selected, to be entitled to an Award, or (c) if selected as a Participant in one Plan Year, to be selected as a Participant in any subsequent Plan Year.

The terms and conditions under which a Participant may participate in the Plan shall be determined by the Committee (or its appropriately designated delegate) in its sole discretion.

4. PLAN ADMINISTRATION: The Plan shall be administered by the Committee. All decisions of the Committee shall be binding and conclusive on the Participants. The Committee, on behalf of the Participants, shall enforce this Plan in accordance with its terms and shall have all powers necessary for the accomplishment of that purpose, including, but not by way of limitation, the following powers:

(a) To select the Participants;

(b) To interpret, construe, approve and adjust all terms, provisions, conditions and limitations of this Plan;

(c) To decide any questions arising as to the interpretation or application of any provision of the Plan;

(d) To prescribe forms and procedures to be followed by Employees for participation in the Plan, or for other occurrences in the administration of the Plan;

(e) To establish the terms and conditions of any Agreement under which an Award may be earned and paid; and

(f) In addition to all other powers granted herein, the Committee shall make and enforce such rules and regulations for the administration of the Plan as are not inconsistent with the terms set forth herein.

No member of the Committee or officer of the Company to whom the Committee has delegated authority in accordance with the provisions of Section 5 of this Plan shall be liable for anything done or omitted to be done by him, by any member of the Committee or by any officer of the Company in connection with the performance of any duties under this Plan, except for his own willful misconduct or as expressly provided by statute.

5. DELEGATION OF AUTHORITY: The Committee may delegate to the Chief Executive Officer and to other senior officers of the Company its duties under this Plan (including, but not limited to, its authority to select Participants) pursuant to such conditions or limitations as the Committee may establish.

6. AWARDS: The Committee shall determine the terms and conditions of Awards to be made under this Plan and shall designate from time to time the individuals who are to be the recipients of Awards. Awards may also be made in combination or in tandem with, in replacement of, or as alternative to, grants or rights under this Plan or any other employee plan of the Company or any of its Subsidiaries, including the plan of any acquired entity. An Award may provide for the grant or issuance of additional, replacement or alternative Awards upon the occurrence of specified events. All or part of an Award may be subject to conditions established by the Committee, which may include, but are not limited to, continuous service with the Company and its Subsidiaries, achievement of specific individual and/or business objectives, increases in specified indices, attainment of specified growth rates and other comparable measurements of performance. Unless specified otherwise by the Committee, the amount payable pursuant to an Award shall be based on a percentage of the Participant's Compensation.

An Award may be in the form of a Performance Award. A Performance Award shall be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective Performance Goals established by the Committee prior to the earlier to occur of (x) 90 days after the commencement of such period of service to which the Performance Goal relates and (y) the lapse of 25% of such period of service (as scheduled in good faith at the time the goal is established), and in any event while the outcome is substantially uncertain. A Performance Goal is objective if a third party having knowledge of the relevant facts could

determine whether the goal is met. Such a Performance Goal may be based on one or more business criteria that apply to the individual, one or more business units of the Company, or the Company as a whole. Performance Goals shall be based upon targets established by the Committee with respect to one or more of the following financial factors, as applied to the Company or a business unit, as applicable: earnings per share, earnings per share growth, total shareholder return, economic value added, cash return on capitalization, increased revenue, revenue ratios (per employee or per customer), net income, stock price, return on equity, return on assets, return on capital, return on capital compared to cost of capital, return on capital employed, return on invested capital, shareholder value, net cash flow, operating income, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization, cash flow, cash flow from operations, cost reductions, cost ratios (per employee or per customer), proceeds from dispositions, project completion time and budget goals, net cash flow before financing activities, customer growth and total market value. Unless otherwise stated, a Performance Goal need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria), and may also be based on performance relative to a designated peer group. Prior to the payment of any compensation based on the achievement of Performance Goals, the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. The Committee in its sole discretion may decrease the amount payable pursuant to a Performance Award, but in no event shall the Committee have discretion to increase the amount payable pursuant to a Performance Award in a manner inconsistent with the requirements for qualified performance-based compensation under Code Section 162(m). In interpreting Plan provisions applicable to Performance Goals and Performance Awards, it is the intent of the Plan to conform with the standards of Code Section 162(m) applicable to qualified performance-based compensation, and the Committee in establishing such Performance Goals and interpreting the Plan shall be guided by such provisions. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Awards pursuant to this Plan shall be determined by the Committee. No Participant may be granted Performance Awards which will result in the payment of more than $3,500,000 per Plan Year.

7. PAYMENT OF AWARDS: The Committee has sole and absolute authority and discretion to determine the time and manner in which Awards, if any, shall be paid under this Plan. Generally, however, the following provisions may apply:

(a) FORM OF PAYMENT: Payment of Awards shall be made in cash and may be subject to such restrictions as the Committee shall determine.

(b) DATE OF PAYMENT: Payment of Awards shall be made as soon as practicable (as determined by the Committee) following the close of the Plan Year (the "Payment Date"), unless otherwise provided in Section 7(c).

(c) EMPLOYMENT REQUIRED: Except as provided below, Participants must be Employees on the Payment Date in order to receive payment of an Award.

(1) Retirement, Death or Disability: If, prior to the Payment Date, a Participant retires on or after age 55 with 5 years

of service, dies or terminates employment under circumstances establishing eligibility for disability benefits under the Company's long-term disability plan, then the Participant shall nonetheless receive payment of the Award the Participant would have received had the goals with respect to the Participant's Award been met at the target level based on his Compensation as of the Participant's date of retirement, death or disability, prorated for the number of days the Participant was employed during the Plan Year. Payments under this Section 7(c)(1) shall be made as soon as practicable following the date of the Participant's retirement, death or disability, but no later than 30 days after the date of the Participant's retirement, death or disability. If a Participant who terminates due to retirement or disability resumes employment during the same Plan Year in a position qualifying the Participant to resume participation in the Plan, any additional payment for the Plan Year received on the Payment Date will be prorated based on days worked during the Plan Year subsequent to the Participant's return to work.

(2) Termination After Last Day of the Plan Year: If a Participant is an Employee on the last day of the Plan Year and was employed at least 90 days during the Plan Year, but is not an Employee on the Payment Date, then the Participant may receive on the Payment Date, an Award (if any) upon management's recommendation and approval by the Committee.

8. ASSIGNABILITY: Unless otherwise determined by the Committee and provided in the Agreement, no Award or any other benefit under this Plan shall be assignable or otherwise transferable, except by will or the laws of descent and distribution. Any attempted assignment of an Award or any other benefit under this Plan in violation of this Section 8 shall be null and void.

9. TAX WITHHOLDING: The Company shall have the right to withhold applicable taxes from any Award payment and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes.

10. FINALITY OF DETERMINATIONS: Any determination by the Committee in carrying out or administering this Plan shall be final and binding for all purposes and upon all interested persons and their heirs, successors, and personal representatives.

11. EMPLOYEE RIGHTS UNDER THE PLAN: No Employee or other person shall have any claim or right to be granted an Award under this Plan. Neither the Plan nor any action taken thereunder shall be construed as giving an Employee any right to be retained in the employ of the Company or an Employer. No Participant shall have any lien on any assets of the Company or an Employer by reason of any Award made under this Plan.

12. AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION: The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law, except that (i) no amendment or

alteration that would adversely affect the rights of any Participant under any Award previously granted to such Participant shall be made without the consent of such Participant and (ii) no amendment or alteration shall be effective prior to its approval by the stockholders of the Company; however clause (ii) shall only apply if, and to the extent, such approval is required by applicable legal requirements.

13. OTHER PLANS: The Award payments under this Plan shall be considered compensation under the Savings Plan.

14. GOVERNING LAW: This Plan and all determinations made and actions taken pursuant hereto, shall be governed by and construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the Company has executed this Plan this 1st day of May, 2001, but effective as of January 1, 2001.

RELIANT RESOURCES, INC.

By /s/ R. S. LETBETTER

R. S. Letbetter
Chairman and Chief Executive Officer

ATTEST:

/s/ Lynne Harkel-Rumford
- ---

LONG-TERM INCENTIVE PLAN

OF

RELIANT RESOURCES, INC.

1. PLAN. This Long-Term Incentive Plan of Reliant Resources, Inc. (the "Plan") was adopted by Reliant Resources, Inc. (the "Company") to reward certain corporate officers and employees of Reliant Resources, Inc., certain independent contractors and nonemployee directors of Reliant Resources, Inc.

2. OBJECTIVES. The purpose of this Plan is to further the interests of the Company, its Subsidiaries and its shareholders by providing incentives in the form of awards to employees, independent contractors and directors. Such awards will recognize and reward outstanding performances and individual contributions and give Participants in the Plan an interest in the Company parallel to that of the shareholders, thus enhancing the proprietary and personal interest of such Participants in the Company's continued success and progress. This Plan will also enable the Company and its Subsidiaries to attract and retain such employees, independent contractors and directors.

3. DEFINITIONS. As used herein, the terms set forth below shall have the following respective meanings:

"ANNUAL DIRECTOR AWARD DATE" means, for each year beginning on or after the IPO Closing Date, the first business day of the month next succeeding the date upon which the annual meeting of stockholders of the Company is held in such year.

"AUTHORIZED OFFICER" means the Chairman of the Board or the Chief Executive Officer of the Company (or any other senior officer of the Company to whom either of them shall delegate the authority to execute any Award Agreement, where applicable).

"AWARD" means an Employee Award, a Director Award or an Independent Contractor Award.

"AWARD AGREEMENT" means any Employee Award Agreement, Director Award Agreement or Independent Contractor Award Agreement.

"BOARD" means the Board of Directors of the Company.

"CASH AWARD" means an award denominated in cash.

A "CHANGE OF CONTROL" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the Board; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly,

more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on the IPO Closing Date or (y) who becomes a director subsequent to such date and whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the Board;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or

(y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

Notwithstanding anything herein to the contrary, (i) solely for purposes of this Change of Control definition and the terms defined herein, prior to the proposed spin-off of the Company from Reliant, the term "Company" shall mean either the Company or Reliant; and (ii) neither the IPO nor the proposed spin-off of the Company from Reliant will constitute a Change of Control as contemplated herein.

"CODE" means the Internal Revenue Code of 1986, as amended from time to time.

"COMMITTEE" means the Compensation Committee of the Board or such other committee of the Board as is designated by the Board to administer the Plan; provided, however, that prior to the IPO Closing Date, "Committee" shall mean the Compensation Committee of the Board of Directors of Reliant.

"COMMON STOCK" means the Common Stock, par value $0.001 per share, of the Company.

"COMPANY" means Reliant Resources, Inc., a Delaware corporation, or any successor thereto.

"DIRECTOR AWARD" means a Director Option or Stock Award.

"DIRECTOR AWARD AGREEMENT" means an agreement setting forth the terms, conditions and limitations applicable to a Director Award, in such form as the Company may prescribe.

"DIRECTOR OPTION" means a Nonqualified Stock Option granted to a Nonemployee Director pursuant to paragraph 9 hereof.

"DIVIDEND EQUIVALENTS" means, with respect to shares of Restricted Stock that are to be issued at the end of the Restriction Period, an amount equal to all dividends and other distributions (or the economic equivalent thereof) that are payable to stockholders of record during the Restriction Period on a like number of shares of Common Stock.

"EMPLOYEE" means an employee of the Company or any of its Subsidiaries and an individual who has agreed to become an employee of the Company or any of its Subsidiaries and is expected to become such an employee within the following six months.

"EMPLOYEE AWARD" means any Option, SAR, Stock Award, Cash Award or Performance Award granted, whether singly, in combination or in tandem, to a Participant who is an Employee pursuant to such applicable terms, conditions and limitations (including treatment as a Performance Award) as the Committee may establish in order to fulfill the objectives of the Plan.

"EMPLOYEE AWARD AGREEMENT" means a written agreement setting forth the terms, conditions and limitations applicable to an Employee Award.

"FAIR MARKET VALUE" of a share of Common Stock means, as of a particular date, (i) if shares of Common Stock are listed on a national securities exchange, the average of the highest and lowest sales price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such sale was so reported, or, at the discretion of the Committee, the price prevailing on the exchange at the time of exercise, (ii) if shares of Common Stock are not so listed but are quoted on the Nasdaq National Market, the average of the highest and lowest sales price per share of Common Stock reported by the Nasdaq National Market on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported, or, at the discretion of the Committee, the price prevailing on the Nasdaq National Market at the time of exercise, (iii) if the Common Stock is not so listed or quoted, the average of the closing bid and asked price on that date, or, if there are no quotations available for such date, on the next preceding date on which such quotations shall be available, as reported by the Nasdaq Stock Market, or, if not reported by the Nasdaq Stock Market, by the National Quotation Bureau Incorporated or (iv) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for such purpose; provided that, notwithstanding the foregoing, "Fair Market Value" in the case of any Award granted in connection with the IPO means the price per share of Common Stock set on the IPO Pricing Date, as set forth in the final prospectus relating to the IPO.

"GRANT DATE" means the date an Award is granted to a Participant pursuant to the Plan.

"GRANT PRICE" means the price at which a Participant may exercise his or her right to receive cash or Common Stock, as applicable, under the terms of an Award.

"INCENTIVE STOCK OPTION" means an Option that is intended to comply with the requirements set forth in Section 422 of the Code.

"INDEPENDENT CONTRACTOR" means a person providing services to the Company or any of its Subsidiaries, or who will provide such services, except an Employee or Nonemployee Director.

"INDEPENDENT CONTRACTOR AWARD" means any Nonqualified Stock Option, SAR, Stock Award, Cash Award or Performance Award granted, whether singly, in combination or in tandem, to a Participant who is an Independent Contractor pursuant to such applicable terms, conditions and limitations as the Committee may establish in order to fulfill the objectives of the Plan.

"INDEPENDENT CONTRACTOR AWARD AGREEMENT" means a written agreement setting forth the terms, conditions and limitations applicable to an Independent Contractor Award.

"IPO" means the first time a registration statement filed under the Securities Act of 1933 and respecting an underwritten primary offering by the Company of shares of Common Stock is declared effective under that Act and the shares registered by that registration statement are issued and sold by the Company (otherwise than pursuant to the exercise of any overallotment option).

"IPO CLOSING DATE" means the date on which the Company first receives payment for the shares of Common Stock it sells in the IPO.

"IPO PRICING DATE" means the date of the execution and delivery of an underwriting or other purchase agreement among the Company and the underwriters relating to the IPO setting forth the price at which shares of Common Stock will be issued and sold by the Company to the underwriters and the terms and conditions thereof.

"NONEMPLOYEE DIRECTOR" means an individual serving as a member of the Board who is not an employee of Reliant or any of its Subsidiaries or the Company or any of its Subsidiaries.

"NONQUALIFIED STOCK OPTION" means an Option that is not an Incentive Stock Option.

"OPTION" means a right to purchase a specified number of shares of Common Stock at a specified Grant Price, which may be an Incentive Stock Option or a Nonqualified Stock Option.

"PARTICIPANT" means an Employee, Nonemployee Director or Independent Contractor to whom an Award has been granted under this Plan.

"PERFORMANCE AWARD" means an award made pursuant to this Plan to a Participant who is an Employee or Independent Contractor that is subject to the attainment of one or more Performance Goals.

"PERFORMANCE GOAL" means a standard established by the Committee, to determine in whole or in part whether a Performance Award shall be earned.

"RELIANT" means Reliant Energy, Incorporated, a Texas corporation.

"RESTRICTED STOCK" means Common Stock that is restricted or subject to forfeiture provisions.

"RESTRICTION PERIOD" means a period of time beginning as of the Grant Date of an Award of Restricted Stock and ending as of the date upon which the Common Stock subject to such Award is no longer restricted or subject to forfeiture provisions.

"STOCK APPRECIATION RIGHT" OR "SAR" means a right to receive a payment, in cash or Common Stock, equal to the excess of the Fair Market Value or other specified valuation of a specified number of shares of Common Stock on the date the right is exercised over a specified Grant Price, in each case, as determined by the Committee.

"STOCK AWARD" means an Award in the form of shares of Common Stock or units denominated in shares of Common Stock, including an award of Restricted Stock.

"SUBSIDIARY" means (i) in the case of a corporation, any corporation of which the Company directly or indirectly owns shares representing 50% or more of the combined voting power of the shares of all classes or series of capital stock of such corporation which have the right to vote generally on matters submitted to a vote of the stockholders of such corporation and (ii) in the case of a partnership or other business entity not organized as a corporation, any such business entity of which the Company directly or indirectly owns 50% or more of the voting, capital or profits interests (whether in the form of partnership interests, membership interests or otherwise).

4. ELIGIBILITY.

(a) EMPLOYEES. All Employees are eligible for the grant of Employee Awards under this Plan.

(b) DIRECTORS. Members of the Board eligible for the grant of Director Awards under this Plan are those who are Nonemployee Directors.

(c) INDEPENDENT CONTRACTORS. All Independent Contractors are eligible for the grant of Independent Contractor Awards under this Plan.

5. COMMON STOCK AVAILABLE FOR AWARDS. Subject to the provisions of paragraph 15 hereof, no Award shall be granted if it shall result in the aggregate number of shares of Common Stock issued under the Plan plus the number of shares of Common Stock covered by or subject to Awards then outstanding (after giving effect to the grant of the Award in question) to exceed 16,000,000 shares. No more than 2,000,000 shares of Common Stock shall be available for Incentive Stock Options. The number of shares of Common Stock that are subject to Awards under this Plan that are forfeited or terminated, expire unexercised, are settled in cash in lieu of Common Stock or in a manner such that all or some of the shares covered by an Award are not issued to a Participant or are exchanged for Awards that do not involve Common Stock, shall again immediately become available for Awards hereunder. The Committee may from time to time adopt and observe such procedures concerning the counting of shares against the Plan maximum as it may deem appropriate. The Board and the appropriate officers of the Company shall from time to time take whatever actions are necessary to file any required documents with governmental authorities, stock exchanges and transaction reporting systems to ensure that shares of Common Stock are available for issuance pursuant to Awards.

6. ADMINISTRATION.

(a) This Plan shall be administered by the Committee except as otherwise provided herein.

(b) Subject to the provisions hereof, insofar as this Plan relates to Employee Awards or Independent Contractor Awards, the Committee shall have full and exclusive power and authority to administer this Plan and to take all actions that are specifically contemplated hereby or are necessary or appropriate in connection with the administration hereof. The Board (or its delegee) shall administer the Plan with respect to Director Awards. Insofar as this Plan relates to Employee Awards or Independent Contractor Awards, the Committee shall also have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of this Plan. The Committee may, in its discretion, provide for the extension of the exercisability of an Employee Award or Independent Contractor Award, accelerate the vesting or exercisability of an Employee Award or Independent Contractor Award, eliminate or make less restrictive any restrictions applicable to an Employee Award or Independent

Contractor Award, waive any restriction or other provision of this Plan (insofar as such provision relates to Employee Awards or to Independent Contractor Awards) or an Employee Award or Independent Contractor Award or otherwise amend or modify an Employee Award or Independent Contractor Award in any manner that is either (i) not adverse to the Participant to whom such Employee Award or Independent Contractor Award was granted or (ii) consented to by such Participant. The Committee may grant an Award to an Employee who it expects to become an employee of the Company or any of its Subsidiaries within the following six months, with such Award being subject to the individual's actually becoming an employee within such time period, and subject to such other terms and conditions as may be established by the Committee. The Committee may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Employee Award or Independent Contractor Award in the manner and to the extent the Committee deems necessary or desirable to further the Plan purposes. Any decision of the Committee in the interpretation and administration of this Plan shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned.

(c) No member of the Committee or officer of the Company to whom the Committee has delegated authority in accordance with the provisions of paragraph 7 of this Plan shall be liable for anything done or omitted to be done by him or her, by any member of the Committee or by any officer of the Company in connection with the performance of any duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute.

7. DELEGATION OF AUTHORITY. The Committee may delegate to the Chief Executive Officer and to other senior officers of the Company its duties under this Plan pursuant to such conditions or limitations as the Committee may establish. The Committee may engage or authorize the engagement of a third party administrator to carry out administrative functions under the Plan.

8. EMPLOYEE AND INDEPENDENT CONTRACTOR AWARDS.

(a) The Committee shall determine the type or types of Employee Awards to be made under this Plan and shall designate from time to time the Employees who are to be the recipients of such Awards. Each Employee Award shall be embodied in an Employee Award Agreement, which shall contain such terms, conditions and limitations as shall be determined by the Committee in its sole discretion and, if required by the Committee, shall be signed by the Participant to whom the Employee Award is granted and by an Authorized Officer for and on behalf of the Company. Employee Awards may consist of those listed in this paragraph 8(a) and may be granted singly, in combination or in tandem. Employee Awards may also be granted in combination or in tandem with, in replacement of, or as alternatives to, grants or rights under this Plan or any other employee plan of the Company or any of its Subsidiaries, including the plan of any acquired entity. An Employee Award may provide for the grant or issuance of additional, replacement or alternative Employee Awards upon the

occurrence of specified events, including the exercise of the original Employee Award granted to a Participant. All or part of an Employee Award may be subject to conditions established by the Committee, which may include, but are not limited to, continuous service with the Company and its Subsidiaries, achievement of specific business objectives, increases in specified indices, attainment of specified growth rates and other comparable measurements of performance. Upon the death, disability or termination of employment by a Participant who is an Employee, any unexercised, deferred, unvested or unpaid Employee Awards shall be treated as set forth in the applicable Employee Award Agreement.

(i) OPTION. An Employee Award may be in the form of an Option, which may be an Incentive Stock Option or a Nonqualified Stock Option. The Grant Price of an Option shall be not less than the Fair Market Value of the Common Stock on the Grant Date; provided, however, that the Committee may, in its sole discretion, make grants of Nonqualified Stock Options as Employee Awards with an exercise price per share that is less than the Fair Market Value of the Common Stock on the Grant Date with respect to no more than 1,000,000 shares of Common Stock. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Options awarded to Employees pursuant to this Plan, including the Grant Price, the term of the Options and the date or dates upon which they become exercisable, shall be determined by the Committee.

(ii) STOCK APPRECIATION RIGHTS. An Employee Award may be in the form of an SAR. The terms, conditions and limitations applicable to any SARs awarded to Employees pursuant to this Plan, including the Grant Price, the term of any SARs and the date or dates upon which they become exercisable, shall be determined by the Committee.

(iii) STOCK AWARD. An Employee Award may be in the form of a Stock Award. The terms, conditions and limitations applicable to any Stock Awards granted pursuant to this Plan shall be determined by the Committee.

(iv) CASH AWARD. An Employee Award may be in the form of a Cash Award. The terms, conditions and limitations applicable to any Cash Awards granted pursuant to this Plan shall be determined by the Committee.

(v) PERFORMANCE AWARD. Without limiting the type or number of Employee Awards that may be made under the other provisions of this Plan, an Employee Award may be in the form of a Performance Award. A Performance Award shall be paid, vested

or otherwise deliverable solely on account of the attainment of one or more pre-established, objective Performance Goals established by the Committee prior to the earlier to occur of (x) 90 days after the commencement of the period of service to which the Performance Goal relates or (y) the lapse of 25% of the period of service (as scheduled in good faith at the time the goal is established), and in any event while the outcome is substantially uncertain. A Performance Goal is objective if a third party having knowledge of the relevant facts could determine whether the goal is met. Such a Performance Goal may be based on one or more business criteria that apply to the Employee, one or more business units of the Company, or the Company as a whole, and may include one or more of the following: earnings per share, earnings per share growth, total shareholder return, economic value added, cash return on capitalization, increased revenue, revenue ratios (per employee or per customer), net income, stock price, market share, return on equity, return on assets, return on capital, return on capital compared to cost of capital, return on capital employed, return on invested capital, shareholder value, net cash flow, operating income, earnings before interest and taxes, cash flow, cash from operations, cost reductions, cost ratios (per employee or per customer), proceeds from dispositions, project completion time and budget goals, net cash flow before financing activities, customer growth and total market value. Goals may also be based on performance relative to a peer group of companies. Unless otherwise stated, such a Performance Goal need not be based upon an increase or positive result under a particular business criterion and could include, for example, maintaining the status quo or limiting economic losses (measured, in each case, by reference to specific business criteria). In interpreting Plan provisions applicable to Performance Goals and Performance Awards, it is the intent of the Plan to conform with the standards of Section 162(m) of the Code and Treasury Regulation Section 1.162-27(e)(2)(i), and the Committee in establishing such goals and interpreting the Plan shall be guided by such provisions. Prior to the payment of any compensation based on the achievement of Performance Goals, the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Awards made pursuant to this Plan shall be determined by the Committee.

(b) Notwithstanding anything to the contrary contained in this Plan, the following limitations shall apply to any Employee Awards made hereunder:

(i) no Participant may be granted, during any calendar year, Employee Awards consisting of Options or SARs that are exercisable for more than 1,500,000 shares of Common Stock;

(ii) no Participant may be granted, during any calendar year, Stock Awards covering or relating to more than 500,000 shares of Common Stock (the limitation set forth in this clause (ii), together with the limitation set forth in clause (i) above, being hereinafter collectively referred to as the "Stock-Based Awards Limitations"); and

(iii) no Participant may be granted Employee Awards consisting of cash or in any other form permitted under this Plan (other than Employee Awards consisting of Options or SARs or Stock Awards) in respect of any calendar year having a value determined on the Grant Date in excess of $3,500,000.

(c) The Committee shall have the sole responsibility and authority to determine the type or types of Independent Contractor Awards to be made under this Plan and the terms, conditions and limitations applicable to such Awards, except that Independent Contractor Awards may not be in the form of Incentive Stock Options.

9. DIRECTOR AWARDS. Each Nonemployee Director of the Company shall be granted Director Awards in accordance with this paragraph 9 and subject to the applicable terms, conditions and limitations set forth in this Plan and the applicable Director Award Agreements. Notwithstanding anything to the contrary contained herein, Director Awards shall not be granted in any year in which a sufficient number of shares of Common Stock are not available to make all such scheduled Awards under this Plan.

(a) ANNUAL DIRECTOR AWARDS. On each Annual Director Award Date, each Nonemployee Director other than the Chairman shall automatically be granted a Director Award covering 1,000 shares of Common Stock. Such Award shall be nonforfeitable.

(b) DIRECTOR OPTIONS. A Director Award shall be in the form of a Nonqualified Stock Option. The Grant Price of a Director Option shall be equal to the Fair Market Value of the Common Stock on the Grant Date. Subject to the foregoing provisions, the terms, conditions and limitations applicable to Director Options, including the term of the Options and the date or dates upon which they become exercisable, shall be determined by the Board. The Board will not permit the repricing of Options by any method, including by cancellation and reissuance, and will not grant Options to Directors at a price less than Fair Market Value on the Grant Date.

(c) DIRECTOR AWARD AGREEMENTS. Any Award of Director Awards shall be embodied in a Director Award Agreement, which shall contain the terms,

conditions and limitations set forth above and shall be signed by an Authorized Officer for and on behalf of the Company.

10. PAYMENT OF AWARDS.

(a) GENERAL. Payment made to a Participant pursuant to an Award may be made in the form of cash or Common Stock, or a combination thereof, and may include such restrictions as the Committee shall determine, including, in the case of Common Stock, restrictions on transfer and forfeiture provisions. If such payment is made in the form of Restricted Stock, the applicable Award Agreement relating to such shares shall specify whether they are to be issued at the beginning or end of the Restriction Period. In the event that shares of Restricted Stock are to be issued at the beginning of the Restriction Period, the certificates evidencing such shares (to the extent that such shares are so evidenced) shall contain appropriate legends and restrictions that describe the terms and conditions of the restrictions applicable thereto. In the event that shares of Restricted Stock are to be issued at the end of the Restricted Period, the right to receive such shares shall be evidenced by book entry registration or in such other manner as the Committee may determine.

(b) DEFERRAL. With the approval of the Committee, amounts payable in respect of Awards may be deferred and paid either in the form of installments or as a lump-sum payment. The Committee may permit selected Participants to elect to defer payments of some or all types of Awards or any other compensation otherwise payable by the Company in accordance with procedures established by the Committee. Any deferred payment pursuant to an Award, whether elected by the Participant or specified by the Award Agreement or by the Committee, may be forfeited if and to the extent that the Award Agreement so provides.

(c) DIVIDENDS, EARNINGS AND INTEREST. Rights to dividends or Dividend Equivalents may be extended to and made part of any Stock Award, subject to such terms, conditions and restrictions as the Committee may establish. The Committee may also establish rules and procedures for the crediting of interest or other earnings on deferred cash payments and Dividend Equivalents for Stock Awards.

(d) SUBSTITUTION OF AWARDS. Subject to the limitations set forth in Section 8(a)(i) and 8(b), at the discretion of the Committee, a Participant who is an Employee or Independent Contractor may be offered an election to substitute an Employee Award or Independent Contractor Award for another Employee Award or Independent Contractor Award or Employee Awards or Independent Contractor Awards of the same or different type.

(e) CASH-OUT OF AWARDS. At the discretion of the Committee, an Award that is an Option or SAR may be settled by a cash payment equal to the difference between the Fair Market Value per share of Common Stock on the date

of exercise and the Grant Price of the Award, multiplied by the number of shares with respect to which the Award is exercised.

11. OPTION EXERCISE. The Grant Price shall be paid in full at the time of exercise in cash or, if permitted by the Committee and elected by the optionee, the optionee may purchase such shares by means of tendering Common Stock or surrendering another Award, including Restricted Stock, valued at Fair Market Value on the date of exercise, or any combination thereof. The Committee shall determine acceptable methods for Participants to tender Common Stock or other Awards. The Committee may provide for procedures to permit the exercise or purchase of such Awards by use of the proceeds to be received from the sale of Common Stock issuable pursuant to an Award. Unless otherwise provided in the applicable Award Agreement, in the event shares of Restricted Stock are tendered as consideration for the exercise of an Option, a number of the shares issued upon the exercise of the Option, equal to the number of shares of Restricted Stock used as consideration therefor, shall be subject to the same restrictions as the Restricted Stock so submitted as well as any additional restrictions that may be imposed by the Committee. The Committee may adopt additional rules and procedures regarding the exercise of Options from time to time, provided that such rules and procedures are not inconsistent with the provisions of this paragraph.

12. TAXES. The Company or its designated third party administrator shall have the right to deduct applicable taxes from any Employee Award payment and withhold, at the time of delivery or vesting of cash or shares of Common Stock under this Plan, an appropriate amount of cash or number of shares of Common Stock or a combination thereof for payment of taxes or other amounts required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes, provided that withholding obligations with respect to Options may only be satisfied in cash as long as withholding of stock following the exercise of an Option would result in a charge to earnings. The Committee may also permit withholding to be satisfied by the transfer to the Company of shares of Common Stock theretofore owned by the holder of the Employee Award with respect to which withholding is required, except with respect to Options. If shares of Common Stock are used to satisfy tax withholding, such shares shall be valued based on the Fair Market Value when the tax withholding is required to be made.

13. AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION OF THE PLAN. The Board may amend, modify, suspend or terminate this Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law, except that (i) no amendment or alteration that would adversely affect the rights of any Participant under any Award previously granted to such Participant shall be made without the consent of such Participant and (ii) no amendment or alteration shall be effective prior to its approval by the stockholders of the Company to the extent such approval is required by applicable legal requirements.

14. ASSIGNABILITY. Unless otherwise determined by the Committee and provided in the Award Agreement, no Award or any other benefit under this Plan shall be assignable or otherwise transferable except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act, or the rules thereunder. The Committee may prescribe and include in

applicable Award Agreements other restrictions on transfer. Any attempted assignment of an Award or any other benefit under this Plan in violation of this paragraph 14 shall be null and void.

Subject to approval by the Committee in its sole discretion, all or a portion of the Awards granted to a Participant under the Plan may be transferable by the Participant, to the extent and only to the extent specified in such approval, to (i) the spouse, parent, brother, sister, children or grandchildren (including adopted and stepchildren and grandchildren) of the Participant ("Immediate Family Members"), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members ("Immediate Family Member Trusts"), or (iii) a partnership or partnerships in which such Immediate Family Members have at least 99% of the equity, profit and loss interests ("Immediate Family Member Partnerships"); provided that the Award Agreement pursuant to which such Awards are granted (or an amendment thereto) must expressly provide for transferability in a manner consistent with this paragraph. Subsequent transfers of transferred Awards shall be prohibited except by will or the laws of descent and distribution, unless such transfers are made to the original Participant or a person to whom the original Participant could have made a transfer in the manner described herein. No transfer shall be effective unless and until written notice of such transfer is provided to and approved by the Committee, in the form and manner prescribed by the Committee. Following transfer, any such Awards shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, and, except as otherwise provided herein, the term "Participant" shall be deemed to refer to the transferee. The consequences of termination of employment or service shall continue to be applied with respect to the original Participant, following which the Awards shall be exercisable by the transferee only to the extent and for the periods specified in this Plan and the Award Agreement.

15. ADJUSTMENTS.

(a) The existence of outstanding Awards shall not affect in any manner the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or consolidation of outstanding shares of Common Stock, declaration of a dividend payable in shares of Common Stock or other stock split, then (i) the number of shares of Common Stock reserved under this Plan, (ii) the number of shares of Common Stock covered by outstanding Awards, (iii) the Grant Price or other price in respect of such Awards, (iv) the appropriate Fair Market Value and other price determinations for such Awards, and (v) the Stock-Based Awards Limitations shall each be proportionately adjusted by the Board as appropriate to reflect such transaction.

In the event of any other recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, the adoption by the Company of any plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock), the Board shall make appropriate adjustments to (i) the number of shares of Common Stock covered by Awards, (ii) the Grant Price or other price in respect of such Awards, (iii) the appropriate Fair Market Value and other price determinations for such Awards, and (iv) the Stock-Based Awards Limitations to reflect such transaction; provided that such adjustments shall only be such as are necessary to maintain the proportionate interest of the holders of the Awards and preserve, without increasing, the value of such Awards. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board shall be authorized (x) to issue or assume Awards by means of substitution of new Awards, as appropriate, for previously issued Awards or to assume previously issued Awards as part of such adjustment or (y) to cancel Awards that are Options or SARs and give the Participants who are the holders of such Awards notice and opportunity to exercise for 30 days prior to such cancellation.

16. RESTRICTIONS. No Common Stock or other form of payment shall be issued with respect to any Award unless the Company shall be satisfied based on the advice of its counsel that such issuance will be in compliance with applicable federal and state securities laws. Certificates evidencing shares of Common Stock delivered under this Plan (to the extent that such shares are so evidenced) may be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Committee may cause a legend or legends to be placed upon such certificates (if any) to make appropriate reference to such restrictions.

17. UNFUNDED PLAN. This Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Participants under this Plan, any such accounts shall be used merely as a bookkeeping convenience. The Company shall not be required to segregate any assets for purposes of this Plan or Awards hereunder, nor shall the Company, the Board or the Committee be deemed to be a trustee of any benefit to be granted under this Plan. Any liability or obligation of the Company to any Participant with respect to an Award under this Plan shall be based solely upon any contractual obligations that may be created by this Plan and any Award Agreement, and no such liability or obligation of the Company shall be deemed to be secured by any pledge or other encumbrance on any property of the Company. Neither the Company nor the Board nor the Committee shall be required to give any security or bond for the performance of any obligation that may be created by this Plan.

18. AWARDS TO FOREIGN NATIONALS AND EMPLOYEES OUTSIDE THE UNITED STATES. To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practice and to further the purpose of the Plan, the Committee may, without amending the Plan, (i) establish special rules applicable to Awards granted to Participants who

are foreign nationals, are employed outside the United States, or both, including rules that differ from those set forth in this Plan, and (ii) grant Awards to such Participants in accordance with those rules.

19. GOVERNING LAW. This Plan and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by mandatory provisions of the Code or the securities laws of the United States, shall be governed by and construed in accordance with the laws of the State of Texas.

20. EFFECTIVENESS. The Plan, as approved by the Board, shall be effective as set forth herein as of January 1, 2001, but all Awards granted hereunder prior to or effective as of the IPO Closing Date shall be null and void and canceled without consideration if the IPO Closing Date does not occur on or before 10 business days after the IPO Pricing Date. This Plan was approved by the stockholder of the Company on April 30, 2001.

IN WITNESS WHEREOF, the Company has executed this Plan this 3rd day of May, 2001, but effective as of January 1, 2001.

RELIANT RESOURCES, INC.

By /s/ R. S. LETBETTER

R. S. Letbetter
Chairman and Chief Executive Officer

ATTEST:

/s/ Lynne Harkel-Rumford
- ---

EXHIBIT 10.32
EXECUTION COPY

STRANDED COST SETTLEMENT AGREEMENT
(THE "AGREEMENT")

BY AND BETWEEN:

1. Municipality of Amsterdam;
2. Province of Noord-Holland;
3. Province of Utrecht;
4. Municipality of Utrecht;
5. N.V. Provinciaal en Gemeentelijk Utrechts Stroomleveringsbedrijf;

(parties under 1 through 5, collectively, the "Former Shareholders" or "FS");

6. Reliant Energy Power Generation Inc.;
7. Reliant Energy Wholesale Holdings (Europe) Inc.;
8. Reliant Energy Power Generation Benelux N.V. (formerly known as NV Energieproduktiebedrijf UNA (the "Company");

(parties under 6 and 7, collectively ("RR") and the parties under 1 through 8, collectively, the "Parties"),

WHEREAS:

(a) The Parties entered into a Share Purchase Agreement (the "SPA") and a Partnership Agreement dated 29 March 1999 (the "PARTNERSHIP AGREEMENT"), as amended and supplemented by the Deed of Amendment dated 2 September 1999 (the "DEED OF AMENDMENT") and the Supplemental Agreement dated 6 October 1999 (the "SUPPLEMENTAL AGREEMENT") (such agreements, as amended and supplemented, are referred to below as the "PARTNERSHIP DOCUMENTATION") in respect of the sale and transfer of 100% of the issued and outstanding shares in the Company to Reliant Energy Wholesale Holdings (Europe) Inc.

(b) Under the Partnership Documentation, the FS (i) have indemnified the Company for any Stranded Costs up to a maximum amount of NLG 1,400,000,000, which can be increased by as much as NLG 500,000,000 under Article 13.7 (b) and (c) of the SPA, as amended by Article 4.10 of the Deed of Amendment and Article 9.1 of the Supplemental Agreement, and (ii) are entitled to receive from the Company any excess of any dividends of any other distributions by B.V. Nederlands Elektriciteit Administratiekantoor (formerly N.V. Samenwerkende Elektriciteits-produktiebedrijven) over NLG 125,000,000 in accordance with Article 7 of the Supplemental Agreement (the "NEA DISTRIBUTIONS").

(c) The Parties have engaged in settlement negotiations and the FS and the Company have been extensively advised by their advisors as to various outcomes relating to the expected magnitude of and the allocation of liabilities under the Partnership Documentation for Stranded Costs.

(d) The Company has submitted a number of Standard Cost Claim Notices to the FS and the FS have contested and challenged each of the Stranded Cost Claim Notices in their entirety, subsequent to which the Company issued a Notice of Arbitration in accordance with the relevant provisions of the Partnership Documentation.

(e) A number of uncertainties relating to the Stranded Cost items have been clarified, including the amount of proceeds resulting from the sale of Tennet, Transmission System Operator B.V., whilst in respect of others the rules and regulations governing such Stranded Costs have to some extent been clarified or confirmed, thus enabling the Parties to better assess the mutual risks and liabilities in respect of the Stranded Costs.

(f) The Company has commenced separate arbitration proceedings against N.V. Nuon Infra West formerly Energie Noord West N.V. (the "NUON REB ARBITRATION"), Remu Infra

N.V. (the "REMU REB ARBITRATION") and the Municipality of Purmerend (the "PURMEREND REB ARBITRATION") (collectively, the "REB ARBITRATIONS"), and the other generators, Electrabel Nederland N.V., N.V. Elektriciteits Produktiemaatschappij Zuid-Nederland EPZ and E.ON Benelux Generation N.V. (collectively, the "OTHER GENERATORS") have commenced or are considering commencement of arbitration or have finalised arbitration (the "OTHER REB ARBITRATIONS") in order to retrieve certain amounts related to "REB" (the "REB Voordeel" or "REB ADVANTAGE" as referred to in the Ministerial Note (Memorie van Toelichting) to the Transitional Act to the Electricity Act 1998 (Overgangswet elektriciteitsproductiesector), Section 4.3, page 8).

(g) The Parties acknowledge that the State of the Netherlands (the Dutch Government) is in the process of preparing draft legislation for submission to Parliament on compensation to be paid to the Company and Other Generators in respect of the stranded costs for district heating projects. The Parties also acknowledge that rules on compensation to be paid to the Company in respect of the stranded costs for district heating projects may be implemented by decree ("wet", "koninklijk besluit", "ministeriele regeling" or "algemene maatregel van bestuur", together a "DECREE"), with its associated "memorie van toelichting" or "nota van toelichting" (the "COMPENSATION RULES"). The Parties further acknowledge that it cannot be entirely excluded that the State of the Netherlands may resolve that it will provide no compensation in respect of the stranded costs for district heating projects.

(h) The Parties with their respective advisors have again assessed the mutual risks and liabilities in respect of the Stranded Costs and wish to settle any and all of their liabilities under the Partnership Documentation, provided that since, as of the date hereof, the Compensation Rules have not come into effect and the Company has not received payment of this compensation, the Parties have agreed on a special arrangement for the settlement of the liabilities in regard of the Stranded Costs for district heating projects.

(i) In order to effectuate the transaction contemplated in this Agreement, the Company will, in addition to the Escrow Account set up pursuant to the SPA (the "First Escrow Account"), create a second escrow account with the Escrow Agent which shall be governed by the rules set forth in Article 9 (the "SECOND ESCROW ACCOUNT").

AGREE AS FOLLOWS:

ARTICLE 1 SETTLEMENT AMOUNT

The FS will pay to the Company NLG 435,608,821 plus interest at the rate which applies under the Escrow Agreement dated 7 October 1999 from 12 November 2001 until the date of payment (the "Settlement Amount"). Payment will be made within 20 days after this Agreement takes effect in accordance with Article 11. Payment will be made by instructing the Escrow Agent to release the Settlement Amount from the First Escrow Account into the Second Escrow Account. All rights of the Company and RR in respect of all Stranded Costs and any and all other liability of the FS under the Partnership Documentation will be automatically waived and relinquished, without any action by any of the Parties being required, upon receipt by the Company of payment of the Settlement Amount and the Stranded Cost Claim Notices for electricity import contracts submitted by the Company on 29 June 2001 and 10 August 2001, as amended by letter of 24 August 2001, and cancellation of paragraphs 3 and 4 of Article 5 of the Purchase Price Determination Agreement of 27 January 2000, provided that the liability of the FS under this Agreement will remain in full effect.

ARTICLE 2 NEA DISTRIBUTIONS

All of the rights of the FS in respect of the NEA Distributions, which have already been paid or will be paid, will be automatically waived and relinquished, without any action by any of the Parties being required, when this Agreement becomes effective.

ARTICLE 3 ELECTION

1. The Company shall elect (an "ELECTION") by written notice to the FS (an "ELECTION NOTICE") to apply Article 4 or Article 5 based on its determination, in its discretion, whether the compensation calculated under the Compensation Rules, if any, is at least the same as the compensation calculated under the formulas attached as Annex E to the Supplemental Agreement (the "ANNEX E FORMULAS"), attached as Exhibit A, and using the assumptions in the spreadsheets attached as Exhibit B (the "ANNEX E SPREADSHEET"), as clarified in the comparison attached as Exhibit C (the "ANNEX E COMPARISON"), and the draft Compensation Rules attached as Exhibit D (Exhibits A, B, C, and D together the "ANNEX E CALCULATION"). The Company shall make the Election within 21 days of the date on which the Compensation Rules take effect (the "EFFECTIVE DATE"), or promptly after the date of a decision by the State of the Netherlands by statute, Decree or otherwise in a manner that is certain, that the State of the Netherlands will provide no compensation for stranded costs for district heating projects.

2. If no Compensation Rules have taken effect on 31 December 2003, the Company is entitled but not obligated to elect to apply Article 5, but is also entitled to wait to make an Election until the second sentence under 1 applies.

3. If the Company elects to apply Article 4 or fails to make an Election under 1 within 21 days of the Effective Date, then Article 4 will be applied.

4. If the Company elects to apply Article 5, then Article 5 will be applied unless within 21 days of the Election Notice the FS submit a request (a "REQUEST FOR DETERMINATION") to the Expert under Article 6 to determine whether the compensation calculated under the Compensation Rules is at least the same as the compensation calculated under the Annex E Formulas, using the same assumptions as in the Annex E Spreadsheet as clarified in the Annex E Comparison (this determination, or a statement by the Expert that he cannot make a determination, or a failure by the Expert to make a determination within ten weeks from the Request for Determination, a "DETERMINATION").

5. If the Expert determines that the compensation calculated under the Compensation Rules is at least the same as the compensation calculated under the Annex E Formulas, using the same assumptions as in the Annex E Spreadsheet as clarified in the Annex E Comparison, then Article 4 will be applied.

6. If the Expert determines that the compensation calculated under the Compensation Rules is not at least the same as the compensation calculated under the Annex E Formulas, using the same assumptions as in the Annex E Spreadsheet as clarified in the Annex E Comparison, then Article 5 will be applied, unless the Company within six months after the Determination elects to apply Article 4, in which case Article 4 will be applied.

7. If the Expert does not make a Determination within ten weeks after the Request for Determination, or states that he cannot make a Determination, then Article 5 will be applied, unless the Company within six months after the Determination elects to apply Article 4, in which case Article 4 will be applied.

8. The Company cannot elect to apply Article 4 after it has submitted an Additional Settlement Claim under Article 5.

ARTICLE 4 ADDITIONAL SETTLEMENT OPTION 1

Under application of this Article, the FS will pay to the Company an amount of NLG 60,000,000 (the "DISTRICT HEATING SETTLEMENT AMOUNT"). The FS shall pay the Company an additional amount of NLG 15,000,000 (the "ADDITIONAL DISTRICT HEATING SETTLEMENT AMOUNT"), unless the State of the Netherlands expressly provides by Decree implementing the Compensation Rules for Compensation in respect of stranded costs for district heating projects for the lifetime of the district heating projects, subject to notification to the European Commission. Payment will be made within 20 days after the date of an Election Notice that the Company elects to apply Article 4, or the date of a Determination that the compensation calculated under the Compensation Rules is at least the same as the compensation calculated under the Annex E Formulas, using the same assumptions as in the Annex E Spreadsheet as clarified in the Annex E Comparison. Payment will be made by instructing the Escrow Agent to release the District Heating Settlement Amount and the Additional District Heating Settlement Amount from the First Escrow Account into the Second Escrow Account. All rights of the Company and RR in respect of the Additional Settlement Amounts and the Further Settlement Amount under this Agreement will be automatically waived and relinquished, without any action by any of the Parties being required, upon receipt by the Company of the District Heating Settlement Amount and the Additional District Heating Settlement Amount. Subsequent retraction of or changes to the Compensation Rules will not affect such waiver or relinquishment.

ARTICLE 5 ADDITIONAL SETTLEMENT OPTION 2

1. Under application of this Article and subject to its provisions, the FS will pay the Company Additional Settlement Amounts equal to the sum of:

   (a) NLG 280,000,000 minus the net present value of the compensation the Company is entitled to receive from the State of the Netherlands in respect of Stranded Costs for district heating projects with regard to the period as from 1 January 2001, in accordance with the Compensation Rules, excluding any Compensation the Company is entitled to receive from the State of the Netherlands for any REB Advantage which the Company does not retrieve through the REB Arbitrations (the "FUEL PRICE RISK SETTLEMENT").

   (b) NLG 100,000,000 minus the sum of (i) the net present value of the REB Advantage with regard to the period as from 1 January 2001, which the Company is entitled to receive under the arbitral award in the Purmerend REB Arbitration and (ii) the net present value of the compensation the Company is entitled to receive from the State of the Netherlands, in accordance with the Compensation Rules, for any REB Advantage with regard to the period as from 1 January 2001, which the Company is not entitled to retrieve through the Purmerend REB Arbitration (the "PURMEREND SHORTFALL COMPENSATION").

   (c) NLG 10,000,000 minus the sum of (i) the net present value of the REB Advantage with regard to the period as from 1 January 2001, which the Company is entitled to receive under the arbitral award in the NUON REB Arbitration and (ii) the net present value of the compensation the Company is entitled to receive from the State of the Netherlands, in accordance with the Compensation Rules, for any REB Advantage with regard to the period as from 1 January 2001, which the Company is not entitled to retrieve through the NUON REB Arbitration (the "NUON Shortfall Compensation").

   (d) NLG 250,000,000 minus the sum of (i) the net present value of the REB Advantage with regard to the period as from 1 January 2001, which the Company is entitled to receive under the arbitral award in the Remu REB Arbitration and (ii) the net present value of the compensation the Company is entitled to receive from the State of the Netherlands, in accordance with the

Compensation Rules, for any REB Advantage with regard to the period as from 1 January 2001, which the Company is not entitled to retrieve through the Remu REB Arbitration (the "REMU SHORTFALL COMPENSATION").

Each of the amounts under (a) through (d) is an "ADDITIONAL SETTLEMENT AMOUNT" and together these amounts are the "ADDITIONAL SETTLEMENT AMOUNTS".

2. The net present value of the REB Advantage under 1 (b)(i), (c)(i) and (d)(i) will be calculated in accordance with the Annex E Spreadsheet attached as Exhibit B by multiplying the estimated REB per GJ as from 1 January 2001 by the total expected GJ heat produced per annum for each of the Company's district heating contracts over the life of each contract as from 1 January 2001, and by discounting the result by 6% per annum. The estimated REB per GJ as from 1 January 2001 will be based on the amount of the REB Advantage awarded to the Company for 2001 in REB Arbitrations and the estimated percentage of GJ heat delivered subject to REB, to be adjusted for expected REB rate increases in 2002 and beyond, in accordance with Exhibit B.

   The net present value of any compensation by the State of the Netherlands under 1 (b)(ii), (c)(ii) and (d)(ii) will be calculated in the way indicated by the State of the Netherlands, or failing such an indication, in the same way as the net present value of the REB Advantage as described in the previous two sentences.

   The net present value of any compensation by the State of the Netherlands under 1 (a) will be calculated, including any explicit compensation for non-commodity costs whether through a surcharge on the Pg, u, d, p or in any other manner, in the way indicated by the State of the Netherlands, or failing such an indication, using the same methodology and assumptions with respect to discount rates, GJ heat produced per contract per annum for the duration of the project, inflation, and other variables in accordance with Exhibit B.

   Any maximum amount to be imposed by the State of the Netherlands by Decree will affect the net present values of the compensation amounts under 1 (a), (b)(ii), (c)(ii) and (d)(ii), but only to the extent that the part of the maximum amount applicable to the Company is equal to or less than the amount of the Fuel Price Risk Settlement, the Purmerend Shortfall Compensation, the NUON Shortfall Compensation or the Remu Shortfall Compensation.

   If the Company submits an Additional Settlement Claim in accordance with this Article 5, and no Compensation Rules have taken effect on the date of the Additional Settlement Claim, then the net present value of the respective compensation amounts under 1 (a), (b)(ii), (c)(ii) and (d)(ii) will be deemed to be zero.

3. The parties will not consider the following in carrying out the calculations under 1 (a) through (d): (i) any imposition by the State of the Netherlands of a time limit of 31 December 2010, or later, on the period for which compensation will be provided under the Compensation Rules, or (ii) any introduction of, changes in, or withdrawal of, the Compensation Rules, if any, after all of the Additional Settlement Claims have been submitted under 1 (a) through (d).

4. The Company will submit any claim in respect of any Additional Settlement Amount (an "ADDITIONAL SETTLEMENT CLAIM") in writing to the FS with a calculation (the "CALCULATION") of the Additional Settlement Amount in accordance with this Agreement.

   The Company will under 1 (a) submit its Additional Settlement Claim and Calculation, or, if the Calculation resulted in an amount less than zero, its Calculation within six

months after its Election to apply Article 5, or, if the FS make a Request for Determination, within 90 days after the Determination.

The Company will under 1 (b) through (d) submit its Additional Settlement Claim and Calculation or, if the Calculation resulted in an amount less than zero, its Calculation within 90 days of the award issued in the respective REB Arbitration after the Company has made an Election, or otherwise within six months of its Election to apply Article 5, or, if the FS make a Request for Determination, within 90 days after the Determination.

The FS may notify the Company within 20 days of receipt of an Additional Settlement Claim or Calculation in writing that they dispute an Additional Settlement Claim or Calculation. If the FS do not notify the Company within 20 days of receipt that they dispute and Additional Settlement Claim, the FS shall pay the Additional Settlement Amount promptly, but not later than 20 days after receipt of the Additional Settlement Claim. However, in the event that the FS dispute part of an Additional Settlement Claim, the FS will in accordance with the previous sentence pay the undisputed amount of the Additional Settlement Claim. If the FS notify the Company in writing that they dispute an Additional Settlement Claim or a Calculation, the Parties will promptly enter into negotiations to reach an amicable resolution of the disputed amount or Calculation. If no resolution is achieved within 30 days of the FS's notice of the dispute, each Party shall be entitled to initiate arbitration in accordance with Article 13 of this Agreement.

5. The Additional Settlement Amounts shall never exceed NLG 700,000,000.

6. If the Additional Settlement Amounts are equal to or less than NLG 10,000,000, the Company will not be entitled to payment of the Additional Settlement Amounts. If, however, any Additional Settlement Amount or the Additional Settlement Amounts are more that NLG 10,000,000, the Company will be entitled to full payment of the entire amount of the Additional Settlement Amount or Additional Settlement Amounts.

7. The Additional Settlement Amounts under 1 (a), (b), (c) and (d) will be increased by 6% per annum from 1 January 2001 until the earlier of the date of payment or until a maximum of NLG 700,000,000 has been reached. Interest will accrue at the rate which applies under the Escrow Agreement dated 7 October 1999 on any Additional Settlement Claim that is submitted by the Company from the date of the Additional Settlement Claim to the date of payment. If, however, the FS dispute an Additional Settlement Claim under paragraph 4, any unpaid part of that Additional Settlement Claim will be increased only by statutory interest from the date of the respective Additional Settlement Claim until the date of payment.

8. If any Calculation under 1 (a) through (d) is lower than zero, the difference between that amount and zero (the "NEGATIVE AMOUNT") will be set off against any Additional Settlement Amount subsequently calculated under 1 (a) through (d). A Negative Amount under 1 (b) through (d) will be increased by 6% per annum from 1 January 2001 to the date of set-off, but a Negative Amount under 1 (a) will not be increased. If the last calculation under 1 (a) through (d) and any set-off under the previous sentence result in an amount less than zero, the Company will promptly pay the difference between this amount and zero to the FS.

9. The Company will not submit any Additional Settlement Claim under 1 (a) before the earliest of three dates: (i) the Effective Date, or (ii) the date of a decision by the State of the Netherlands by statute, Decree or otherwise in a manner that is certain, that the State of the Netherlands will provide no compensation for Standard Costs for district heating projects, or (iii) if no Compensation Rules are in effect on 31 December 2003, before 1 January 2004. The Company will not submit any Additional Settlement Claims under 1 (b) through (d) before the respective arbitral award in the respective REB Arbitration.

The possibility of challenging an arbitral award will not stay the effectuation of any of the provisions in this Agreement. However, if an arbitral award is subsequently replaced by a final judgement on the merits, then the Parties agree to give effect to that judgement. This paragraph 9 does not affect the Company's entitlement to payment of Additional Settlement Claims and only concerns the timing of submission of Additional Settlement Claims.

10. Any Additional Settlement Amount shall be paid by the FS to the Company (i) first, by instructing the Escrow Agent to release from the First Escrow Account and transfer into the Second Escrow Account the Additional Settlement Amount, and (ii) second, if the Escrow Amount in the First Escrow Account is not sufficient to pay the Additional Settlement Amount, by payment in cash into the Second Escrow Account of any balance of any Additional Settlement Amount remaining unpaid after the payment under (i).

11. The Company hereby assigns ("cedeert") to the FS any and all of its rights to, and interest on, any compensation that the Company is entitled to receive from the State of the Netherlands in respect of stranded costs for district heating projects under any rule or regulation that takes effect after (i) 31 December 2003 and an Election for Article 5 or (ii) the date of a decision by the State of the Netherlands by statute, Decree or otherwise in a manner that is certain, that the State of the Netherlands will provide no compensation for stranded costs for district heating projects. This assignment ("cessie") will only take effect if the net present values of the compensation amounts under 1 (a), (b) (ii), (c) (ii) and (d)(ii) are deemed to be zero in accordance with the final sentence under 2, and if the FS have paid all Additional Settlement Amounts in full. The FS have the right to inform the State of the Netherlands of this assignment ("cessie"). If the net present values of the compensation amounts under 1(a),(b)(ii), (c)(ii) and (d)(ii) are deemed to be zero in accordance with the final sentence under 2, the FS have paid to the Company the resulting Additional Settlement Amounts, and an assignment ("cessie") of the rights of the Company and RR under the Compensation Rules is excluded by Decree or otherwise, or such an assignment is ineffective for any other reason, then the Company will promptly pay to the FS any amounts that it receives from the State of the Netherlands in compensation for the compensation amounts under 1(a), (b)(ii), (c)(ii), and (d)(ii).

12. The following will apply if (i) the State of the Netherlands imposes by Decree implementing the Compensation Rules any maximum amount of compensation to be provided under the Compensation Rules, (ii) this maximum amount affects the net present values of the compensation amounts under 1(a),(b)(ii), (c)(ii) and (d)(ii) by limiting these net present values, (iii) the FS pay all Additional Settlement Amounts, and (iv) the State of the Netherlands subsequently decides in a Decree effective on or before 31 December 2010 to provide compensation to the Company in excess of this maximum amount. The Company will calculate the amounts under paragraph 1 in accordance with paragraph 2 taking into account the excess provided in accordance with the Decree under (iv) over the maximum amount referred to under (i), and pay to the FS the difference between these amounts and the Additional Settlement Amounts (such difference, the "MAXIMUM REPAYMENT AMOUNT"). The Company will submit to the FS the calculation of the Maximum Repayment Amount within six months from the effective date of the Decree referred to in this paragraph under (iv) (the "MAXIMUM REPAYMENT CALCULATION"). The Maximum Repayment Amount will accrue interest at a rate of 6% per annum from 1 January 2001 to the date of submission of the Maximum Repayment Calculation and at the rate which applies under the Escrow Agreement dated 7 October 1999 from the date of the submission of the Maximum Repayment Calculation to the date of payment.

The FS may notify the Company within 20 days of receipt of the Maximum Repayment Calculation in writing that they dispute the Maximum Repayment Calculation. If the FS

do not notify the Company within 20 days of receipt that they dispute the Maximum Repayment Calculation, the Company shall pay the Maximum Repayment Amount promptly. However, in the event that the FS dispute part of the Maximum Repayment Calculation, the disputed amount will be increased with statutory interest from the date of the Maximum Repayment Calculation to the date of payment. If the FS notify the Company in writing that they dispute the Maximum Repayment Calculation, the Parties will promptly enter into negotiations to reach an amicable resolution of the disputed Maximum Repayment Calculation. If no resolution is achieved within 30 days of the FS's notice of the dispute, each Party shall be entitled to initiate arbitration in accordance with Article 13 of this Agreement.

The Maximum Repayment Amount shall be paid through set-off against any Additional Settlement Claims or Further Settlement Claim or, if no such Additional Settlement Claims or Further Settlement Claim shall be outstanding, by payment to the FS.

13. Any introduction of, changes in, or withdrawal of, the Compensation Rules after submission of all Additional Settlement Claims shall not affect the Additional Settlement Amounts.

ARTICLE 6 EXPERT DETERMINATION ("BINDEND ADVIES")

1. The Parties will before 30 January 2002 jointly select and appoint a certified accountant (the "Expert"). If the Parties fail to reach agreement on this selection and appointment, each of the Parties shall be entitled to request the President of the NIVRA to select and appoint the Expert. The Parties will submit to the Expert the following documents within two weeks of his appointment: this Agreement with its Exhibits. The parties will use their best efforts to agree on an explanatory memorandum on the Annex E Spreadsheet. The Parties will request that the Expert review these documents with a view to his duties under this Article 6. If the Expert does not accept these duties within two weeks of the request by the Parties, or thereafter is not available to make the Determination within ten weeks of the Request for Determination, the Parties will consult to appoint another Expert promptly.

2. The FS may, within 21 days after an Election Notice in which the Company elects to apply Article 5, submit a Request for Determination to the Expert with a copy to the Company. The following documents will be submitted to the Expert, by the FS with the Request for Determination or by the Company promptly thereafter: the Compensation Rules, with their history and explanatory note (""parlementaire geschiedenis", "nota van toelichting" and other relevant parliamentary documents).

3. The Request for Determination will request that the Expert make the Determination by calculating the compensation under the Annex E Formulas and the Compensation Rules, using the same assumptions as in the Annex E Spreadsheet and as clarified in the Annex E Comparison.

4. The Expert will allow the Parties to comment in each others' presence at a hearing held within four weeks of the Request for Determination. The Expert will issue a draft Determination within two weeks of the hearing and invite the Parties to comment within two weeks of the draft Determination. The Expert will issue the Determination within six weeks of the hearing.

5. In determining whether Article 4 or Article 5 applies, the Expert will not consider whether or not the State of the Netherlands makes a temporary withholding of compensation owed to the Company under the Compensation Rules in respect of any REB Advantage until the arbitral awards in the REB Arbitrations.

6. In determining whether Article 4 or Article 5 applies, the Expert will take into account an imposition by the State of the Netherlands of a time limit of 31 December 2010, or

later, (the "TIME LIMIT") on the period for which compensation will be provided under the Compensation Rules, if an extension of such period is expressly excluded by the State of the Netherlands unless the State of the Netherlands undertakes in the Compensation Rules to provide for compensation in respect of stranded costs for district heating projects for the lifetime of the district heating projects, subject to notification to the European Commission. In this latter case Article 4 will apply.

7. Any imposition by the State of the Netherlands in a Decree of a maximum compensation amount for the Company and the Other Generators of less than NLG 1,000,000,000 will constitute a Determination that the compensation calculated under the Compensation Rules is not at least the same as the compensation calculated under the Annex E Formulas, using the same assumptions as in the Annex E Spreadsheet and as clarified in the Annex E Comparison, and that Article 5 applies, provided that the maximum compensation amount does not include a compensation for REB Advantage. Any maximum other than as specified in the previous sentence will not be considered in making the Determination.

8. The Parties will bear all costs in relation to the Determination in equal portions, regardless of the substance of the Determination.

ARTICLE 7 FURTHER SETTLEMENT

1. Under application of Article 5, if the State of the Netherlands does not provide for compensation in respect of stranded costs for district heating projects for the lifetime of the district heating projects, then the Company will calculate these stranded costs for the period for which the State of the Netherlands does not provide compensation (the "Uncompensated Period"). This calculation (the "Further Calculation") will be a net present value calculation as per 1 January 2001 of these stranded costs over the Uncompensated Period, in accordance with the Annex E Formulas, using the assumptions in the Annex E Spreadsheet, and as clarified in the Annex E Comparison, excluding any Additional Settlement Amounts paid by the FS to the Company in respect of the Uncompensated Period, and will be made within six months after the first day of the Uncompensated Period. The Company will submit a claim (a "Further Settlement Claim") to the FS, with the Further Calculation, within nine months after the first day of the Uncompensated Period.

2. The FS may notify the Company within 20 days of receipt of a Further Settlement Claim in writing that they dispute a Further Settlement Claim, failing which the FS shall pay the amount listed in the Further Settlement Claim promptly, but not later than 20 days after receipt of the Further Settlement Claim. However, in the event that the FS dispute part of a Further Settlement Claim, the FS will in accordance with the previous sentence pay the undisputed amount of the Further Settlement Claim. If the FS notify the Company in writing that they dispute a Further Settlement Claim, the Parties will promptly enter into negotiations to reach an amicable resolution of the disputed amount. If no resolution is achieved within 30 days of the FS's notice of the dispute, each Party shall be entitled to initiate arbitration in accordance with Article 13 of this Agreement.

3. Any Further Settlement Claim will be increased by interest at 6% per annum as from 1 January 2001 to the date of the claim. From the date of the Further Settlement Claim to the date of payment, interest will accrue on any Further Settlement Claim at the rate which applies under the Escrow Agreement of 7 October 1999. If, however, the FS dispute a Further Settlement Claim, any unpaid part of that Further Settlement Claim will be increased only by statutory interest from the date of the respective Further Settlement Claim until the date of payment. The Further Settlement Claim will never exceed NLG 700,000,000 less the Additional Settlement Claims after set-off with the

Maximum Repayment Amount, if any, provided that the Further Settlement Claim is a net present value amount as per 1 January 2001.

ARTICLE 8 FIRST ESCROW ACCOUNT

1. The Parties agree in respect of the First Escrow Account that after the release of the Settlement Amount pursuant to Article 1, the District Heating Settlement Amount pursuant to Article 4 and, subject to Article 4, the Additional District Heating Settlement Amount, the remaining Escrow Amount in the First Escrow Account shall be released to the FS within 20 days after an Election Notice that Article 4 applies or a Determination that Article 4 applies.

2. If Article 5 applies, the Company will submit the respective Additional Settlement Claim or Calculation. If the maximum amount of any unpaid Additional Settlement Claims submitted by the Company plus the balance of the maximum amount of potential future Additional Settlement Claims over any Negative Amount, is less than the remaining Escrow Amount in the First Escrow Account, the amount of this difference will be released from the First Escrow Account to the FS within 20 days of the respective Additional Settlement Claim or Calculation.

3. The Escrow Amount in the First Escrow Account, less the difference between any unpaid Additional Settlement Claims submitted by the Company and any Negative Amount, will be released to the FS on 30 January 2004.

ARTICLE 9 SECOND ESCROW ACCOUNT

1. The Parties agree that the Escrow Agent is only entitled to release an amount from the Second Escrow Account to the Company submits to the Escrow Agent a written certificate (i) stating the amount and describing the nature of the Stranded Costs incurred and (ii) confirming that the Company shall utilise the amount to be released exclusively for paying or reimbursing the Company for such Stranded Costs.

2. Any remaining amounts held in the Second Escrow Account shall be released to the Company on 30 January 2004.

ARTICLE 10 UNCITRAL ARBITRATION PROCEEDINGS

The Parties will request that the Arbitral Tribunal freeze the arbitration proceedings the Company has brought against the FS (registered under no. UN1316 following the Notice of Arbitration of 10 August 2001) immediately after signature of this Agreement until the obligations of Parties under this Agreement become effective or this Agreement is deemed null and void. The Company will withdraw these arbitration proceedings if and when this Agreement becomes effective.

ARTICLE 11 EFFECT OF THIS AGREEMENT

This Agreement shall become effective upon a date to be agreed upon by the Parties.

ARTICLE 12 COURT PROCEEDINGS

The Company is not obliged to challenge any decree or resolution or decision by the State of the Netherlands to deny or reduce compensation of Stranded Costs for district heating projects or any compensation for loss of REB Advantage to the Company. The Company will permit the FS to appoint counsel to act, on behalf of the Company but on the instructions and at the expense of the FS, to challenge in favour of the Company and for the benefit of the FS any such decree or resolution or decision, and counsel will keep the Company fully informed in this respect.

ARTICLE 13 APPLICABLE ARTICLES

Articles 24, 26, 27, 31, 32, 33, 35, 39.2, 40 and 41 of the Partnership Agreement govern this Agreement. Capitalized terms used in this Agreement which are not defined in this Agreement have the meanings assigned to them in the Share Purchase Agreement, as amended by the Deed of Amendment and the Supplemental Agreement. The Parties waive any rights to, in whole or in part, terminate, annul, rescind this Agreement or to request, in whole or in part, the rescission or dissolution of this Agreement on any grounds including but not limited to breach of contract (wanprestatie), error (dwaling) and unforeseen circumstances (onvoorziene omstandigheden).

ARTICLE 14 NOTICE

Any notice to be given by any Party in respect of this Agreement shall be in writing and shall be deemed duly served if delivered personally or sent by fax or by prepaid registered post to the addressee at the relevant address as follows:

If to the Municipality of Amsterdam:
Postbus 202
1000 AE AMSTERDAM
for the attention of: Directeur Concern Financien
fax: +31 20 552 29 45

If to the Province of Noord-Holland:
Gedeputeerde Staten van Noord-Holland
Postbus 123
2000 MD UTRECHT
for the attention of: het Hoofd van de Afdeling Financieel-Economische Zaken
fax: +31 23 514 41 40

If to the Province of Utrecht:
Gedeputeerde Staten van Utrecht
Postbus 80300
3508 TH UTRECHT
for the attention of: J.A. van der Veen
fax: +31 30 258 22 62

If to the Municipality of Utrecht:
Postbus 16200
3500 CE UTRECHT
for the attention of: G.I.A. Koenders
fax: +31 30 286 10 22

If to N.V. Provinciaal en Gemeentelijk Utrechts Stroomleveringsbedrijf:
Postbus 16200
3500 CE UTRECHT
for the attention of: G.I.A. Koenders
fax: +31 30 286 10 22

If to Reliant Energy Power Generation Inc.:
1111 Louisiana
Houston, Texas, United States of America 77002
for the attention of: P. Castanon
fax: +1 713 207 0159

If to Reliant Energy Wholesale Holdings (Europe) Inc.:
1111 Louisiana
Houston, Texas, United States of America 77002
for the attention of: P. Castanon
fax: +1 713 207 0159

If to Reliant Energy Power Generation Benelux N.V.:
Beech Avenue 1
1118 ZX SCHIPHOL-RIJK
for the attention of: P. Castanon
fax: 020 506 44 45

or to such other address as the Party to be served may have notified as its address for service.

In witness whereof this Agreement is executed by the Parties hereto in sixfold on 21 November 2001.

GEMEENTE AMSTERDAM

/s/ J. B. IRIK
- ----------
for and on behalf of Gemeente Amsterdam
By: J. B. Irik
Its: Wethouder

PROVINCIE NOORD HOLLAND

By: /s/ [ILLEGIBLE]
- ----------
Name: [Illegible]
Title: [Illegible]

PROVINCIE UTRECHT

By: /s/ [ILLEGIBLE]
- ----------
Name: [Illegible]
Title: [Illegible]

GEMEENTE UTRECHT

By: /s/ M. A. VD BERGER
- --
Name: M. A. Vd Berger
Title: Wethouder

N.V. PROVINCIAAL EN GEMEENTELIJK
UTRECHTS STROOMLEVERINGSBEDRIJF

/s/ B. TROWBERST
- --
for an on behalf of N.V. Provinciaal en Gemeentelijk
Utrechts Stroomleveringsbedrijf
By: B. Trowberst
Its: Director

RELIANT ENERGY POWER GENERATION INC.

By: /s/ P. CASTANON
- --
Name: P. Castanon
Title: Agent

RELIANT ENERGY WHOLESALE HOLDINGS (EUROPE) INC.

By: /s/ P. CASTANON
- --
Name: P. Castanon
Title: Agent

RELIANT ENERGY POWER GENERATION BENELUX N.V.

By: /s/ G. SCHLOSSER
- --
Name: G. Schlosser
Title: Chief Financial Officer

EXHIBIT 10.33

May 4, 2001

Mr. R. Steve Letbetter
2511 Ella Lee
Houston, TX 77019

Re: Retention Agreement

Dear Mr. Letbetter:

As it is our belief that your continued employment with Reliant Resources, Inc. (the Company) is important for the growth and development of the Company, the Company hereby agrees to provide R. Steve Letbetter (the Executive) with the following stock award pursuant to the Reliant Resources, Inc. Long-Term Incentive Plan, but only if the vesting requirements set forth in this agreement are satisfied.

1. DEFINITIONS: For purposes of this agreement, the following terms will have the meanings indicated below:

"AFFILIATE" shall mean any company controlled by, controlling or under common control with the Company within the meaning of Section 414 of the Internal Revenue Code of 1986.

"CAUSE" shall mean Executive's (a) gross negligence in the performance of Executive's duties, (b) intentional and continued failure to perform Executive's duties, (c) intentional engagement in conduct which is materially injurious to the Company or its Affiliates (monetarily or otherwise) or (d) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of Executive will be deemed "intentional" only if done or omitted to be done by Executive not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company, and no act or failure to act on the part of Executive will be deemed "intentional" if it was due primarily to an error in judgment or negligence.

A "CHANGE IN CONTROL" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the

Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the board of directors of the Company; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were

Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on March 6, 2001 or (y) who becomes a director subsequent to such date and whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the board of directors of the Company;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

Notwithstanding anything herein to the contrary, neither the IPO nor the proposed spin-off of the Company from Reliant Energy, Incorporated will constitute a Change in Control as contemplated herein.

"COMMON STOCK" shall mean the common stock, par value $0.001 per share, of the Company.

"COMPANY" shall mean Reliant Resources, Inc., a Delaware corporation, and any successor thereto.

"DISABILITY" shall mean a physical or mental impairment of sufficient severity such that the Executive is both eligible for and in receipt of benefits under the Long-Term Disability Plan of the Company.

"EFFECTIVE DATE" shall mean May 4, 2001.

"FAIR MARKET VALUE" shall mean:

the price per share of Common Stock as of a particular date, determined as follows:

(a) if shares of Common Stock are listed on a national securities exchange, the average of the highest and lowest sales price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported;

(b) if shares of Common Stock are not so listed but are quoted on the Nasdaq National Market, the average of the highest and lowest sales price per share of Common Stock reported by the Nasdaq National Market on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported;

(c) if the Common Stock is not so listed or quoted, the average of the closing bid and asked price on that date, or, if there are no quotations available for such date, on the next preceding date on which such quotations shall be available, as reported by the Nasdaq Stock Market, or, if not reported by the Nasdaq Stock Market, by the National Quotation Bureau Incorporated; or

(d) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for such purpose.

"GOOD REASON" shall mean any one or more of the following:

(a) a significant reduction in the duties or responsibilities of Executive from those applicable to him on the Effective Date;

(b) a significant reduction in Executive's total remuneration (including salary, bonus, qualified retirement benefits, nonqualified benefits, welfare benefits and any other employee benefits) from that provided to Executive on the Effective Date; provided, however, that (i) a reduction in the amount of incentive compensation paid (including, but not limited to, cash bonuses and restricted stock) that is based on the attainment of pre-determined performance goals meeting the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b), and (ii) a contemporaneous diminution of or reduction in qualified retirement benefits and/or welfare benefits which is of general application and which uniformly and contemporaneously reduces or diminishes the benefits of all covered employees by the same percentage shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b);

(c) a change in the location of Executive's principal place of employment with the Company or any of its Affiliates by more than 35 miles from the location where Executive was principally employed on the Effective Date; or

(d) a failure by the Company to provide directors and officers liability insurance covering Executive comparable to that provided to Executive on the Effective Date.

"IPO" shall mean the initial public offering of shares of Common Stock completed on May 4, 2001.

"RETENTION PERIOD" shall mean the period commencing on the Effective Date and ending on March 6, 2006.

"RETIREMENT" shall mean termination of employment with the consent of the Company on or after the attainment of age 60.

"WITHOUT CAUSE" shall mean without Cause and for reasons other than death, Disability or Retirement.

"WITHOUT GOOD REASON" shall mean without Good Reason and for reasons other than death, Disability or Retirement.

2. STOCK AWARD. Effective upon the Effective Date, Executive has been granted, subject to the terms and conditions herein set forth, an award (the "Stock Award") of 50,000 restricted shares of Common Stock. The Stock Award shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the accrual in favor of the Executive of the unfunded right to receive shares of Common Stock of the Company, subject to the terms and conditions set forth in Section 3.

3. EXECUTIVE'S RIGHT TO THE STOCK AWARD: The Stock Award is subject to the following terms and conditions:

(a) Executive shall not have any rights as a stockholder in respect of the Stock Award, and the rights of Executive in respect of the shares of Common Stock deliverable thereunder may not be sold, assigned, transferred, pledged or otherwise encumbered, from the Effective Date unless and until the Executive is registered as the holder of such Common Stock on the records of the Company as provided in paragraph (c), below, following the vesting of the Executive's rights with respect to such Stock Award as provided herein.

(b) The Executive's right to receive the shares of Common Stock underlying the Stock Award shall vest on March 6, 2006, provided that the Executive has remained in the continuous employment of the Company or its Affiliates during the Retention Period. If, during the Retention Period, the Company or one of its Affiliates terminates the Executive's employment for Cause or the Executive terminates employment Without Good Reason, the Executive shall forfeit his right to receive the Stock Award as of such termination. If, during the Retention Period, the Company or one of its Affiliates terminates the Executive's employment Without Cause, the Executive terminates employment for

Good Reason, or the Executive's employment terminates by reason of death, Disability, or Retirement, the Executive's right to receive the Stock Award shall vest as of such termination. Notwithstanding anything herein to the contrary, upon any Change in Control of the Company, the Executive's right to the Stock Award shall vest immediately upon such Change in Control; however, registration and delivery of the shares of Common Stock awarded pursuant to the Stock Award shall be postponed until the first month of the first calendar year following the calendar year in which Executive's employment with the Company and its Affiliates is terminated, as provided in paragraph (c) below, unless otherwise provided in Section 6.

(c) If Executive's right to receive the shares of Common Stock underlying the Stock Award has vested pursuant to paragraph (b), above, the shares of Common Stock granted under the Stock Award shall be registered in the name of the Executive and certificates representing such shares of Common Stock shall be delivered to the Executive during the first month of the first calendar year following the calendar year in which Executive's employment with the Company and its Affiliates is terminated, unless otherwise provided in Section 6. In addition, upon delivery of the certificates representing such shares of Common Stock, Executive shall also be entitled to receive a cash payment equal to the sum of all dividends, if any, announced or paid with respect to an equivalent number of shares of Common Stock underlying the Stock Award after the Effective Date but prior the date of such payment.

4. WITHHOLDING OF TAXES: The Company may withhold from any benefits payable under this agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

5. NO EMPLOYMENT AGREEMENT: Nothing in this agreement shall give the Executive any rights to (or impose any obligations for) continued employment by the Company or any Affiliate or subsidiary thereof or successor thereto, nor shall it give such entities any rights (or impose any obligations) with respect to continued performance of duties by the Executive.

6. NO ASSIGNMENT; SUCCESSORS: Executive's right to receive payments or benefits hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, whether voluntary, involuntary, by operation of law or otherwise, other than a transfer by will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer contrary to this Section 6 the Company shall have no liability to pay any amount so attempted to be assigned or transferred. This agreement shall inure to the

benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

This agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns (including, without limitation, any company into or with which the Company may merge or consolidate by operation of law or otherwise). The Company agrees that it will not effect a Major Asset Disposition (as defined in paragraph 9 of the definition of Change in Control in Section 1) unless either (a) the person or entity acquiring such assets or a substantial portion thereof shall expressly assume by an instrument in writing all duties and obligations of the Company hereunder or (b) prior to the consummation of such Major Asset Disposition the Company has distributed to the Executive a lump sum cash payment equal to the Fair Market Value of the Stock Award immediately prior to such consummation.

7. ADJUSTMENTS:

(a) The existence of the Stock Award shall not affect in any manner the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or consolidation of outstanding shares of Common Stock, declaration of a dividend payable in shares of Common Stock or other stock split, then the number of shares of Common Stock covered by the Stock Award shall be proportionately adjusted by the Board as appropriate to reflect such transaction. In the event of any other recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, the adoption by the Company of any plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock), the Board shall make appropriate adjustments to the number of shares of Common Stock covered by the Stock Award, to reflect such transaction; provided that such adjustments shall only be such as are necessary to maintain the proportionate interest of the holder of the Stock Award and preserve, without increasing, the value of such Stock Award.

8. RESTRICTIONS: No Common Stock or other form of payment shall be issued with respect to the Stock Award unless the Company shall be satisfied based on the advice

of its counsel that such issuance will be in compliance with applicable federal and state securities laws. Certificates evidencing shares of Common Stock delivered under this agreement may be subject to such stop transfer orders and other restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Company may cause a legend or legends to be placed upon such certificates to make appropriate reference to such restrictions.

9. ENTIRE AGREEMENT: This agreement represents the entire agreement between the Company and Executive with respect to the subject matter hereof, and supersedes and is in full substitution for any and all prior agreements or understandings, whether oral or written, relating to the subject matter hereof.

10. MODIFICATION OF AGREEMENT. Any modification of this agreement shall be binding only if evidenced in writing and signed by an authorized representative of the Company.

11. APPLICABLE LAW: This agreement is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

12. SEVERABILITY: If a court of competent jurisdiction determines that any provision of this agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this agreement and all other provisions shall remain in full force and effect.

If you agree to the terms of this letter agreement, please sign and date below.

Yours very truly,

RELIANT RESOURCES, INC.

By /s/ Robert W. Harvey

Robert W. Harvey
Executive Vice President and
Group President, Emerging Businesses

/s/ R. Steve Letbetter
- ---
R. Steve Letbetter

August 16, 2001
- ---
Execution Date

May 4, 2001

Mr. Robert W. Harvey
1558 Kirby Drive
Houston, TX 77019

Re: Retention Agreement

Dear Mr. Harvey:

As it is our belief that your continued employment with Reliant Resources, Inc. (the Company) is important for the growth and development of the Company, the Company hereby agrees to provide Robert W. Harvey (the Executive) with the following stock award pursuant to the Reliant Resources, Inc. Long-Term Incentive Plan, but only if the vesting requirements set forth in this agreement are satisfied.

1. DEFINITIONS: For purposes of this agreement, the following terms will have the meanings indicated below:

"AFFILIATE" shall mean any company controlled by, controlling or under common control with the Company within the meaning of Section 414 of the Internal Revenue Code of 1986.

"CAUSE" shall mean Executive's (a) gross negligence in the performance of Executive's duties, (b) intentional and continued failure to perform Executive's duties, (c) intentional engagement in conduct which is materially injurious to the Company or its Affiliates (monetarily or otherwise) or (d) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of Executive will be deemed "intentional" only if done or omitted to be done by Executive not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company, and no act or failure to act on the part of Executive will be deemed "intentional" if it was due primarily to an error in judgment or negligence.

A "CHANGE IN CONTROL" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the board of directors of the Company; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on March 6, 2001 or (y) who becomes a director subsequent to such date and whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the board of directors of the Company;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any

specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

Notwithstanding anything herein to the contrary, neither the IPO nor the proposed spin-off of the Company from Reliant Energy, Incorporated will constitute a Change in Control as contemplated herein.

"COMMON STOCK" shall mean the common stock, par value $0.001 per share, of the Company.

"COMPANY" shall mean Reliant Resources, Inc., a Delaware corporation, and any successor thereto.

"DISABILITY" shall mean a physical or mental impairment of sufficient severity such that the Executive is both eligible for and in receipt of benefits under the Long-Term Disability Plan of the Company.

"EFFECTIVE DATE" shall mean May 4, 2001.

"FAIR MARKET VALUE" shall mean the price per share of Common Stock as of a particular date, determined as follows:

(a) if shares of Common Stock are listed on a national securities exchange, the average of the highest and lowest sales price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported;

(b) if shares of Common Stock are not so listed but are quoted on the Nasdaq National Market, the average of the highest and lowest sales price per share of Common Stock reported by the Nasdaq National Market on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported;

(c) if the Common Stock is not so listed or quoted, the average of the closing bid and asked price on that date, or, if there are no quotations available for such date, on the next preceding date on which such quotations shall be available, as reported by the Nasdaq Stock Market, or, if not reported by the Nasdaq Stock Market, by the National Quotation Bureau Incorporated; or

(d) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for such purpose.

"GOOD REASON" shall mean any one or more of the following:

(a) a significant reduction in the duties or responsibilities of Executive from those applicable to him on the Effective Date;

(b) a significant reduction in Executive's total remuneration (including salary, bonus, qualified retirement benefits, nonqualified benefits, welfare benefits and any other employee benefits) from that provided to Executive on the Effective Date; provided, however, that (i) a reduction in the amount of incentive compensation paid (including, but not limited to, cash bonuses and restricted stock) that is based on the attainment of pre-determined performance goals meeting the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b), and (ii) a contemporaneous diminution of or reduction in qualified retirement benefits and/or welfare benefits which is of general application and which uniformly and contemporaneously reduces or diminishes the benefits of all covered employees by the same percentage shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b);

(c) a change in the location of Executive's principal place of employment with the Company or any of its Affiliates by more than 35 miles from the location where Executive was principally employed on the Effective Date; or

(d) a failure by the Company to provide directors and officers liability insurance covering Executive comparable to that provided to Executive on the Effective Date.

"IPO" shall mean the initial public offering of shares of Common Stock completed on May 4, 2001.

"RETENTION PERIOD" shall mean the period commencing on the Effective Date and ending on March 6, 2006.

"RETIREMENT" shall mean termination of employment with the consent of the Company on or after the attainment of age 60.

"WITHOUT CAUSE" shall mean without Cause and for reasons other than death, Disability or Retirement.

"WITHOUT GOOD REASON" shall mean without Good Reason and for reasons other than death, Disability or Retirement.

2. STOCK AWARD. Effective upon the Effective Date, Executive has been granted, subject to the terms and conditions herein set forth, an award (the "Stock Award") of 26,667 restricted shares of Common Stock. The Stock Award shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the accrual in favor of the Executive of the unfunded right to receive shares of Common Stock of the Company, subject to the terms and conditions set forth in Section 3.

3. EXECUTIVE'S RIGHT TO THE STOCK AWARD: The Stock Award is subject to the following terms and conditions:

(a) Executive shall not have any rights as a stockholder in respect of the Stock Award, and the rights of Executive in respect of the shares of Common Stock deliverable thereunder may not be sold, assigned, transferred, pledged or otherwise encumbered, from the Effective Date unless and until the Executive is registered as the holder of such Common Stock on the records of the Company as provided in paragraph (c), below, following the vesting of the Executive's rights with respect to such Stock Award as provided herein.

(b) The Executive's right to receive the shares of Common Stock underlying the Stock Award shall vest on March 6, 2006, provided that the Executive has remained in the continuous employment of the Company or its Affiliates during the Retention Period. If, during the Retention Period, the Company or one of its Affiliates terminates the Executive's employment for Cause or the Executive terminates employment Without Good Reason, the Executive shall forfeit his right to receive the Stock Award as of such termination. If, during the Retention Period, the Company or one of its Affiliates terminates the Executive's employment Without Cause, the Executive terminates employment for Good Reason, or the Executive's employment terminates by reason of death, Disability, or Retirement, the Executive's right to receive the Stock Award shall vest as of such termination. Notwithstanding anything herein to the contrary, upon any Change in Control of the Company, the Executive's right to the Stock Award shall vest immediately upon such Change in Control; however, registration and delivery of the shares of Common Stock awarded pursuant to the Stock Award shall be postponed until the first month of the first calendar year following the calendar year in which Executive's employment with the Company and its Affiliates is terminated, as provided in paragraph (c) below, unless otherwise provided in Section 6.

(c) If Executive's right to receive the shares of Common Stock underlying the Stock Award has vested pursuant to paragraph (b), above, the shares of Common Stock granted under the Stock Award shall be registered in the name of the Executive and certificates representing such shares of Common Stock shall be delivered to the Executive during the first month of the first calendar year following the calendar year in which Executive's employment with the Company and its Affiliates is terminated, unless otherwise provided in Section 6. In addition, upon delivery of the certificates representing such shares of Common Stock, Executive shall also be entitled to receive a cash payment equal to the sum of all dividends, if any, announced or paid with respect to an equivalent number of shares of Common Stock underlying the Stock Award after the Effective Date but prior the date of such payment.

4. WITHHOLDING OF TAXES: The Company may withhold from any benefits payable under this agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

5. NO EMPLOYMENT AGREEMENT: Nothing in this agreement shall give the Executive any rights to (or impose any obligations for) continued employment by the Company or any Affiliate or subsidiary thereof or successor thereto, nor shall it give such entities any rights (or impose any obligations) with respect to continued performance of duties by the Executive.

6. NO ASSIGNMENT; SUCCESSORS: Executive's right to receive payments or benefits hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, whether voluntary, involuntary, by operation of law or otherwise, other than a transfer by will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer contrary to this Section 6 the Company shall have no liability to pay any amount so attempted to be assigned or transferred. This agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

This agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns (including, without limitation, any company into or with which the Company may merge or consolidate by operation of law or otherwise). The Company agrees that it will not effect a Major Asset Disposition (as defined in paragraph 9 of the definition of Change in Control in Section 1) unless either (a) the person or entity acquiring such assets or a substantial portion thereof shall expressly assume by an instrument in writing all duties and obligations of the Company hereunder or (b) prior to the consummation of such Major Asset Disposition the Company has distributed to the Executive a lump sum cash payment equal to the Fair Market Value of the Stock Award immediately prior to such consummation.

7. ADJUSTMENTS:

(a) The existence of the Stock Award shall not affect in any manner the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or consolidation of outstanding shares of Common Stock, declaration of a dividend payable in shares of Common Stock or other stock split, then the number of shares of Common Stock covered by the Stock Award shall be proportionately adjusted by the Board as appropriate to reflect such transaction. In the event of any other recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, the adoption by the Company of any plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock), the Board shall make appropriate adjustments to the number of shares of Common Stock covered by the Stock Award, to reflect such transaction; provided that such adjustments shall only be such as are necessary to maintain the proportionate interest of the holder of the Stock Award and preserve, without increasing, the value of such Stock Award.

8. RESTRICTIONS: No Common Stock or other form of payment shall be issued with respect to the Stock Award unless the Company shall be satisfied based on the advice of its counsel that such issuance will be in compliance with applicable federal and state securities laws. Certificates evidencing shares of Common Stock delivered under this agreement may be subject to such stop transfer orders and other restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Company may cause a legend or legends to be placed upon such certificates to make appropriate reference to such restrictions.

9. ENTIRE AGREEMENT: This agreement represents the entire agreement between the Company and Executive with respect to the subject matter hereof, and supersedes and is in full substitution for any and all prior agreements or understandings, whether oral or written, relating to the subject matter hereof.

10. MODIFICATION OF AGREEMENT. Any modification of this agreement shall be binding only if evidenced in writing and signed by an authorized representative of the Company.

11. APPLICABLE LAW: This agreement is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

12. SEVERABILITY: If a court of competent jurisdiction determines that any provision of this agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this agreement and all other provisions shall remain in full force and effect.

If you agree to the terms of this letter agreement, please sign and date below.

Yours very truly,

RELIANT RESOURCES, INC.

By /s/ R. Steve Letbetter

R. Steve Letbetter
Chairman, President and
Chief Executive Officer

/s/ Robert W. Harvey
- ---
Robert W. Harvey

July 17, 2001
- ---
Execution Date

EXHIBIT 10.35

May 4, 2001

Mr. Stephen W. Naeve
2002 Buffalo Terrace
Houston, TX 77019

Re: Retention Agreement

Dear Mr. Naeve:

As it is our belief that your continued employment with Reliant Resources, Inc. (the Company) is important for the growth and development of the Company, the Company hereby agrees to provide Stephen W. Naeve (the Executive) with the following stock award pursuant to the Reliant Resources, Inc. Long-Term Incentive Plan, but only if the vesting requirements set forth in this agreement are satisfied.

1. DEFINITIONS: For purposes of this agreement, the following terms will have the meanings indicated below:

"AFFILIATE" shall mean any company controlled by, controlling or under common control with the Company within the meaning of Section 414 of the Internal Revenue Code of 1986.

"CAUSE" shall mean Executive's (a) gross negligence in the performance of Executive's duties, (b) intentional and continued failure to perform Executive's duties, (c) intentional engagement in conduct which is materially injurious to the Company or its Affiliates (monetarily or otherwise) or (d) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of Executive will be deemed "intentional" only if done or omitted to be done by Executive not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company, and no act or failure to act on the part of Executive will be deemed "intentional" if it was due primarily to an error in judgment or negligence.

A "CHANGE IN CONTROL" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the board of directors of the Company; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on March 6, 2001 or (y) who becomes a director subsequent to such date and whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the board of directors of the Company;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any

specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

Notwithstanding anything herein to the contrary, neither the IPO nor the proposed spin-off of the Company from Reliant Energy, Incorporated, will constitute a Change in Control as contemplated herein.

"COMMON STOCK" shall mean the common stock, par value $0.001 per share, of the Company.

"COMPANY" shall mean Reliant Resources, Inc., a Delaware corporation, and any successor thereto.

"DISABILITY" shall mean a physical or mental impairment of sufficient severity such that the Executive is both eligible for and in receipt of benefits under the Long-Term Disability Plan of the Company.

"EFFECTIVE DATE" shall mean May 4, 2001.

"FAIR MARKET VALUE" shall mean the price per share of Common Stock as of a particular date, determined as follows:

(a) if shares of Common Stock are listed on a national securities exchange, the average of the highest and lowest sales price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported;

(b) if shares of Common Stock are not so listed but are quoted on the Nasdaq National Market, the average of the highest and lowest sales price per share of Common Stock reported by the Nasdaq National Market on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported;

(c) if the Common Stock is not so listed or quoted, the average of the closing bid and asked price on that date, or, if there are no quotations available for such date, on the next preceding date on which such quotations shall be available, as reported by the Nasdaq Stock Market, or, if not reported by the Nasdaq Stock Market, by the National Quotation Bureau Incorporated; or

(d) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for such purpose.

"GOOD REASON" shall mean any one or more of the following:

(a) a significant reduction in the duties or responsibilities of Executive from those applicable to him on the Effective Date;

(b) a significant reduction in Executive's total remuneration (including salary, bonus, qualified retirement benefits, nonqualified benefits, welfare benefits and any other employee benefits) from that provided to Executive on the Effective Date; provided, however, that (i) a reduction in the amount of incentive compensation paid (including, but not limited to, cash bonuses and restricted stock) that is based on the attainment of pre-determined performance goals meeting the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b), and (ii) a contemporaneous diminution of or reduction in qualified retirement benefits and/or welfare benefits which is of general application and which uniformly and contemporaneously reduces or diminishes the benefits of all covered employees by the same percentage shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b);

(c) a change in the location of Executive's principal place of employment with the Company or any of its Affiliates by more than 35 miles from the location where Executive was principally employed on the Effective Date; or

(d) a failure by the Company to provide directors and officers liability insurance covering Executive comparable to that provided to Executive on the Effective Date.

"IPO" shall mean the initial public offering of shares of Common Stock completed on May 4, 2001.

"RETENTION PERIOD" shall mean the period commencing on the Effective Date and ending on March 6, 2006.

"RETIREMENT" shall mean termination of employment with the consent of the Company on or after the attainment of age 60.

"WITHOUT CAUSE" shall mean without Cause and for reasons other than death, Disability or Retirement.

"WITHOUT GOOD REASON" shall mean without Good Reason and for reasons other than death, Disability or Retirement.

2. STOCK AWARD. Effective upon the Effective Date, Executive has been granted, subject to the terms and conditions herein set forth, an award (the "Stock Award") of 26,667 restricted shares of Common Stock. The Stock Award shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the accrual in favor of the Executive of the unfunded right to receive shares of Common Stock of the Company, subject to the terms and conditions set forth in Section 3.

3. EXECUTIVE'S RIGHT TO THE STOCK AWARD: The Stock Award is subject to the following terms and conditions:

(a) Executive shall not have any rights as a stockholder in respect of the Stock Award, and the rights of Executive in respect of the shares of Common Stock deliverable thereunder may not be sold, assigned, transferred, pledged or otherwise encumbered, from the Effective Date unless and until the Executive is registered as the holder of such Common Stock on the records of the Company as provided in paragraph (c), below, following the vesting of the Executive's rights with respect to such Stock Award as provided herein.

(b) The Executive's right to receive the shares of Common Stock underlying the Stock Award shall vest on March 6, 2006, provided that the Executive has remained in the continuous employment of the Company or its Affiliates during the Retention Period. If, during the Retention Period, the Company or one of its Affiliates terminates the Executive's employment for Cause or the Executive terminates employment Without Good Reason, the Executive shall forfeit his right to receive the Stock Award as of such termination. If, during the Retention Period, the Company or one of its Affiliates terminates the Executive's employment Without Cause, the Executive terminates employment for Good Reason, or the Executive's employment terminates by reason of death, Disability, or Retirement, the Executive's right to receive the Stock Award shall vest as of such termination. Notwithstanding anything herein to the contrary, upon any Change in Control of the Company, the Executive's right to the Stock Award shall vest immediately upon such Change in Control; however, registration and delivery of the shares of Common Stock awarded pursuant to the Stock Award shall be postponed until the first month of the first calendar year following the calendar year in which Executive's employment with the Company and its Affiliates is terminated, as provided in paragraph (c) below, unless otherwise provided in Section 6.

(c) If Executive's right to receive the shares of Common Stock underlying the Stock Award has vested pursuant to paragraph (b), above, the shares of Common Stock granted under the Stock Award shall be registered in the name of the Executive and certificates representing such shares of Common Stock shall be delivered to the Executive during the first month of the first calendar year following the calendar year in which Executive's employment with the Company and its Affiliates is terminated, unless otherwise provided in Section 6. In addition, upon delivery of the certificates representing such shares of Common Stock, Executive shall also be entitled to receive a cash payment equal to the sum of all dividends, if any, announced or paid with respect to an equivalent number of shares of Common Stock underlying the Stock Award after the Effective Date but prior the date of such payment.

4. WITHHOLDING OF TAXES: The Company may withhold from any benefits payable under this agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

5. NO EMPLOYMENT AGREEMENT: Nothing in this agreement shall give the Executive any rights to (or impose any obligations for) continued employment by the Company or any Affiliate or subsidiary thereof or successor thereto, nor shall it give such entities any rights (or impose any obligations) with respect to continued performance of duties by the Executive.

6. NO ASSIGNMENT; SUCCESSORS: Executive's right to receive payments or benefits hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, whether voluntary, involuntary, by operation of law or otherwise, other than a transfer by will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer contrary to this Section 6 the Company shall have no liability to pay any amount so attempted to be assigned or transferred. This agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

This agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns (including, without limitation, any company into or with which the Company may merge or consolidate by operation of law or otherwise). The Company agrees that it will not effect a Major Asset Disposition (as defined in paragraph 9 of the definition of Change in Control in Section 1) unless either (a) the person or entity acquiring such assets or a substantial portion thereof shall expressly assume by an instrument in writing all duties and obligations of the Company hereunder or (b) prior to the consummation of such Major Asset Disposition the Company has distributed to the Executive a lump sum cash payment equal to the Fair Market Value of the Stock Award immediately prior to such consummation.

7. ADJUSTMENTS:

(a) The existence of the Stock Award shall not affect in any manner the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or consolidation of outstanding shares of Common Stock, declaration of a dividend payable in shares of Common Stock or other stock split, then the number of shares of Common Stock covered by the Stock Award shall be proportionately adjusted by the Board as appropriate to reflect such transaction. In the event of any other recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, the adoption by the Company of any plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock), the Board shall make appropriate adjustments to the number of shares of Common Stock covered by the Stock Award, to reflect such transaction; provided that such adjustments shall only be such as are necessary to maintain the proportionate interest of the holder of the Stock Award and preserve, without increasing, the value of such Stock Award.

8. RESTRICTIONS: No Common Stock or other form of payment shall be issued with respect to the Stock Award unless the Company shall be satisfied based on the advice of its counsel that such issuance will be in compliance with applicable federal and state securities laws. Certificates evidencing shares of Common Stock delivered under this agreement may be subject to such stop transfer orders and other restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Company may cause a legend or legends to be placed upon such certificates to make appropriate reference to such restrictions.

9. ENTIRE AGREEMENT: This agreement represents the entire agreement between the Company and Executive with respect to the subject matter hereof, and supersedes and is in full substitution for any and all prior agreements or understandings, whether oral or written, relating to the subject matter hereof.

10. MODIFICATION OF AGREEMENT. Any modification of this agreement shall be binding only if evidenced in writing and signed by an authorized representative of the Company.

11. APPLICABLE LAW: This agreement is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

12. SEVERABILITY: If a court of competent jurisdiction determines that any provision of this agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this agreement and all other provisions shall remain in full force and effect.

If you agree to the terms of this letter agreement, please sign and date below.

Yours very truly,

RELIANT RESOURCES, INC.

By /s/ R. STEVE LETBETTER

R. Steve Letbetter
Chairman, President and
Chief Executive Officer

/s/ STEPHEN W. NAEVE
- ---
Stephen W. Naeve

August 16, 2001
- ---
Execution Date

May 4, 2001

Mr. Joe Bob Perkins
12214 Beauregard
Houston, TX 77019

Re: Retention Agreement

Dear Mr. Perkins:

As it is our belief that your continued employment with Reliant Resources, Inc. (the Company) is important for the growth and development of the Company, the Company hereby agrees to provide Joe Bob Perkins (the Executive) with the following stock award pursuant to the Reliant Resources, Inc. Long-Term Incentive Plan, but only if the vesting requirements set forth in this agreement are satisfied.

1. DEFINITIONS: For purposes of this agreement, the following terms will have the meanings indicated below:

"AFFILIATE" shall mean any company controlled by, controlling or under common control with the Company within the meaning of Section 414 of the Internal Revenue Code of 1986.

"CAUSE" shall mean Executive's (a) gross negligence in the performance of Executive's duties, (b) intentional and continued failure to perform Executive's duties, (c) intentional engagement in conduct which is materially injurious to the Company or its Affiliates (monetarily or otherwise) or (d) conviction of a felony or a misdemeanor involving moral turpitude. For this purpose, an act or failure to act on the part of Executive will be deemed "intentional" only if done or omitted to be done by Executive not in good faith and without reasonable belief that his/her action or omission was in the best interest of the Company, and no act or failure to act on the part of Executive will be deemed "intentional" if it was due primarily to an error in judgment or negligence.

A "CHANGE IN CONTROL" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% OWNERSHIP CHANGE: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) BOARD MAJORITY CHANGE: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the board of directors of the Company; or

(c) MAJOR MERGERS AND ACQUISITIONS: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) MAJOR ASSET DISPOSITIONS: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on March 6, 2001 or (y) who becomes a director subsequent to such date and whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the board of directors of the Company;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any

specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

Notwithstanding anything herein to the contrary, neither the IPO nor the proposed spin-off of the Company from Reliant Energy, Incorporated will constitute a Change in Control as contemplated herein.

"COMMON STOCK" shall mean the common stock, par value $0.001 per share, of the Company.

"COMPANY" shall mean Reliant Resources, Inc., a Delaware corporation, and any successor thereto.

"DISABILITY" shall mean a physical or mental impairment of sufficient severity such that the Executive is both eligible for and in receipt of benefits under the Long-Term Disability Plan of the Company.

"EFFECTIVE DATE" shall mean May 4, 2001.

"FAIR MARKET VALUE" shall mean the price per share of Common Stock as of a particular date, determined as follows:

(a) if shares of Common Stock are listed on a national securities exchange, the average of the highest and lowest sales price per share of Common Stock on the consolidated transaction reporting system for the principal national securities exchange on which shares of Common Stock are listed on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported;

(b) if shares of Common Stock are not so listed but are quoted on the Nasdaq National Market, the average of the highest and lowest sales price per share of Common Stock reported by the Nasdaq National Market on that date, or, if there shall have been no such sale so reported on that date, on the next preceding date on which such a sale was so reported;

(c) if the Common Stock is not so listed or quoted, the average of the closing bid and asked price on that date, or, if there are no quotations available for such date, on the next preceding date on which such quotations shall be available, as reported by the Nasdaq Stock Market, or, if not reported by the Nasdaq Stock Market, by the National Quotation Bureau Incorporated; or

(d) if shares of Common Stock are not publicly traded, the most recent value determined by an independent appraiser appointed by the Company for such purpose.

"GOOD REASON" shall mean any one or more of the following:

(a) a significant reduction in the duties or responsibilities of Executive from those applicable to him on the Effective Date;

(b) a significant reduction in Executive's total remuneration (including salary, bonus, qualified retirement benefits, nonqualified benefits, welfare benefits and any other employee benefits) from that provided to Executive on the Effective Date; provided, however, that (i) a reduction in the amount of incentive compensation paid (including, but not limited to, cash bonuses and restricted stock) that is based on the attainment of pre-determined performance goals meeting the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended, shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b), and (ii) a contemporaneous diminution of or reduction in qualified retirement benefits and/or welfare benefits which is of general application and which uniformly and contemporaneously reduces or diminishes the benefits of all covered employees by the same percentage shall be ignored and not be considered a reduction in total remuneration for purposes of this paragraph (b);

(c) a change in the location of Executive's principal place of employment with the Company or any of its Affiliates by more than 35 miles from the location where Executive was principally employed on the Effective Date; or

(d) a failure by the Company to provide directors and officers liability insurance covering Executive comparable to that provided to Executive on the Effective Date.

"IPO" shall mean the initial public offering of shares of Common Stock completed on May 4, 2001.

"RETENTION PERIOD" shall mean the period commencing on the Effective Date and ending on March 6, 2006.

"RETIREMENT" shall mean termination of employment with the consent of the Company on or after the attainment of age 60.

"WITHOUT CAUSE" shall mean without Cause and for reasons other than death, Disability or Retirement.

"WITHOUT GOOD REASON" shall mean without Good Reason and for reasons other than death, Disability or Retirement.

2. STOCK AWARD. Effective upon the Effective Date, Executive has been granted, subject to the terms and conditions herein set forth, an award (the "Stock Award") of 50,000 restricted shares of Common Stock. The Stock Award shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the accrual in favor of the Executive of the unfunded right to receive shares of Common Stock of the Company, subject to the terms and conditions set forth in Section 3.

3. EXECUTIVE'S RIGHT TO THE STOCK AWARD: The Stock Award is subject to the following terms and conditions:

(a) Executive shall not have any rights as a stockholder in respect of the Stock Award, and the rights of Executive in respect of the shares of Common Stock deliverable thereunder may not be sold, assigned, transferred, pledged or otherwise encumbered, from the Effective Date unless and until the Executive is registered as the holder of such Common Stock on the records of the Company as provided in paragraph (c), below, following the vesting of the Executive's rights with respect to such Stock Award as provided herein.

(b) The Executive's right to receive the shares of Common Stock underlying the Stock Award shall vest on March 6, 2006, provided that the Executive has remained in the continuous employment of the Company or its Affiliates during the Retention Period. If, during the Retention Period, the Company or one of its Affiliates terminates the Executive's employment for Cause or the Executive terminates employment Without Good Reason, the Executive shall forfeit his right to receive the Stock Award as of such termination. If, during the Retention Period, the Company or one of its Affiliates terminates the Executive's employment Without Cause, the Executive terminates employment for Good Reason, or the Executive's employment terminates by reason of death, Disability, or Retirement, the Executive's right to receive the Stock Award shall vest as of such termination. Notwithstanding anything herein to the contrary, upon any Change in Control of the Company, the Executive's right to the Stock Award shall vest immediately upon such Change in Control; however, registration and delivery of the shares of Common Stock awarded pursuant to the Stock Award shall be postponed until the first month of the first calendar year following the calendar year in which Executive's employment with the Company and its Affiliates is

terminated, as provided in paragraph (c) below, unless otherwise provided in Section 6.

(c) If Executive's right to receive the shares of Common Stock underlying the Stock Award has vested pursuant to paragraph (b), above, the shares of Common Stock granted under the Stock Award shall be registered in the name of the Executive and certificates representing such shares of Common Stock shall be delivered to the Executive during the first month of the first calendar year following the calendar year in which Executive's employment with the Company and its Affiliates is terminated, unless otherwise provided in Section 6. In addition, upon delivery of the certificates representing such shares of Common Stock, Executive shall also be entitled to receive a cash payment equal to the sum of all dividends, if any, announced or paid with respect to an equivalent number of shares of Common Stock underlying the Stock Award after the Effective Date but prior the date of such payment.

4. WITHHOLDING OF TAXES: The Company may withhold from any benefits payable under this agreement all federal, state, city or other taxes as may be required pursuant to any law or governmental regulation or ruling.

5. NO EMPLOYMENT AGREEMENT: Nothing in this agreement shall give the Executive any rights to (or impose any obligations for) continued employment by the Company or any Affiliate or subsidiary thereof or successor thereto, nor shall it give such entities any rights (or impose any obligations) with respect to continued performance of duties by the Executive.

6. NO ASSIGNMENT; SUCCESSORS: Executive's right to receive payments or benefits hereunder shall not be assignable or transferable, whether by pledge, creation of a security interest or otherwise, whether voluntary, involuntary, by operation of law or otherwise, other than a transfer by will or by the laws of descent or distribution, and in the event of any attempted assignment or transfer contrary to this Section 6 the Company shall have no liability to pay any amount so attempted to be assigned or transferred. This agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

This agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns (including, without limitation, any company into or with which the Company may merge or consolidate by operation of law or otherwise). The Company agrees that it will not effect a Major Asset Disposition (as defined in paragraph 9 of the definition of Change in Control in Section 1) unless either (a) the person or entity acquiring such assets or a substantial portion thereof shall expressly assume by an instrument in writing all duties and obligations of the Company hereunder or (b) prior to the consummation of such Major Asset

Disposition the Company has distributed to the Executive a lump sum cash payment equal to the Fair Market Value of the Stock Award immediately prior to such consummation.

7. ADJUSTMENTS:

(a) The existence of the Stock Award shall not affect in any manner the right or power of the Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or consolidation of outstanding shares of Common Stock, declaration of a dividend payable in shares of Common Stock or other stock split, then the number of shares of Common Stock covered by the Stock Award shall be proportionately adjusted by the Board as appropriate to reflect such transaction. In the event of any other recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, the adoption by the Company of any plan of exchange affecting the Common Stock or any distribution to holders of Common Stock of securities or property (other than normal cash dividends or dividends payable in Common Stock), the Board shall make appropriate adjustments to the number of shares of Common Stock covered by the Stock Award, to reflect such transaction; provided that such adjustments shall only be such as are necessary to maintain the proportionate interest of the holder of the Stock Award and preserve, without increasing, the value of such Stock Award.

8. RESTRICTIONS: No Common Stock or other form of payment shall be issued with respect to the Stock Award unless the Company shall be satisfied based on the advice of its counsel that such issuance will be in compliance with applicable federal and state securities laws. Certificates evidencing shares of Common Stock delivered under this agreement may be subject to such stop transfer orders and other restrictions as the Company may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any securities exchange or transaction reporting system upon which the Common Stock is then listed or to which it is admitted for quotation and any applicable federal or state securities law. The Company may cause a legend or legends to be placed upon such certificates to make appropriate reference to such restrictions.

9. ENTIRE AGREEMENT: This agreement represents the entire agreement between the Company and Executive with respect to the subject matter hereof, and supersedes

and is in full substitution for any and all prior agreements or understandings, whether oral or written, relating to the subject matter hereof.

10. MODIFICATION OF AGREEMENT. Any modification of this agreement shall be binding only if evidenced in writing and signed by an authorized representative of the Company.

11. APPLICABLE LAW: This agreement is entered into under, and shall be governed for all purposes by, the laws of the State of Texas.

12. SEVERABILITY: If a court of competent jurisdiction determines that any provision of this agreement is invalid or unenforceable, then the invalidity or unenforceability of that provision shall not affect the validity or enforceability of any other provision of this agreement and all other provisions shall remain in full force and effect.

If you agree to the terms of this letter agreement, please sign and date below.

Yours very truly,

RELIANT RESOURCES, INC.

By /s/ R. STEVE LETBETTER

R. Steve Letbetter
Chairman, President and
Chief Executive Officer

/s/ JOE BOB PERKINS
- ---
Joe Bob Perkins

August 16, 2001
- ---
Execution Date

RELIANT RESOURCES, INC.
TRANSITION STOCK PLAN

ARTICLE I

PURPOSE

1.1 Purpose of Plan: The purpose of the Plan is to provide for the grant of supplemental stock options to purchase the Company's common stock and time-based restricted shares of the Company to holders of certain outstanding options and time-based restricted shares issued under certain stock-based plans of REI in compliance with that Employee Matters Agreement entered into effective as of December 31, 2000, between REI and the Company (the "EMA"). Such supplemental stock options and time-based restricted shares may be granted to current and former employees of the Company, REI or any Subsidiary in accordance with the provisions below.

ARTICLE II

DEFINITIONS

2.1 Definitions: For purposes of the Plan, the following terms shall have the meanings below stated, subject to the provisions of Section 7.1.

(a) "Board" means the Board of Directors of the Company.

(b) "Code" means the Internal Revenue Code of 1986, as amended.

(c) "Committee" means the Compensation Committee or such other committee appointed by the Board to administer this Plan pursuant to Article VII.

(d) "Common Stock," when immediately preceded by "REI," means the common stock, without par value, of REI. When immediately preceded by "Company," "Common Stock" means the common stock, par value $.001 per share, of the Company.

(e) "Company" means Reliant Resources, Inc., a Delaware corporation, and any successor thereto.

(f) "Distribution" means the distribution by REI to the holders of REI Common Stock of all the shares of Company Common Stock then owned.

(g) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(h) "Fair Market Value" means the average of the high and low sales price of a share of Common Stock on the New York Stock Exchange - Composite Transactions reporting

system on the date as of which such value is being determined or, if no sales occurred on such day, then on the following day on which there were such sales.

(i) "Incentive Stock Option" means an option to purchase Company Common Stock, granted by the Company to a Participant pursuant to Section 6.1, which meets the requirements of Section 422 of the Code.

(j) "Incentive Plan" means the Houston Industries Incorporated Long-Term Incentive Compensation Plan, 1994 Houston Industries Incorporated Long-Term Incentive Compensation Plan, Reliant Energy, Incorporated Business Unit Performance Share Plan, the Reliant Energy, Incorporated and Subsidiaries Common Stock Participation Plan for Designated New Employees and Non-Officer Employees and the NorAm Energy Corp. 1994 Incentive Equity Plan. Depending on the context, "Incentive Plan" shall mean all of such plans or a particular one of such plans.

(k) "IPO" means the initial public offering of the Company's Common Stock pursuant to a registration statement on Form S-1 filed pursuant to the Securities Act of 1933, as amended.

(l) "IPO Closing Date" means May 4, 2001.

(m) "Nonstatutory Stock Option" means an option to purchase Company Common Stock, granted by the Company to a Participant pursuant to Section 6.1, which does not meet the requirements of Section 422 of the Code.

(n) "Option" means an Incentive Stock Option or a Nonstatutory Stock Option.

(o) "Participant" means persons who, as of the date of the Distribution, hold outstanding (1) unexercised and unexpired options to purchase REI Common Stock or (2) time-based restricted shares of REI Common Stock, in either case granted under an Incentive Plan prior to the IPO Closing Date, or any such other date as approved by the Committee.

(p) "Plan" means the Reliant Resources, Inc. Transition Stock Plan, as set forth herein and as from time to time amended.

(q) "REI" means Reliant Energy, Incorporated, a Texas corporation, and any successor thereto.

(r) "Restricted Stock Award" means an award of time-based restricted shares of Company Common Stock, granted by the Company to a Participant pursuant to Section 5.1 and implemented by credit to a bookkeeping account maintained by the Company.

(s) "Stock Incentives" refers collectively to Restricted Stock Awards and Options.

(t) "Subsidiary" means a subsidiary corporation of the Company or REI, as applicable, as defined in Section 424(f) of the Code.

ARTICLE III

SHAREHOLDER APPROVAL; RESERVATION OF SHARES

3.1 Shareholder Approval: This Plan shall become effective, subject to the prior approval of the Company's sole shareholder, as of the IPO Closing Date.

3.2 Shares Reserved Under Plan: The aggregate number of shares of Company Common Stock which may be issued under this Plan shall not exceed 9.1 million (9,100,000) shares, subject to adjustment as hereinafter provided. Any part of such 9.1 million shares may be issued pursuant to Restricted Stock Awards. The shares of Company Common Stock which may be granted pursuant to Stock Incentives will consist of either authorized but unissued shares of Company Common Stock or shares of Company Common Stock which have been issued and which shall have been heretofore or hereafter reacquired by the Company as treasury shares. The total number of shares authorized under this Plan shall be subject to increase or decrease in order to give effect to the adjustment provision of Section 9.3 and to give effect to any amendment adopted as provided in Section 8.1. The foregoing limitation on the number of shares of Company Common Stock issuable under the Plan is a limitation on the aggregate number of shares of Company Common Stock issued, subject to such rules and procedures concerning the counting of shares against the Plan maximum as the Committee may deem appropriate to apply in order that applicable exemptions under Rule 16b-3 under the Exchange Act may be available for Stock Incentives.

ARTICLE IV

PARTICIPATION IN PLAN

4.1 Eligibility to Receive Stock Incentives: Stock Incentives under this Plan may be granted only to persons who are Participants.

4.2 Participation Not Guarantee of Employment: Nothing in this Plan or in the instrument evidencing the grant of a Stock Incentive shall in any manner be construed to limit in any way the right of the Company, REI or a Subsidiary to terminate a Participant's employment at any time, without regard to the effect of such termination on any rights such Participant would otherwise have under the Plan or any Incentive Plan, or give any right to such a Participant to remain employed by the Company, REI or a Subsidiary in any particular position or at any particular rate of compensation.

ARTICLE V

STOCK AWARDS

5.1 Grant of Restricted Stock Awards:

(a) Grant: Subject to the terms of this Plan and the Incentive Plans, the Committee may grant Restricted Stock Award(s) to Participants. All Restricted Stock Awards under this Plan shall be granted as soon as administratively practicable following the date of the Distribution, and no Restricted Stock Award shall be granted pursuant to this Plan thereafter.

(b) Award of Shares: The Committee shall determine the number of shares of Company Common Stock covered by each Restricted Stock Award, and such shares shall continue to be subject to all the terms and conditions of the applicable Incentive Plan and associated instrument under which the corresponding award of restricted shares of REI Common Stock was made and any such additional terms, conditions and restrictions as may be determined by the Committee thereunder.

The Committee shall implement the grant of a Restricted Stock Award by credit to a bookkeeping account maintained by the Company evidencing the accrual to a Participant of unsecured and unfunded rights to receive, subject to the terms of the Restricted Stock Award, shares of Company Common Stock.

(c) Lapse of Restrictions: The restrictions on each Restricted Stock Award shall lapse in accordance with the terms and conditions of the applicable Incentive Plan and associated instrument under which the corresponding award of restricted shares of REI Common Stock was made.

(d) Award Documentation: Restricted Stock Awards shall be evidenced in such form as the Committee shall approve and containing such terms and conditions as shall be contained therein or incorporated by way of reference to the Incentive Plan or any associated instrument governing the corresponding award of restricted shares of REI Common Stock, which need not be the same for all Restricted Stock Awards.

5.2 Rights with Respect to Shares: No Participant who is granted a Restricted Stock Award shall have any rights as a stockholder by virtue of such grant until shares are actually issued or delivered to the Participant.

ARTICLE VI

OPTIONS

6.1 Grant of Options:

(a) Grant: Subject to the terms of this Plan and the Incentive Plans, the Committee may grant Incentive Stock Options and/or Nonstatutory Stock Options to Participants. All Options under this Plan shall be granted as soon as administratively practicable following the date of the Distribution, and no Options shall be granted pursuant to this Plan thereafter. Such Options shall continue to be subject to all the terms and conditions of the applicable Incentive Plan and associated instrument under which the corresponding option to purchase REI Common Stock was made and any such additional terms, conditions and restrictions as may be determined by the Committee thereunder.

(b) Option Price: The purchase price per share of Company Common Stock under each Option shall be established by the Committee in accordance with the terms of the EMA. The Option price shall be subject to adjustment in accordance with the provisions of Section 9.3 hereof.

(c) Option Documentation: Options shall be evidenced in such form as the Committee shall approve and containing such terms and conditions as shall be contained therein or incorporated by way of reference to the Incentive Plan or any associated instrument governing the corresponding option to purchase REI Common Stock, which need not be the same for all Options.

6.2 Exercise and/or Termination of Options:

(a) Terms of Options: Options granted under this Plan may be exercised at the same time and in the same manner as the corresponding option to purchase REI Common Stock. Options granted under this Plan shall expire at the same time and in the same manner as the corresponding option to purchase REI Common Stock, as provided in the applicable Incentive Plan and any associated instrument governing such option to purchase REI Common Stock.

(b) Payment on Exercise: No shares of Company Common Stock shall be issued on the exercise of an Option unless paid for in full at the time of purchase. Payment for shares of Company Common Stock purchased upon the exercise of an Option shall be made in cash or, with the consent of the Committee, in Company Common Stock, or by a combination of cash and Company Common Stock. If shares of Company Common Stock are used to pay for shares of Company Common Stock purchased upon the exercise of an Option, such shares shall be valued based on the fair market value of Company Common Stock when the Option is exercised in accordance with such uniform rules and procedures as the Committee determines appropriate. The Committee may also provide for procedures to permit the exercise of Options

by the use of the proceeds to be received from the sale of Company Common Stock issuable pursuant to an Option. No Participant shall have any rights as a shareholder with respect to any share of Company Common Stock covered by an Option unless and until such Participant shall have become the holder of record of such share, and, other than pursuant to an adjustment made in accordance with Section 9.3 hereof, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property or distributions or other rights) in respect of such share for which the record date is prior to the date on which such Participant shall have become the holder of record thereof.

ARTICLE VII

ADMINISTRATION OF PLAN

7.1 The Committee: This Plan shall be administered solely by the Committee or such other committee of the Board as the Board shall designate to administer the Plan. A majority of the Committee shall constitute a quorum thereof and the actions of a majority of the Committee at a meeting at which a quorum is present, or actions unanimously approved in writing by all members of the Committee, shall be the actions of the Committee. Vacancies occurring on the Committee shall be filled by the Board. The Committee shall have full and final authority to interpret this Plan and any instruments evidencing Stock Incentives granted hereunder, to prescribe, amend and rescind rules and regulations, if any, relating to this Plan and to make all determinations necessary or advisable for the administration of this Plan. The Committee's determination in all matters referred to herein shall be conclusive and binding for all purposes and upon all persons including, but without limitation, the Company, REI, the shareholders of the Company, the shareholders of REI, the Committee and each of the members thereof, and Participants, and their respective successors in interest. The Committee may delegate any of its rights, powers and duties to any one or more of its members, or to any other person, by written action as provided herein, acknowledged in writing by the delegate or delegates, except that the Committee may not delegate to any person the authority to grant Stock Incentives to, or take other action with respect to, Participants who are subject to Section 16 of the Exchange Act. Such delegation may include, without limitation, the power to execute any documents on behalf of the Committee.

7.2 Liability of Committee: No member of the Committee shall be liable for anything done or omitted to be done by such member or by any other member of the Committee or by any person to whom authority is delegated as provided in the last sentence of Section 7.1 in connection with this Plan, except for the willful misconduct of such member or as expressly required by law. The Committee shall have power to engage outside consultants, auditors or other professionals to assist in the fulfillment of the Committee's duties under this Plan at the Company's expense.

7.3 Determinations of the Committee: The Committee may, in its sole discretion, waive any provisions of any Stock Incentive, provided such waiver is not inconsistent with the terms of the applicable Incentive Plan, any associated instrument or this Plan as then in effect.

7.4 Compliance With the Exchange Act: With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the Plan or action by the Committee fails to so comply, it shall be deemed null and void to the extent permitted by law and deemed advisable by the Committee.

ARTICLE VIII

AMENDMENT AND TERMINATION OF PLAN

8.1 Amendment, Modification, Suspension or Termination:

(a) The Board may from time to time amend, modify, suspend or terminate the Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law except that (i) no amendment or alteration that would impair the rights of any Participant under any Stock Incentive awarded to such Participant shall be made without such Participant's consent and (ii) no amendment or alteration shall be effective prior to approval by the Company's shareholders to the extent such approval is then required pursuant to Rule 16b-3 under the Exchange Act in order to preserve the applicability of any exemption provided by such rule to any Stock Incentive then outstanding (unless the holder of such Stock Incentive consents) or to the extent shareholder approval is otherwise required by applicable legal requirements.

(b) Amendments Relating to Incentive Stock Options: To the extent applicable, this Plan is intended to permit the issuance of Incentive Stock Options in accordance with the provisions of Section 422 of the Code. The Plan may be modified or amended at any time, both prospectively and retroactively, and in such manner as to affect Incentive Stock Options previously granted, if such amendment or modification is necessary for this Plan and the Incentive Stock Options granted hereunder to qualify under said provisions of the Code.

8.2 Termination: The Board may at any time terminate this Plan as of any date specified in a resolution adopted by the Board. If not earlier terminated, this Plan shall terminate on the last date that any Option granted hereunder may be exercised. After this Plan has terminated, the function of the Committee with respect to this Plan will be limited to determinations, interpretations and other matters provided herein with respect to Stock Incentives previously granted.

ARTICLE IX

MISCELLANEOUS PROVISIONS

9.1 Restrictions Upon Grant of Stock Incentives: The listing upon the New York Stock Exchange or the registration or qualification under any federal or state law of any shares of Company Common Stock to be granted pursuant to this Plan (whether to permit the grant of Stock Incentives or the resale or other disposition of any such shares of Company Common Stock by or on behalf of the Participants receiving such shares) may be necessary or desirable and, in any such event, if the Committee in its sole discretion so determines, delivery of the certificates for such shares of Company Common Stock shall not be made until such listing, registration or qualification shall have been completed. In such connection, the Company agrees

that it will use its best efforts to effect any such listing, registration or qualification, provided, however, that the Company shall not be required to use its best efforts to effect such registration under the Securities Act of 1933, as amended, other than on Form S-8, as presently in effect, or other such forms as may be in effect from time to time calling for information comparable to that presently required to be furnished under Form S-8.

9.2 Restrictions Upon Resale of Unregistered Stock: If the shares of Company Common Stock that have been transferred to a Participant pursuant to the terms of this Plan are not registered under the Securities Act of 1933, as amended, pursuant to an effective registration statement, such Participant, if the Committee deems it advisable, may be required to represent and agree in writing (i) that any shares of Company Common Stock acquired by such Participant pursuant to this Plan will not be sold except pursuant to an effective registration statement under the Securities Act of 1933, as amended, or pursuant to an exemption from registration under said Act and (ii) that such Participant is acquiring such shares of Company Common Stock for such Participant's own account and not with a view to the distribution thereof.

9.3 Adjustments:

(a) The existence of outstanding Stock Incentives shall not affect in any manner the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the capital stock of the Company or its business or any merger or consolidation of the Company, or any issue of bonds, debentures, preferred or prior preference stock (whether or not such issue is prior to, on a parity with or junior to the Company Common Stock) or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding of any kind, whether or not of a character similar to that of the acts or proceedings enumerated above.

(b) In the event of any subdivision or consolidation of outstanding shares of Company Common Stock, declaration of a dividend payable in shares of Company Common Stock or other stock split, then (i) the number of shares of Company Common Stock reserved under this Plan, (ii) the number of shares of Company Common Stock covered by outstanding Stock Incentives, (iii) the exercise or other price in respect of such Stock Incentives and (iv) the appropriate Fair Market Value and other price determinations for such Stock Incentives shall each be proportionately adjusted by the Board as appropriate to reflect such transaction. In the event of any other recapitalization or capital reorganization of the Company, any consolidation or merger of the Company with another corporation or entity, the adoption by the Company of any plan of exchange affecting the Company Common Stock or any distribution to holders of Company Common Stock of securities or property (other than normal cash dividends or dividends payable in Company Common Stock), the Board shall make appropriate adjustments to (i) the number of shares of Company Common Stock covered by Stock Incentives, (ii) the exercise or other price in respect of such Stock Incentives and (iii) the appropriate Fair Market Value and other price determinations for such Stock Incentives to reflect such transaction; provided that such adjustments shall only be such as are necessary to maintain the proportionate

interest of the holders of the Stock Incentives and preserve, without increasing, the value of such Stock Incentives. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Board shall be authorized (x) to issue or assume Stock Incentives by means of substitution of new Stock Incentives, as appropriate, for previously issued Stock Incentives or to assume previously issued Stock Incentives as part of such adjustment or (y) to cancel Stock Incentives that are Options and give the Participants who are the holders of such Options notice and opportunity to exercise for 30 days prior to such cancellation.

9.4 Withholding of Taxes: The Committee shall deduct applicable taxes with respect to any Restricted Stock Award or Nonstatutory Stock Option and withhold, at the time of delivery or other appropriate time, an appropriate amount of cash or number of shares of Company Common Stock or a combination thereof for payment of taxes required by law, such withholding to be administered on a uniform basis (not involving any election by any Participant.) If shares of Company Common Stock are used to satisfy tax withholding, such shares shall be valued based on the fair market value of Company Common Stock when the tax withholding is required to be made in accordance with such uniform rules and procedures as the Committee determines appropriate.

9.5 Restrictions on Benefit: Notwithstanding any provision of this Plan to the contrary, the provisions of any Incentive Plan concerning restrictions on benefits (in order to avoid excise taxes on the Participant under Section 4999 of the Code or the disallowance of a deduction to the Company pursuant to Section 280G of the Code) are specifically incorporated by this reference.

RELIANT RESOURCES, INC.

By: /s/ R.S. LETBETTER

R.S. Letbetter
Chairman, President and CEO

EXHIBIT 10.38

AMENDED AND RESTATED CONSTRUCTION AGENCY AGREEMENT
[_____] FACILITY

DATED AS OF NOVEMBER [ ], 2001

AMONG

RELIANT ENERGY [_____], LLC,
A DELAWARE LIMITED LIABILITY COMPANY, AS AGENT,

[_____] TRUST,
A DELAWARE BUSINESS TRUST, AS OWNER TRUST,

FIRST UNION TRUST COMPANY, NATIONAL ASSOCIATION,
IN ITS INDIVIDUAL CAPACITY, BUT ONLY TO THE EXTENT
EXPRESSLY PROVIDED FOR HEREIN, AS BANK,

APPLE INVESTMENTS 2001 TRUST,
A DELAWARE BUSINESS TRUST, AS OWNER TRUST PARENT,

SALOMON SMITH BARNEY INC.,
AS LEAD ARRANGER AND BOOKRUNNER,

CITICORP USA, INC.,
AS ADMINISTRATIVE AGENT,

WESTDEUTSCHE LANDESBANK GIROZENTRALE,
NEW YORK BRANCH,
AS ISSUING BANK,

ROYAL BANK OF CANADA,
AS ARRANGER AND SYNDICATION AGENT,

ABN AMRO BANK N.V.,
AS ARRANGER AND DOCUMENTATION AGENT,

COMMERZBANK AG, NEW YORK AND GRAND CAYMAN BRANCHES,
AS ARRANGER AND CO-SYNDICATION AGENT,

TORONTO DOMINION (TEXAS) INC.,
AS ARRANGER AND CO-DOCUMENTATION AGENT,

THE FINANCIAL INSTITUTIONS LISTED ON SCHEDULE I,
AS CERTIFICATE PARTICIPANTS,

AND

THE FINANCIAL INSTITUTIONS LISTED ON SCHEDULE I,
AS LENDERS

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AMENDED AND RESTATED CONSTRUCTION AGENCY AGREEMENT

AMENDED AND RESTATED CONSTRUCTION AGENCY AGREEMENT dated as of _____, 2001 (this "Agreement"), among [_____] TRUST, a Delaware business trust (the "Owner Trust"), RELIANT ENERGY [_____], LLC, a Delaware limited liability company (by way of assignment from Reliant Energy Construction, LLC) (the "Agent"), FIRST UNION TRUST COMPANY, NATIONAL ASSOCIATION, a national banking association, in its individual capacity, but only to the extent expressly provided for herein (the "Bank"), and APPLE INVESTMENTS 2001 TRUST, a Delaware business trust (the "Owner Trust Parent"), the banks and other financial institutions from time to time parties hereto as identified on Schedule I hereto as lenders (the "Lenders") and as certificate participants (the "Certificate Participants"), SALOMON SMITH BARNEY INC., a New York corporation, as lead arranger and bookrunner (in such capacity, the "Lead Arranger"), CITICORP USA, INC., a Delaware corporation, as administrative agent for the Lenders (in such capacity, the "Administrative Agent"), WESTDEUTSCHE LANDESBANK GIROZENTRALE, NEW YORK BRANCH, a duly licensed branch of Westdeutsche Landesbank Girozentrale, a public law banking institution organized under the laws of North Rhine Westphalia, Germany, as issuing bank for letters of credit (the "Issuing Bank"), ROYAL BANK OF CANADA, a Canadian chartered bank, as arranger and syndication agent (in such capacity, the "Syndication Agent"), ABN AMRO BANK, N.V., a Netherlands banking corporation acting through its duly licensed Chicago branch, as arranger and documentation agent (in such capacity, the "Documentation Agent"), COMMERZBANK, AG, NEW YORK AND GRAND CAYMAN BRANCHES, the New York and Grand Cayman licensed branches, respectively, of a German banking corporation, as arranger and co-syndication agent (in such capacity, the "Co-Syndication Agent") and TORONTO DOMINION (TEXAS) INC., a Delaware corporation, as arranger and co-documentation agent (in such capacity, the "Co-Documentation Agent").

Preliminary Statement

WHEREAS, Owner Trust is in the business of leasing and providing or arranging lease financing for various equipment and a power generation project, and pursuant to the Construction Agency Agreement dated as of April 27, 2001, as amended by Amendment No. 1 to Construction Agency Agreement dated as of July 25, 2001 and as amended by Amendment No. 1 to Letter of Intent and Amendment No. 2 to Construction Agency Agreements dated October 23, 2001 (as so amended, the "Original Agreement"), among Owner Trust, Agent, Bank, Apple Investments LLC ("Apple LLC"), Apple Equity Capital Trust, a Delaware business trust ("Equity Capital Trust"), the banks and other financial institutions from time to time parties to the Credit Agreement dated as of April 27, 2001, as amended by Amendment No. 1 to Credit Agreement dated as of July 25, 2001 (as so amended, the "Original Credit Agreement"), and Westdeutsche Landesbank Girozentrale, New York Branch, a duly licensed branch of Westdeutsche Landesbank Girozentrale, a public law banking institution organized under the

laws of North Rhine-Westphalia, Germany, as holder of all of the certificates of beneficial interest in Equity Capital Trust (in such capacity, the "Original Certificate Participant"), as the original lender under the Original Credit Agreement (the "Original Lender") and as administrative agent for the Original Lender (in such capacity, the "Original Administrative Agent"), and the documents entered into in connection therewith, acquired the Facility (as hereafter defined) and agreed to finance the construction of the power generation facility to be owned by Owner Trust;

WHEREAS, on July 26, 2001, the Original Lender assigned, transferred and conveyed to each of Citicorp USA, Inc., The Chase Manhattan Bank, Bank of America, N.A., and Royal Bank of Canada (collectively, together with the Original Lender, the "Club Lenders") an interest in and to certain of the Original Lender's rights and obligations under the Original Credit Agreement;

WHEREAS, effective as of the date hereof, Apple LLC, Original Certificate Participant, Equity Capital Trust and certain other persons are entering into the Master Assignment Agreement pursuant to which (i) Apple LLC is assigning, transferring and conveying to the Owner Trust Parent its entire interest in Owner Trust and (ii) the Club Lenders are assigning, transferring and conveying to the Lenders an interest in and to all of the Club Lenders' rights and obligations under the Original Credit Agreement, as amended and restated as of the date hereof;

WHEREAS, subject to the terms and conditions hereof, the parties hereto desire to amend and restate in its entirety the Original Agreement, and pursuant to this Agreement (i) Owner Trust appoints Agent as its sole and exclusive agent in connection with the construction of the Facility and (ii) Agent accepts such appointment in accordance with the terms and conditions set forth herein; and

WHEREAS, the Facility (as hereinafter defined), as constructed, will be the property of Owner Trust;

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

ARTICLE I

DEFINITIONS AND INTERPRETATION

1.1 Interpretation. In this Agreement, unless a clear contrary intention appears:

(a) the singular number includes the plural number and vice versa;

(b) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually;

(c) reference to any gender includes each other gender;

(d) reference to any agreement (including this Agreement), document or instrument means such agreement, document or instrument as amended, supplemented, modified or restated and in effect from time to time in accordance with the terms thereof and, if applicable, the terms of this Agreement and the other Operative Agreements;

(e) reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder and reference to any section or other provision of any Applicable Law means that provision of such Applicable Law from time to time in effect and constituting the substantive amendment, modification, codification, replacement or reenactment of such section or other provision;

(f) reference in this Agreement to any Article, Section, Appendix, Schedule or Exhibit means such Article or Section hereof or Appendix, Schedule or Exhibit hereto;

(g) "hereunder," "hereof," "hereto" and words of similar import shall be deemed references to this Agreement as a whole and not to any particular Article, Section or other provision thereof;

(h) "including" (and with correlative meaning "include") shall be deemed to be followed by the words "without limitation";

(i) relative to the determination of any period of time, "from" means "from and including" and "to" means "to but excluding";

(j) with reference to any time or date specified herein, time is of the essence;

(k) with respect to any rights and obligations of the parties, all such rights and obligations shall be enforced to the extent permitted by Applicable Law;

(l) with respect to any mathematical calculation, the concept of "without duplication," shall be deemed to apply in all instances; and

(m) notwithstanding anything to the contrary contained in this Agreement, and except as provided for in the Intercreditor Agreement, any Operative

Agreement or any other document entered into in connection therewith or herewith, no Authorized Representative, Secured Party or Participant shall be entitled to exercise (or direct or consent to the exercise of) any right or remedy; or amend, modify, supplement or waive any such right, remedy or provision under this Agreement in respect of any representation, warranty, agreement, covenant, default, Agent Default, Agent Event of Default, or Owner Trust Termination Event or other provision contained in this Agreement unless such Person is a Benefited Secured Party or the Authorized Representative of a Benefited Secured Party and such representation, warranty, agreement, covenant, default, Agent Default, Agent Event of Default, or Owner Trust Termination Event or other provision is a Special Provision of such Benefited Secured Party.

1.2 Accounting Terms. In this Agreement, unless expressly otherwise provided, accounting terms shall be construed and interpreted, and accounting determinations and computations shall be made, in accordance with GAAP.

1.3 Legal Representation of the Parties. The Operative Agreements were negotiated by the parties with the benefit of legal representation and any rule of construction or interpretation otherwise requiring the Operative Agreements to be construed or interpreted against any party shall not apply to any construction or interpretation hereof or thereof.

1.4 Defined Terms. Unless a clear contrary intention appears, terms defined herein have the respective indicated meanings when used in this Agreement.

"Actual Knowledge" shall mean, with respect to any Person, actual knowledge of, or receipt of written notice by, an officer (or other employee whose responsibilities include the administration of the Facility or the Operative Agreements, as the case may be) of such Person.

"Additional Costs" shall mean amounts payable by Owner Trust pursuant to Sections 9.2 and 9.3 of the Credit Agreement and Sections 13.03 and 13.04 of the Master Trust Agreement.

"Administrative Agent" shall mean Citicorp USA, Inc., as the administrative agent for the Lenders under the Operative Agreements, or any successor administrative agent appointed in accordance with the terms of the Credit Agreement.

"Advance Payments" shall mean funds advanced to Agent by Owner Trust pursuant to the Budget (a) to make payment to third parties or (b) as reimbursement for Agent's or any of Agent's Affiliates' costs and expenses incurred or accrued in connection with Agent's Required Actions, including payments to Contractors under the Construction Contracts, not less frequently than is customary for the construction of a power generation plant in the power generation industry or otherwise in a timely manner.

"Affiliates" shall mean, when used with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"After Tax Basis" shall mean, with respect to any payment to be received, on a basis such that such payment received shall be supplemented by a further payment or payments to the recipient so that the sum of all such payments shall, after deduction for the net increase in all Taxes (taking into account all reductions in Taxes attributable to credits and deductions resulting from the Impositions or Claims for which payments are being made, as determined in good faith by such recipient) resulting from the receipt (actual or constructive) or accrual of such payments, be equal to the payment otherwise required to be made.

"Agent" shall have the meaning assigned to such term in the opening paragraph.

"Agent Default" shall mean any event or condition which, with the lapse of time or the giving of notice, or both, would constitute an Agent Event of Default.

"Agent Event of Default" shall have the meaning set forth in Section 8.1.

"Aggregate Lenders' Commitment" shall mean $756,600,000.

"Aggregate Owner Trust's Commitment" shall mean $780,000,000.

"Aggregate Owner Trust's Contribution Commitment" shall mean $23,400,000.

"Agreement" shall mean this Amended and Restated Construction Agency Agreement.

"Allowance for Owner Trust's Cost of Financing" shall mean the amount of allowance for Owner Trust's actual cost of financing (interest, fees, Letter of Credit costs and the like) as set forth in the Budget line item so labeled (but excluding Owner Trust Yield).

"Apple LLC" shall have the meaning set forth in the first recital to this Agreement.

"Applicable Laws" shall mean, as to any Person, all existing and future laws (including all Environmental Laws), rules, regulations, statutes, treaties, codes, ordinances, permits, certificates, orders, decrees, rulings, directives, binding judgments, injunctions, writs, determinations, awards, permits, licenses and concessions of and interpretations by, any Governmental Authorities having the force of law, as the same may be issued or promulgated from time to time, which are applicable to (a) such Person with respect to the ownership and/or operation of the Property or the transactions contemplated by this Agreement and the other Operative Agreements or (b) the Property or any part thereof, or the ownership, acquisition,

financing, installation, construction, operation, mortgaging, occupancy, possession, use, non-use or condition of the Property or any part thereof.

"Applicable Payee" shall have the meaning set forth in, as applicable, Section 12.3(a) or 13.3(a).

"Applicable Payor" shall have the meaning set forth in, as applicable, Section 12.3(a) or 13.3(a).

"Appraisal" shall mean a valuation of the Property which is prepared in a manner consistent with the appraisal accepted by the Administrative Agent under Section 7.5(f) and is otherwise reasonably satisfactory in scope and content to the Administrative Agent.

"Appraiser" shall mean American Appraisal Associates, Inc. or any other appraiser selected by Administrative Agent and consented to by Agent, such consent not to be unreasonably withheld.

"Appurtenant Rights" shall mean (i) all agreements, easements, rights of way or use, rights of ingress or egress, privileges, appurtenances, tenements, hereditaments and other rights and benefits at any time belonging or pertaining to the Land or the Improvements, including the use of any streets, ways, alleys, vaults or strips of land adjoining, abutting, adjacent or contiguous to the Land and (ii) all permits, licenses and rights, whether or not of record, appurtenant to the Land.

"Assignment and Acceptance" shall mean an assignment and acceptance entered into by Owner Trust and an Owner Trust Eligible Assignee in connection with any assignment by Owner Trust of any of its rights and obligations under this Agreement pursuant to Sections 15.3(c) and (d), in a form consistent with the provisions of Sections 15.3(c) and (d) and otherwise mutually agreed upon by Owner Trust and the Owner Trust Eligible Assignee and reasonably satisfactory to the Administrative Agent.

"Asset Purchase" shall have the meaning set forth in Section 10.1(a).

"Authorized Representative" shall have the meaning set forth in the Intercreditor Agreement.

"Auxiliary Equipment" shall mean all auxiliary equipment to be affixed to, associated with or necessary for the operation of the Facility.

"Available Aggregate Owner Trust's Commitment" shall mean an amount equal to the excess, if any, of (a) the amount of the Aggregate Owner Trust's Commitment, less (b) the Outstanding Balance.

"Bank" shall mean First Union Trust Company, National Association acting hereunder in its individual capacity and its successors and assigns as Master Owner Trustee under the Master Trust Agreement or as Owner Trustee under any Trust Agreement.

"Base Rate" shall have the meaning set forth in the Credit Agreement or any other Financing Document, as applicable.

"Benefited Secured Party" has the meaning assigned to such term in the Intercreditor Agreement.

"Bond Balance" shall mean, at any time, the aggregate principal amount of any Bonds outstanding.

"Bond Closing Date" shall mean, with respect to each series of Bonds, the date on which the Bond Documents related thereto are executed.

"Bond Documents" shall mean the Loan Agreement or participation or installment payment agreement or lease, the Bond Trust Indenture, the Tender Agent Agreement, the Bonds and any similar documents that may be entered into from time to time in connection with the issuance of a series of Bonds.

"Bond Fees" shall mean the fees of Bond Trustee and any other fees provided for in the Bond Documents other than the Bond Underwriting Fees (to the extent it is customary for Bond Underwriting Fees to be deducted from such fees).

"Bond Proceeds" shall mean the proceeds of any Bonds, net of any Bond Underwriting Fees (to the extent it is customary for such fees to be deducted from such fees).

"Bond Trustee" shall mean Chase Manhattan Trust Company, National Association or any other Person, in its capacity as Bond Trustee under a Bond Trust Indenture.

"Bond Trust Indenture" shall mean the Trust Indenture, dated as of the Bond Closing Date, from PEDFA to Bond Trustee or any other indenture providing for the issuance of Bonds.

"Bond Underwriting Fees" shall mean the fees, charges and expenses incurred in connection with the authorization, sale, issuance and delivery of a series of Bonds; including bond discount, printing expense, title insurance, recording fees, and initial fees and expenses of the Bond Trustee, PEDFA, Indiana County Industrial Development Authority, the Issuing Bank and the Bond remarketing agent, subject to the limitations of the Loan Agreement or any similar agreement in connection with any series of Bonds.

"Bondholders" shall mean beneficial owners of Bonds.

"Bonds" shall mean one or more series of (i) PEDFA's Exempt Facilities Revenue Bonds (Reliant Energy [_____], LLC Facility) in the aggregate principal amount of up to $400,000,000 issued pursuant to the Bond Trust Indenture relating thereto or (ii) any other Securities or Tax-Exempt Bonds, both as defined in the Intercreditor Agreement.

"Borrowers" shall mean any Person owning a Facility or Replacement Facility, each in its capacity as a Borrower under a Financing Document.

"Budget" shall mean the budget attached hereto as Exhibit A and, to the extent amended in accordance with the provisions of Section 3.3, such budget as so amended.

"Business Day" shall mean (a) any day of the year except Saturday, Sunday and any day on which banks are required or authorized to close in New York City or Houston, Texas and (b) if the applicable Business Day relates to any Payments as to which the Financing Costs or Owner Trust Yield are based on a LIBO Rate, any day which is a "Business Day" described in clause (a) and which is also a day for trading in Dollar deposits by and between commercial banks in the London interbank market.

"CAA Termination Date" shall mean the earliest to occur of (i) the Maturity Date, (ii) the closing date with respect to the exercise by Agent (or a Designee) of the Purchase Option for the Property, (iii) the closing date with respect to the exercise by Agent (or a Designee) of the Lease Option for the Property, and (iv) the closing date with respect to the Remarketing Requirement for the Property.

"Cancellation Premium" shall mean, at any time, with respect to any Construction Contract, the amount, if any (whether denominated as a cancellation fee, penalty, liquidated damages or otherwise), that is required to be paid to the Seller or EPC Contractor thereunder in excess of all purchase price payments made prior to the date of such cancellation under the Construction Contracts that have been or are being cancelled by Owner Trust on such date.

"Cash Collateral Date" shall mean the third anniversary date of the Closing Date.

"Casualty" shall mean any damage to or destruction of all or any portion of the Facility as a result of a fire, earthquake, vandalism, explosion, collision, storm, lightning, or other similar event including the Release of Hazardous Substances.

"Certificate Participants" shall mean the several banks and financial institutions, or other Equity Eligible Assignees, from time to time holders of beneficial interests in Owner Trust Parent.

"[_____] CAA" shall mean the Amended and Restated Construction Agency Agreement dated as of the Closing Date among Reliant Energy [_____] County, LLC, [_____] County Trust, Bank, Owner Trust Parent, the Certificate Participants, the Lender Agents and the Lenders.

"[_____] County Trust" shall mean [_____] County Trust, a Delaware business trust.

"[_____] Facility" shall mean the "Facility" as defined in the [_____] CAA.

"Citibank" shall mean Citibank, N.A.

"Claims" shall mean any and all actions, causes of action, suits, fines, penalties, claims, demands, liabilities, losses, and reasonable out-of-pocket costs and expenses (including reasonable attorneys' and, with consent of Agent unless an Agent Event of Default or an Owner Trust Termination Event has occurred and is continuing, consultants' fees and expenses) of any nature whatsoever (but excluding, in any event, Taxes).

"Closing Date" shall mean November , 2001.

"Club Lenders" shall have the meaning set forth in the second recital to this Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated or issued from time to time thereunder.

"Co-Documentation Agent" shall mean Toronto Dominion (Texas) Inc., a Delaware corporation, as the co-documentation agent or any successor co-documentation agent for the Lenders under the Credit Agreement.

"Collateral Agent" shall mean the entity acting in such capacity from time to time under the Intercreditor Agreement.

"Collateral Agreement" shall mean a Collateral Agreement among Agent, the Collateral Agent and Deposit Bank (in a form acceptable to Agent, Lessee, Owner Trust, Administrative Agent and other Authorized Representatives of the applicable Secured Parties), providing for the deposit of Deposit Account Collateral by Agent with Deposit Bank, for the benefit of Lenders, Certificate Participants and other applicable Secured Parties subject to a collateral deposit requirement pursuant to Section 5.1(e) naming Collateral Agent and such other applicable Authorized Representatives as the beneficiary, for the benefit of such Secured Parties and any other party having rights therein pursuant to the terms of the Intercreditor Agreement.

"Collateral Assignment of Lessee Mortgage" shall mean a collateral assignment of the Lessee Mortgage from Owner Trust to Collateral Agent, for the benefit of the Secured Parties.

"Commitment Fee" shall have the meaning set forth in Section 5.3(a).

"Commitments" shall mean, collectively, the Lenders' Commitment and any commitment of any Person to fund under a Financing Document.

"Complete," "Completion" or "Completed" shall mean, with respect to the Facility, such time as the Facility shall have been completed as provided in Section 4.4. The term "Complete" used as a verb shall have a correlative meaning.

"Completion Date" shall mean, with respect to the Facility, the date on which Completion has occurred.

"Condemnation" shall mean any taking or sale of the use, access, occupancy, easement rights or title to the Facility or any part thereof, wholly or partially (temporarily or permanently), by or on account of any actual eminent domain or expropriation proceeding or other taking of action by any Person having the power of eminent domain or expropriation in the exercise of such power, including an action by a Governmental Authority to change the grade of, or widen the streets adjacent to, the Facility, or alter the pedestrian or vehicular traffic flow to the Facility so as to result in a change in access to the Facility, or by or on account of an eviction by paramount title or any transfer made in lieu of any such proceeding or action.

"Construction Contracts" shall mean the EPC Contract and the Purchase Agreements.

"Construction Period" shall mean, with respect to the Facility, the period commencing on the date on which such construction of the Facility begins and ending on the earlier to occur of (a) the Completion Date and (b) the Outside Completion Date.

"Contest" shall mean, with respect to (a) any Liens arising by operation of law, materialmen's, mechanics', workmen's, repairmen's, employees', carriers', warehousemen's and other like Liens or other Claims (each, a "Subject Claim") or any Applicable Law affecting any Person or its property, a contest of the amount, validity or application, in whole or in part, of such Subject Claim or Applicable Law pursued in good faith and by appropriate legal, administrative or other proceedings diligently conducted so long as: (i) adequate reserves have been established with respect to such Subject Claim or Applicable Law, as the case may be, in accordance with GAAP, (ii) during the period of such Contest the enforcement of such Subject Claim or Applicable Law, as the case may be, is effectively stayed, (iii) such contest, in the case of Applicable Law, does not involve any material risk of (A) foreclosure, sale, forfeiture or loss of, or imposition of any material Lien on, the Facility or any part thereof, or (B) the impairment of the ownership, use, operation or maintenance of the Facility or any part thereof, and (iv) during the period of such Contest there shall be no risk of the imposition of criminal liability or civil penalties or fines (that in the case of such civil penalties or fines are not fully indemnifiable by Agent) on the Secured Parties and (b) any Taxes or any Lien imposed on

property of any Person (or the related underlying claim for labor, material, supplies or services) by any Governmental Authority for Taxes, a contest conducted in accordance with the provisions of Section 12.3(k). The term "Contest" used as a verb shall have a correlative meaning.

"Continue," "Continuation" and "Continued" each refer to a continuation of Payments of one Type as such Type.

"Contractors" shall mean the EPC Contractor and Sellers.

"Control" shall mean (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, the ability of another Person (whether directly or indirectly and whether by the ownership of voting securities, contract or otherwise) to appoint and/or remove the majority of the members of the board of directors or other governing body of that Person.

"Corporate Rating" shall mean the rating assigned by a Rating Agency (whether indicative or formal) to Guarantor as its corporate or counterparty ratings, as applicable.

"Co-Syndication Agent" shall mean Commerzbank AG, New York and Grand Cayman branches, as the co-syndication agent for the Lenders under the Credit Agreement.

"Credit Agreement" shall mean the Amended and Restated Credit Agreement dated as of the Closing Date among the Borrowers, the Lender Agents, the Lenders, the Bank and the Issuing Bank.

"Debt Funding" shall mean any funding of a Payment made or to be made with the proceeds of any Lease Indebtedness.

"Deposit Account Collateral" shall mean United States Treasury securities having a maturity of 90 days or less, cash or such other forms of collateral as may be mutually acceptable to Owner Trust, all of the applicable Secured Parties who benefit from a collateral deposit requirement in accordance with Section 5.1(e), Administrative Agent, Collateral Agent and Agent, which Deposit Account Collateral, if required, shall be deposited with Deposit Bank in accordance with a Collateral Agreement executed and delivered by Agent, to and in respect of which Agent shall have delivered or caused to be delivered to Owner Trust such Uniform Commercial Code financing statements as Owner Trust shall request and one or more opinions of counsel to Agent, reasonably acceptable to Owner Trust, opining as to the enforceability of the Collateral Agreement, the perfection of a valid first priority security interest in such collateral and such other matters concerning the foregoing as Owner Trust shall reasonably request.

"Deposit Bank" shall mean a bank or other financial institution (which is not Administrative Agent or any Secured Party) that is reasonably acceptable to Agent, Administrative Agent, Collateral Agent and Owner Trust.

"Deposit Payment" shall have the meaning set forth in Section 11.2.

"Designee" shall mean any Person to which Agent assigns a Purchase Option pursuant to Section 10.1(c).

"Direct Payments" shall mean: (i) all payments actually made, incurred or accrued directly by Owner Trust to third parties other than the Secured Parties pursuant to the Budget, and (ii) all payments actually made, incurred or accrued directly by Owner Trust to third parties as a Non-Budget Amount for the Completion of the Facility, including (A) payments made by Owner Trust to third parties for indemnification claims, additional taxes, penalties, cancellation fees, Financing Costs and additional costs borne by Owner Trust contemplated as a contingency item in the Budget, and (B) payment of a Non-Budget Amount.

"Disbursement Request" shall mean a disbursement request issued by Agent to a Bond Trustee pursuant to the applicable Loan Agreement.

"Documentation Agent" shall mean ABN AMRO Bank N.V., as the documentation agent for the Lenders under the Credit Agreement.

"Dollars" and "$" means lawful money of the United States of America.

"Environmental Action" shall mean any administrative, regulatory or judicial action, suit, demand, demand letter, claim, notice of noncompliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement arising under any Environmental Law or arising from alleged injury or threat of injury to human health, safety, natural resources, land use or the environment in connection with or arising from exposure to or the actual or potential Release of Hazardous Substances, including, without limitation, (a) by any Governmental Authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any Governmental Authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Audit" shall mean a Phase I environmental site assessment (the scope and performance of which meets or exceeds the current ASTM Standard Practice E1527 for Environmental Site Assessments: Phase I Environmental Site Assessment Process) prepared for the Facility and/or a Phase II environmental site assessment (the scope and performance of which meets or exceeds the current ASTM Standard Practice E1903 for Environmental Site Assessments: Phase II Environmental Site Assessment Process) prepared for the Facility (if recommended by the environmental consultant who prepared the Phase I environmental site assessment).

"Environmental Law" shall mean all existing and future federal, state, regional, county or local law (as well as obligations, duties, and requirements under common law), statute, ordinance, code, rule, regulation, license, permit, authorization, approval, covenant,

administrative or court order, judgment, decree or injunction or any agreement with a Governmental Authority applicable to the ownership and/or operation of the Property and the transactions contemplated by this Agreement:

(x) relating to Hazardous Substances or materials containing Hazardous Substances (or the investigation, cleanup, removal, remediation or encapsulation thereof, or any other response thereto), or the regulation or protection of human health, safety (including work place safety), natural resources, land use, or the environment, including air, water vapor, surface water, groundwater, drinking water, land (including surface or subsurface), plant, aquatic and animal life, or

(y) concerning exposure to, or injury or damage caused by, or the use, containment, storage, recycling, treatment, generation, discharge, emission, Release or threatened Release, transportation, processing, handling, labeling, production, disposal or remediation of any Hazardous Substance, Hazardous Condition or Hazardous Activity.

"Environmental Violation" shall mean any activity, occurrence or condition that violates or results in noncompliance with any Environmental Law or Governmental Action pursuant to an Environmental Law.

"EPC Contract" shall mean the Agreement for Engineering, Procurement and Construction, dated as of January 17, 2001, between WestLB and the EPC Contractor for engineering, procurement and construction (including installation of Turbines) of the Facility, as assigned to, and accepted by, the Owner Trust pursuant to the Purchase Option Assignment and Assumption Agreement, effective as of May 23, 2001 among REPG, the Owner Trust and WestLB, and as amended by the First Amendment, dated as of July 5, 2001.

"EPC Contractor" shall mean the consortium formed by Duke/Fluor Daniel and Alstom Power Inc., as the contractor who entered into the EPC Contract.

"Equipment" shall have the meaning set forth in the Security Agreement.

"Equity Capital Trust" shall have the meaning set forth in the first recital to this Agreement.

"Equity Eligible Assignees" shall have the meaning set forth in Section 16.08 of the Master Trust Agreement.

"Event of Loss" shall mean any of the following events: (a) loss of all or a substantial portion of the Facility or the use thereof due to destruction, damage beyond economical repair or rendition of the Facility permanently unfit for the Intended Use contemplated by the Plans and Specifications on a commercially feasible basis; (b) any event which results in the receipt of Net Available Proceeds with respect to the Facility on the basis of

a total loss or taking or constructive total loss or taking and Agent fails to demonstrate to the reasonable satisfaction of Owner Trust and Administrative Agent that the restoration thereof can reasonably be expected to be completed within the limits of the Budget (taking into account Net Available Proceeds) so that the Facility will be completed on or before the Completion Date; (c) a Condemnation for an indefinite period or a period in excess of 180 days by any Governmental Authority which constitutes the taking of all or a substantial portion of the Facility such that the remainder is not sufficient to permit operation of the Facility on a commercially feasible basis, the occurrence of such events to be confirmed by the Independent Engineer unless Agent, Administrative Agent and Owner Trust shall otherwise agree; and (d) the incurrence of a Material Environmental Liability. A loss of a "substantial portion" of the Facility shall be deemed to occur if, in the judgment of Owner Trust and Administrative Agent, based on the advice of the Independent Engineer after such event, (i) Agent or Lessee will not be able to fully perform in all material respects its obligations under this Agreement, the Lease, the other Operative Agreements to which it is a party or (ii) a material diminution in the Value of the Facility will occur. A material diminution in the Value of the Facility shall mean 80% of the Value as of the Completion Date as determined by the appraisal described in Section 7.5(f).

"Existing [_____] Facility" shall mean the existing coal-fired power plant currently owned by Reliant Mid-Atlantic Power Holdings, LLC and located on the Land.

"Facility" means the Land and the Improvements and Equipment constructed thereon (including all related appliances, Appurtenances, accessions, controls, interconnection facilities, transmission lines, wiring, furnishings, materials and parts and other related facilities and equipment, along with any replacements) pursuant to the EPC Contract (or any other construction contracts entered into by the Lessor or the Lessee) and the Construction Agency Agreement, and all associated contracts, rights and assets, which constitutes under the Plans and Specifications is contemplated to be a 521 MW (net) electrical generating facility and related facilities located in East Wheatfield and West Wheatfield Townships, Indiana County and Westmoreland County, Pennsylvania, excluding the Existing [_____] Facility, but including certain Shared Facilities.

"Fee Payment Date" shall mean the last day of each March, June, September, and December, and the CAA Termination Date; provided, however, that if such day is not a Business Day, such Fee Payment Date will be the next Business Day.

"Final Project Costs" shall mean the Outstanding Balance computed as of the Completion Date after giving effect to any Payments made hereunder in connection with the Completion of the Facility (less amounts funded for punch list items that are not expended for such purpose and applied to repayment of the Lease Indebtedness and Owner Trust Contributions).

"Financier Documents" shall have the meaning set forth in Section 16.5(a).

"Financing Costs" shall mean interest due on the Loans, the Bond Balance (including reimbursement obligations in respect of drawings under a Letter of Credit to pay interest on the Bond Balance) and other Lease Indebtedness, in each case as calculated in accordance with the applicable Financing Documents including adjustments to such rates, if any, upon the occurrence of an event of default.

"Financing Documents" shall have the meaning set forth in the Intercreditor Agreement.

"Fixtures" shall mean all fixtures paid for by Owner Trust relating to the buildings or the other Improvements, including all components thereof, located in or on the buildings or the other Improvements, together with all replacements, modifications, alterations and additions thereto.

"Force Majeure Event" shall mean any event beyond the control of Agent, other than a Casualty or Condemnation, including strikes, lockouts, acts of God, adverse weather conditions, inability to obtain labor or materials, governmental activities, civil commotion, war and enemy action and delays in obtaining necessary permits and approvals from any Governmental Authority, including any event or condition that is characterized or defined as a force majeure or force majeure event in any Construction Contract, in each case as determined by the Agent in its reasonable discretion by written notice to the Administrative Agent delivered after the occurrence of the relevant event; but an event shall not be considered to have been beyond the control of Agent if such event (x) could have been avoided by exercising that standard of foresight, care and due diligence that an experienced developer of power generation facilities would exercise under the circumstances or (y) could have been avoided through the commercially reasonable expenditure of funds by Agent from the proceeds of Payments.

"Funded Budget Amount" shall mean at any time the excess of (a) the sum of (i) the aggregate of all Payments made by Owner Trust included in or contemplated by Part A of the Budget as amended in accordance with this Agreement plus (ii) funds on deposit in the Project Fund before any application referred to in clause (b)(i) of this definition, plus (iii) the Bond Underwriting Fees, plus (iv) all Financing Costs and other fees and expenses that are included in Part A of the Budget that are accrued and unpaid as of the date on which payment of the Deposit Payment or the Termination Amount, as the case may be, is due and payable, over (b) the sum of (i) funds on deposit in the Project Fund that are available for application to the Bonds, the Letter of Credit Obligations and Loans and, in the case of the calculation of the Deposit Payment or the Termination Amount, have been actually applied for such purpose, plus (ii) any amounts received by Owner Trust and allocable to such Payments upon consummation of the Purchase Option; provided, however, that in the event this Agreement is terminated prior to the expiration of its Term, the Funded Budget Amount shall be increased to include all Cancellation Premiums and all other actual or reasonably anticipated wind-up costs incurred by Owner Trust (including amounts reimbursable to Agent for items under the Budget incurred by Agent but not yet paid with respect to the Facility) in connection with the Facility.

"Funded Non-Budget Amount" shall mean at any time the aggregate of all Non-Budget Amounts funded by Owner Trust pursuant to Part B of the Budget minus any amounts received by Owner Trust and allocable to such Payments upon consummation of the Purchase Option.

"GAAP" shall mean United States generally accepted accounting principles, in effect from time to time.

"Good Faith" or good faith shall mean a party hereto conducting itself reasonably and in good faith under the circumstances.

"Governmental Action" shall mean all permits, authorizations, registrations, consents, approvals, waivers, exceptions, variances, orders, judgments, decrees, licenses, exemptions, legally enforceable notices to and declarations of or with, or required by, any Governmental Authority which are applicable to Agent or to Owner Trust with respect to the transactions contemplated by this Agreement and the other Operative Agreements, or required by any Applicable Laws.

"Governmental Authority" shall mean any United States, foreign, state, county, regional, municipal or other local governmental authority or judicial or regulatory agency, board, body, commission, instrumentality, public registry, court or quasi-governmental authority, in each case having jurisdiction over the Property or the applicable party to the Operative Agreements, except that with respect to Tax indemnification obligations and Impositions, the term "Governmental Authority" shall not include any authority of a jurisdiction outside of the United States of America.

"GPU" shall mean GPU, Inc., a Pennsylvania corporation.

"Ground Lease" shall mean, with respect to the Land, a Ground Lease, dated as of the Closing Date, by and between Ground Lessor, as lessor and Owner Trust, as lessee (and any memorandum thereof) in form and substance reasonably satisfactory to Owner Trust and Administrative Agent.

"Ground Lessor" shall mean Reliant Energy [_____], LLC, a Delaware limited liability company.

"Guarantor" shall mean Reliant Resources, Inc., a Delaware corporation.

"Guaranty" shall mean that certain Amended and Restated Guaranty, dated as of the Closing Date, executed by Guarantor in favor of the beneficiary as described therein.

"Guaranty Default" shall mean any event or condition that, but for notice or lapse of time, would be a Guaranty Event of Default.

"Guaranty Event of Default" shall have the meaning set forth in the Guaranty.

"Hazardous Activity" shall mean any activity, process, procedure or undertaking that directly or indirectly (i) produces, generates or creates any Hazardous Substance, (ii) causes or results in the Release of any Hazardous Substance into the environment, including air, water vapor, surface water, groundwater, drinking water, land (including surface or subsurface), plant, aquatic and animal life, (iii) involves the containment, transport, handling, treatment, storage or disposal of any Hazardous Substance, or (iv) would be regulated as hazardous waste treatment, storage or disposal within the meaning of any Environmental Law.

"Hazardous Condition" shall mean any condition that violates or that results in noncompliance with, or a duty to report, investigate or remediate under any Environmental Law.

"Hazardous Substance" shall mean any of the following: (i) any petroleum or petroleum product, explosives, radioactive materials, asbestos, formaldehyde, polychlorinated biphenyls, lead and radon gas; or (ii) any substance, contaminant, material, product, derivative, compound or mixture, mineral, chemical, waste, gas, medical waste or pollutant that is regulated, or the use, storage, treatment, Release, transportation or handling of which is regulated, under any Environmental Law.

"[_____] CAA" shall mean the Amended and Restated Construction Agency Agreement dated as of the Closing Date among Reliant Energy [_____], LLC, [_____] Trust, Bank, Owner Trust Parent, the Certificate Participants, the Lender Agents and the Lenders.

"[_____] Facility" shall mean the "Facility" as defined in the [_____] CAA.

"[_____] Trust" shall mean [_____] Trust, a Delaware business trust.

"Impositions" shall have the meaning set forth in Section 12.3(d).

"Improvements" shall mean all buildings, structures, Fixtures, Equipment, and other improvements of every kind existing at any time and from time to time on or under the Land paid for or otherwise purchased with amounts advanced by Lessor, together with any and all appurtenances on the Land, to such buildings, structures or improvements, including sidewalks, utility pipes, conduits and lines, parking areas and roadways, and including all additions to or changes in such Improvements at any time located on the Land, including any Shared Facilities, but excluding the Existing [_____] Facility.

"Indemnified Person" shall mean Owner Trust and its successors and assigns.

"Independent Engineer" shall mean a licensed engineer of national standing selected by Administrative Agent with consent of Agent, such consent not to be unreasonably withheld.

"Initial Turbine" shall mean the Alstom STG turbine being manufactured by Alstom Power, Inc. pursuant to the EPC Contract.

"Insurance Requirements" shall mean, as applicable, insurance meeting the requirement of Article VI, on terms and conditions of any insurance policy required by this Agreement, and all requirements of the issuer of any such policy.

"Intended Use" shall mean a coal-fired generation facility.

"Intercreditor Accession Agreement" shall mean any Intercreditor Accession Agreement executed and delivered pursuant to Section 17 of the Intercreditor Agreement.

"Intercreditor Agreement" shall mean the Collateral Agency and Intercreditor Agreement, dated as of the Closing Date among [_____] Trust, as a Borrower, [_____] Trust, as a Borrower, Signal Peak Trust, as a Borrower, [_____] County Trust, as a Borrower, Citicorp USA, Inc., as Lender Agent, Citibank N.A., as Collateral Agent, and certain other Secured Parties and authorized representatives.

"Interest Period" shall, as applicable, have the meaning set forth in the Credit Agreement or in any other Financing Document.

"Investment Grade Corporate Rating" shall mean a Corporate Rating of at least BBB- (or equivalent) from each Rating Agency that at the date of determination has issued a Corporate Rating for Guarantor.

"Issuer" shall mean the issuer of a series of Bonds, including PEDFA.

"Issuing Bank" shall mean WestLB or another Lender issuing a Letter of Credit or any entity issuing a Replacement Letter of Credit.

"Issuing Bank Fronting Fee" shall have the meaning set forth in Section 5.3(b).

"Land" shall mean the parcel of land described on Schedule II hereto and all Appurtenant Rights thereto.

"Lead Arranger" shall mean Salomon Smith Barney Inc., as the lead arranger and bookrunner for the Lenders under the Credit Agreement.

"Lease" shall mean the applicable lease agreement between a lessor and the respective lessee for each Facility as contemplated by Section 10.2.

"Lease Commencement Date" shall have the meaning set forth in Section 10.2(c).

"Lease Event of Default" shall mean a Lease Event of Default as defined in the Lease.

"Lease Indebtedness" shall have the meaning set forth in the Intercreditor Agreement.

"Lease Option" shall have the meaning set forth in Section 10.2.

"Lender Agents" shall mean the Lead Arranger, the Administrative Agent, the Documentation Agent, the Syndication Agent, the Co-Syndication Agent, the Co-Documentation Agent and the Issuing Bank, collectively.

"Lender Eligible Assignee" shall have the meaning set forth in the Credit Agreement.

"Lender Financing Statements" shall mean UCC financing statements appropriately completed and executed by Owner Trust for filing in the appropriate state and county offices in Delaware, Texas and Pennsylvania, and such other offices as may be reasonably requested by Administrative Agent, in favor of the Collateral Agent for the benefit of the Participants.

"Lenders" shall mean the several banks and other financial institutions, or other Lender Eligible Assignees, from time to time lenders under the Credit Agreement.

"Lenders' Commitments" shall mean the Tranche A Commitments and the Tranche B Commitments.

"Lessee" shall have the meaning set forth in the Lease.

"Lessee Mortgage" shall mean, with respect to the Facility, a mortgage made by Agent in favor of or, for the benefit of, Owner Trust in form and substance reasonably satisfactory to Administrative Agent, Owner Trust and Agent, to be entered into on the Closing Date.

"Lessor Indemnified Person" shall mean the Administrative Agent, the Collateral Agent, the Certificate Participants, Owner Trust Parent, the Master Owner Trustee, any co-trustee, each Owner Trustee, each other Lender Agent, the Issuing Bank, and each Lender, together with all successors, assigns, officers, directors, agents, employees and Affiliates of the Administrative Agent, each other Lender Agent, the Issuing Bank and each Lender.

"Lessor Mortgage" shall mean, with respect to the Facility, a mortgage made by Owner Trust in favor of, or for the benefit of Collateral Agent in form and substance reasonably satisfactory to Administrative Agent and Owner Trust, to be entered into on the Closing Date.

"Letter of Credit" shall mean an irrevocable direct pay letter of credit or similar instrument, in a form mutually agreed among Owner Trust, Administrative Agent, Agent and Issuing Bank, which is issued by the Issuing Bank pursuant to the Credit Agreement, as the same may be increased, reinstated or extended pursuant to the Credit Agreement for the account of Owner Trust. The term "Letter of Credit" shall include any Replacement Letter of Credit issued by the applicable issuing bank pursuant to any other Financing Document.

"Letter of Credit Application" shall mean an application, in such form as an Issuing Bank, Owner Trust and Agent may agree from time to time, requesting such Issuing Bank to issue or maintain a Letter of Credit.

"Letter of Credit Commitments" shall have the meaning set forth in the Credit Agreement (or in the case of a Replacement Letter of Credit, the applicable other Financing Document).

"Letter of Credit Fee" shall have the same meaning set forth in Section 5.3(b).

"Letter of Credit Obligations" shall have the meaning set forth in the Credit Agreement (or in the case of a Replacement Letter of Credit, the applicable other Financing Document).

"Letter of Credit Participants" shall have the meaning set forth in the Credit Agreement (or in the case of a Replacement Letter of Credit, the applicable other Financing Document).

"LIBO Rate" shall have the meaning set forth in the Credit Agreement or in any other Financing Document, as applicable.

"Lien" shall mean any mortgage, deed of trust, lien, mechanics lien, pledge, encumbrance, charge or security interest to secure creditors against loss, including the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement.

"Loan(s)" shall have the meaning set forth in Section 2.1(c) of the Credit Agreement.

"Loan Agreement" shall mean (a) the Loan Agreement, dated as of the applicable Bond Closing Date, between PEDFA and Owner Trust or (b) any other loan agreement entered into in connection with a series of Bonds.

"Marketing Period" shall mean each period commencing upon Owner Trust's election to exercise the Remarketing Requirement pursuant to Section 11.1 and ending (i) sixty (60) days thereafter or (ii) at the option of Owner Trust such longer period as Owner Trust may determine but in no event beyond the Maturity Date.

"Master Assignment Agreement" shall mean the Master Assignment Agreement dated as of the Closing Date between [_____] Trust, [_____] Trust, [_____] County Trust, WestLB, Citicorp USA, Inc., Apple Investments LLC, Apple Investments 2001 Trust, Apple Equity Capital Trust.

"Master Owner Trustee" shall mean First Union in its capacity as trustee for the Owner Trust Parent.

"Master Trust Agreement" shall mean the Master Trust Agreement, dated as of the Closing Date, among the Bank, the Borrowers, the Administrative Agent and the Certificate Participants, Master Owner Trustee, Administrative Agent, and each Owner Trust.

"Material Adverse Effect" shall mean a material adverse effect on any of (i) the ability of Agent and Guarantor, taken as a whole, to perform any of its obligations under this Agreement or any other Operative Agreement to which either of them is a party on a timely basis, (ii) any material rights of or benefits available to Collateral Agent, Owner Trust or any Secured Parties, (iii) the Value, condition or operation of the Facility or (iv) the validity or enforceability of any Operative Agreement.

"Material Environmental Liability" shall mean, with respect to the Facility, any Environmental Actions, Environmental Violations or other liabilities pursuant to an Environmental Law, including with respect to Hazardous Conditions, which either individually or in the aggregate would be reasonably likely to result in financial liabilities on the parties hereto that in the aggregate (without duplication) are likely to exceed $10,000,000 (or $20,000,000 at any time that Guarantor has an Investment Grade Corporate Rating).

"Maturity Date" shall mean December 31, 2004.

"Memorandum of Lease" shall mean a memorandum of the Lease in recordable form, in form and substance satisfactory to Administrative Agent and Owner Trust.

"Minimum Collateral Value" shall mean, at any time, an amount equal to 103% of the sum of (a) Outstanding Balance (unless such Secured Obligations and related Financing Costs and Owner Trust Yield, as the case may be, are not entitled to cash collateral pursuant to their applicable Financing Documents) plus (b) the aggregate Cancellation Premiums for all Construction Contracts, minus (c) the Uncollateralized Amount. The Minimum Collateral Value shall never be less than zero.

"Moody's" shall mean Moody's Investors Service, Inc.

"Net Available Proceeds" shall mean, with respect to the Facility, any Condemnation or Casualty, any insurance proceeds, condemnation awards or other compensation, awards, damages, liquidated damages and other payments or relief (including any compensation payable in connection with a taking) received by Collateral Agent, Agent or Owner Trust from its property interest in the Facility in respect thereof, net of reasonable expenses incurred in connection with the collection thereof.

"Non-Budget Amounts" shall have the meaning set forth in Section 3.4.

"Notes" shall mean any note issued pursuant to the Credit Agreement and any other Financing Document.

"Operative Agreements" shall mean:

(a) this Agreement;

(b) the Guaranty;

(c) the Credit Agreement;

(d) any Notes;

(e) the Security Agreement;

(f) the Letters of Credit;

(g) any Collateral Agreement;

(h) the Lessor Mortgage;

(i) the Lessee Mortgage;

(j) the Collateral Assignment of Lessee Mortgage;

(k) the EPC Contract;

(l) the Purchase Agreements;

(m) the Purchase Option Assignments;

(n) the Services Agreement;

(o) the Trust Agreement;

(p) the Master Trust Agreement;

(q) the Ground Lease;

(r) the Lease; and

(s) the Intercreditor Agreement.

"Original Agreement" shall have the meaning set forth in the first recital to this Agreement.

"Original Certificate Participant" shall have the meaning set forth in the first recital to this Agreement.

"Original Credit Agreement" shall have the meaning set forth in the first recital to this Agreement.

"Original Lender" shall have the meaning set forth in the first recital to this Agreement.

"Original Administrative Agent" shall have the meaning set forth in the first recital to this Agreement.

"Other CAAs" shall mean the Signal Peak CAA, the [_____] CAA and the [_____] CAA or any Other CAA for a Replacement Facility.

"Other Leases" shall mean the Lease with respect to the Signal Peak Facility, the [_____] Facility and the [_____] Facility or any Replacement Facility.

"Other Taxes" shall have the meaning set forth in, as applicable, Section 12.3(b) or 13.3(b).

"Outside Completion Date" shall mean, with respect to the Facility, the Maturity Date.

"Outstanding Balance" shall mean, at any time, the amount equal to the sum of (i) the Funded Budget Amount and (ii) the Funded Non-Budget Amount, at the time of determination, plus an amount equal to the Financing Costs, Owner Trust Yield, Commitment Fees, Letter of Credit Fees, Issuing Bank Fronting Fees, Bond Fees and other obligations, fees and expenses owing to the Participants under the Financing Documents accrued and unpaid at such time, net of any Termination Amount or other amounts paid by Agent as of such time.

"Owner Trust" shall have the meaning assigned to such term in the opening paragraph.

"Owner Trust Contributions" shall mean the portion of any Payments made by Owner Trust, other than with the proceeds of Lease Indebtedness.

"Owner Trust Eligible Assignee" shall mean (i) with respect to any Payment or portion thereof, any commercial bank or financial institution or other entity consented to by Agent and the Administrative Agent (which consent shall not be unreasonably withheld or delayed) with respect to an Assignment and Acceptance, which shall be: (A) a bank, trust company or other financial institution (1) which is organized under the laws of the United States of America, any state thereof, any other member of the Organization of Economic Cooperation and Development or Japan and has an office in the United States of America, (2) which has capital, surplus and undivided profits of at least $500,000,000, (3) which has outstanding unsecured long-term indebtedness (that is not guaranteed by any other Person or subject to any other credit enhancement) which is rated "A+" or better by S&P and "A1" or better by Moody's (or an equivalent rating by another nationally recognized statistical rating organization of similar standing if neither such corporation is in the business of rating unsecured bank indebtedness), (4) with respect to which Agent would have no obligation to withhold Taxes as of the date that such bank or trust company would assume Owner Trust's rights and obligations, (5) which is not a competitor of Agent, Guarantor or any of Guarantor's Affiliates (excluding any such affiliate which is a bank, finance company or other lending institution), (6) which is not involved in any material litigation or substantive commercial dispute with Agent, Guarantor or any of Guarantor's Affiliates, and (7) which will not require the registration of this Agreement or any of the rights of Owner Trust hereunder under any applicable securities laws or (B) any owner trust, special purpose vehicle or other entity which is Controlled through 100% direct or indirect ownership by an entity described in clause (i)(A); provided, that Owner Trust shall give Agent thirty (30) days prior written notice of any such proposed transfer or assignment, including the identity of the proposed assignee, and (ii) with respect to any Payment or the portion thereof subject to collateral deposit requirements pursuant to Section 5.1(e), if Agent shall previously have given or shall be giving any Payment Direction/Borrowing Notice as to such Payment or portion thereof any entity (A) which is organized under the laws of the United States of America, or any state thereof, (B) with respect to which Agent would have no obligation to withhold Taxes as of the date that such entity would assume Owner Trust's rights and obligations, (C) which is not a competitor of Agent, Guarantor or any of Guarantor's Affiliates (excluding any such Affiliate which is a bank, finance company or other lending institution), (D) which is not involved in any material litigation or substantive commercial dispute with Agent, Guarantor or any of Guarantor's Affiliates, and (E) which will not require the registration of this Agreement or any of the rights of Owner Trust hereunder under any applicable securities laws; provided, that Owner Trust shall give Agent written notice of any such transfer or assignment as soon as reasonably possible after such transfer or assignment.

"Owner Trust Financing Statements" shall mean UCC financing statements appropriately completed and executed by Agent for filing in the appropriate state and county offices in Delaware, Texas and Pennsylvania, and such other offices as may be reasonably

requested by Collateral Agent or Administrative Agent naming Agent as debtor and the Owner Trust as secured party, and assigned by the Owner Trust to the Collateral Agent.

"Owner Trust Lien" shall mean any Lien, true lease or sublease or disposition of title or liability arising as a result of any claim against Bank, Owner Trust or any Affiliate of Owner Trust or their property as a result of action or omission by the Secured Parties, Bank, Owner Trust or any Affiliate of Owner Trust which does not result from the transactions contemplated by this Agreement or the other Operative Agreements.

"Owner Trust Parent" shall mean Apple Investments 2001 Trust, a Delaware business trust.

"Owner Trust Termination Events" shall have the meaning set forth in Section 9.1.

"Owner Trust Termination Notice" shall have the meaning set forth in Section 9.2.

"Owner Trust Yield" shall mean yield on the drawn amount of Payments funded with Owner Trust Contributions.

"Owners' Contribution Commitments" shall have the meaning set forth in the Master Trust Agreement.

"Participants" shall mean, collectively, any holder(s) of Lease Indebtedness and the Certificate Participants.

"Payment Date" shall mean the date on which any Financing Costs, Owner Trust Yield or principal payments are required to be paid pursuant to any Financing Document.

"Payment Direction/Borrowing Notice" shall have the meaning set forth in Section 5.1(a).

"Payments" shall mean Advance Payments and Direct Payments.

"PEDFA" shall mean the Pennsylvania Economic Development Finance Authority, a public instrumentality and body corporate and politic of the Commonwealth of Pennsylvania, organized and existing under the Pennsylvania Economic Development Financing Law, as amended, and the issuer of the Bonds.

"Permitted Liens" shall mean the following Liens and other matters: (a) Liens securing the payment of Taxes and other governmental charges or levies which are either not delinquent or, if delinquent, are subject to a Contest; (b) the rights and interests contemplated by or created pursuant to the Operative Agreements or the Security Documents and, subject to

compliance with the Intercreditor Agreement, the Financing Documents; (c) mechanics' liens arising in the ordinary course of business for amounts the payment of which is either not yet delinquent or is subject to a Contest; (d) Liens arising out of judgments or awards with respect to which (i) appeals or other proceedings for review are subject to a Contest, or (ii) have been bonded in an amount not less than the full amount in dispute or other appropriate provisions have been made; (e) any Owner Trust Lien; (f) zoning, easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business or in connection with the construction, acquisition, improvement, operation, use, ownership or restoration of the Facility that do not materially impair the property affected thereby for the purpose for which title thereto was acquired, and encumbrances (not securing the payment of borrowed money), licenses, restrictions on the use of property or minor imperfections in title that do not materially, individually or in the aggregate impair the Value, condition or marketability of the Property; (g) pledges or deposits in connection with obligations under workers compensation, unemployment insurance and other social security legislation laws or similar legislation; (h) pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements; (i) pledges or deposits to secure the performance of bids, trade contracts, surety bonds, performance bonds and other obligations of a like nature incurred in each case in the ordinary course of business; (j) setoff rights arising under Applicable Law which are not yet asserted or if asserted are subject to a Contest; (k) the unrecorded Rema Agreements and (l) liens and other matters disclosed in title commitments, survey and other materials delivered pursuant to Section 7.5 and which are reasonably acceptable to Collateral Agent.

"Permitted Modifications" shall mean each of the following permitted amendments and modifications to the Plans and Specifications, the Facility or the Equipment: (i) changes in or further definition of technical requirements of the Facility; (ii) any increases in costs or prices or other terms or conditions as permitted pursuant to Section 3.3; (iii) any decreases in costs or prices as permitted pursuant to Section 3.3; and (iv) any revisions, amendments or modifications otherwise permitted pursuant to Section 4.2; provided, that no such amendment or modification shall increase Owner Trust's indemnification or other payment (except as provided in Section 3.3 or 4.2) obligations to any Contractor.

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization, Governmental Authority or any other entity.

"Plans and Specifications" shall mean the plans and specifications for the Facility as provided by Agent, as such Plans and Specifications may be amended, modified or supplemented from time to time in accordance with the terms of this Agreement. Plans and Specifications for the Facility shall include a reasonably detailed description of:

(a) the Facility;

(b) the Improvements to be constructed;

(c) the materials to be utilized; and

(d) the time periods for Completion of the Facility.

"Prescribed Forms" shall mean (A) for a party that is incorporated or otherwise formed under the laws of the United States of America or a state thereof, one duly completed and executed copy of IRS Form W-9 (or replacement or successor form thereto); and (B) for a party that is not incorporated or otherwise formed under the laws of the United States of America or a state thereof (a "Non-U.S. Person"), one duly completed and executed copy of IRS Form W-8ECI (or replacement or successor form thereto) or IRS Form W-8BEN (or replacement or successor form thereto); provided, however, that any Non-U.S. Person that is not the beneficial owner of a payment, as defined in Treasury Regulation Section 1.1441-1(c)(6), and therefore is unable to provide a Form W-8BEN or W-8ECI, may provide one duly completed and executed copy of IRS Form W-8IMY (in lieu of the Form W-8BEN or W-8ECI), and all additional forms or certifications, as provided in Treasury Regulation Section 1.1441-1(e)(3), required to be attached to such Form W-8IMY, necessary to establish that such party is entitled to receive payments hereunder without deduction or withholding of any United States Federal income taxes, or subject to a reduced rate thereof.

"Project Costs" shall mean, all costs, fees and expenses to be incurred by Agent or Owner Trust to complete the Facility in the manner contemplated by the Operative Agreements and the Financing Documents, including (i) all costs and expenses incurred in connection with the development, construction, acquisition and installation of the Facility and the achievement of Completion; and (ii) all amounts in respect of Financing Costs, Owner Trust Yield, Commitment Fees, Letter of Credit Fees, Issuing Bank Fronting Fees, Bond Fees and other amounts payable by Agent or Owner Trust hereunder (including capitalization, if applicable under GAAP, of the same) or under the Financing Documents.

"Project Fund" shall mean any trust fund established or that may be established by the Bond Trustee on a date of issuance of Bonds designated the "Project Fund" (or a similar term) for the payment of Project Costs not paid from the Settlement Fund.

"Property" shall mean any and all rights, title and interest of Owner Trust, to and under the Facility, including any and all rights, title and interest in, to and under the Land, the Improvements, and the Construction Contracts.

"Prudent Industry Practice" shall mean at a particular time (i) any of the practices, methods and acts engaged in or approved by a significant portion of the wholesale electric generating industry at such time or (ii) any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. "Prudent Industry Practice" is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but

rather to be a spectrum of possible practices, methods or actions having due regard for, among other things, manufacturers' warranties and the requirements of Governmental Authorities of competent jurisdictions.

"Purchase Agreement(s)" shall mean agreements for the acquisition of Equipment and related services for the Facility between Owner Trust or Agent and the applicable Contractor.

"Purchase Option" shall have the meaning set forth in Section 10.1(a).

"Purchase Option Assignment" shall mean a Purchase Option Assignment and Assumption Agreement in the form attached hereto as Exhibit H.

"Purchase Option Assignments" shall mean those Purchase Option Assignment and Assumption Agreements pursuant to which REPG has designated Owner Trust as the purchaser and Owner Trust has purchased from WestLB certain Construction Contracts and all rights thereunder, including rights to certain Equipment.

"Purchase Option Certificate" shall have the meaning set forth in Section 10.1(a).

"Purchase Option Notice" shall have the meaning set forth in Section 10.1(a).

"Quarterly Certificate" shall have the meaning set forth in Section 5.1(d).

"Rating Agencies" shall mean (a) Standard & Poor's Ratings Group, a division of McGraw-Hill Companies, Inc.; (b) Fitch, Inc.; and (c) Moody's Investors Service, Inc., or any successor to any of such rating agencies.

"Release" shall mean any release, pumping, pouring, emptying, injecting, escaping, leaching, dumping, seepage, spill, leak, flow, discharge, disposal or emission of a Hazardous Substance into the environment.

"Rema [_____] Agreement" shall mean the license agreement between Reliant Energy [_____], LLC, as licensor, and Reliant Energy Mid-Atlantic Power Holdings, LLC, as licensee, dated April 20, 2001.

"Rema [_____] Agreement" shall mean the license agreement between Reliant Energy [_____], LLC, as licensor, and Reliant Energy Mid-Atlantic Power Holdings, LLC, as licensee, dated April 20, 2001.

"Rema Agreements" shall mean, collectively, the Rema [_____] Agreement and the Rema [_____] Agreement.

"Remarketing Funds" shall have the meaning set forth in Section 11.2.

"Remarketing Requirement" shall have the meaning set forth in Section 11.1.

"REPG" shall mean Reliant Energy Power Generation, Inc., a Delaware corporation.

"Replacement Facility" shall have the meaning set forth in Section 1.5 of the Credit Agreement.

"Replacement Letter of Credit" shall have the meaning set forth in the Intercreditor Agreement.

"Required Actions" shall have the meaning set forth in Section 2.2.

"Required Modifications" shall have the meaning set forth in Section 2.2(j).

"Responsible Officer" shall mean the chief financial officer, the chief accounting officer, the vice president-finance, the treasurer, an assistant treasurer, or the comptroller of Agent or any other officer of Agent whose primary duties are similar to the duties of any of the previously listed officers.

"S&P" shall mean Standard & Poor's Ratings Group, a division of McGraw-Hill Companies, Inc.

"Scope of Authority" shall have the meaning set forth in Section 2.3(a).

"Secured Parties" shall have the meaning set forth in the Intercreditor Agreement.

"Security Agreement" shall mean the Amended and Restated Security Agreement, dated as of the Closing Date, between Owner Trust and Collateral Agent, for the benefit of the Secured Parties, as specified therein.

"Security Documents" shall mean, collectively, the Security Agreement, the Lessor Mortgage, the Lease, the Memorandum of Lease, the Lessee Mortgage, the Collateral Assignment of Lessee Mortgage, the UCC Financing Statements, the Collateral Agreement, the Intercreditor Agreement, this Agreement and all other documents, agreements and instruments executed and delivered in order to establish, preserve, protect and perfect the Lien of Owner Trust or Collateral Agent in the Collateral (as defined in the Intercreditor Agreement) and the Deposit Account Collateral relating to the Facility.

"Seller(s)" shall mean any party to a Purchase Agreement with Agent providing Equipment or related goods or services to Agent for the Facility.

"Services Agreement" shall mean an agreement pursuant to which Agent or Lessee uses reasonable commercial efforts to provide or agrees to provide the applicable Owner

Trust and its successors and assigns interconnections and other services and facilities necessary to the operation of the Related Facility on a commercially viable basis and in accordance with Prudent Industry Practice all to the extent that such services and facilities are not integrated into such Facility. Without limiting the generality of the foregoing, to the extent practicable, Agent shall satisfy its obligations under the Services Agreement by making such services and facilities available through the arrangements described in Section 10.1(h) hereof, in which case, subject to Applicable Law, there shall be no charge for such services and facilities except for any charges that Agent would have been required to pay had it operated the Facility. In all other cases, Owner Trust or its successors and assigns shall pay the fair market value of such services and facilities and such services shall otherwise be on terms as would pertain between unaffiliated persons on an arms length basis.

"Settlement Fund" shall mean an account established by a Bond Trustee in connection with the issuance of Bonds and designated the "Settlement Fund" (or a similar name) for the payment of Bond Underwriting Fees in incurred in connection with the issuance of the applicable series of Bonds.

"Shared Facilities" shall mean the stacks, sump pumps, warehouses and other improvements located on the Land and set forth in Schedule IV as "items not included in Existing Plant", to the Deed dated April 20, 2001 wherein Reliant Mid-Atlantic Power Holdings, LLC, conveyed title to the Land and such improvements to the Lessee.

"Signal Peak CAA" shall mean the Construction Agency Agreement dated as of the Closing Date among Reliant Energy Signal Peak, LLC, Signal Peak Trust, Bank, Owner Trust Parent, the Certificate Participants, the Lender Agents and the Lenders.

"Signal Peak Facility" shall mean the "Facility" as defined in the Signal Peak CAA.

"Signal Peak Trust" shall mean Signal Peak Trust, a Delaware business trust.

"Special Provision" shall mean any provision in a Transaction Document designated as such in such Transaction Document or in this Agreement or the Intercreditor Agreement or in an Intercreditor Accession Agreement.

"Subcontractor Agreements" shall mean any one or all of a series of contracts between any Contractor and various subcontractors for the Facility.

"Subject Claim" shall have the meaning set forth in the definition of the term "Contest."

"Syndication Agent" shall mean Royal Bank of Canada as the syndication agent for the Lenders under the Credit Agreement.

"Taxes" shall have the meaning set forth in Section 12.3(d).

"Tender Agent Agreement" shall have the meaning set forth in the Credit Agreement.

"Term" shall have the meaning set forth in Section 2.4 of this Agreement.

"Termination Amount" shall mean, at any time with respect to the Property, the aggregate of the Outstanding Balance, together with any and all reasonably anticipated expenses and costs of any nature incurred or reasonably anticipated by Owner Trust with respect to this Agreement and the Operative Agreements and the Financing Documents or the transactions contemplated hereby and thereby, including cancellation or wind-up costs, breakage costs and reasonably anticipated costs and expenses of any other Person entitled to payment of Transaction Expenses.

"Tranche" shall mean each Loan funded as a Tranche A-1 Loan, Tranche A-2 Loan or Tranche B Loan, as applicable.

"Tranche A Amount" shall mean the sum of the Tranche A-1 Amount and Tranche A-2 Amount.

"Tranche A-1 Amount" shall mean the sum of the Tranche A-1 Commitment plus, without duplication, any Lease Indebtedness which is designated as a Tranche A-1 Amount in the Intercreditor Agreement or an Intercreditor Accession Agreement; provided, however, that the aggregate amount of such Lease Indebtedness outstanding shall at no time be greater than 85% of the Aggregate Owner Trust Commitment; provided, further, that any proceeds of Lease Indebtedness held in a Project Fund or similar arrangement granting a lien on such proceeds in favor of the holders of such Lease Indebtedness until such proceeds are expended in accordance with the terms of this Agreement shall not be deemed to be outstanding for purposes of the preceding proviso.

"Tranche A-1 Loan" shall mean a Loan funded under the Credit Agreement with respect to the Tranche A-1 Amount.

"Tranche A-2 Amount" shall mean the sum of the Tranche A-2 Commitment plus, without duplication, any Lease Indebtedness which is designated as a Tranche A-2 Amount in the Intercreditor Agreement or an Intercreditor Accession Agreement; provided, however, that the aggregate amount of such Lease Indebtedness outstanding shall at no time be greater than 12% of the Aggregate Owner Trust Commitment; provided, further, that any proceeds of Lease Indebtedness held in a Project Fund or similar arrangement granting a lien on such proceeds in favor of the holders of such Lease Indebtedness until such proceeds are expended in accordance with the terms of this Agreement shall not be deemed to be outstanding for purposes of the preceding proviso.

"Tranche A-2 Loan" shall mean a Loan funded under the Credit Agreement with respect to the Tranche A-2 Amount.

"Tranche B Amount" shall mean the difference of (i) the Aggregate Owner Trust's Commitment and (ii) the sum of: (x) the Tranche A-1 Amount, plus (y) the Tranche A-2 Amount, plus (z) the Aggregate Owner Trust's Contribution Commitment.

"Tranche B Commitment" shall have the meaning set forth in Section 1.5 of the Credit Agreement.

"Tranche B Lender" shall mean any Lender which has a Tranche B Commitment or is owed a Tranche B Loan (or a portion thereof).

"Tranche B Loan" shall mean a Loan funded under the Credit Agreement with respect to the Tranche B Amount.

"Transaction Documents" shall mean the Operative Agreements, the Security Documents and the Financing Documents.

"Transaction Expenses" shall mean:

(a) Bond Fees, Bond Underwriting Fees, Letter of Credit Fees, Commitment Fees, Issuing Bank Fronting Fees, and any Financing Costs on any Payments;

(b) the reasonable out-of-pocket expenses, disbursements or costs of the Owner Trust Parent, Master Owner Trustee, the Owner Trust, and the Trustee incurred in connection with the consummation of the transactions contemplated by this Agreement and the other Operative Agreements and the Financing Documents, including any third party consultants (e.g. accountants, engineers, insurance consultants, etc.) and the fees and disbursements of counsel to Collateral Agent, Administrative Agent, the Owner Trust Parent or the Master Owner Trustee, each Owner Trust and the Owner Trustee, but subject to the limitation set forth in agreements among the Administrative Agent, the Certificate Participants and Agent on the amount of such fees and disbursements of counsel and other consultants payable for activities up to the Closing Date;

(c) any and all Taxes and fees incurred in recording or filing this Agreement or any other Operative Agreement or the Financing Documents, any deed, declaration, deed of trust, mortgage, security agreement, notice or financing statement with any public office, registry or governmental agency in connection with the transactions contemplated by this Agreement;

(d) any real estate brokers' and/or notary public fees and any and all stamp, transfer and other similar taxes, fees and excises, if any, including any interest and penalties which are payable in connection with the acquisition, construction and financing of the Facility by Owner Trust of its interest in the Facility;

(e) all reasonable out-of-pocket costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, including the reasonable fees and disbursements of counsel to Collateral Agent, Administrative Agent, Deposit Bank and Owner Trust;

(f) all reasonable out-of-pocket costs and expenses incurred in connection with any amendment, supplement, modification assignment or termination of this Agreement and the other Operative Agreements or the Financing Documents requested, executed or acquiesced in by Agent and any other documents prepared in connection therewith, and the consummation and administration of the transactions contemplated thereby, including the reasonable fees and disbursements of counsel to Administrative Agent and Owner Trust; and

(g) all reasonable out-of-pocket costs and expenses incurred by Administrative Agent or Owner Trust in connection with any purchase, lease, transporting, handling, installing, monitoring, maintaining or otherwise dealing with the Property or the Facility or any interest therein or sale of the Facility to Agent or any third party pursuant to this Agreement.

For purposes of this definition, fees and expenses incurred by the Owner Trust Parent, the Master Owner Trustee, the Collateral Agent and the Administrative Agent shall apply to an allocable share based upon the aggregate cost of the Facility, unless such fee or expense is directly related to a particular Facility.

"Transfer Taxes" shall mean any present or future sales, use, documentary, value added, goods and services, recording, stamp, license, transfer, transfer gains, publication filings, or any other Taxes in the nature of the foregoing.

"Trust Agreement" shall mean the Second Amended and Restated Trust Agreement, dated as of November [ ], 2001, among Owner Trust Parent, as Certificate Participant, Bank, as Owner Trustee, and Administrative Agent.

"Trustee" shall mean First Union Trust Company, National Association, not in its individual capacity, but solely as Owner Trustee under the Trust Agreement or Master Owner Trustee under the Master Trust Agreement, and any successor or replacement Trustee expressly permitted by the Operative Agreements.

"Trust Estate" shall mean the Property and all other property held by the Trust from time to time, including any rights of the Owner Trustee and the Trust under the Transaction Documents.

"Turbines" shall mean the to-be-built turbine identified in the Construction Contracts, including the Initial Turbine and any contract rights relating to such turbine under such Construction Contracts, and any other Turbine that from time to time constitutes a part of the Facility.

"UCC Financing Statements" shall mean collectively the Lender Financing Statements and the Owner Trust Financing Statements.

"Uncollateralized Amount" shall mean (i) the amount due to all Lenders, Participants and other Secured Parties (other than the Tranche B Lenders) whose Secured Obligations are subject to Deposit Account Collateral until the Cash Collateral Date or, in the case of Lease Indebtedness not incurred under the Credit Agreement, such other date when cash collateral must be posted under the applicable Financing Document and (ii) thereafter, zero.

"Uniform Commercial Code" and "UCC" shall mean the Uniform Commercial Code as in effect in any applicable jurisdiction.

"Upstream Purchase" shall have the meaning set forth in Section 10.1(a).

"Value" shall mean, with respect to the Facility, the amount, which in any event shall not be less than zero, that would be paid in cash in an arm's-length transaction between an informed and willing purchaser and an informed and willing seller, neither of whom is under any compulsion to purchase or sell, respectively, for the ownership of the Facility.

"WestLB" shall mean Westdeutsche Landesbank Girozentrale, New York Branch.

1.5 Amendment and Restatement. (a) This Agreement amends and restates in its entirety the Original Agreement and, upon effectiveness of this Agreement, the terms and provisions of the Original Agreement shall, subject to Sections 1.5(b) and (c), be superseded hereby.

(b) Notwithstanding the amendment and restatement of the Original Agreement by this Agreement, Agent shall continue to be liable to Owner Trust with respect to agreements on the part of Agent under the Original Agreement to indemnify and hold Owner Trust harmless pursuant to Article XII of the Original Agreement for matters within the scope of such indemnification provisions that arose during the period that such agreement was in effect.

(c) Notwithstanding the amendment and restatement of the Original Agreement by this Agreement, the indebtedness, liabilities and obligations owing to Owner Trust by Agent under the Original Agreement remain outstanding as of the date hereof, constitute

continuing Payments hereunder and shall continue to be secured by the collateral described in and pursuant to Section 15.1 but are payable in accordance with the terms of this Agreement. This Agreement is given in substitution for the Original Agreement, and does not evidence a repayment and reborrowing of the obligations of Agent under such agreement, and is in no way intended to constitute a novation of the Original Agreement, and the Liens granted with respect thereto shall be continuing.

(d) The parties hereto acknowledge and agree that any waivers, express or implied by course of conduct or otherwise, amendments or other actions (or failures to act) under the Original Agreement and the other Operative Agreements shall be of no force or effect, and of no use in interpreting the rights and duties of the parties under this Agreement.

ARTICLE II

APPOINTMENT OF AGENT

2.1 Appointment and Acceptance. (a) Subject to the terms and conditions hereof, Owner Trust hereby designates and appoints Agent as its sole and exclusive agent in connection with the Required Actions; provided, that Agent may delegate responsibility for performing certain or all of its Required Actions to any other Person qualified, and, to the extent required, duly licensed by appropriate Governmental Authorities, to perform such Required Actions, but any such delegation shall not relieve Agent of its obligations to perform such Required Actions. Agent hereby accepts such appointment.

(b) Agent is expressly authorized to negotiate and enter into, as agent for and on behalf of Owner Trust, an EPC Contract with the EPC Contractor (which shall have the right to enter into Subcontractor Agreements), and such other Construction Contracts as the Agent shall deem necessary or desirable in connection with the transaction contemplated hereby, in each case in order to Complete the Facility on or before the Maturity Date in all material respects in accordance with the Plans and Specifications therefor, Applicable Law and in amounts not to exceed the amounts therefor set forth in the Budget with respect thereto.

(c) Agent shall cause the Sellers, EPC Contractor and subcontractors to Complete the Facility in all material respects in accordance with the Plans and Specifications therefor, the EPC Contract (including all Subcontractor Agreements) and Applicable Law and at costs not to exceed the amounts therefor set forth in the Budget with respect thereto. The EPC Contract and the applicable Subcontractor Agreements for the Facility shall be treated as one single turnkey agreement under the single point responsibility of the EPC Contractor.

2.2 Agent's Required Actions. Agent hereby unconditionally covenants that it shall take all actions necessary or desirable for the Completion of the Facility on or before the Maturity Date pursuant to the Plans and Specifications therefor and Applicable Law and in

accordance with the Budget (subject to reimbursement by the Owner Trust), the Construction Contracts, and the highest standards prevalent in the independent power generation industry which are reasonable under the circumstances, including the following services and actions (collectively, the "Required Actions"):

(a) take all actions or conduct all due diligence, as applicable (including using highest grade materials and services which are reasonable under the circumstances for the Facility, constructing the Facility in accordance with Prudent Industry Practice and in no event less favorable to the Facility than was or is being applied to other facilities owned and maintained by or under construction for Agent or any of its Affiliates and, taking into consideration Owner Trust's debt financing and standards normally applied, expected or required by lenders in financing transactions for development and operation of facilities of a similar type to the Facility, and the nature of the transaction given the intent of Owner Trust, Agent and the Secured Parties as set forth in Section 15.1) with regard to Owner Trust's ownership interest in the Facility or contractual obligations and rights under the Construction Contracts and otherwise with respect to the Facility, including any regulatory, tax or legal impact of such ownership or contractual obligation or right, any foreseeable material diminution in the Value of the Facility (by reason of environmental or other regulatory or technological change), the ability of Agent or the Contractors to Complete the Facility, and any other such application of Agent's expertise in the independent power generation industry, that may mitigate the cost or risk to Owner Trust of the Facility;

(b) take all actions or omit to take any actions which ensure that all material licenses, approvals, entitlements, authorizations, consents, and permits, and amendments thereto including those required by Applicable Law and Governmental Authority, will be obtained with respect to the Facility and the Property and that the Property is free of all Liens other than Permitted Liens and that all Liens required to be perfected in favor of the Collateral Agent for the benefit of the Participants be perfected as first priority liens, with only such exceptions as may be permitted hereunder or under the other Operative Agreements in accordance with the terms thereof;

(c) use Advance Payments or direct Owner Trust to make Direct Payments for the Completion of the Facility in accordance with the Budget and in timely manner to ensure that all payments under the Construction Contracts are paid when due, or to make other Payments in accordance with the Budget, including Transaction Expenses, but for no other purposes whatsoever (except as may be specifically agreed by Owner Trust and Administrative Agent in writing); and in the event that the Tranche B Lenders do not consent to the amendment of the Intercreditor Agreement referred to in Section 5.1(e) hereof, arrange for a refinancing of the Tranche B Commitments to be consummated not more than thirty (30) days after Agent is informed of the withholding of such consent whereby after giving effect thereto and to any other refinancing then consummated, Payments funded from the Tranche A-2 Amount plus the Investments (as

Defined in the Master Trust Agreement) shall be no less than 15% of the Outstanding Balance;

(d) take all actions and not omit to take actions which cause (to the extent it may legally do so) Owner Trust to be in compliance at all times with the terms and provisions of the Operative Agreements, the Budget, the Construction Contracts, Applicable Laws and Insurance Requirements with respect to the Property and the Facility and give Owner Trust prompt written notice of changes in Applicable Laws affecting Owner Trust's ownership of the Facility or the fulfillment of the obligations hereunder or under the Construction Contracts;

(e) give prompt written notice to Owner Trust and Administrative Agent of the occurrence of any Agent Default or Agent Event of Default or any Owner Trust Termination Event after obtaining actual knowledge thereof;

(f) not take any action which will result in the Value of the Facility being less than the aggregate amount of all Payments made by Owner Trust hereunder with respect to the Facility; provided, however, that this subsection (f) shall not be construed as a guaranty of the residual value of the Facility;

(g) not take any action or omit to take any action which could result in any Claim or Imposition against Owner Trust or the Property under the terms of the Construction Contracts or in connection with the Facility other than Permitted Liens;

(h) upon the request of Owner Trust, represent Owner Trust or cooperate with Owner Trust in bringing or defending any Claims or seeking resolution of any disputes to the same extent as Agent and its Affiliates would pursue with respect to a similar facility owned or leased by it and based on prevailing industry practice, whether through arbitration or other proceeding pursuant to or in connection with any Construction Contracts; provided, that any fees and expenses incurred by Agent in connection therewith and resulting from the acts or failures to act of Agent shall be reimbursed by Owner Trust as part of the Aggregate Owner Trust's Commitment;

(i) give Owner Trust and Administrative Agent prompt and full written notice, with such detail and background as Owner Trust or Administrative Agent may reasonably require, upon Agent obtaining any knowledge or notice of any Force Majeure Event which could have a Material Adverse Effect or which could reasonably be expected to result in a failure to Complete the Facility by the Outside Completion Date, delay in performance, change in law, breach by Agent or a Contractor, suspension of work or other event or occurrence which could give rise to an increase in any payments due or to become due under any Construction Contracts;

(j) make alterations, renovations, improvements and additions to the Facility or any part thereof (subject to Agent's right to reimbursement from Owner Trust as provided herein) that are required to be made pursuant to any Applicable Law and Insurance Requirements ("Required Modifications");

(k) without duplication of any actions required under clause (d) above, take all actions to arrange for the appropriate insurance coverage required pursuant to the Insurance Requirements;

(l) take all actions and conduct due diligence to ensure, to the extent possible under Applicable Laws, that the transactions contemplated by this Agreement and the Required Actions result in no more Taxes to the Indemnified Persons and Secured Parties than if the transactions contemplated by the Operative Agreements created a loan directly between Agent and the Secured Parties (including not permitting the transfer of any Equipment that is the subject of the Operative Agreements from one location to another if such action would result in the imposition of any Taxes that are not provided for in the Budget); and

(m) take all actions necessary to cause title to all Equipment and other Improvements and all contract rights with respect thereto under the applicable Purchase Agreements to be transferred to Owner Trust.

2.3 Scope of Authority. (a) Owner Trust hereby grants to Agent the authority (the "Scope of Authority") to take directly on behalf of Owner Trust all Required Actions in order to Complete the Facility; provided, that Agent's Scope of Authority shall not include:

(i) any action for or on behalf of Owner Trust other than the Required Actions;

(ii) except as provided in Section 2.1, entering into any Construction Contracts or other agreement, as agent of Owner Trust, without the written consent of Owner Trust;

(iii) making any expenditure or binding Owner Trust in any way not contemplated by the Budget, except for Permitted Modifications, including Required Modifications; and

(iv) except for Permitted Modifications, submitting or approving any change order or suspension of work or taking or failing to take any other action, which has the effect of, or would result in or have the effect of creating any obligation of Owner Trust to any Contractor unless included in the Budget or to any other Person under or with respect to any Construction Contracts without the written consent of Owner Trust.

(b) In connection with the performance by Agent of the Required Actions within the Scope of Authority, Agent acknowledges and agrees (i) that, as between Owner Trust and Agent, the Property is in Agent's control and possession during the Term, (ii) that it is responsible as agent for Owner Trust for the acts and omissions of itself, the Contractors and their respective agents, and (iii) that Agent has agreed to take all actions and not omit to take any actions necessary to maintain, or cause to be maintained, the Property so as to avoid injury or mishap to third Persons. Further, Agent acknowledges and agrees that in accordance with the terms thereof or the provisions of Section 2.2 or this Section 2.3, all responsibilities and actions to be taken by Owner Trust under the Construction Contracts have been delegated to, and assumed by, Agent, subject to Agent's right of reimbursement from Owner Trust pursuant to the Budget, and are within Agent's control.

(c) Subject to the terms and conditions of this Agreement, as between Owner Trust and Agent, Agent shall have sole management and control over the construction means, methods, sequences and procedures with respect to the construction of the Facility.

2.4 Term. Subject to Article VIII and Section 12.9, this Agreement shall commence on the Closing Date and shall terminate upon the CAA Termination Date (the "Term").

2.5 Guaranty. The obligations of Agent pursuant to this Agreement shall be guaranteed by Guarantor pursuant to the Guaranty in accordance with its terms. Agent shall deliver the Guaranty on the date hereof, and the Guaranty shall be maintained in full force and effect at all times thereafter during the Term, which Guaranty shall be pledged and assigned by Owner Trust to the Collateral Agent, for the benefit of the Secured Parties.

ARTICLE III

BUDGET

3.1 Preparation of Budget. With respect to the Facility, on the Closing Date, the Agent shall submit a Budget substantially in the form attached hereto as Exhibit A, which shall specify the anticipated Completion Date for the Facility, (x) set forth in Part A, Agent's calculation of the anticipated Payments to be made by Owner Trust in connection with the Completion of the Facility pursuant to the Plans and Specifications therefor, and (y) set forth in Part B, Agent's calculation of the Non-Budget Amounts in accordance with Section 3.4. Part A of the Budget shall include the following:

(a) The aggregate of scheduled Advance Payments to Agent and Direct Payments to be made to the Contractors and other third parties or reimbursements to Agent or its Affiliates in accordance with specified schedules or schedules to be specified under the Construction Contracts during the Construction Period (including

estimates for change orders, modifications and for the inclusion of additional Subcontractor Agreements and Purchase Agreements);

(b) Other scheduled or anticipated payments in connection with (but not directly arising from) the Project and/or the Construction Contracts, such as Taxes, and franchise fees, customs, duties and related charges, and Transaction Expenses, change orders and contractual cost escalators and costs and expenses related to hedging agreements;

(c) A specific amount for contingent payments by Owner Trust including, among other things, for payments to third parties for indemnification payments, additional Taxes directly attributed to activities of Owner Trust unrelated to the Facility and the other transactions contemplated by the Operative Agreements or the Financing Documents, Construction Period penalties, cancellation or other wind-up expenses, change orders, contractual cost escalators, or other additional costs Owner Trust may bear as the result of Agent's acts or failures to act within the Scope of Authority and Required Actions;

(d) An amount for the expected premiums and other costs associated with insurance that Agent will arrange on Owner Trust's behalf pursuant to Article VI;

(e) An Allowance for Owner Trust's Cost of Financing (but excluding any imputed equity yield to Owner Trust or other party);

(f) An amount for reimbursement to Agent for soft costs; and

(g) an amount to refinance all costs financed under the Original Agreement.

3.2 Accuracy of Budget. Based upon Agent's experience in the power generating industry, Agent has concluded, taking into account the circumstances in existence on the date the Budget was prepared, that the aggregate amount set forth in the Budget will be sufficient to satisfy all obligations, including payment obligations, of Owner Trust to successfully Complete the Facility, and Owner Trust and Secured Parties are relying on such conclusion of Agent.

3.3 Budget Revisions. Agent may from time to time present to Owner Trust a revised Budget which changes the Aggregate Owner Trust's Commitment, and the corresponding Aggregate Lenders' Commitment and Aggregate Owner Trust's Contribution Commitment, and/or reallocates the dollar amounts of the line items set forth in any previous Budget; provided, that (a) in no event shall the combined Aggregate Owner Trust's Commitments for the Facility and the other projects under the Other CAAs be increased thereby without Owner Trust's and Administrative Agent's written consent or the combined Aggregate Lender's Commitments for

the Facility and the other projects under the Other CAAs be increased thereby without the written consent of each holder of Lease Indebtedness, (b) in no event, as a result of any such reallocation, shall the Lease Indebtedness designated as the Tranche A-1 Amount be outstanding at any time in an amount greater than 85% of estimated Project Costs; provided, further, that any proceeds of Lease Indebtedness held in a Project Fund or similar arrangement granting a lien on such proceeds in favor of the holders of such Lease Indebtedness until such proceeds are expended in accordance with the terms of this Agreement shall not be deemed to be outstanding for purposes of the preceding proviso, and (c) in the event any revision in the Budget would cause it to exceed 105% of the amount of the Aggregate Owner Trust's Commitment as of the Closing Date, such revision shall require the approval of 100% of the Bank Lenders (as defined in the Intercreditor Agreement). Each such revised Budget submitted by Agent that complies with the proviso to the preceding sentence shall be deemed automatically to amend the previous Budget without any further action by Owner Trust or Agent. Each revised Budget shall be accompanied by Agent's certification that the revised Budget is sufficient, taking into account the circumstances in existence on the date the Budget was prepared, to Complete the Facility.

3.4 Non-Budget Amount. Part B of the Budget submitted by Agent will also set forth a schedule of estimated amounts agreed to by Agent and Owner Trust which may be paid by Owner Trust in connection with the Construction Contracts or the Facility but are outside Part A of the Budget (such estimated amounts plus any additional amounts actually paid by Owner Trust in connection with the Construction Contracts or the Facility, collectively, the "Non-Budget Amounts"). If Owner Trust does not fund or finance such amounts under the Non-Budget Amounts, Agent may elect to have Owner Trust fund or finance such costs (excluding those Transaction Expenses described in clause (a) below) under Part A of the Budget. The Non-Budget Amounts shall include the following:

(a) Transaction Expenses which are not capitalized in accordance with GAAP, including Owner Trust's fees;

(b) Owner Trust Yield;

(c) An estimated amount for contingent payments to third parties other than lenders for indemnification payments, additional taxes, penalties, cancellation or other wind-up expenses, change orders, contractual cost escalations or other additional costs that Owner Trust may bear that either (i) are not as the result of Agent's act or failure to act within its Scope of Authority and Required Actions, or (ii) would not give rise to an obligation of Agent to Owner Trust in accordance with Article VIII, Article X or Article XI; and

(d) Agent shall, at no time, be permitted to revise Part B of the original Budget delivered on the Closing Date without the written consent of all Lenders (as defined in the Credit Agreement); provided, any increase in Part B of such original

Budget which results in a cumulative increase of said Part B of less than or equal to 200% shall be permitted.

ARTICLE IV

CONSTRUCTION OF FACILITY

4.1 Construction. Subject to the Operative Agreements, Agent shall cause the Facility to be constructed and equipped in material compliance with all requirements of the Plans and Specifications, the applicable Construction Contracts, Applicable Law and Insurance Requirements.

4.2 Amendments; Modifications. (a) Agent may at any time revise, amend or modify the Plans and Specifications or the Facility without the consent of Owner Trust and Administrative Agent; provided, that any such revisions, amendments or modifications do not (i) result in the Completion Date of the Facility occurring on or after the Maturity Date, or (ii) result in the projected Project Cost of the Facility to be funded by the Budget exceeding the then Available Aggregate Owner Trust's Commitment, or (iii) materially change the Facility's Intended Use, or (iv) reduce the Value of the Property below that set forth in the appraisal referenced in Section 7.5(f), or (v) results in a breach of Agent's obligations under Section 2.2(k) or Section 6.

(b) Agent agrees that it will not implement any revision, amendment or modification to the Facility or Plans and Specifications for the Facility if the aggregate effect of such revision, amendment or modification together with any prior amendments, revisions or modifications would be to reduce the Value of the Facility as Completed as projected on the Closing Date, unless such revision, amendment or modification is a Required Modification or otherwise approved by Owner Trust and Administrative Agent, each such consent to be granted or withheld in such party's sole discretion.

4.3 Casualty, Condemnation, Force Majeure Events and Liquidated Damages. If at any time prior to the Completion Date for the Facility there occurs a Casualty or a Force Majeure Event with respect to the Facility, or Owner Trust or Agent receives notice of a Condemnation, then, in each case, Agent shall continue to perform the Required Actions in accordance with Sections 2.2 and 2.3, subject to reimbursement from Owner Trust pursuant to the Budget and from Net Available Proceeds pursuant to Section 6.3.

4.4 Completion Date Conditions. The occurrence of the Completion Date with respect to the Facility shall be evidenced by the delivery to the Administrative Agent, the Certificate of Completion by the Agent in the form of Exhibit B as attached hereto; provided, that any such Certificate of Completion shall be with reservation of any and all rights relating to Completion of the Facility against the EPC Contractor or other Persons in connection with the

construction and mobilization of the Facility and is not intended to preclude the assertion of any such rights against the EPC Contractor or such other Persons.

ARTICLE V

ADVANCES AND DIRECT PAYMENTS; LETTERS OF CREDIT; AGENT'S DEPOSIT ACCOUNT COLLATERAL

5.1 Payments Pursuant to Budget. (a) Agent may, from time to time, deliver to Owner Trust and to Administrative Agent payment directions/borrowing notices or letter of credit issuance directions (a "Payment Direction/Borrowing Notice") in substantially the form attached hereto as Exhibit C or other form acceptable to the other applicable Secured Parties for the purpose of requesting Debt Fundings, or procuring Letters of Credit from Issuing Bank to secure Bonds issued under the Bond Trust Indenture, the proceeds of which will be used to make Payments hereunder to refinance or pay Project Costs that are contemplated by the Budget. The Payment Direction/Borrowing Notice shall be delivered to the Owner Trust and to the Administrative Agent or other representative of the applicable holder of Lease Indebtedness, as the case may be, on or before the time specified in the applicable Financing Documents for the delivery of such Payment Direction/Borrowing Notice. Advance Payments shall be made either to the payee or to Agent's bank account in the United States as set forth on Schedule I hereto, or to such other bank account of Agent as Agent shall designate in writing to Owner Trust and Administrative Agent. Agent in turn will be responsible for disbursing Advance Payments to itself or other Persons. In no event shall there be more than two (2) funding dates during any calendar month (exclusive of fundings (or deemed fundings pursuant to Section 5.4) to pay interest on the Lease Indebtedness, Owner Trust Yield, Additional Costs or the fees described in Section 5.3). In no event shall the aggregate amount of Payments (including any thereof funded with disbursements from the Project Fund) outstanding at any time exceed the Aggregate Owner Trust's Commitment. Each Payment Direction/Borrowing Notice shall request Payments in an aggregate amount of not less than $5,000,000.

(b) During the term of this Agreement, subject to Section 5.2, Owner Trust may make Direct Payments for the purposes set forth in Section 3.1(c) and (e) or Section 3.4 without the receipt of a Payment Direction/Borrowing Notice; provided, that Owner Trust agrees to provide to Agent and either Administrative Agent or the applicable representative of the holders of other Lease Indebtedness at least five (5) Business Days prior written notice of any such Direct Payments. This notice will include a summary of the nature of the Payment, including a statement as to whether the amount is to be paid in connection with Section 3.1(c) or (e) or Section 3.4.

(c) Subject to Section 7.6, Owner Trust agrees to make such Payments and cause Letters of Credit to be issued by Issuing Bank in accordance with each duly completed

and submitted Payment Direction/Borrowing Notice, cause the applicable Bond Trustee, on behalf of the applicable Issuer, to make disbursements from the applicable Project Fund to fund Advance Payments or Direct Payments in accordance with each duly completed and submitted Disbursement Request and make Direct Payments, subject to a maximum aggregate limitation equal to the Aggregate Owner Trust's Commitment. Owner Trust will directly arrange or provide financing for the Aggregate Owner Trust's Commitment pursuant to the Credit Agreement, the Bond Documents and, if applicable, the other Financing Documents. Payments shall be funded by Owner Trust at the direction of Agent from Owner Trust Contributions and the Tranche A-1 Amount and the Tranche A-2 Amount in the following proportions: in order that after giving effect to any funding of Payments from the Tranche A-1 Amount, the aggregate amount of outstanding Payments funded from the Tranche A-2 Amount and Owner Trust Contributions shall be at least 12% and 3%, respectively, of all Payments outstanding at such time and for this purpose shall exclude any Tranche B Amount; provided, that any draws under Letters of Credit shall be funded entirely by the Letter of Credit Participants from the Letter of Credit Commitments as set forth in the Credit Agreement. When the Tranche A Amount is not available for funding, Payments shall be funded with any unused aggregate Owner Trust's Contribution Commitment. When the Tranche A Amount and Aggregate Owner Trust's Contribution Commitment have been exhausted, Payments shall be funded from the Tranche B Amount, such Tranche B Amount being subject to the requirements of Section 5.1(e) below. Notwithstanding the foregoing, if, after the Tranche A Amount under this Agreement has been exhausted and any portion of the Tranche A Amount under any Other CAA has not been exhausted, Agent under this Agreement and the agents under any or all of the Other CAAs may agree to (i) increase the Tranche A-1 Amount and the Tranche A-2 Amount (in the proportions of 87.6% and 12.4%, respectively) under this Agreement and (ii) decrease the aggregate Tranche A-1 Amount and the Tranche A-2 Amount (in the same relative proportions) under any or all of the Other CAAs by the same aggregate amount. If the Tranche A Amount under this Agreement is increased, the Tranche B Amount under this Agreement shall be decreased in a like amount. If the Tranche A Amount under an Other CAA is decreased, the Tranche B Amount under such Other CAA shall be increased by a like amount. By way of illustration of the three previous sentences, if the Tranche A Amount under this Agreement has been exhausted, but at least $10,000,000 of the Tranche A Amount under the [_____] CAA has yet to be advanced, Agent under this Agreement and the agent under the [_____] CAA may agree to (w) increase the Tranche A Amount under this Agreement by $10,000,000, (x) decrease the Tranche A Amount under the [_____] CAA by $10,000,000, and thereby (y) decrease the Tranche B Amount under this Agreement by $10,000,000 and (z) increase the Tranche B Amount under the [_____] CAA by $10,000,000.

(d) Not later than the last Business Day of each quarter in which a Payment Direction/Borrowing Notice has not been submitted, Agent shall submit to Owner Trust a quarterly certificate in the form attached hereto as Exhibit D (a "Quarterly Certificate"); provided, that notwithstanding the inability of Agent to deliver any such Quarterly Certificate, Agent shall be entitled to reimbursement from Owner Trust pursuant to the Budget for any costs

or expenditures incurred by Agent prior to the date on which Agent fails to deliver the Quarterly Certificate. Agent agrees that it will not incur any costs or expenditures for which it would be entitled to reimbursement hereunder if at the time of the proposed incurrence any of its Responsible Officers has Actual Knowledge of any facts or circumstances that render Agent unable to make the representations and other statements required to be made in the Quarterly Certificate.

(e) Prior to 11:00 a.m., New York time, (i) prior to the Cash Collateral Date, on the date of each requested Advance Payment and as a condition to such Advance Payment, and upon receipt of notice from Owner Trust of any Direct Payments to be made by Owner Trust, if such Payment is to be funded from the Tranche B Amount and (ii) on the Cash Collateral Date and on each date thereafter when there is an increase in the Outstanding Balance, Agent shall make a deposit of Deposit Account Collateral with the Deposit Bank in an amount sufficient to cause the aggregate Deposit Account Collateral on deposit with the Deposit Bank to be not less than the Minimum Collateral Value as of such date (such Deposit Account Collateral shall be marked to market by the Agent upon request, but in no event less than monthly). Such deposits shall be held and administered in accordance with a Collateral Agreement. Any change in the composition of the Deposit Account Collateral from U.S. government securities of a tenor less than ninety (90) days will require the consent of all applicable Secured Parties. Prior to, and as a condition to, the initial funding of any Advance Payment constituting a Tranche B Loan, the Intercreditor Agreement shall be amended and restated in a manner reasonably satisfactory to the Tranche A-1 Lenders, the Tranche B Lenders (each defined in the Credit Agreement), Agent and [_____] Trust, [_____] Trust, Signal Peak Trust, [_____] County Trust, Citicorp USA, Inc. and certain other authorized representatives.

(f) Amounts utilized to pay down any revolving Lease Indebtedness under the other Financing Documents to the Secured Parties as provided in Section 8 of the Intercreditor Agreement in connection with the receipt of Net Available Proceeds shall, subject to Section 6.3 (d) or (e), continue to be available to finance the construction, reconstruction, repair or restoration of the Facility pursuant to Article VI.

(g) In connection with the Completion of the Facility, Owner Trust may request an Advance Payment, and notwithstanding any other provisions herein to the contrary, may make repayment on the Loans or Owner Trust Contributions, in amounts such that, after giving effect thereto, the sum of the outstanding amounts funded under the Tranche A-1 Amount shall be not more than 85% of the Final Project Costs less the amount of the Final Project Costs funded with Tranche B Loans and the Owner Trust Contributions shall be at least 3% of the Final Project Costs. Notwithstanding any other provisions herein to the contrary, the amount of the Owner Trust Contributions for the Facility shall equal not less than 3% of the Final Project Costs therefrom.

5.2 Financing Costs and Owner Trust Yield. Agent shall pay to Owner Trust, solely from funds advanced by Owner Trust, interest due on the drawn amount of Payments

funded with Lease Indebtedness (including reimbursement obligations in respect of drawings under a Letter of Credit to pay interest on the Bond Balances) (collectively, "Financing Costs"), and Agent shall pay to Owner Trust, solely from funds advanced by Owner Trust (and unless directed otherwise by Agent, derived from Owner Trust Contributions), yield on the drawn amount of Payments funded with Owner Trust Contributions ("Owner Trust Yield") until the CAA Termination Date at the rate per annum specified in or determined in accordance with the terms of the applicable Financing Documents and, in the case of Owner Trust Yield (unless directed otherwise), by capitalizing such amount in accordance with Section 5.4 without actual payment as provided in such section.

5.3 Fees. (a) During the Term, Agent shall pay to Owner Trust, solely from funds advanced by Owner Trust, any commitment and other similar fees payable under the Financing Documents and any other fees in connection with any other Lease Indebtedness and the undrawn Owners' Contribution Commitments to the extent provided in the applicable Financing Documents (the "Commitment Fee"). Each Commitment Fee shall be calculated and be payable on the dates and in the manner set forth in the applicable Financing Documents.

(b) During the Term, as hereinafter provided, Agent shall, to the extent provided in the applicable Financing Document, pay to Owner Trust, solely from funds advanced by Owner Trust, (i) a Letter of Credit fee on each Letter of Credit issued by the Issuing Bank (the "Letter of Credit Fee"), and (ii) for the account of the Issuing Bank, a fronting fee with respect to each Letter of Credit issued by such Issuing Bank (the "Issuing Bank Fronting Fee"). Each Letter of Credit Fee and Issuing Bank Fronting Fee shall be calculated and be payable on the dates and in the manner set forth in the applicable Financing Documents.

(c) During the Term, Agent shall pay to Owner Trust, solely from funds advanced by Owner Trust, the Bond Fees and any other fees and expenses computed in the manner, and payable at such times as are, set forth in the Bond Documents and the Financing Documents as applicable.

5.4 Deemed Funding Requests. Notwithstanding anything herein to the contrary, unless otherwise requested by Agent by delivery of a Payment Direction/Borrowing Notice to Owner Trust and Administrative Agent or a Disbursement Request at least three (3) Business Days prior to each Payment Date or Fee Payment Date, as applicable, Agent shall be deemed to have requested a Payment in an amount equal to the aggregate amount of accrued and theretofore unpaid indemnity payments described in the parenthetical to the first sentence of Section 12.1, 12.3(c) or the last sentence of Section 13.9, Financing Costs, Owner Trust Yield, Commitment Fees, Letter of Credit Fees, Issuing Bank Fronting Fees, Bond Fees and other like fees payable pursuant to any other Financing Document (to the extent applicable) and such amount shall be due and payable on the applicable Payment Date or Fee Payment Date, as applicable, which amount, to the extent appropriate, but in any event in the case of Owner Trust Yield, shall not be paid to the applicable payee, but instead such amount shall be capitalized as of the date set forth above as part of the Funded Budget Amount (or, with respect to the Owner

Trust Yield, the Funded Non-Budget Amount) by deeming such amount to be an Advance Payment hereunder charged to the applicable Commitments.

5.5 Payments to Collateral Agent and Authorized Representatives. (a) Notwithstanding the terms of the Operative Agreements or the Financing Documents, any payment required to be made pursuant to any Operative Agreement or Financing Document by the Agent to Owner Trust, or by Owner Trust to any Participant out of amounts paid by Agent to Owner Trust, shall be made directly, to or at the direction of the Collateral Agent to the extent that the disposition of such Payment is governed by the Intercreditor Agreement, and otherwise to or as directed by the Authorized Representative of the Participants entitled to the benefit of such Payment (which direction may change from time to time), for application in accordance with the terms of the Operative Agreements or Financing Documents on behalf of the applicable payee(s).

(b) (i) All payments made by Agent to or at the direction of or on behalf of the Collateral Agent or any such Authorized Representative in accordance with this Section 5.5 shall be deemed to have been applied by the Collateral Agent or such Authorized Representative to the purposes for which such payments were made in accordance with the terms of the Financing Documents and (ii) upon delivery of good funds to the Collateral Agent or such Authorized Representative in any such case, Agent's and Owner Trust's payment obligations in the particular instance shall be deemed satisfied to the extent of the funds so furnished. All amounts payable to or at the direction of the Collateral Agent or such Authorized Representative hereunder shall be paid in U.S. Dollars and in immediately available funds by 1:00 p.m. (New York City time) on the date when due, unless any such date is not a Business Day, in which case payment shall be due and payable on the next succeeding Business Day (or, as required by the definition of Interest Period, the next preceding Business Day), at the Collateral Agent's address as set forth in Schedule I hereto, or at such other address or to such other Person as the Collateral Agent, from time to time, may designate to Agent by written instructions.

ARTICLE VI

INSURANCE; CASUALTY AND CONDEMNATION

6.1 Coverage. (a) Agent shall arrange for and procure, on behalf of Owner Trust, and thereafter maintain, all appropriate and comprehensive public liability, hazard and other "all risk" insurance, with reputable insurers, of the kinds and in the amounts as set forth in Exhibit F attached hereto. The cost of such insurance will be paid by Owner Trust in accordance with the applicable Budget. On or before the Closing Date, Agent shall deliver to Owner Trust and Administrative Agent certificates of insurance evidencing the existence of such insurance coverage and naming Collateral Agent, Certificate Participants, Administrative Agent and Lenders (and Secured Parties as required by the applicable Financing Documents) as additional insureds.

(b) During the Construction Period of a Replacement Facility subject to earthquake or flood risk, the Agent agrees to acquire earthquake and/or flood insurance to the extent such insurance is available on a commercially reasonable basis.

6.2 Adjustment of Losses. Losses, if any, with respect to the Facility under any property damage policies required to be carried under Section 6.1 shall be adjusted with the insurance companies, including the filing of appropriate proceedings by Agent if Agent is required by this Agreement to, or has agreed to, repair the damage to the Property, unless an Agent Event of Default or Owner Trust Termination Event shall have occurred and be continuing, in which case losses shall be adjusted by Collateral Agent as assignee of Owner Trust. Losses shall be adjusted by Collateral Agent as assignee of Owner Trust in circumstances where Agent is not required to, and has not agreed to, repair the damage to the Property, unless Agent has purchased the Property pursuant to the terms of this Agreement.

6.3 Casualty; Condemnation; Application of Net Available Proceeds. (a) Subject to Section 6.3(c), the Agent hereby irrevocably assigns to Collateral Agent as assignee of Owner Trust any award or compensation or insurance payment or other proceeds (including proceeds of insurance policies described in Article VI) to which Agent may become entitled by reason of its interest in the Property or any portion thereof in case of a Casualty or Condemnation giving rise to such proceeds or other amounts.

(b) The Agent shall, promptly upon a Responsible Officer obtaining Actual Knowledge thereof, notify the Owner Trust in writing (i) of the occurrence of any such Casualty or Condemnation when the costs of repair or restoration of the Facility are expected to exceed $10,000,000 ($2,000,000 if such event is caused by a Hazardous Condition or a Release or other Environmental Violation of or noncompliance with Environmental Laws) or (ii) Agent's determination that there is more than a remote possibility that any Casualty or Condemnation would result in an Event of Loss, in which case Administrative Agent and Owner Trust may at any time during the sixty (60) day period following receipt of such notice under clause (i) or (ii) engage an Independent Engineer to determine whether or not the Casualty or Condemnation would constitute an Event of Loss. The Independent Engineer shall issue its report within ten (10) days from the date of its engagement. If the Independent Engineer determines that an Event of Loss shall have occurred, then the Administrative Agent may exercise its rights under Section 6.3(d) or (e), as applicable. In such event, Owner Trust shall take control of any actions with regard to compensations for such Casualty or Condemnation. If Administrative Agent does not exercise such rights or should the Independent Engineer determine that no Event of Loss exists, the provisions of Section 4.3 shall apply and in accordance with Section 4.3, Agent shall appear on behalf of Owner Trust in any proceeding or action to defend, negotiate, prosecute or, consistent with its obligations under the Required Actions, settle or adjust any claim for any award or compensation or insurance payment on account of any Casualty or Condemnation and shall take all appropriate action in connection with any Casualty or Condemnation, including the employment of counsel reasonably satisfactory to the Administrative Agent. Agent shall give Administrative Agent and Owner Trustee prompt written notice of any such settlement or

adjustment of any such proceeding, action or claim. Furthermore, notwithstanding anything to the contrary contained herein, whether or not the Independent Engineer is engaged, Agent may commence taking steps to obtain compensation in respect of any such Casualty or Condemnation and shall diligently prosecute the same as contemplated above until such time as it is determined that an Event of Loss has occurred and Owner Trust has exercised its rights under Section 6.3(d) or (e).

(c) All Net Available Proceeds shall (i) to the extent less than $20,000,000 per occurrence and so long as no Agent Event of Default or Owner Trust Termination Event has occurred and is continuing, be paid over to Agent (unless Agent in its sole discretion elects to have such Net Available Proceeds paid over to the Collateral Agent pursuant to clause (ii) for the purpose of repair or restoration to the Facility caused by the applicable Casualty or Condemnation; provided, that if any such event would have a Material Adverse Effect, Agent shall consult with Owner Trust and Administrative Agent prior to commencing any such repairs, and (ii) to the extent equal to or greater than $20,000,000 per occurrence or if Agent elects to apply such funds under this clause (ii) or if an Agent Event of Default or Owner Trust Termination Event has occurred and is continuing, be paid over to the Collateral Agent. Collateral Agent shall either (i) apply such amounts to the repayment of revolving Lease Indebtedness in accordance with Section 8 of the Intercreditor Agreement, and such amounts may be readvanced to pay the costs of repair and restoration unless an Agent Event of Default or an Owner Trust Termination Event has occurred and is continuing or (ii) deposit such amounts into a segregated account and invest such amounts in Permitted Investments (as defined in the Intercreditor Agreement). Net Available Proceeds paid over to Collateral Agent pursuant to this Section 6.3 (so long as no Agent Event of Default or Owner Trust Termination Event has occurred and is continuing) shall be disbursed (up to two times per month) to Agent for the purpose of repairing the damage to the Facility caused by the applicable Casualty or Condemnation. If the damage or loss exceeds $20,000,000, the Agent shall, as a condition precedent to the disbursement of additional funds, deliver to Owner Trust a revised Budget reasonably satisfactory to Owner Trust.

(d) If an Event of Loss occurs due to both (i) Agent's act or failure to act and (ii) by reason of fraud, misappropriation of funds, illegal acts or willful misconduct by Agent, at the election of the Administrative Agent, Agent shall be deemed to have exercised its Purchase Option under this Agreement and shall pay the Termination Amount in accordance with Section 10.1 and otherwise comply with the provisions of that Section. If an Event of Loss would not be covered by the preceding sentence, but would constitute an Owner Trust Termination Event, the provisions of Article IX shall apply if so elected by the Administrative Agent. In either case, all Net Available Proceeds shall be distributed pursuant to Section 8 of the Intercreditor Agreement.

(e) If an Event of Loss occurs that is not due to circumstances described in (d) above, notwithstanding Agent's obligation under Section 4.3 herein to perform the Required Actions, at the election of Administrative Agent, this Agreement shall terminate,

whereupon Owner Trust shall be relieved of any obligation to make further payments hereunder or make available to Agent any Net Available Proceeds for the payment of Project Costs. The Net Available Proceeds and any proceeds realized from the sale of the Facility will be paid to the Collateral Agent and distributed in accordance with Section 8 of the Intercreditor Agreement and Agent shall surrender all of its interest in the Facility to Owner Trust in accordance with the procedures set forth in Exhibit J and thereafter Agent shall be released from all obligations hereunder and the other Operative Agreements (other than indemnity obligations which survive in accordance with the terms of this Agreement), and Agent shall transfer to Owner Trust all of Agent's right, title and interest in and to the Facility and the Net Available Proceeds.

ARTICLE VII

REPRESENTATIONS, WARRANTIES AND COVENANTS OF AGENT, OWNER TRUST AND BANK

7.1 Representations and Warranties of Agent. Agent hereby represents and warrants to each of the other parties hereto that:

(a) Organizational Status. Agent (i) is a duly organized and validly existing limited liability company in good standing under the laws of the State of Delaware, (ii) is duly qualified, and if applicable, in good standing under the laws of each jurisdiction in which the character of the Equipment or any properties and assets now owned or leased by it or the nature of the business transacted by it requires it to be so qualified, except where the failure to be so qualified, individually or in the aggregate, would not have a Material Adverse Effect and (iii) has the power and authority to own its properties and to conduct the business in which it is currently engaged.

(b) Power and Authority. Agent has the power and authority to execute, deliver and carry out the terms and provisions of the Operative Agreements to which it is a party and has taken all necessary action to authorize the execution, delivery and performance of the Operative Agreements to which it is a party, and has duly executed and delivered this Agreement and each other Operative Agreement to which it is a party on the date that this representation is made or deemed made, and this Agreement and each other Operative Agreement to which it is a party constitutes a legal, valid and binding obligation enforceable against it in accordance with its terms, except as enforceability may be limited by insolvency, bankruptcy, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally and general principles of equity.

(c) No Violation. Neither the execution, delivery and performance by Agent of each Operative Agreement to which it is a party nor compliance with the terms and provisions thereof, nor the consummation of the transactions contemplated herein or therein (i) will contravene any applicable provision of any Applicable Laws, except for such Applicable

Laws as Agent shall Contest or that the contravention of which would not have a Material Adverse Effect, (ii) will conflict or be inconsistent with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or (other than pursuant to such Financing Documents to which it is a party) result in the creation or imposition of (or the obligation to create or impose) any Lien upon any of the property or assets of Agent pursuant to the terms of any indenture, loan agreement, lease agreement, mortgage, deed of trust, or other agreement relating to indebtedness for borrowed money to which Agent is a party or by which it or any of its property or assets is bound or to which it may be subject, other than as contemplated hereby or as would not have a Material Adverse Effect, or (iii) will violate any provision of the organizational documents of Agent.

(d) Litigation. There are no actions, suits or proceedings pending or, to the Actual Knowledge of a Responsible Officer of Agent, threatened (i) that are binding on or otherwise affect in any way the Property and in which there is a likelihood of an adverse decision that would have a Material Adverse Effect or (ii) that question the validity, legality or enforceability of any Operative Agreement to which Agent or Guarantor is a party or the rights or remedies of Owner Trust or Administrative Agent thereunder.

(e) Governmental Approvals; Compliance with Laws. Except with respect to approvals which are customarily applied for after the date hereof and which are anticipated to be obtained in due course or subject to a Contest, no Governmental Action by any Governmental Authority having jurisdiction over Agent or Owner Trust or the Property is required to authorize or is required in connection with (i) the execution, delivery and performance by Owner Trust or by Agent of any Operative Agreement to which it is a party, or (ii) the legality, validity, binding effect or enforceability against Agent of any Operative Agreement to which it is a party, except in either such case, for any such Governmental Action the absence of which or the failure to obtain would not have a Material Adverse Effect. All Governmental Actions, easements and rights-of-way, including proof and dedication, required for (i) construction of the Improvements in accordance with the Plans and Specifications and the Operative Agreements to which it is a party and (ii) the use and operation of the Facility have either been obtained from the appropriate Governmental Authorities having jurisdiction or from private parties, as the case may be, or will be obtained from the appropriate Governmental Authorities having jurisdiction or from private parties, as the case may be, as and when necessary for Agent to comply with the Required Actions and in any event prior to the Completion Date, except for any Governmental Action, the failure of which to obtain would not have a Material Adverse Effect. The Facility and the Property, as improved in accordance with the Construction Contracts, will at all times comply in all material respects with all requirements of Applicable Law (including all applicable zoning and land use laws and Environmental Laws) and Insurance Requirements, except to the extent such failure to comply with Applicable Laws would not result in a Material Adverse Effect; provided, however, that any such failure to comply with Environmental Laws would not reasonably be expected to result in a Material Environmental Liability.

(f) Investment Company Act. Agent is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(g) Public Utility Holding Company Act. Agent (solely as a consequence of the fulfillment of its obligations under each Operative Agreement to which it is a party) is not (nor will be) subject to, or is (or will be) exempt from regulation as a "holding company," a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended. Based upon its due diligence review, Agent has concluded that neither Owner Trust nor any Secured Party (solely as a consequence of the fulfillment of its obligations under the Operative Agreements) is (nor will be) subject to, or each is (or will be) exempt from regulation as a "holding company," a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(h) Title; Restrictions. Owner Trust shall have a valid and marketable leasehold interest in and to the Land and a valid and marketable fee interest in the Improvements, and upon recording of the Ground Lease, free and clear of Liens (other than Permitted Liens).

(i) Use of Funds; Margin Stock. No part of the proceeds of any Payment or any Letters of Credit made available to Agent will be used, directly or indirectly, for any purpose which violates or which would be inconsistent with, the provisions of Regulations T, U or X of the Board of Governors of the Federal Reserve System.

(j) Defaults. No Agent Default, Agent Event of Default, Owner Trust Termination Event or Force Majeure Event has occurred and is continuing hereunder.

(k) Location. Agent shall notify Owner Trust in writing not less than thirty (30) days prior to any change of its location (as determined pursuant to Section 9-307 of the UCC).

(l) [Intentionally Omitted.]

(m) Investigation. Owner Trust has made no representation or warranty whatsoever with respect to the Facility, the Property or that any information provided to Agent with respect to the Property is accurate, true, correct, or fit for its intended purpose. Agent acknowledges that it is Agent's responsibility to determine the existence and nature of all information that may affect the Property or Agent's obligations under this Agreement.

(n) Regulatory Matters. Owner Trust shall not become subject to any statutory or regulatory requirements solely by virtue of executing, delivering and performing its obligations under the Operative Agreements to which it is a party, except for (i) regulation the

applicability of which depends upon the existence of facts in addition to the exercise of Owner Trust's rights and obligations under the Operative Agreements to which it is a party, the ownership of, or the holding of, any interest in the Facility, and (ii) regulatory requirements with respect to the filing of construction, safety, and operational reports, the creation and filing of which shall be a Required Action of Agent.

(o) FIRPTA. The sale or other disposition of the Property, the Facility or any interest therein by Owner Trust as a result of the exercise of the Purchase Option or any transfer of the Property or the Facility (or any interest therein or in an entity owning directly or indirectly the Facility or the Property) shall not give rise to any Tax under Code Section 897 or withholding under Code Section 1445.

(p) Budget. The Budget has been prepared in good faith on the basis of reasonable assumptions and the amounts set forth in the Budget provide for all of the reasonably anticipated costs to be incurred by Owner Trust from the Closing Date until the Maturity Date in connection with the transactions contemplated by this Agreement.

(q) Use and Operation of Facility. Except for such as are reasonably expected to be obtained on or prior to the Completion Date and are not necessary or required prior thereto or the failure to obtain or maintain of which will not have a Material Adverse Effect, all agreements, easements and other rights, public or private, which are necessary to permit the lawful ownership, use and operation of the Facility pursuant to the Operative Agreements have been obtained and are in full force and effect and there is no breach, default, violation, pending modification or cancellation of any of the same.

(r) Property Related Matters. Upon Completion of the Improvements in accordance with the Construction Contracts, the Improvements on the Land will not encroach in any material manner onto any adjoining land (except as permitted by express written easements or variance) or violate any material covenant, restriction, right of way, license, agreement or easement affecting the Property, whether recorded or unrecorded. The Land has legal access to a public road. There is no action, suit or proceeding (including any proceeding in condemnation or eminent domain or under applicable Environmental Law other than as set forth in Schedule III attached hereto) pending or, to Agent's knowledge, threatened which materially and adversely affects the title to, or the use, operation or value of, the Facility. No Casualty or Condemnation with respect to the Property has occurred which would constitute an Event of Loss.

(s) Taxes. Agent has filed or caused to be filed all United States federal tax returns and all other tax returns or reports which are required to have been filed by or on behalf of Agent or its business or activities as of the Closing Date (taking into account any permitted extensions taken by Agent) and has timely paid or caused to be paid all taxes due pursuant to said returns or pursuant to any assessment relating to such taxes, except such taxes, if any, as are being Contested. As of the Closing Date, no tax liens have been filed and no claims

are being asserted with respect to any such taxes which would have a Material Adverse Effect. As of the Closing Date, the charges, accruals and reserves on the books of Agent in respect of any taxes or other governmental charges are adequate in all material respects. As of the Closing Date, Agent knows of no pending investigation of Agent by any taxing authority, nor of any pending but unassessed tax liability which, in either case, would have a Material Adverse Effect.

(t) Recording and Filing. The Ground Lease (or memorandum thereof), the Lease, the Memorandum of Lease, the Lessor Mortgage, the Lessee Mortgage, and the UCC Financing Statements shall be executed and delivered by all parties thereto and in proper form to be duly recorded or filed, and, provision for all recording and filing fees and Taxes with respect to any such recording or filing shall have been made in full on or prior to the Closing Date and the same will create a valid, perfected first priority security interest and Lien on the Property in favor of Collateral Agent subject to no other Liens except in each case for Permitted Liens.

(u) Environmental Compliance.

(i) Except as disclosed in Schedule III, the Facility complies in all material respects with all Environmental Laws except to the extent such failure to comply with Environmental Laws would not reasonably be expected to result in a Material Environmental Liability; all necessary Governmental Actions pursuant to Environmental Laws have been obtained and are in full force and effect with respect to the Facility, except such Governmental Actions, customarily obtained or which are permitted by Applicable Law to be obtained at a later date (in which case Agent, having completed all appropriate due diligence in connection therewith, has no reason to believe that such Governmental Actions will not be granted in the usual course of business prior to the date that such Governmental Actions are required by Applicable Law without substantial expense or delay and without terms or conditions that may have a Material Adverse Effect) except for any Governmental Action, the failure to obtain would not have a Material Adverse Effect; and no Environmental Violation or Hazardous Condition exists that could be reasonably likely to (A) form the basis of an Environmental Action against the Facility that would reasonably be expected to result in a Material Environmental Liability or (B) cause the Facility to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law except for restrictions arising under the issued or to be issued Governmental Actions which would not result in a Material Adverse Effect.

(ii) No portion of the Facility is listed or, to the knowledge of Agent, proposed for listing on the NPL or on CERCLIS or any analogous list of sites requiring investigation or cleanup which would reasonably be expected to result in a Material Environmental Liability.

(iii) Except as disclosed in Schedule III, (A) No Hazardous Substances that have been generated at or transported from any portion of the Facility have been disposed at any location that is listed or proposed for listing on the NPL or on the CERCLIS or any analogous list where such disposal would reasonably be expected to result in a Material Environmental Liability, and (B) all Hazardous Substances generated, used, treated, handled or stored at or transported to or from the Facility have been disposed of in compliance with all Environmental Laws and Governmental Actions pursuant to Environmental Laws, except for such actions that would not reasonably be expected to result in a Material Environmental Liability.

(iv) Except as disclosed in Schedule III, Agent has not received any written notice, mandate, order, Lien or request which remains pending under an Environmental Law concerning the Facility or any part thereof or relating to an alleged Environmental Violation or Environmental Action concerning the Facility or any part thereof or relating to any potential adverse action in any way involving human health, safety (including workplace safety), natural resources, land use or environmental matters affecting the Facility or any part thereof except for such notices, mandates, orders, Liens, or requests that would not reasonably be expected to result in a Material Environmental Liability.

(v) Except as disclosed in Schedule III, there is no Environmental Action pending or, to the knowledge of Agent, threatened against Agent or Owner Trust by any Governmental Authority with respect to the presence or release of any Hazardous Substance on or from the Facility or any part thereof except for such Environmental Actions that would not reasonably be expected to result in a Material Environmental Liability.

(vi) Except as disclosed in Schedule III, to the knowledge of Agent, no Hazardous Substances are present or have been released from or on or beneath the Facility or any part thereof or are migrating into the Facility for which remedial action could reasonably be expected to be required under any Environmental Law or may be necessary to prevent or eliminate a significant risk to human health or the environment except for the presence or release or migration of Hazardous Substances that would not reasonably be expected to result in a Material Environmental Liability.

(v) Compliance with Requirements. The Improvements, when completed, will comply with all material requirements and conditions set forth in this Agreement and all other material conditions and requirements of the Operative Agreements.

(w) No Material Misstatements. No information, report, financial statement, exhibit or schedule with regard to the Property furnished by Agent to Appraiser

in connection with the preparation of the Appraisal described in Section 7.5(f) when taken as a whole, contained any misstatement of a material fact or omitted to state any material fact with regard to the Property necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not misleading in any material respect on the date as of which such information is stated or certified.

(x) Ground Lease. The Ground Lease is in full force and effect and no default or event of default has occurred thereunder. No event has occurred which gives the Ground Lessor the right to terminate the Ground Lease.

(y) Compliance with Loan Agreement Covenants. Agent will comply on behalf of Owner Trust, and will cause Owner Trust to comply, with the covenants contained in Article V of the Loan Agreement dated as of the initial Bond Closing Date with PEDFA; provided, that this covenant shall not include Section 5.10 of such Loan Agreement.

7.2 Representations and Warranties of Owner Trust. Owner Trust hereby represents and warrants to each of the other parties hereto that (a) it is a business trust duly organized, validly existing and in good standing under the laws of the State of Delaware and has the power and authority to carry on its business as now conducted and to enter into and perform its obligations under each Operative Agreement to which it is a party, (b) the execution, delivery and performance of each Operative Agreement to which it is or will be a party are within Owner Trust's power and have been duly authorized by all necessary action on its part and neither the execution and delivery thereof by Owner Trust, nor the consummation of the transactions contemplated thereby by Owner Trust, nor compliance by it with any of the terms and provisions thereof (i) requires or will require any approval of the holders of trust interests of, or approval or consent of any holders of any indebtedness or obligations of Owner Trust (in each case, which approval has not been obtained) or (ii) does or will contravene or result in any breach of or constitute any default under its organizational documents, or result in the creation of any Lien upon the Property, other than any Lien in favor of Collateral Agent and other holders of Lease Indebtedness under the Security Agreement or any other Financing Document, (c) each Operative Agreement to which it is a party has been duly executed and delivered by it and constitutes a legal, valid and binding obligation enforceable against it in accordance with the terms thereof, subject, in each case, to enforceability, bankruptcy, insolvency, reorganization and other similar laws affecting enforcement of creditor rights generally (insofar as any such law relates to the bankruptcy, insolvency, reorganization or similar event of Owner Trust) and, as to the availability of specific performance or other injunctive relief, subject to the discretionary power of a court to deny such relief and to general equitable principles and (d) there are no actions, proceedings, claims, suits, investigations, inquiries or similar actions pending, or to the knowledge of Owner Trust, threatened, against Owner Trust before any Governmental Authority or arbitral tribunal that question the validity or enforceability of any Operative Agreement to which it is a party or that would adversely affect Owner Trust's ability to perform its obligations under any Operative Agreement to which it is a party.

7.3 Representations and Warranties of Bank. Bank, in its individual capacity, represents and warrants to each of the other parties hereto as follows:

(a) Due Organization, etc. It is a national banking association duly organized and validly existing under the laws of the United States and has the organizational power and authority to enter into and perform its obligations under the Trust Agreement and (assuming due authorization, execution and delivery of the Trust Agreement by Owner Trust Parent) has the corporate and trust power and authority to act as Trustee and to enter into and perform the obligations under each of the other Operative Agreements to which Bank or Trustee, as the case may be, is or will be a party and each other agreement, instrument and document to be executed and delivered by it in connection with or as contemplated by each such Operative Agreement to which Bank or Trustee, as the case may be, is or will be a party.

(b) Authorization; No Conflict. The execution, delivery and performance of each Operative Agreement to which it is or will be a party, either in its individual capacity or (assuming due authorization, execution and delivery of the Trust Agreement by Owner Trust Parent) as the Trustee, as the case may be, has been duly authorized by all necessary action on its part and neither the execution and delivery thereof, nor the consummation of the transactions contemplated thereby, nor compliance by it with any of the terms and provisions thereof (i) does or will require any approval or consent of any trustee or holders of any of its indebtedness or obligations, (ii) does or will contravene any current United States law, governmental rule or regulation relating to its banking or trust powers, (iii) does or will contravene or result in any breach of or constitute any default under, or result in the creation of any Lien upon any of its property under, its articles of association or by-laws, or any indenture, mortgage, deed of trust, conditional sales contract, credit agreement or other agreement or instrument to which it is a party or by which it or its properties may be bound or affected or (iv) does or will require any Governmental Action by any Governmental Authority of the United States regulating its banking or trust powers.

(c) Enforceability, etc. The Trust Agreement and, assuming the Trust Agreement is the legal, valid and binding obligation of Owner Trust Parent, each other Operative Agreement to which the Bank or Trustee, as the case may be, is or will be a party have been, or on or before the Closing Date will be, duly executed and delivered by Bank or Trustee, as the case may be, and the Trust Agreement and each such other Operative Agreement to which Bank or Trustee, as the case may be, is a party constitutes, or upon execution and delivery will constitute, a legal, valid and binding obligation enforceable against Bank or Trustee, as the case may be, in accordance with the terms thereof, except as the same may be limited by insolvency, bankruptcy, reorganization or other laws relating to or affecting creditors' rights or by general equitable principles.

(d) Litigation. There is no action or proceeding pending or, to its knowledge, threatened to which it is or will be a party, either in its individual capacity or as Trustee, before any Governmental Authority that, if adversely determined, would materially and

adversely affect its ability, in its individual capacity or as Trustee, to perform its obligations under the Operative Agreements to which it is a party, would have a material adverse effect on the financial condition of Trustee or would question the validity or enforceability of any of the Operative Agreements to which it is or will become a party.

(e) Assignment. It has not assigned or transferred any of its right, title or interest in or under this Agreement except in accordance with the Operative Agreements.

7.4 Covenants of Agent. Agent hereby covenants and agrees that so long as this Agreement is in effect and until all amounts payable by and obligations of Agent under the Operative Agreements have been paid or performed in full and Owner Trust's obligations to make Payments shall have terminated or Agent has exercised the Purchase Option with respect to the Facility:

(a) Preservation of Existence. Agent will preserve and maintain its existence in the jurisdiction of its formation and all material authorizations, rights, franchises, privileges, consents, approvals, orders, licenses, permits, or registrations from any Governmental Authority that are necessary for the transaction of its businesses, except where the failure to so preserve and maintain would not have a Material Adverse Effect and except that a transaction permitted under paragraph (g) shall not constitute a violation of this covenant; and Agent will qualify and remain qualified to transact business in each jurisdiction in which such qualification is necessary in view of its business or the ownership or leasing of its properties except where the failure to so qualify or remain qualified would not have a Material Adverse Effect.

(b) Payment of Taxes and Other Potential Liens. Agent will pay and discharge promptly all Taxes, assessments and governmental charges or levies imposed upon it, upon the Property or any part thereof and upon its income or profits or any part thereof, except that Agent shall not be required to pay or cause to be paid any Tax, assessment, charge or levy that is being Contested or for which the failure to pay does not have a Material Adverse Effect.

(c) Compliance With Applicable Laws. Agent will comply in all material respects within the time period, if any, given for such compliance by the relevant Governmental Authority or Authorities with enforcement authority, with all Applicable Laws except where being Contested or where noncompliance would not have a Material Adverse Effect; and, in addition, if such compliance involves Environmental Laws, noncompliance would not result in a Material Environmental Liability.

(d) Books and Records. Agent will keep, or cause to be kept, proper books of record and account, in which full and correct entries shall be made of all its financial transactions and its assets and business, in accordance with GAAP.

(e) Maintenance of Properties, Etc. Agent will maintain and preserve all of its properties which are used in the conduct of its business in good working order and

condition, ordinary wear and tear excepted, to the extent that any failure to do so would have a Material Adverse Effect.

(f) Liens. Agent will not create, assume or suffer to exist any Liens on the Facility or the Construction Contracts or the Operative Agreements other than Permitted Liens.

(g) Mergers, Etc. Agent will not merge or consolidate with any Person, except that Agent may merge or consolidate with (or liquidate into) any other Person; provided, that (i) either (A) Agent shall be the continuing or surviving Person or (B) the continuing or surviving Person is organized under the laws of the United States or a State thereof and unconditionally assumes by agreement all of the performance obligations of Agent under the Operative Agreements and (ii) the Guaranty remains in full force and effect.

(h) Ratings Downgrade. In the event the Guarantor fails to maintain an Investment Grade Corporate Rating, Agent shall deliver to Owner Trust and Administrative Agent within sixty (60) days of such event the following:

(i) Lenders' Title Policy. (A) An ALTA Loan Policy (1992) issued by the title company or a marked up unconditional binder for such insurance and otherwise reasonably satisfactory to Administrative Agent, which policy shall (i) be issued in an amount equal to the lesser of (A) the Aggregate Lender's Commitment or (B) the Value (or projected Value) of the Land and the Improvements when Complete (as determined by the Appraisal delivered pursuant to Section 7.5(f)); (ii) be issued at standard rates consistent with similar policies issued in the applicable state; (iii) insure that the Lessor Mortgage insured thereby creates a valid first Lien against Owner Trust's leasehold interest in the Land and fee interest in the Improvements, subject only to Permitted Liens; (iv) be clear of all defects and encumbrances, except Permitted Liens; (v) name Collateral Agent, for the benefit of the Secured Parties, as the insured thereunder; and (vi) contain such endorsements and affirmative coverage as Administrative Agent may reasonably request including zoning and mechanic's lien coverage (if available on a commercially reasonable basis); (B) evidence reasonably satisfactory to it that all premiums in respect of such policy, and all charges for any mortgage recording tax, if any, with respect to the Lessor Mortgage have been paid or provision made therefor; and (C) a copy of all recorded documents referred to, or listed as exceptions to title in, such title commitment relating to the title policy. If such title policy contains a pending disbursements clause, Administrative Agent shall receive title continuation reports simultaneously with each subsequent Payment request, showing no additional exceptions to title and otherwise in form and substance reasonably satisfactory to Administrative Agent.

(ii) Owner's Title Policy. An ALTA Owner's Title Policy (1992) and/or an ALTA Leasehold Title Policy (1992), as applicable, issued by the title company, or a marked up unconditional binder for such insurance, and otherwise satisfactory to Administrative Agent, insuring Owner Trust's valid leasehold estate in the land and its fee interest in the Facility in an amount equal to the lesser of (a) the Aggregate Lender's Commitment or (b) the Value (or projected Value) of the Land and the Improvements when Complete (as determined by the Appraisal delivered pursuant to Section 7.5(f)), subject only to Permitted Liens and containing such endorsements and affirmative insurance as the Administrative Agent or the Owner Trust shall reasonably request, including a zoning endorsement (if available on a commercially reasonable basis) and a recharacterization endorsement (or separate lenders title insurance policy) in the event this Agreement or the Lease is recharacterized as a Loan; and Administrative Agent shall have received evidence reasonably satisfactory to it that all premiums in respect of such policy have been paid or provision made therefor.

(iii) An ALTA/ACSM survey of the Facility certified to the Collateral Agent for the benefit of the Secured Parties, the Lessor and the title company in a manner reasonably satisfactory to it, prepared by a professionally licensed land surveyor reasonably satisfactory to Collateral Agent for the benefit of the Secured Parties, which survey shall be made in accordance with the Minimum Standard Detail Requirements for Land Title Surveys jointly established and adopted by the American Land Title Association and the American Congress on Surveying and Mapping in 1999 (or the most recent promulgated standards), and, without limiting the generality of the foregoing, there shall be surveyed and shown on such survey the following: (A) the locations on the Land of all the significant buildings, structures and other improvements, if any, and the established building setback lines; (B) the lines of streets abutting the Land; (C) all access and other easements appurtenant to the Land; (D) all roadways, paths, driveways, easements, encroachments and overhanging projections and similar encumbrances affecting the Land, whether recorded, apparent from a physical inspection of the Land or otherwise known to the surveyor; (E) any encroachments on any adjoining property by the buildings, structures and improvements on the Land; and (F) if the Land is described as being on a filed map, a legend relating the survey to said map.

(i) Use of Proceeds. Agent shall not use the proceeds of any Advance Payment made available to it under Section 5.1 for any purpose other than to make payments required under the Construction Contracts, pay Project Costs in accordance with the Budget, including amounts owing in respect of the Financing Costs, Commitment Fee, Letter of Credit Fee, Issuing Bank Fronting Fee, Bond Fees and Transaction Expenses that are permitted to be capitalized or otherwise paid hereunder, or otherwise specifically agreed to in writing by Owner

Trust and Administrative Agent, or reimburse itself or any of its Affiliates for costs and expenses incurred or accrued in connection with Agent's Required Actions.

(j) Utilities. Upon Completion of the Improvements, all water, sewer, electric, gas, telephone and drainage facilities and all other utilities required to adequately service such Improvements for the Intended Use will be available to the Facility.

(k) Further Assurances. Agent shall take or cause to be taken from time to time all action necessary to assure that the intent of the parties pursuant to the Operative Agreements is given effect, and that the Collateral Agent for the benefit of the Secured Parties holds a first priority (subject to Permitted Liens) perfected Lien on the Property and that the Deposit Bank shall, for the benefit of the applicable Secured Parties, hold a first priority (subject to Permitted Liens) perfected Lien on the Deposit Account Collateral. Agent shall execute and deliver, or cause to be executed and delivered, to the Owner Trust, the Administrative Agent and the Collateral Agent hereto, from time to time, promptly upon request therefor, any and all other and further instruments (including correction instruments and security agreements, as appropriate) that may be reasonably requested by the Administrative Agent or the Collateral Agent to cure any deficiency in the execution and delivery of this Agreement or any other Operative Agreement to which it is a party.

7.5 Conditions to Effectiveness. In addition to the conditions precedent set forth in Section 4.1 of the Credit Agreement, the effectiveness of this Agreement is subject to the delivery by Agent or to the satisfaction by Agent to Owner Trust and Administrative Agent on or prior to the Closing Date of the following:

(a) Legal Opinions.

(i) An opinion of counsel to Agent in the State of Pennsylvania, in form and substance reasonably satisfactory to Owner Trust and Administrative Agent, in the form attached hereto as Exhibit K;

(ii) Opinions of Baker Botts L.L.P., as special counsel and special New York counsel to the Agent and Guarantor, in form and substance reasonably satisfactory to Owner Trust and Administrative Agent;

(iii) An opinion of Michael L. Jines, in house counsel of Agent and Guarantor, in form and substance reasonably satisfactory to Owner Trust and Administrative Agent; and

(iv) An opinion of Potter, Anderson & Corroon, L.L.P., special Delaware counsel to Owner Trust, in form and substance reasonably satisfactory to the Administrative Agent.

(b) Environmental Audits.

(i) A "Phase I" and/or "Phase II" Environmental Audit and other environmental reports, as applicable, with respect to the Facility, prepared by an environmental engineer, in form and substance reasonably satisfactory to Owner Trust and Administrative Agent.

(ii) Letters from an environmental engineer stating, among other things, that the Lenders may rely on the Environmental Audit and other environmental reports with respect to the Facility which have been prepared by such firm as if they were addressed to them in all respects.

(c) Lien Searches. Results of a recent search of the Uniform Commercial Code, judgment and tax lien filings which may have been filed in the States of Delaware and Pennsylvania with respect to any personal property of Owner Trust, and the results of such search shall be satisfactory to Administrative Agent.

(d) Title Matters. A title insurance commitment on or prior to the Closing Date with respect to the Land (and copies of all documents described therein as exceptions) showing the absence of any Liens on the Closing Date other than Permitted Liens and otherwise in form and substance reasonably satisfactory to Owner Trust and Administrative Agent, together with true, correct and complete copies of any existing title insurance policies with respect to the Land and an assignment of Agent's rights under such title insurance policies.

(e) Survey. An ALTA/ACSM Class A, if available, survey of the Facility in form and substance reasonably satisfactory to the Administrative Agent.

(f) Appraisal. An Appraisal of the Property, in form agreed by the Administrative Agent and Agent, which Appraisal shall show that the Value of the Property is forecasted to be (A) at the Outside Completion Date, at least equal to the estimated Project Costs for the Property and (B) on the Expiration Date (as defined in the Lease Agreement) at least equal to three (3) times the sum of the principal amount of the Tranche A-2 Loans and the aggregate amount of Owner Trust's Contribution projected to be outstanding at the Outside Completion Date.

(g) Due Authorization, Execution and Delivery. The Operative Agreements shall have been duly authorized, executed and delivered by all parties thereto, shall be in full force and effect, and no condition or event shall exist or have occurred which would constitute an Agent Default, an Agent Event of Default or an Owner Trust Termination Event.

(h) Representations and Warranties. The representations and warranties of each of Agent, Owner Trust, and Bank, respectively, set forth in the Operative Agreements shall be true and correct in all material respects on and as of the date of Closing

(except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date, in which case such representations and warranties shall be true and correct in all material respects as of such specific date).

(i) Agent and Guarantor Documents. Administrative Agent shall have received on or before the Closing Date the following, each dated as of the Closing Date (unless otherwise specified), and in form and substance reasonably satisfactory to Administrative Agent:

(i) Secretary's Certificate. Certificates of the Secretary or an Assistant Secretary of Agent and Guarantor certifying (A) the certificate of formation, by-laws, limited liability company agreement or other equivalent organizational documents of Agent and Guarantor, (B) the resolutions of the relevant governing board or other authority of Agent and Guarantor approving the execution, delivery and performance of each Operative Agreement to which Agent or Guarantor is or will be a party and (C) the names and true signatures of the Officers of Agent and Guarantor authorized to sign each Operative Agreement to which Agent or Guarantor is or will be a party and the other documents or certificates to be delivered hereunder and thereunder;

(ii) Good Standing Certificate; Certificate of Authority. A good standing certificate from the Secretary of State of Delaware, each for Agent and Guarantor, and a certificate of authority to transact business in the Commonwealth of Pennsylvania from the Secretary of State of the Commonwealth of Pennsylvania, for Agent, all dated as of a recent date prior to the Closing Date;

(iii) Financing Statements. Agent shall have delivered to the Owner Trust all Owner Trust Financing Statements relating to the Property; and

(iv) Other Documents. Such other approvals, certificates or documents as Administrative Agent may reasonably request to evidence satisfaction of the conditions set forth in this Section 7.5.

(j) Bank Documents. Administrative Agent shall have received on or before the Closing Date the following, each dated as of the Closing Date (unless otherwise specified) and in form and substance reasonably satisfactory to Administrative Agent:

(i) a certificate of the Secretary or an Assistant Secretary of Bank certifying (A) the organizational documents of Bank, (B) the resolutions of the board of directors of Bank approving the execution, delivery and performance of each Operative Agreement to which Bank, as Trustee is a party, and (C) the names and true signatures of the officers of Bank authorized to sign each

Operative Agreement to which Bank, as Trustee is a party and the other documents or certificates to be delivered hereunder and thereunder;

(ii) an Officer's Certificate of Bank certifying as to the truth and correctness of the representations and warranties made by Bank in each Operative Agreement;

(iii) a certificate of authority from the Comptroller of the Currency with respect to Bank dated as of a recent date prior to the Closing Date; and

(iv) the Certificate of Trust of the Owner Trust issued by the State of Delaware.

(k) Insurance Certificates. Administrative Agent shall have received on or before the Closing Date certificates of insurance or other reasonably satisfactory assurances evidencing compliance with the Insurance Requirements.

(l) [Intentionally Omitted.]

(m) Construction Documents. Owner Trust and Administrative Agent shall have received on or before the Closing Date copies of the Budget, in form and substance satisfactory to Owner Trust and Administrative Agent, a construction schedule, the Plans and Specifications, and all Construction Contracts and such other documentation with respect to the acquisition, condition, construction, operation and use of the Property, as Administrative Agent or Owner Trust may reasonably request, each certified by an Officer of Agent as being a true and correct copy thereof.

(n) [Intentionally Omitted.]

(o) Taxes. All taxes, charges, fees and costs, if any, due in connection with the execution, delivery, recording and filing of the Operative Agreements and the transactions contemplated to be consummated pursuant thereto shall have been paid in full on or before the Closing Date, or arrangements for such payment shall have been made to the reasonable satisfaction of Owner Trust and Administrative Agent.

(p) Recording and Filing. The Ground Lease (or memorandum thereof) the Lease, the Memorandum of Lease, the Lessor Mortgage, the Lessee Mortgage, and the UCC Financing Statements shall be executed and delivered by all parties thereto and in proper form to be duly recorded or filed, and, all recording and filing fees and Taxes with respect to any such recording or filing shall have been paid in full (or arrangement for such payment shall have been made) on or prior to the Closing Date.

(q) Other Property Matters. Owner Trust and Administrative Agent shall have received evidence satisfactory to each of them that the Land is properly zoned for the Intended Use, is one or more separate tax lots and that the Land is not located in a flood hazard area (except as delineated on the surveys delivered pursuant to this Agreement). If the Land is located in a flood hazard area, the Agent shall procure flood hazard insurance in such amounts and in such form as shall be reasonably acceptable to the Administrative Agent.

(r) Proceedings Satisfactory and Other Evidence. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated by the Operative Agreements and all documents, papers and authorizations relating thereto shall be satisfactory to Administrative Agent, the Participants, Owner Trust, Bank, Agent and their respective counsel.

(s) Legality. Loans and Owner Trust Contributions shall not be subject to the registration requirements of the Securities Act of 1933, as amended or any state securities or blue sky Law, and shall not be prohibited by any Applicable Law (including Regulation T, Regulation U or Regulation X and any applicable usury laws) and shall not subject Owner Trust, Bank, Administrative Agent or any Participant to any Tax, penalty, liability or other onerous condition under or pursuant to any Applicable Law.

(t) Transaction Expenses. All Transaction Expenses as may be required to be paid on the Closing Date shall have been paid in accordance with the terms of the Operative Agreements or shall be paid from the Payments to be made or occur on the Closing Date.

7.6 Conditions to Payments. The obligation of Owner Trust to make Payments under this Agreement is subject to the conditions set forth in Section 4.2 of the Credit Agreement and, if applicable, any corresponding provisions of the Bond Documents or other Financing Documents.

ARTICLE VIII

AGENT EVENTS OF DEFAULT

8.1 Agent Events of Default. If any one or more of the following events (each an "Agent Event of Default") shall occur:

(a) Agent fails to apply any Advance Payment to payment of the applicable Contractor pursuant to any Construction Contracts or other Person identified in a Payment Direction/Borrowing Notice within sixty (60) days of receipt thereof by Agent, or any amount payable by Agent to Owner Trust pursuant to Sections 10.1 or 11.2 shall not be paid for more than five (5) Business Days after such amount becomes due or

any amounts payable by Agent to Owner Trust pursuant to Article XII shall not be paid for more than ten (10) Business days after such amount becomes due;

(b) any representation or warranty made by Agent to Owner Trust in any Operative Agreement or any material certificate, document or other instrument delivered under any Operative Agreement to which it is a party shall prove to have been inaccurate in any material respect at the time made and such materiality shall be continuing or Agent submits a Payment Direction/Borrowing Notice or Quarterly Certificate which contains any materially false or untrue statement or inaccuracy;

(c) (i) There shall be commenced against Agent any case, proceeding or other action (A) seeking a decree or order for relief in respect of Agent under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law, (B) seeking a decree or order adjudging Agent a bankrupt or insolvent, (C) seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or similar relief of or in respect of Agent, or its debts under any applicable domestic or foreign law or (D) seeking the appointment of a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or other similar official of Agent or of any substantial part of its respective Properties, or the liquidation of its respective affairs, and such petition is not dismissed within ninety (90) days or (ii) a decree, order or other judgment is entered in respect of any remedies, reliefs or other matters for which any petition referred to in (i) above is presented, and such decree, order or other judgment is not dismissed within ninety (90) days or (iii) there shall be commenced against Agent any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged or stayed or bonded pending appeal within ninety (90) days from the entry thereof; or

(d) (i) The commencement by Agent of a voluntary case, proceeding or other action under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law (A) seeking to have an order of relief entered with respect to it, (B) seeking to be adjudicated a bankrupt or insolvent, (C) seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief with respect to it or its debts under any applicable domestic or foreign law or (D) seeking the appointment of or the taking possession by a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or similar official of Agent, or of any substantial part of the Facility; or (ii) the making by Agent of a general assignment for the benefit of creditors; or (iii) Agent shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in clause (i) or (ii) above or in Section 8.1(c); or (iv) the admission by Agent in writing of its inability to pay its debts generally as they become due or the failure by Agent generally to pay its debts as such debts become due;

(e) by both (A) any act of Agent or failure to act and (B) reason of fraud, misapplication of funds, illegal acts or willful misconduct of Agent, Agent shall fail to observe or perform in any material respect, any term, covenant or condition of Agent under this Agreement or any other Operative Agreement, including delivery of the Guaranty and any Collateral Agreement (other than any term, covenant or condition described in any other Event of Default referred to in this Section 8.1), and such failure shall have continued for thirty (30) Business Days after the earlier of (i) delivery to Agent of written notice thereof from Owner Trust or (ii) the date Agent shall have obtained knowledge of such failure;

(f) (i) the occurrence of a Guaranty Event of Default under Section 5.01(h) or (i) of the Guaranty or (ii) the occurrence of any other Guaranty Event of Default to the extent caused by both (A) any act or failure to act of Guarantor and (B) by reason of fraud, misapplication of funds, illegal acts or willful misconduct of Guarantor;

(g) the occurrence of (1) an Agent Event of Default under any of the Other CAAs, (2) a Lease Event of Default under Section 16.1(e) or (f) of any of the Other Leases or (3) any other a Lease Event of Default under any of the Other Leases, caused by both (i) the respective Agent's or Lessee's act or failure to act and (ii) by reason of fraud, misapplication of funds, illegal acts or willful misconduct of such Agent or Lessee and in connection therewith the applicable Agent or Lessee has not within the applicable time period exercised its Purchase Option thereunder, and if such Purchase Option is elected in Good Faith, such Agent or Lessee, as the case may be, has not consummated such purchase within the applicable time period;

(h) [Intentionally Omitted];

(i) by both (i) any act or failure to act by Agent and (ii) reason of fraud, misapplication of funds, illegal acts or willful misconduct by Agent, Agent shall (A) fail to obtain and maintain in full force and effect any insurance policy (including the amounts of coverage) required pursuant to Article VI, or (B) fail to deliver any certificate of insurance required to be delivered to Owner Trust and Administrative Agent pursuant to Article VI and such failure shall continue unremedied for two (2) Business Days after notice by Owner Trust or Administrative Agent to Agent of such failure;

(j) by both (i) any act or failure to act of Agent, Lessee or Guarantor and (ii) reason of fraud, misapplication of funds, illegal acts or willful misconduct by Agent, Lessee or Guarantor

(A) any Operative Agreement to which it is a party or any obligation of Agent, Lessee or the Guarantor thereunder shall be revoked or repudiated by Agent, Lessee or the Guarantor in any respect or

attempted to be revoked or repudiated by Agent, Lessee or the Guarantor or any Operative Agreement to which it is a party shall cease to be the legal, valid, binding and enforceable obligation of Agent, Lessee or the Guarantor, in each case, in such manner as to be materially adverse to the interest of Owner Trust, Administrative Agent, Bank or any Participant;

(B) the Ground Lease or any obligation of the Ground Lessor thereunder shall be terminated, revoked or repudiated by the Ground Lessor in any respect or attempted to be terminated, revoked or repudiated by the Ground Lessor in any respect or the Ground Lease shall cease to be the legal, valid, binding and enforceable obligation of the Ground Lessor, in each case, in such manner as to be materially adverse to the interest of Owner Trust, Administrative Agent, Bank or any Participant;

then, in any such event and during its continuance, subject to the Intercreditor Agreement, Owner Trust or Collateral Agent as assignee thereof may in addition to the other rights and remedies provided for in this Article, terminate the Aggregate Owner Trust's Commitment and Agent's rights as Owner Trust's agent hereunder by giving Agent notice of such termination; provided, however, that such termination shall become effective automatically upon the occurrence of an event described in Section 8.1(c) or (d).

8.2 Remedies. (a) If an Agent Event of Default shall have occurred and be continuing, Owner Trust shall have the right by written notice to Agent delivered,

(i) immediately and automatically in the case of any Agent Event of Default specified in Section 8.1(c) or (d);

(ii) within five (5) Business Days of receipt of such notice, in the case of any Agent Event of Default specified in Section 8.1 (a), (e), (f) or (g) (other than for events of default under clauses 8.1(b) of the Other CAAs); and

(iii) within thirty (30) days of receipt of such notice, in the case of any other Agent Event of Default,

to require Agent to pay to Owner Trust, subject to Agent's right to elect the Purchase Option pursuant to Section 10.1, the Termination Amount for application as provided in the Intercreditor Agreement; and if an Event of Default shall have occurred and be continuing under Section 8.1(c) and (d), the Termination Amount shall automatically be due and payable immediately by Agent, without request, demand, presentment, protest or notice of any kind. Upon the occurrence and continuance of an Agent Event of Default, Owner Trust shall have the right to set off an amount equal to the value of the Deposit Account Collateral then on deposit with the Deposit Bank, if any, to an equal amount of the Termination Amount. Upon receipt by

the Collateral Agent of the Termination Amount, this Agreement and the Collateral Agreement shall terminate (except for any provisions that expressly survive termination), and Owner Trust shall convey to Agent or its designee its interest in and possession of the Property, free and clear of all Owner Trust Liens, the Liens granted by Agent to Owner Trust and by Owner Trust in favor of the Collateral Agent and any other Liens granted by Owner Trust (other than those Liens arising or created as a result of actions undertaken or documents or instruments executed by Owner Trust pursuant to the request of Agent), without representation or warranty (except the representation and warranty that the Property is free and clear of all such Liens) and Agent will accept such interest on an AS IS, WHERE IS basis. If Agent thereupon fails to pay timely the Termination Amount, Owner Trust may, in addition to all of its other rights and remedies provided for in this Agreement, pursue all of its other rights and remedies under Applicable Law, including its right to terminate this Agreement and the Aggregate Owner Trust's Commitment hereunder and retain its ownership interest in the Property. Agent shall pay all reasonably documented costs and expenses reasonably incurred by or on behalf of Owner Trust, including reasonable fees and expenses of counsel, as a result of any Agent Event of Default hereunder.

(b) Notwithstanding the provisions of Section 8.2(a), Agent shall have the right to cure any Agent Event of Default (other than an Agent Event of Default under clauses (c) or (d) of Section 8.1) by (i) giving the Purchase Option Notice pursuant to Section 10.1 prior to the expiration of the five (5) Business Day period or thirty (30) day period, as applicable, specified in Section 8.2(a) above and (ii) consummating, or causing its Designee to consummate, the Purchase Option within five (5) Business Days after the date of such Purchase Option Notice subject to the limitations set forth in the last sentence of Section 10.1(a) with regard to the delivery of a Purchase Option Certificate. If Agent has paid or caused to be paid the Termination Amount as required hereunder, Agent may defer the transfer of title to the Facility for a reasonable period, not to exceed ninety (90) days, as may be necessary to obtain any approvals to such title transfer from Governmental Authorities as are mandatory under Applicable Law. Owner Trust may require as a condition to any such deferral that it receive an indemnity agreement from Guarantor with such collateral therefor as Owner Trust, in its sole discretion, deems sufficient.

8.3 Survival. The termination of the Aggregate Owner Trust's Commitment pursuant to Section 8.1 or 8.2 shall in no event relieve Agent of its liability and obligations hereunder that accrued prior to such termination, all of which shall survive any such termination.

8.4 Waivers; Rights Cumulative. No failure to exercise and no delay in exercising, on the part of Owner Trust, any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege under this Agreement preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided in this Agreement are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

ARTICLE IX

TERMINATION BY OWNER TRUST; FAILURE TO COMPLETE

9.1 Owner Trust Termination Events. Agent hereby agrees that Owner Trust shall have the unconditional right and option to terminate the Aggregate Owner Trust's Commitment upon the occurrence of any of the following events ("Owner Trust Termination Events"):

(a) as a direct or indirect result of any act or failure to act by Agent or any Contractor, the amount of Advance Payments and Direct Payments required to successfully Complete the Facility has exceeded, or is reasonably likely to exceed (as determined by Agent or, at the request of Owner Trust, the Independent Engineer) the Aggregate Owner Trust's Commitment (or the Budget, as from time to time revised pursuant to this Agreement);

(b) in circumstances where an Agent Default or an Agent Event of Default does not exist, Agent has failed, or is reasonably likely to fail (despite Good Faith efforts), to perform the Required Actions, such failure continues for thirty (30) days after written notice thereof by Owner Trust to Agent, and such failure has materially diminished the likelihood that the Facility will be successfully Completed (i) in accordance with the Budget or (ii) by the Outside Completion Date;

(c) an event described in Section 8.1 (i)(A) or (j) has occurred which does not constitute an Agent Event of Default solely by reason of the failure to meet the causation requirement in either of clauses (i) and (ii) therein or an event described in Section 8.1(e) or (f) has occurred which does not constitute an Agent Event of Default solely by reason of the failure to meet the causation requirement in either of clauses (A) and (B) set forth; provided, however, that any such failure in respect of a Special Provision shall constitute an Owner Trust Termination Event hereunder only if (x) the applicable Benefited Secured Parties holding not less than 50.1% of the related Lease Indebtedness shall have elected to treat such failure as an Owner Trust Termination Event and (y) such related Lease Indebtedness shall have been accelerated in accordance with the terms of the related Financing Documents; or

(d) the occurrence of (i) an Owner Trust Termination Event under any of the Other CAAs, or (ii) a Lease Event of Default under any of the Other Leases which does not constitute an Agent Event of Default solely by reason of the failure to meet the causation requirements described in clauses (i) and (ii) set forth in Section 8.1(g)(3), and in connection therewith the applicable Agent or Lessee has not within the applicable time period exercised its Purchase Option thereunder, and if such Purchase Option is elected, such Agent or Lessee, as the case may be, has not consummated such purchase within the applicable time period.

In any such case, and during its continuance, Agent, Administrative Agent and Owner Trust (but only with the unanimous consent of the Participants if such revision would result in an increase of the Commitments above the Aggregate Owner Trust Commitments) may mutually agree to a revised Budget which will permit successful Completion of the Facility, in which case Owner Trust will rescind the termination.

9.2 Owner Trust Termination Notice. Upon the occurrence and the continuance of any such Owner Trust Termination Event, Owner Trust (or, if such event arises under Section 9.1(c) or (d), the Collateral Agent, subject to the Intercreditor Agreement) shall deliver to Agent a written notice specifying in reasonable detail the nature of the Owner Trust Termination Event (the "Owner Trust Termination Notice"). Agent shall have thirty (30) days following the delivery of the Owner Trust Termination Notice in which to exercise the Purchase Option by delivery of a Purchase Option Notice pursuant to Article X, for the purchase of the Property or the Facility. If Agent fails to exercise the Purchase Option, Owner Trust may exercise the Remarketing Requirement.

9.3 Compliance with Required Actions. For purposes of determining whether an Owner Trust Termination Event has occurred and continues, giving Owner Trust the right to issue an Owner Trust Termination Notice, Owner Trust shall be entitled to deliver a notice pursuant to Section 9.1(b) based upon any failure by Agent to comply with or perform the Required Actions (provided that all the other conditions set forth in such Section 9.1(b) are satisfied) even though such failure to comply with or perform the Required Actions in and of itself would not restrict or limit Agent's right to request draws under this Agreement because such failure would not result in a Material Adverse Effect which prevents Agent from satisfying the conditions to such payment.

ARTICLE X

AGENT'S OPTIONS

10.1 Purchase Option.

(a) Exercise of Purchase Option. Owner Trust hereby grants to Agent the unconditional right and option (the "Purchase Option") to purchase and acquire on any Business Day (provided that an Agent Event of Default described in clause (c) or (d) of Section 8.1 has not occurred and is not continuing) during the Term from:

(i) Owner Trust, all of Owner Trust's right, title and interest in and to the Property ("Asset Purchase") for a price equal to the Termination Amount; provided, that with the consent of the Collateral Agent, Owner Trust may accept Agent's indemnity and undertaking to pay all expenses and costs that

are expected to be incurred and which are included in the Termination Amount but which are not due on the date of purchase, or

(ii) Owner Trust Parent, all of Owner Trust Parent's right, title and interest in, to and under its beneficial interests in Owner Trust ("Upstream Purchase"), for a purchase price equal to the Termination Amount which would have been payable had Agent elected the Asset Purchase pursuant to Section 10.1(a)(i); provided, that with the consent of the Collateral Agent, Owner Trust may accept Agent's indemnity and undertaking to pay all expenses and costs that are expected to be incurred and which are included in the Termination Amount but which are not due on the date of purchase;

The Purchase Option may be exercised by delivery to Owner Trust of a written notice of the exercise of such Purchase Option (the "Purchase Option Notice") and a certificate in the form attached hereto as Exhibit G ("Purchase Option Certificate"). In the event that Agent is unable to deliver the Purchase Option Certificate, any exercise of the Purchase Option with respect to the Property shall be conditioned upon the simultaneous exercise by each Agent of its purchase options under the respective Other CAAs or Other Leases and each Replacement Facility with respect to the Signal Peak Facility, the [_____] Facility, the [_____] Facility and each Replacement Facility, respectively, or the ownership interests in the related Owner Trusts. Owner Trust and Owner Trust Parent agree to cooperate with Agent to cause any Purchase Option to be consummated.

(b) Payment of Termination Amount. Any Termination Amount that may be due and payable from time to time in connection with the exercise of the Purchase Option, shall be paid in cash only, except as expressly permitted by Financing Documents governing any Lease Indebtedness with respect to portions of the Termination Amount payable to the relevant Secured Parties. Any cash payments to be made to Owner Trust upon the exercise of the Purchase Option shall be deemed to be prepayments of the aggregate amount of all Payments made by Owner Trust hereunder, have been assigned by Owner Trust to Collateral Agent and shall be paid by Agent to Collateral Agent to be applied in accordance with the Intercreditor Agreement.

(c) Appointment of Designee. From time to time and upon not less than five (5) days prior written notice to Owner Trust, Agent may assign the Purchase Option to another Designee; provided that (i) such assignment is permitted under the applicable Construction Contracts and (ii) notwithstanding any such assignment Agent shall not be released of any obligation under this Agreement until such Purchase Option is consummated as provided in Section 10.1(d).

(d) Closing. Closing of a purchase and sale pursuant to Section 8.2, 9.2 or 10.1(a) shall be conducted at the offices of Chadbourne & Parke LLP, 30 Rockefeller Plaza, New York, New York 10112, or at such other location as may be mutually agreed upon by

Owner Trust, Administrative Agent and Agent within thirty (30) days after receipt of a Purchase Option Notice (but in no event later than the Maturity Date) if the Purchase Option Notice is given pursuant to Section 9.2, on the date specified in Section 8.2(b) if the Purchase Option is exercised pursuant thereto, and on or prior to the Maturity Date in all other cases. At closing, as appropriate, (i) in the case of an Asset Purchase, Owner Trust will sell and assign to Agent or its Designee by a Purchase Option Assignment and Assumption Agreement in the form of Exhibit H attached hereto (the "Purchase Option Assignment"), or other mutually acceptable appropriate documentation, all of Owner Trust's right, title and interest in, to and under the Property, (ii) in the case of the Upstream Purchase, Owner Trust Parent will sell and assign to Agent or its Designee, all of Owner Trust Parent's right, title and interest in, to and under the ownership interest in Owner Trust, in each case with no representations, warranties, or covenants of any kind whatsoever (except for the representations and warranties set forth in the Purchase Option Assignment), Agent agreeing for itself and its Designee that such transfer shall be (except as to the representations and warranties set forth in the Purchase Option Assignment) AS IS, WHERE IS, WITH ALL FAULTS OF ALL AND ANY KIND WHATSOEVER, and (iii) Agent (or Agent's Designee, as the case may be) shall make payment of the Termination Amount in accordance with the Intercreditor Agreement (but excluding reasonably anticipated expenses and costs referred to in the definition of Termination Amount to the extent assumed by Agent or its Designee, with Agent remaining obligated with respect thereto hereunder; and provided, that an Agent Event of Default described in clause (c) or (d) of Section 8.1 has not occurred and is continuing) to Owner Trust. Owner Trust, Collateral Agent and Administrative Agent, as applicable, shall, at Agent's or its Designee's expense, execute and deliver such UCC termination statements, releases, reconveyances and other documentation, in each case with no representations, warranties or covenants of any kind, as shall be reasonably requested by Agent to effect the termination and release of the Liens granted by Agent to Owner Trust and by Owner Trust in favor of Collateral Agent and other Liens created by Owner Trust. Once the Purchase Option has been exercised and the Termination Amount as described in Section 10.1(a)(i) paid (provided that an Agent Event of Default described in clause (c) or (d) of Section 8.1 has not occurred and is continuing) (including, if applicable, by any assumption described in Section 10.1(b) above implemented in accordance with such Section) with respect to the Property, this Agreement shall terminate (except for those provisions which expressly survive such termination or to the extent assumed pursuant to Section 10.1). All reasonable charges incident to such conveyance, including reasonable attorneys' fees that may be imposed by reason of such conveyance and assignment and the delivery of such assignments, shall be paid by Agent.

(e) Taxes. Agent hereby agrees that it shall pay all Transfer Taxes (and indemnify, defend and hold harmless each Indemnified Person on an After Tax Basis against all Transfer Taxes required to be paid by such Indemnified Person on its behalf or on behalf of any other Person) incurred as a result of the transfer of the Property (or any interest therein or in any entity

owning directly or indirectly the Property) as a result of the exercise of the Purchase Option or any other transfer of the Property (or any interest therein or in an entity owning directly or indirectly the Property) requested or consented to by Agent, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto (including from any obligation to file any Tax return, report or statement with respect to any such Transfer Taxes and any liability an Indemnified Person may incur or be required to pay in respect of Transfer Taxes pursuant to the Credit Agreement). Agent hereby agrees that if it exercises the Purchase Option or otherwise requests a transfer of the Property (or any interest therein or in any entity which owns directly or indirectly the Property) it shall increase the purchase price by an amount so that after deducting all Taxes that are required to be paid by Owner Trust or any other transferor or withheld from the purchase price, the purchase price (after being reduced for applicable Taxes) equals the purchase price that was otherwise due.

(f) Deemed Exercise of Purchase Option. In the event that Agent has informed Owner Trust of its intent to exercise either the Purchase Option or the Lease Option with respect to the Property at least sixty (60) days prior to the scheduled date of Completion of the Facility, Agent shall have the right to give notice to Owner Trust of its election to exercise its Lease Option no later than thirty (30) days prior to the date of Completion of the Facility. Failure to elect to exercise the Lease Option by such date shall automatically be deemed to be an exercise by Agent of its Purchase Option with respect to the Property.

(g) Closing of Upstream Purchase. In connection with any Upstream Purchase requested by Agent, upon payment of the applicable Termination Amount, Owner Trust Parent agrees to transfer to Agent or its Designee all of its ownership interests in Owner Trust, upon consummation of the closing with respect thereto in accordance with the terms of Section 10.1(d); provided, that all references to the "Facility" shall be deemed to refer to the Owner Trust Parent's ownership interests in Owner Trust. Upon such transfer, Owner Trust Parent shall be deemed to have made the representations and warranties set forth in the Purchase Option Assignment.

(h) Conveyance of Certain Property. At any time, Agent shall have, and is hereby granted by Owner Trust, an option to receive an assignment (or to have its Designee receive an assignment), from time to time, from Owner Trust all of Owner Trust's right, title and interest in and to (i) substations and related assets assigned and conveyed to electricity providers and transmission companies and (ii) any other improvements and related appurtenant rights for transmission lines, switchyards and related transmission systems, gas and water pipelines and other pipelines, interconnection lines and equipment and other conduits from the Facility located on or extending off the Land in order that same may be conveyed to utility providers and/or fuel suppliers, including electricity and other utility supply lines which will not be owned by either Owner Trust or Agent, in either case pursuant to this clause (ii), or other property having a value not in excess of $10,000,000 in the aggregate for this Facility, in exchange in the case of clauses (i) and (ii) for the right to use, pursuant to long term contracts consistent with Prudent Industry Practice such improvements or property in connection with the operation of the Facility. Such option may be exercised by Agent by delivery to Owner Trust of written notice, which notice shall contain a description of the Property to be assigned or

conveyed. Owner Trust agrees, within ten (10) days after receipt of such notice from Agent, to release its interest in such assigned improvements from the terms and conditions of this Agreement and shall execute and deliver any documents reasonably requested by Agent to accomplish the same, in each case without recourse, representation or warranty of any kind, at the cost and expense of Agent. In the case of any such assignment, Agent shall indemnify Indemnified Persons as provided in Section 10.1(e).

(i) Grants of Easements and Releases, Etc. Notwithstanding anything to the contrary provided for herein and provided that no Agent Event of Default shall have occurred and be continuing, Agent shall have the right from time to time and Owner Trust hereby consents to the following actions by Agent, in the name and stead of Owner Trust, but at Agent's sole cost and expense: (a) the sale, grant or conveyance of easements, licenses, rights-of-way and other rights, interests and privileges of any kind or nature reasonably necessary or desirable for the construction, use, operation, remediation, repair, renovation or maintenance of the Facility as herein provided (prior to the Lien of the Security Documents); (b) the release of existing easements or other rights in the nature of easements, which release shall not harm the Facility; (c) the dedication or transfer of portions of the Land not necessary for the Improvements for road, highway or other public purposes (free of the Lien of the Security Documents); (d) the execution of petitions to have the Land annexed to any municipal corporation or utility district (free of the Lien of the Security Documents); (e) the execution of amendments to any covenants and restrictions affecting the Land (prior to the Lien of the Security Documents); (f) easements, licenses, rights-of-way, and other rights, interests and privileges as may be required by Governmental Authorities in connection with an Environmental Action; and (g) the release of any portion of the Facility that is obsolete or not necessary in the commercial operation of the Facility in accordance with Prudent Industry Practice; provided, that in each case Agent shall have delivered to Owner Trust a Responsible Officer's certificate stating that: (i) such grant, release, dedication or transfer does not prohibit the Intended Use or materially impair the Value, utility or remaining useful life of the Facility or (except as provided hereinabove) the Liens created under the Operative Agreements, (ii) as applicable, such grant, release, dedication or transfer is necessary in connection with the construction, use, maintenance, alteration, renovation or improvement or operation of the Facility or such affected portion of the Facility or the Land is obsolete or not necessary, (iii) Agent shall remain obligated under this Agreement and under any instrument executed by Agent consenting to the assignment or release of Owner Trust's interest in this Agreement as security for indebtedness, in each such case in accordance with their terms, as though such grant, release, dedication or transfer, had not been effected, (iv) Agent shall pay and perform any obligations of Owner Trust and the Participants under such grant, release, dedication or transfer and (v) Agent agrees to indemnify the Indemnified Persons in respect thereof as provided in Article XII. Without limiting the effectiveness of the foregoing, provided, that no Agent Event of Default or Owner Trust Termination Event shall have occurred and be continuing, Owner Trust shall, upon the request of Agent, and at Agent's sole cost and expense, execute and deliver any instruments necessary or appropriate to confirm any such grant, release, dedication or transfer to any Person permitted

under this Section 10.1 in form and substance satisfactory to the Owner Trust, and in each case without recourse, representation or warranty of any kind.

10.2 Lease Option. Agent shall have the option (the "Lease Option"), exercisable by written notice of such exercise to Owner Trust not later than the sixtieth (60th) day (or thirtieth (30th) day, if Agent informed Owner Trust of its intent to exercise the Purchase Option or Lease Option pursuant to Section 10.1(f)) prior to the scheduled date of Completion of the Facility, to cause Owner Trust to enter with Agent on or before the Completion Date a supplement to the Lease in recordable form substantially in the form attached hereto as Exhibit I (the "Lease Supplement") pursuant to which the term of the Lease will commence with respect to the Facility, subject to the following terms and conditions:

(a) Agent shall deliver a customary legal opinion with respect thereto in form and substance reasonably acceptable to Owner Trust and Administrative Agent;

(b) no Agent Default, Agent Event of Default or Owner Trust Termination Event shall have occurred and be continuing;

(c) effective on the date of execution and delivery of the supplement to the Lease (the "Lease Commencement Date") and all related agreements and instruments, the term of the Lease shall commence and the Termination Date shall be extended to the Expiration Date as defined in the Lease, provided, however, that it shall be a condition to such extension and to the execution and delivery of the supplement to the Lease and the related agreements and instruments that Agent shall have confirmed in writing to Owner Trust and Administrative Agent that (i) no Agent Default, Agent Event of Default or Owner Trust Termination Event shall have occurred and be continuing and (ii) that its and Guarantor's representations and warranties in this Agreement and the other Operative Agreements are true and correct in all material respects as if made on and as of the Lease Commencement Date (except for those representations or warranties or parts thereof that, by their terms, expressly relate solely to a specific date, in which case such representations and warranties shall be true and correct in all material respects as of such specific date); and

(d) if Agent exercises the Lease Option, all of Agent's obligations hereunder shall continue until the Completion Date and the Deposit Account Collateral, including the Collateral Agreement, shall remain in place until such time as all of the provisions of this Section 10.2 and Exhibit I hereto have been satisfied, at which time this Agreement shall terminate (except for those provisions which expressly survive such termination).

ARTICLE XI

REMARKETING OF FACILITY

11.1 Remarketing of Facility. In the event that Agent has not (a) provided notice of its intent to exercise its Purchase Option or Lease Option at least sixty (60) days prior to the scheduled date of Completion of the Facility or (b) exercised the Purchase Option within thirty (30) days after delivery of an Owner Trust Termination Notice, Agent shall be required to remarket the Property (the "Remarketing Requirement") on behalf of Owner Trust and comply with the marketing procedures set forth in Exhibit J attached hereto. In connection with the event described in clause (a) of the first sentence hereof, if the Property is not sold on or before the Completion Date, (i) the Agent shall be deemed to have elected the Lease Option and shall take all necessary actions to cause the Basic Term (as defined in the Lease) to commence on the Completion Date; and (ii) the Remarketing Requirement (including Agent's obligation to pay the Deposit Payment) shall be rescinded ab initio. In connection therewith, Agent grants to Owner Trust an irrevocable proxy to execute a lease supplement for such purpose. If the Remarketing Requirement arises in connection with an event described in clause (b) of the first sentence hereof, Agent shall enter into the Services Agreement on or before the expiration of such thirty (30) day period.

11.2 Deposit Payment and Allocation of Proceeds of Sale. On (a) the scheduled Completion Date of the Facility in the case of Section 11.1(a) and (b) on the second Business Day after expiration of the thirty (30) day period referred to therein in the case of Section 11.1(b), the Agent shall make a payment to Owner Trust in an amount (the "Deposit Payment") equal to 89.9% of the Funded Budget Amount reduced by (a) any reimbursement amounts due to Agent by Owner Trust under the Budget which had been incurred by Agent but not yet paid with respect to the Facility and (b) any payments previously made by Agent or its Affiliates to Owner Trust or its Affiliates with respect to the Facility which are required to be taken into account in the application of the maximum guarantee test for purposes of EITF 97-10. The Deposit Payment shall be promptly applied as provided in the Intercreditor Agreement. Upon sale of all the Property, the sum (the "Remarketing Funds") of the gross proceeds of such sale less the reasonable (as agreed to by Owner Trust and Administrative Agent) documented expenses incurred by Agent as provided in Exhibit J shall be allocated and distributed as follows:

(i) first, all such Remarketing Funds, up to an amount equal to the Termination Amount less the Deposit Payment, including without duplication Financing Costs to be charged against the Allowance for Owner Trust's Cost of Financing and Owner Trust Yield during the Marketing Period and any Taxes that Agent would have paid pursuant to Section 10.1(e) had Agent exercised the Purchase Option, shall be paid to Collateral Agent for application as provided in Section 8.1(d) of the Intercreditor Agreement; and

(ii) second, to the extent Remarketing Funds remain after application pursuant to clause (i) above, all such funds shall be paid to Agent.

Upon the performance by Agent of all its obligations under the Remarketing Requirement with respect to all of the Property and the making of the payments provided for in this Section 11.2, this Agreement (including Agent's rights as Owner Trust's agent hereunder) and the Collateral Agreement shall terminate (except for those provisions which expressly survive such termination).

ARTICLE XII

AGENT'S INDEMNITIES

12.1 Agent's General Indemnification. To the extent Claims result from actions by Agent, or failures by Agent to act (provided that indemnification with respect to any Claim arising as a result of Agent's acts or failures by Agent to act which are related to Completion and which do not arise due to fraud, willful misconduct, misapplication of funds, illegal acts or bankruptcy shall be paid solely through Payments in accordance with Article V hereof), Agent hereby assumes liability for and agrees to defend, indemnify and hold harmless each Indemnified Person on an After Tax Basis from and against any and all such Claims which may be imposed on, incurred by or asserted against such Indemnified Person in any way relating to or arising or alleged to arise out of (a) the proposed sale/purchase transaction with respect to the Property, the funding of the Payments, the financing, refinancing, purchase, acceptance, rejection, ownership, design, construction, delivery, acceptance, nondelivery, acquisition, handling, installation, operation, transportation, maintenance, testing, repair, leasing, subleasing, possession, use, modification, condition, sale, return, repossession (whether by summary proceedings or otherwise) of all or any portion of Property or any other matter concerning this Agreement, the Construction Contracts, the other Operative Agreements, or the Property or the proposed conveyance of the Property or any part thereof at the request of Agent; (b) any latent or other defects in the Property or otherwise whether or not discoverable by such Indemnified Person or Agent; (c) this Agreement, the Construction Contracts, the other Operative Agreements, and any transaction contemplated thereby; (d) any breach by Agent of any of its representations, warranties or covenants under this Agreement or failure by Agent to perform or observe any covenant or agreement to be performed by it under this Agreement; (e) personal injury, death or property damage relating to the Property, including Claims based on strict liability in tort; (f) the performance of any labor or services or the furnishing of materials or other property in respect of the Property, including any Claims of any nature by employees of the Agent or the Contractors; (g) the Operative Agreements, or any transaction contemplated thereby, including the enforcement of any rights, terms or provisions thereof, any amendments or supplements thereto or any transaction contemplated thereby or liability in tort (strict or otherwise); and (h) Claims made against Owner Trust pursuant to Article XIII of this Agreement, Section 8.02 of the Trust Agreement or Section 14 of the Intercreditor Agreement. Agent acknowledges and agrees in this

connection that the Property is in its control and possession during the Term, that it is responsible as agent for Owner Trust for the acts and omissions of the Contractors and any other agents retained by Agent and that it has agreed to maintain, or cause to be maintained, the Facility so as to avoid injury or mishap to third Persons.

12.2 Agent's Environmental Indemnity. Without limitation of any other provisions of this Agreement, Agent hereby agrees to indemnify, hold harmless and defend each Indemnified Person on an After Tax Basis from and against any and all Claims (including third party Claims for personal injury or real or personal property damage), losses (including, to the extent of the Payments plus accrued Financing Costs and Owner Trust Yield and Transaction Expenses, any loss of Value of the Facility or the Property), damages, Environmental Actions, administrative and judicial proceedings (including informal proceedings) and orders, judgments, remedial action, legally enforceable requirements and enforcement actions, and all reasonable and documented costs and expenses incurred in connection therewith (including reasonable and documented legal and consultant fees and expenses), including all costs incurred in connection with any investigation or monitoring of site conditions or any clean-up, remedial, removal or restoration work by any Governmental Authority, arising in whole or in part, out of any of the following:

(a) the presence, as of the Closing Date, on or under the Facility or the Property of any Hazardous Condition or Hazardous Substance, or any Releases or discharges of any Hazardous Substance on, under, from or onto the Facility or the Property;

(b) any activity, including construction, carried on or undertaken on or off the Facility or the Property, and whether by Agent, any Affiliate of Agent or any predecessor in title or any employees, agents, contractors or subcontractors of Agent, any Affiliate of Agent or any predecessor in title, in connection with the handling, treatment, removal, storage, decontamination, clean-up, transport or disposal of any Hazardous Substance or Hazardous Condition that at any time is located or present on or under or that migrate, flow, percolate, diffuse or in any way move under or from the Facility or the Property;

(c) loss of or damage to the Facility or the Property or the environment (including, clean-up costs, response costs, remediation and removal costs, costs of corrective action, costs of financial assurance, fines and penalties and natural resource damages), or death or injury to any Person, and all documented expenses associated with the protection of wildlife, aquatic species, vegetation, flora and fauna, and any mitigative action required by or under Environmental Laws;

(d) any Environmental Violation or any Claim concerning any Environmental Violation, or any Environmental Action, or any act or failure by Agent to

act that would allow any Governmental Authority to record a Lien on the Facility or the Property; or

(e) any residual contamination on or under the Facility or the Property or any site related to the Facility or the Property, or affecting any natural resources or the environment, and any contamination of the Facility, the Property, or any site or natural resources or the environment arising in connection with the generation, use, handling, treatment, storage, transport or disposal of any Hazardous Substance, and irrespective of whether any of such activities were or will be undertaken in accordance with Applicable Laws;

provided, however, that in the case of clauses (b) - (e), inclusive, to the extent any event or condition described therein is related to the construction of the Facility, Agent shall be obligated to indemnify the Indemnified Person in respect thereof only to the extent such event or condition resulted from the acts of Agent or failure by Agent to act.

12.3 Agent's General Tax Indemnity.

(a) Payments Free and Clear. All payments made to or for the benefit of the Owner Trust under the Operative Agreements (including payments of any Financing Cost, Owner Trust Yield fees and the purchase price payable on the exercise of the Purchase Option) shall be made free and clear of and without deduction for any and all present or future Impositions. If the Agent, the Owner Trust, the Owner Trustee, the Guarantor or any other Person ("Applicable Payor") shall be required by law to deduct any Impositions from or in respect of any amounts payable under this Agreement or any other Operative Agreement to or for the benefit of a Lender, Lender Agent, Certificate Participant, Owner Trust Parent, the Owner Trust or the Trustee thereof ("Applicable Payee"), (A) the amounts payable by the Applicable Payor (as rent, interest or otherwise) shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 12.3) the Applicable Payee shall receive an amount equal to the sum it would have received had no such deductions been made, (B) the Applicable Payor shall make such deductions and (C) the Applicable Payor shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with all applicable laws. The Agent will indemnify each Indemnified Person on an After Tax Basis for the full amount of any sums paid by such Indemnified Person pursuant to the second sentence of this Section 12.3(a) and any liability such Indemnified Person may incur or be required to pay.

(b) Other Taxes. In addition, the Agent shall timely pay any present or future transfer, stamp, value added, goods and services, license, sales, use or documentary Taxes, excise Taxes or any other property, transfer, transfer gains or recording, publication or filing Taxes, or any other Taxes in the nature of the foregoing imposed by any Governmental Authority, which arise directly or indirectly from (i) the acquisition, ownership, operation, occupancy, possession, use, non-use, mortgaging, financing, leasing, subleasing, or disposition

or condition of the Property or any other property or rights conveyed to the Owner Trustee or the Owner Trust; (ii) any payment made under the Operative Agreements; (iii) the execution, delivery or registration of, or otherwise with respect to the Operative Agreements; (iv) the conveyance or transfer of the Owner Trust, the Owner Trust Parent, the Trust Estate, the Property or any part thereof (or any portion thereof) in compliance with any requirement of the Operative Agreements; (v) the recording of any mortgage, deed of trust, financing statement or other collateral security document in any jurisdiction; or (vi) the transactions contemplated by any of the Operative Agreements (collectively, the "Other Taxes").

(c) Indemnification. To the extent Impositions and Other Taxes result from actions by Agent or failures by Agent to act (but excluding any Impositions and Other Taxes arising as a result of Agent's acts or failures by Agent to act which are related to Completion), Agent shall indemnify, defend and hold harmless all Indemnified Persons from and against the full amount of all Impositions and Other Taxes (including, current or future stamp, intangible, document or other Taxes that arise from the execution, delivery, recording, or registration of this Agreement or any other agreement contemplated hereby) on an After Tax Basis except those arising from the gross negligence or willful misconduct of such Indemnified Person incurred in connection with the transactions contemplated by this Agreement, the Construction Contracts, and any other Operative Agreement (but without duplication for any amount payable elsewhere under this Agreement or under any other Operative Agreement to the extent actually paid) required to be paid by such Indemnified Person on its behalf or on behalf of any other Person, and any liability (including penalties, interest and expenses, except those arising from the gross negligence or willful misconduct of such Indemnified Person; provided, that, solely for purposes of this parenthetical, gross negligence or willful misconduct shall include the failure by such Indemnified Person to provide written notice to Agent of any written notice from any Governmental Authority received by such Indemnified Person for any Impositions or Other Taxes as to which the Agent may have an indemnity obligation pursuant to this Section 12.3 within 90 days after such Indemnified Person shall have Actual Knowledge of such written notice, but only to the extent the Agent shall have actually been prejudiced as a result of such failure), arising therefrom or with respect thereto (including from any obligation to file any Tax return, report or statement with respect to any such Impositions or Other Taxes and any liability the Indemnified Person may incur or be required to pay pursuant to Section 13.3), whether or not such Impositions or Other Taxes were correctly or legally asserted.

(d) Impositions shall mean any and all liabilities, losses, expenses and costs of any kind whatsoever for fees, taxes, levies, imposts, duties, charges, impositions, assessments or withholdings of any kind or nature whatsoever, general and special, ordinary and extraordinary, foreseen and unforeseen, of every character imposed or assessed by a Governmental Authority and any penalties, interest, and additions to tax (including inflation adjustments imposed thereon that are similar to interest or penalties) of any kind therewith ("Taxes"), excluding (except for Taxes that apply as a consequence of the transactions contemplated by this Agreement not being treated as a loan for Tax purposes by any Governmental Authority, but only to the extent the amount of such Taxes exceed the amount of

Taxes that would have been imposed had such Governmental Authority treated the transactions contemplated by this Agreement as a loan for Tax purposes), (i) Taxes imposed on, or based upon, or measured by, an Indemnified Person's or Lessor Indemnified Person's (other than Owner Trust's or Owner Trust Parent's) overall net income, net receipts, capital, or net worth (A) by the jurisdiction under the laws of which such Person is organized (or in the case of an Indemnified Person or Lessor Indemnified Person that is a bank, by the jurisdiction in which such Person's office is located from which it funds the Payments) or (B) by a jurisdiction in which such Person has a tax residence, place of business, place of management or control, a permanent establishment, or by a jurisdiction in which such Person would otherwise be subject to such Tax apart from the transactions contemplated by this Agreement; (ii) Taxes in the nature of franchise, capital gains, accumulated earnings, personal holding company, excess profits, or alternative minimum Taxes imposed on an Indemnified Person or Lessor Indemnified Person (other than Owner Trust or Owner Trust Parent), (A) by the jurisdiction under the laws of which such Person is organized (or in the case of an Indemnified Person or Lessor Indemnified Person that is a bank, by the jurisdiction in which such Person's office is located from which it funds the Payments) or (B) by a jurisdiction in which such Person has a tax residence, place of business, place of management or control, a permanent establishment, or by a jurisdiction in which such Person would otherwise be subject to such Tax apart from the transactions contemplated by this Agreement; (iii) Taxes included in the Outstanding Balance to the extent actually paid; (iv) any Taxes imposed by the United States of America by means of withholding at the source if and to the extent that such Taxes would be avoided if such Person provided the Prescribed Forms in accordance with this Section 12.3 or Section 13.3 except to the extent attributable to a change in applicable law after the Closing Date; (v) Taxes resulting from the fraud, gross negligence or willful misconduct of the Indemnified Person, the Lessor Indemnified Person or its Affiliates or agents (it being expressly agreed that Agent and its Affiliates shall not constitute an agent of any Indemnified Person or Lessor Indemnified Person (including Owner Trust and Owner Trust Parent) for this purpose); (vi) Taxes imposed on the Indemnified Person or Lessor Indemnified Person as a result of an inaccuracy or breach of a representation, warranty, or covenant of such Indemnified Person or Lessor Indemnified Person or its Affiliates (including, a covenant in Section 15.1) or which is imposed on the Indemnified Person or Lessor Indemnified Person as a result of acts by such Person (or an Affiliate of such Person) that is expressly prohibited by this Agreement or by another Operative Agreement, except to the extent such breach is caused by Agent's actions (or failure to act); (vii) Taxes arising out of, or caused by, any voluntary assignment, sale, transfer, or other voluntary transfer or disposition of the Property, Facility, or any interest therein (it being understood that any transfer or disposition as a result of the exercise of the Purchase Option or Lease Option or the applicability of the Remarketing Requirement or at the request of Agent or one of its Affiliates or consented to by Agent or one of its Affiliates or while an Agent Event of Default shall have occurred and is continuing shall not be a voluntary transfer) by such Indemnified Person or Lessor Indemnified Person or any involuntary transfer or disposition of the Property, the Facility, or an interest therein by such Indemnified Person or Lessor Indemnified Person resulting from a bankruptcy or similar proceeding in which such Indemnified Person or Lessor Indemnified Person is a debtor or by foreclosure by a creditor of

an Indemnified Person or Lessor Indemnified Person; provided, however, that the foregoing exclusion shall not apply to any transfer that results from a bankruptcy of Owner Trust or Owner Trust Parent or a foreclosure against Owner Trust or Owner Trust Parent if the bankruptcy or foreclosure would not have occurred if Agent and its Affiliates had performed all obligations under this Agreement or any other Operative Agreement or if the bankruptcy or foreclosure would not have occurred if all of Agent's representations or warranties in all Operative Agreements were accurate in all respects or if such bankruptcy of Owner Trust or Owner Trust Parent or foreclosure against Owner Trust or Owner Trust Parent occurred while an Agent Event of Default has occurred and is continuing; (viii) Taxes arising in connection with an Owner Trust Lien; (ix) Taxes imposed on any assignee or successor in interest to an Indemnified Person or Lessor Indemnified Person (including any successor or assignee by way of merger, consolidation, liquidation, reorganization, or otherwise by operation of law) to the extent any such Taxes exceed the Taxes that would have been imposed had no assignment or transfer taken place determined under the law in effect on the date of transfer, except if Agent or one of its Affiliates requests such transfer or the transfer is required pursuant to the terms of an Operative Agreement or the transfer occurs while an Agent Event of Default shall have occurred and is continuing; (x) Taxes imposed on, based on, or measured by any compensation the applicable Trustee receives for its services; (xi) Taxes imposed on any Indemnified Person or Lessor Indemnified Person resulting from any amendment, modification, supplement, or written waiver to any Operative Agreement which was not requested or consented to by the Agent or one of its Affiliates, unless such amendment, modification, supplement, or written waiver (A) was required by Applicable Law or an Operative Agreement, (B) may be necessary or appropriate to, or is in conformity with, any amendment, modification, supplement, or written waiver requested by, or consented to, by Agent or one of its Affiliates, or (C) is made while an Agent Event of Default shall have occurred and be continuing; (xii) Taxes in the nature of a value-added Tax that is imposed in lieu of an income Tax otherwise excluded from the definition of Impositions; (xiii) Taxes that would not have been imposed on an Indemnified Person or Lessor Indemnified Person (other than Owner Trust or Owner Trust Parent) but for its activities in such jurisdiction unrelated to the transactions contemplated by this Agreement; and (xiv) Taxes imposed attributable to any period after the expiration or early termination of this Agreement, or if later, where required by this Agreement, surrender to Owner Trust or its successor of the Facility in compliance with the provisions of this Agreement. It being expressly agreed that any Tax constituting an Imposition (whether income, franchise, or otherwise) imposed on Owner Trust or Owner Trust Parent as a result of any of the transactions or payments contemplated by the Operative Agreements to which Agent is a party is subject to indemnification under Section 12.3(c) or 13.3(c) as applicable.

(e) Payments. Each payment required to be made by the Agent pursuant to this Section 12.3 shall be paid either (i) when due directly to the applicable taxing authority by the Agent if it is permitted to do so, or (ii) where direct payment is not permitted and with respect to gross up amounts, in immediately available funds to such Indemnified Person by the later of (A) 30 days following the Agent's receipt of the Indemnified Person's written

demand for the payment (which demand shall be accompanied by a statement of the Indemnified Person describing in reasonable detail the Taxes for which the Indemnified Person is demanding indemnity and the computation of such Taxes) and certifying that such costs are being charged to other similarly situated borrowers under similar financing arrangements or (B) subject to paragraph (k) below, in the case of amounts which are being contested pursuant to such paragraph (k), at the time and in accordance with a final determination of such contest, provided, however, that with respect to a payment pursuant to Section 12.3(k)(ii)(D), in no event later than the date which is three Business Days prior to the date on which such Taxes are required to be paid to the applicable taxing authority. An Indemnified Person shall use reasonable best efforts to deliver any such demand within thirty (30) days after such Indemnified Person has Actual Knowledge that such payment is required; provided, that failure to deliver such demand within thirty (30) days shall not alter such Indemnified Person's rights under this Section 12.3.

(f) Prescribed Forms. Each Certificate Participant shall deliver to Agent, on or before the Closing Date, copies of all Prescribed Forms. Thereafter and from time to time, each Certificate Participant shall submit to Agent such additional duly completed and signed copies of the Prescribed Forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may be (i) requested by Agent, and (ii) required under then-current United States law or regulations to avoid United States withholding taxes on payments in respect of all amounts to be received by such Certificate Participant or its Affiliates pursuant to this Agreement or the other Operative Agreements, including fees. If any Certificate Participant determines, as a result of any change in applicable law, regulation or treaty, or in any official application or interpretation thereof, that it is unable to submit to Agent any form or certificate that such Certificate Participant is obligated to submit pursuant to this Section 12.3, or that such Certificate Participant is required to withdraw or cancel any such form or certificate previously submitted, such Certificate Participant shall promptly notify Agent of such fact.

(g) Reports. If any report, return, or statement is required to be filed with respect to Taxes that are subject to indemnification under Section 12.3 or 12.4, Agent shall, if permitted by Applicable Law, timely prepare and file such report, return, or statement; provided, however, if Agent is not permitted by Applicable Law to file such return, Agent shall promptly notify the appropriate Person, in which case the Person, at Agent's expense, will file any return after Agent properly prepares such return.

(h) Restructuring. If Agent is liable (or appears, in Agent's reasonable belief, that it will be liable) for any Imposition under Section 12.3 or 12.4 hereof or 13.3 or 13.4 hereof, Owner Trust, Owner Trust Parent and the Certificate Participants agree to cooperate with Agent to take all reasonable actions which are necessary or appropriate to restructure the transactions contemplated hereby in any reasonable manner requested by Agent to avoid or minimize Agent's indemnification obligations hereunder; provided, however, Owner Trust, Owner Trust Parent and the Certificate Participants shall not be required to take any action that results in any Tax, cost or other expense to such Person (or any of its Affiliates) or which, in

such Person's reasonable belief, would have an adverse effect on such Person's (or any of its Affiliate's) rights under this Agreement or another Operative Agreement or to its business or, in such Person's reasonable belief, would cause such Person (or one of its Affiliates) to violate any Applicable Law.

(i) Receipt. Within thirty (30) days after the date of any deduction of any Impositions, the Applicable Payor shall furnish to the Applicable Payee, Lender Agent, the Owner Trust and the Trustee thereof the original or a certified copy of a receipt or other documentation evidencing payment thereof.

(j) Determinations. The determination of all Impositions to be paid or indemnified against by the Agent under this Section 12.3 on an After Tax Basis shall be made (in good faith) by the affected Applicable Payee. Such determination shall state with reasonable clarity and detail the basis for such determination, shall certify that such costs are being charged to other similarly situated borrowers under similar financing arrangements and shall, absent manifest error, be final and conclusive and binding on the Agent. In no event shall the Agent in connection with this Section 12.3 or for any other purpose whatsoever under any Operative Agreement have any right to examine any Tax return or related books and records of any Applicable Payee.

(k) Contests. (i) If any written claim shall be made against any Indemnified Person or if any proceeding shall be commenced against any Indemnified Person (including a written notice of such proceeding) (collectively a "Tax Claim") for any Tax as to which the Agent may have an indemnity obligation pursuant to this Section 12.3, such Indemnified Person shall as soon as practicable after its receipt or commencement, and in any event within thirty (30) days notify the Agent in writing and furnish the Agent with copies of such Tax Claim and all other writings received from the taxing authority to the extent relating to such Tax Claim (provided, that failure to so notify the Agent within thirty (30) days shall not alter such Indemnified Person's rights under this Section 12.3 except to the extent such failure precludes or materially adversely affects the ability to conduct a contest of any Tax Claim) and shall not take any action with respect to such Tax Claim without the written consent of the Agent (such consent not to be unreasonably withheld or unreasonably delayed) for thirty (30) days after the receipt of such notice by the Agent; provided, however, that in the case of any such Tax Claim, if such Indemnified Person shall be required by law or regulation to take action prior to the end of such 30-day period, such Indemnified Person shall in such notice to the Agent, so inform the Agent, and such Indemnified Person shall not take any action with respect to such Tax Claim without the consent of the Agent (such consent not to be unreasonably withheld or unreasonably delayed) for ten (10) days after the receipt of such notice by the Agent unless the Indemnified Person shall be required by law or regulation to take action prior to the end of such 10-day period.

(ii) The Agent shall be entitled for a period of thirty (30) days from receipt of such notice from the Indemnified Person (or such shorter period reasonably specified

by the Indemnified Person as the Indemnified Person has notified the Agent is required by law or regulation for such Indemnified Person to commence such contest of such Tax Claim), to request in writing that such Indemnified Person contest the imposition of such Tax, at the Agent's sole cost and expense and the Indemnified Person shall not pay such Tax Claim during such period. If (x) such Tax Claim can be pursued in the name of the Agent and independently from any other proceeding involving a Tax liability of such Indemnified Person for which the Agent has not agreed to indemnify such Indemnified Person, (y) such Tax Claim must be pursued in the name of the Indemnified Person, but can be pursued independently from any other proceeding involving a Tax liability of such Indemnified Person for which the Agent has not agreed to indemnify such Indemnified Person or (z) the Indemnified Person so requests, then the Agent shall be permitted to control the contest of such Tax Claim; provided, that in the case of a Tax Claim described in clause (y), if the Indemnified Person reasonably determines that the contest of such Tax Claim by the Agent could have an adverse impact on the business or operations of the Indemnified Person, such Indemnified Person may elect to control or reassert control of the Tax Claim, and provided, that by taking control of the Tax Claim, Agent acknowledges that it is responsible for the Tax ultimately determined to be due by reason of such claim. In all other claims requested to be contested by the Agent, such Indemnified Person shall control the contest of such Tax Claim. In no event shall the Agent be permitted to contest (or the Indemnified Person be required to contest) any Tax Claim (A) if such Indemnified Person provides the Agent with a legal opinion of counsel reasonably acceptable to the Agent that such action, suit or proceeding involves a risk of imposition of criminal liability or could involve a material risk of the sale, forfeiture or loss of, or the creation of any Lien (other than a Permitted Lien) on any Property or any part of any thereof unless the Agent shall have posted and maintained a bond or other security satisfactory to the relevant Indemnified Person in respect to such risk, (B) if an Event of Default has occurred and is continuing unless the Agent shall have posted and maintained by a bond or other security satisfactory to the relevant Indemnified Person in respect of the Taxes subject to such Tax Claim and any and all expenses for which the Agent is responsible hereunder reasonably foreseeable in connection with the contest of such Tax Claim, (C) unless the Agent shall have agreed to pay and shall pay, to such Indemnified Person on demand all reasonable out-of-pocket costs, losses and expenses that such Indemnified Person may incur in connection with contesting such Tax Claim including all reasonable legal, accounting and investigatory fees and disbursements, or (D) if such contest shall involve the payment of the Tax prior to the contest, unless the Agent shall provide to the Indemnified Person an interest-free advance in an amount equal to the Tax that the Indemnified Person is required to pay (with no additional net after-tax costs to such Indemnified Person) (a "Tax Advance"). In addition for Indemnified Person controlled Tax Claims and Tax Claims contested in the name of such Indemnified Person in a public forum, no contest shall be required (A) unless the amount of the potential indemnity (taking into account all similar or logically related Tax Claims that have been or could be raised in any audit involving such Indemnified Person with respect to any period for which the Agent may be liable to pay an indemnity under this Section 12.3) exceeds $50,000 and (B) unless, if requested by such Indemnified Person, the Agent shall have provided to such Indemnified

Person an opinion of independent tax counsel selected by such Indemnified Person and reasonably acceptable to the Agent that a reasonable basis exists to contest such Tax Claim. In no event shall an Indemnified Person be required to appeal an adverse judicial determination to the United States Supreme Court.

(iii) The party conducting the Tax Claim shall consult in good faith with the other party and its counsel with respect to the contest of such Tax Claim for Taxes (or claim for refund) but the decisions regarding what actions are to be taken shall be made by the controlling party in its sole judgment; provided, however, that if the Indemnified Person is the controlling party and the Agent recommends the acceptance of a settlement offer made by the relevant Governmental Authority and such Indemnified Person rejects such settlement offer, then the amount for which the Agent will be required to indemnify such Indemnified Person with respect to the Taxes subject to such offer shall not exceed the amount which it would have owed if such settlement offer had been accepted. In addition, the controlling party shall keep the noncontrolling party and its designated counsel reasonably informed as to the progress of the Tax Claim, and shall provide the noncontrolling party and its designated counsel with a copy of (or appropriate excerpts from) any reports or claims issued by the relevant auditing agents or taxing authority to the controlling party thereof, in connection with such Tax Claim or the contest thereof.

(iv) Each Indemnified Person shall, at the Agent's sole cost and expense, supply the Agent with such information and documents reasonably requested by the Agent as are necessary or advisable for the Agent to participate in any action, suit or proceeding to the extent permitted by this Section 12.3(k); provided, however, that such Indemnified Person shall not be required to provide to the Agent copies of its tax returns or any other information, documentation or materials that it deems to be confidential or proprietary. No Indemnified Person shall enter into any settlement or other compromise or fail to appeal an adverse ruling with respect to any Tax Claim which is entitled to be indemnified under this Section 12.3 (and with respect to which a contest is required under this Section 12.3) without the prior written consent of the Agent, unless such Indemnified Person waives its right to be indemnified under this Section 12.3 with respect to such Tax Claim.

(v) Notwithstanding anything contained herein to the contrary, an Indemnified Person will not be required to contest (and the Agent shall not be permitted to contest) a Tax Claim with respect to the imposition of any Tax if such Indemnified Person shall waive its right to indemnification under this Section 12.3 with respect to such Tax Claim (and any Tax Claim with respect to such year or any other taxable year the contest of which is materially adversely affected as a result of such waiver) and shall promptly repay to the Agent any Tax Advance paid to such Indemnified Person in respect of such Taxes.

(l) Refunds. To the extent that any Indemnified Person has actually and finally received a refund of any Impositions or Other Taxes (including interest) that can be clearly identified as specifically relating to Impositions or Other Taxes paid or reimbursed by the Agent pursuant to this Section 12.3 and that, after taking into account the amount of such refund,

would result in the total payments under this Section 12.3 exceeding the amount due to such Indemnified Person from Agent under Section 12.3, such Indemnified Person shall pay to the Agent, with reasonable promptness following the date on which it actually receives such refund, an amount equal to the lesser of the amount of such refund or the amount of such excess, in each case net of all reasonable out-of-pocket expenses incurred by such Indemnified Person in securing such refund.

12.4 Agent's Special Tax Indemnity. To the extent any Tax results from actions by Agent, or failures by Agent to act (provided that indemnification hereunder with respect to any Tax arising as a result of Agent's acts or failures by Agent to act which are related to Completion shall be paid solely through payments in accordance with Article V hereof), Agent shall pay and assume all liability for and does hereby agree to, indemnify, defend and hold harmless any Indemnified Person on an After Tax Basis (but without duplication for any amount payable elsewhere under this Agreement or under any other Operative Agreement to the extent actually paid) from and against (a) any Tax or other cost resulting from the breach, inaccuracy or incorrectness of the representation found in Section 7.1(o), (b) any Taxes that have to be paid by Owner Trust under Section 4.1(b) of the Credit Agreement; and (c) any Taxes that would have to be indemnified by Owner Trust under Article XIII hereof. Any Taxes subject to indemnification hereunder shall be reimbursed in accordance with the provisions of Section 12.3(e).

12.5 Additional Costs. Agent agrees to pay any Additional Costs that are due and payable pursuant to the Credit Agreement and the Master Trust Agreement; provided, that except to the extent that such additional costs arise by reason of Agent's act or failure to act unrelated to Completion, Agent's obligations hereunder shall be satisfied solely from the proceeds of Payments.

12.6 Agent's Indemnity Exclusions. Any Claim, to the extent resulting from or arising out of or attributable to any of the following, is excluded from Agent's agreement to indemnify any Indemnified Person under this Article XII other than Sections 12.3 and 12.4:

(a) acts, omissions or events occurring after the expiration or early termination of this Agreement and, if later, where required by this Agreement; surrender to Owner Trust or its successor of the Facility in compliance with the provisions of this Agreement;

(b) with respect to the relevant Indemnified Person, any offer, sale, assignment, transfer or other disposition (voluntary or involuntary) by or on behalf of (A) Owner Trust Parent of its interest in Owner Trust, or (B) Owner Trust of all or any of its interest in the Facility, (C) the Lenders of any of their interests in the Loans, or (D) the Certificate Participants of any of their beneficial interest of Owner Trust Parent, unless such offer, sale, assignment, transfer or other disposition is required by or otherwise made in compliance with the terms of the Operative Agreements or occurs in connection with the exercise of remedies during an Agent Event of Default;

(c) the gross negligence or willful misconduct of an Indemnified Person seeking indemnification;

(d) the noncompliance with the terms of the Operative Agreements by, or the breach of any agreement, covenant, representation or warranty contained in any Operative Agreement to which it is a party of, the Indemnified Person seeking indemnification to the extent such noncompliance or breach has been finally determined by a court of competent jurisdiction;

(e) any obligation or liability expressly borne, assumed or to be paid in any Operative Agreement by the Indemnified Person seeking indemnification; provided, however, that such exclusion shall not apply to any indemnity obligations of Lessor expressly undertaken under the Operative Agreements;

(f) with respect to the Indemnified Person seeking indemnification, any claim constituting or arising from an Owner Trust's Lien attributable to such Indemnified Person (other than these Liens arising or created as a result of action undertaken or documents or instruments executed by Owner Trust pursuant to the request of Agent or in connection with an Agent Event of Default or a Guarantor Event of Default); provided, however, that this exception shall not apply with respect to Owner Trust obligations under Article XIII of this Agreement;

(g) any amendment other than an amendment to which Agent or Guarantor is a party or has been expressly requested by Agent or Guarantor in writing or which occurs in connection with any Agent Event of Default or Owner Trust Termination Event;

(h) any Claim that constitutes principal or interest on the Loans or Owner Trust Yield as opposed to amounts payable by Agent which are calculated based thereon;

(i) any Claim resulting from any event of default not caused by an Agent Event of Default; and

(j) any misdirection or misapplication of funds by any Secured Party.

12.7 Agent's Indemnification Procedure under Sections 12.1 and 12.2. Each Indemnified Person under Section 12.1 or 12.2 shall promptly after such Indemnified Person shall have actual knowledge thereof notify Agent in writing of any Claim as to which indemnification is sought; provided, that the failure so to notify Agent shall not reduce or affect Agent's liability which it may have to such Indemnified Person under Section 12.1 or 12.2. Any amount payable to any Indemnified Person pursuant to Section 12.1 or 12.2 shall be paid within ten (10) Business Days after receipt of such written demand therefor from such Indemnified

Person, accompanied by a certificate of such Indemnified Person setting forth the calculations in reasonable detail constituting the basis for the indemnification thereby sought and (if such Indemnified Person is not a party hereto) an agreement to be bound by the terms hereof as if such Indemnified Person were such a party. Promptly after Agent receives notification of such Claim accompanied by such certificate, Agent shall notify such Indemnified Person whether it intends to pay, object to, compromise or defend any matter involving the asserted liability of such Indemnified Person. Agent shall have the right to investigate and so long as no Agent Event of Default shall have occurred and be continuing, Agent shall have the right in its sole discretion to defend or compromise any Claim for which indemnification is sought under Section 12.1 or 12.2, provided, further, that no Claim shall be compromised by Agent if there is (i) an admission of guilt, complicity or culpability or any criminal violation or gross negligence or willful misconduct on the part of such Indemnified Person or (ii) an incurrence of any payment obligation or other civil or criminal liability on the part of any Indemnified Person (unless with respect to a payment obligation it is paid by Agent) without the express written consent of such Indemnified Person. If Agent elects, subject to the foregoing, to compromise or defend any such asserted liability, it may do so at its own expense and by counsel selected by it and reasonably satisfactory to such Indemnified Person. Upon Agent's election to compromise or defend such asserted liability and prompt notification to such Indemnified Person or its intent to do so, such Indemnified Person shall cooperate at Agent's expense with all reasonable requests of Agent in connection therewith to minimize the amount of such Claim and the cost and expense to Agent of such compromise or defense (provided that such Indemnified Person shall not suffer any material economic, legal or regulatory disadvantage as a result of such cooperation) and will provide Agent with all information not within the control of Agent as is reasonably available to such Indemnified Person which Agent may reasonably request; provided, however, that such Indemnified Person shall not, unless otherwise agreed or required by Applicable Law, be obligated to disclose to Agent or any other Person, or permit Agent or any other Person to examine (a) any tax returns or related books and records of the Certificate Participants or Owner Trust, or (b) any confidential information or pricing information not generally accessible by the public possessed by Certificate Participants or Owner Trust (and, in the event that any such information is made available, Agent shall treat such information as confidential and shall take all actions reasonably requested by such Indemnified Person for purposes of obtaining a stipulation from all parties to the related proceeding providing for the confidential treatment of such information from all such parties). Where Agent, or the insurers under a policy of insurance maintained by Agent, undertake the defense of such Indemnified Person with respect to a Claim (with counsel reasonably satisfactory to such Indemnified Person and without reservation of rights against such Indemnified Person), no additional legal fees or expenses of such Indemnified Person in connection with the defense of such Claim shall be indemnified hereunder unless such fees or expenses were incurred at the request of the Agent or such insurers. Notwithstanding the foregoing, an Indemnified Person may participate at its own expense in any judicial proceeding controlled by Agent pursuant to the preceding provisions, but only to the extent that such party's participation does not in the reasonable opinion of counsel to Agent interfere with such control; provided, however, that such party's participation does not

constitute a waiver of the indemnification provided in Section 12.1 or 12.2; provided, further, that if and to the extent that such Indemnified Person is advised by counsel that an actual or potential conflict of interest exists where it is advisable for such Indemnified Person to retain separate counsel or such Indemnified Person may be indicted or otherwise charged in a criminal complaint and such Indemnified Person informs Agent that such Indemnified Person desires to be represented by separate counsel, such Indemnified Person shall have the right to control its own defense of such Claim and the reasonable fees and expenses of such defense (including the reasonable fees and expenses of such separate counsel) shall be borne by Agent. So long as no Agent Event of Default shall have occurred and be continuing, no Indemnified Person shall enter into any settlement or other compromise with respect to any Claim without the prior written consent of Agent unless (x) the Indemnified Person waives its rights to indemnification hereunder or (y) Agent has not acknowledged its indemnity obligation with respect thereto and there is a significant risk that a default judgment will be entered against such Indemnified Person. Nothing contained in this Section 12.7 shall be deemed to require an Indemnified Person to Contest any Claim or to assume responsibility for or control of any judicial proceeding with respect thereto.

12.8 Agent's Subrogation. To the extent that a Claim indemnified by Agent under this Article XII is in fact paid in full by Agent or an insurer under an insurance policy maintained by Agent, Agent (so long as no Agent Event of Default shall have occurred and be continuing) or such insurer shall be subrogated to the rights and remedies of the Indemnified Person on whose behalf such Claim was paid to the extent of such payment (other than rights of such Indemnified Person under insurance policies maintained at its own expense) with respect to the transaction or event giving rise to such Claim. Should an Indemnified Person receive any refund, in whole or in part, with respect to any Claim paid by Agent under Section 12.1 or 12.2 hereof, it shall promptly pay over to Agent the lesser of (i) the amount refunded reduced by the amount of any Tax incurred by reason of the receipt or accrual of such refund and increased by the amount of any Tax (but not in excess of the amount of such reduction) saved as a result of such payment or (ii) the amount Agent or any of their insurers has paid in respect of such Claim.

12.9 Agent's Survival of Agent's Indemnification Obligations. It is expressly understood and agreed that the indemnification obligations of Agent provided for in this Article XII shall survive the expiration or termination of, and shall be separate and independent from any remedy under, this Agreement or any direct or indirect acquisition of the Property or the Facility by Agent or a Designee; provided, that except in the case of a termination as a result of the exercise of the Remarketing Requirement or the Lease Option, such indemnification obligation shall no longer be subject to the following limitation set forth in the lead-in of Sections 12.1, 12.3(c) and 12.4: "To the extent Claims/Impositions/Tax results from actions by Agent, or failures by Agent to act (but excluding any Claim/Imposition/Tax arising as a result of Agent's acts or failures by Agent to act which are related to Completion)".

ARTICLE XIII

OWNER TRUST'S INDEMNITIES

13.1 Owner's Trust's General Indemnification. Owner Trust hereby assumes liability for and agrees to defend, indemnify and hold harmless each Lessor Indemnified Person on an After Tax Basis from and against any and all such Claims which may be imposed on, incurred by or asserted against such Lessor Indemnified Person in any way relating to or arising or alleged to arise out of (a) the proposed sale/purchase transaction with respect to its Property, the funding of its Lease Indebtedness, the financing, refinancing, purchase, acceptance, rejection, ownership, design, construction, delivery, acceptance, nondelivery, acquisition, handling, installation, operation, transportation, maintenance, testing, repair, leasing, subleasing, possession, use, modification, condition, sale, return, repossession (whether by summary proceedings or otherwise of its Property), or any other matter concerning this Agreement, the Construction Contracts, the other Operative Agreements, the Financing Documents, or its Property or the proposed conveyance of its Property or any part thereof; (b) any latent or other defects in its Property or otherwise whether or not discoverable by such Lessor Indemnified Person; (c) this Agreement, the Construction Contracts, the other Operative Agreements, the Financing Documents and any transaction contemplated thereby; (d) any breach by Owner Trust of any of its representations, warranties or covenants under this Agreement or failure by Owner Trust to perform or observe any covenant or agreement to be performed by it under this Agreement; (e) personal injury, death or property damage relating to its Property, including Claims based on strict liability in tort; (f) the performance of any labor or services or the furnishing of materials or other property in respect of its Property including any Claims of any nature by employees of Owner Trust or its Contractors; and (g) the Operative Agreements, the Financing Documents, or any transaction contemplated by any thereof, including the enforcement of any rights, terms or provisions thereof, any amendments or supplements thereto or any transaction contemplated thereby or liability in tort (strict or otherwise).

13.2 Owner Trust's Environmental Indemnity. Without limitation of any other provisions of this Agreement, Owner Trust hereby agrees to indemnify, hold harmless and defend each Lessor Indemnified Person on an After Tax Basis from and against any and all Claims (including third party Claims for personal injury or real or personal property damage), losses (including any loss of Value of the Facility or the Property), damages, Environmental Actions, administrative and judicial proceedings (including informal proceedings) and orders, judgments, remedial action, legally enforceable requirements and enforcement actions, and all reasonable and documented costs and expenses incurred in connection therewith (including reasonable and documented legal and consultant fees and expenses), including all costs incurred in connection with any investigation or monitoring of site conditions or any clean-up, remedial, removal or restoration work by any Governmental Authority, arising in whole or in part, out of any of the following:

(a) the presence, as of the Closing Date, on or under the Facility or the Property of any Hazardous Condition or Hazardous Substance, or any Releases or discharges of any Hazardous Substance on, under, from or onto the Facility or the Property;

(b) any activity, including construction, carried on or undertaken on or off the Facility or the Property, and whether by Owner Trust, any Affiliate of Owner Trust or any predecessor in title or any employees, agents, contractors or subcontractors of Owner Trust, any Affiliate of Owner Trust or any predecessor in title, in connection with the handling, treatment, removal, storage, decontamination, clean-up, transport or disposal of any Hazardous Substance or Hazardous Condition that at any time is located or present on or under the Facility or the Property;

(c) loss of or damage to the Facility or the Property or the environment (including, clean-up costs, response costs, remediation and removal costs, costs of corrective action, costs of financial assurance, fines and penalties and natural resource damages), or death or injury to any Person, and all documented expenses associated with the protection of wildlife, aquatic species, vegetation, flora and fauna, and any mitigative action required by or under Environmental Laws;

(d) any Environmental Violation or any Claim concerning any Environmental Violation, or any Environmental Action, or any act or failure by Owner Trust to act that would allow any Governmental Authority to record a Lien on the Facility or the Property; or

(e) any residual contamination on or under the Facility or the Property or any site related to the Facility or the Property, or affecting any natural resources or the environment, and any contamination of the Facility, the Property, or any site or natural resources or the environment arising in connection with the generation, use, handling, treatment, storage, transport or disposal of any Hazardous Substance, and irrespective of whether any of such activities were or will be undertaken in accordance with Applicable Laws.

13.3 Owner Trust's General Tax Indemnity.

(a) Payments Free and Clear. All payments made to or for the benefit of the applicable Trustee, Owner Trust Parent, the Master Owner Trustee, the Lenders, the Certificate Participants or the other Lessor Indemnified Persons under the Operative Agreements (including payments of any Financing Costs, Owner Trust Yield, fees and the purchase price payable on the exercise of the Purchase Option) shall be made free and clear of and without deduction for any and all present or future Impositions. If the Owner Trust, the Borrower, the applicable Trustee or any other Person ("Applicable Payor") shall be required by law to deduct any Impositions from or in respect of any amounts payable under this Agreement or any other

Operative Agreement to or for the benefit of a Lender, Lender Agent, Certificate Participant, the applicable Trustee, Owner Trust Parent, the Master Owner Trustee or the Owner Trust or the other Lessor Indemnified Persons ("Applicable Payee"), (i) the amounts payable by the Applicable Payor (as rent, interest or otherwise) shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 13.3) the Applicable Payee shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Applicable Payor shall make such deductions and (iii) the Applicable Payor shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with all applicable laws. The Owner Trust will indemnify each Lessor Indemnified Person on an After Tax Basis for the full amount of any sums paid by such Lessor Indemnified Person pursuant to the second sentence of this Section 13.3(a) and any liability such Lessor Indemnified Person may incur or be required to pay.

(b) [Intentionally Omitted.]

(c) Indemnification. Each Owner Trust shall indemnify, defend and hold harmless all Lessor Indemnified Persons from and against the full amount of all Impositions and Other Taxes (including current or future stamp, intangible, document or other Taxes that arise from the execution, delivery, recording or registration of this Agreement or any other agreement contemplated hereby) on an After Tax Basis except those arising from the gross negligence or willful misconduct of such Lessor Indemnified Person incurred in connection with the transactions contemplated by this Agreement and any other Operative Agreement (but without duplication for any amount payable elsewhere under this Agreement or under any other Operative Agreement to the extent actually paid) required to be paid by such Lessor Indemnified Person on its behalf or on behalf of any other Person, and any liability (including penalties, interest and expenses, except those arising from the gross negligence or willful misconduct of such Lessor Indemnified Person; provided, that solely for purposes of this parenthetical, gross negligence or willful misconduct shall include the failure by such Lessor Indemnified Person to provide written notice to the Owner Trust of any written notice from any Governmental Authority received by such Lessor Indemnified Person for any Imposition or Other Taxes as to which the Owner Trust may have an indemnity obligation pursuant to this Section 13.3 within ninety (90) days after such Lessor Indemnified Person shall have Actual Knowledge of such written notice, but only to the extent the Owner Trust shall have actually been prejudiced as a result of such failure), arising therefrom or with respect thereto (including from any obligation to file any Tax return, report or statement with respect to any such Impositions or Other Taxes and any liability the Lessor Indemnified Person may incur or be required to pay pursuant to Section 13.3 hereof) whether or not such Impositions or Other Taxes were correctly or legally asserted.

(d) [Intentionally Omitted.]

(e) Payments. Each payment required to be made by the Owner Trust pursuant to this Section 13.3 shall be paid either (i) when due directly to the applicable taxing authority by the Owner Trust if it is permitted to do so, or (ii) where direct payment is not permitted and with respect to gross up amounts, in immediately available funds to such Lessor Indemnified Person by the later of (A) 30 days following the Owner Trust's receipt of the Lessor Indemnified Person's written demand for the payment (which demand shall be accompanied by a statement of the Lessor Indemnified Person describing in reasonable detail the Taxes for which the Lessor Indemnified Person is demanding indemnity and the computation of such Taxes) and certifying that such costs are being charged to other similarly situated borrowers under similar financing arrangements or (B) subject to paragraph (k) below, in the case of amounts which are being contested pursuant to such paragraph (k), at the time and in accordance with a final determination of such contest, provided, however, that with respect to a payment pursuant to Section 12.3(ii)(D) (as incorporated in Section 13.3(k)(ii), in no event later than the date which is three Business Days prior to the date on which such Taxes are required to be paid to the applicable taxing authority. A Lessor Indemnified Person shall use reasonable best efforts to deliver any such demand within thirty (30) days after such Lessor Indemnified Person has Actual Knowledge that such payment is required; provided, that failure to deliver such demand within thirty (30) days shall not alter such Lessor Indemnified Person's rights under this Section 13.3.

(f) Prescribed Forms. Each Lessor Indemnified Person will deliver to the Owner Trust and the Agent on or before the Closing Date, copies of all Prescribed Forms. Thereafter and from time to time, each such Lessor Indemnified Person shall submit, or cause to be submitted, to Owner Trust and the Agent such additional duly completed and signed copies of the Prescribed Forms (or such successor forms as shall be adopted from time to time by the relevant United States taxing authorities) as may be (i) requested by Owner Trust or the Agent, and (ii) required under then-current United States law or regulations to avoid United States withholding taxes on payments in respect of all amounts to be received by such Lessor Indemnified Person pursuant to the Operative Agreements, including fees. If such Lessor Indemnified Person determines, as a result of any change in applicable law, regulation or treaty, or in any official application or interpretation thereof, that it is unable to submit to Owner Trust any form or certificate that such Lessor Indemnified Person is obligated to submit pursuant to this Section 13.3, or that such Lessor Indemnified Person is required to withdraw or cancel any such form or certificate previously submitted, such Lessor Indemnified Person shall promptly notify Owner Trust of such fact.

(g) Reports. If any report, return, or statement is required to be filed with respect to Taxes that are subject to indemnification under Section 13.3 or 13.4, Agent shall, if permitted by Applicable Law, timely prepare and file such report, return, or statement; provided, however, if Agent is not permitted by Applicable Law to file such return, Agent shall promptly notify the appropriate Person, in which case the Person, at Agent's expense, will file any return after Agent properly prepares such return.

(h) Restructuring. If Owner Trust is liable (or appears, in Owner Trust's or Agent's reasonable belief, that Owner Trust will be liable) for any Imposition under Section 13.3 or 13.4 hereof, the applicable Owner Trust, Owner Trust Parent and the Lenders agree to cooperate with Owner Trust and Agent to take all reasonable actions which are necessary or appropriate to restructure the transactions contemplated hereby in any reasonable manner requested by Owner Trust and Agent to avoid or minimize Owner Trust's indemnification obligations hereunder; provided, however, the applicable Owner Trust, Owner Trust Parent and the Lenders shall not be required to take any action that results in any Tax, cost or other expense to such Person (or any of its Affiliates) or which, in such Person's reasonable belief, would have an adverse effect on such Person's (or any of its Affiliate's) rights under this Agreement or another Operative Agreement or to its business or, in such Person's reasonable belief, would cause such Person (or one of its Affiliates) to violate any Applicable Law.

(i) Receipt. Within thirty (30) days after the date of any deduction of any Impositions, the Applicable Payor shall furnish to the Applicable Payee and the Administrative Agent the original or a certified copy of a receipt or other documentation evidencing payment thereof.

(j) Determinations. The determination of all Impositions to be paid or indemnified against by the Owner Trust under this Section 13.3 on an After Tax Basis shall be made (in good faith) by the affected Applicable Payee. Such determination shall state with reasonable clarity and detail the basis for such determination, shall certify that such costs are being charged to other similarly situated borrowers under similar financing arrangements and shall, absent manifest error, be final and conclusive and binding on the Owner Trust. In no event shall the Owner Trust in connection with this Section 13.3 or for any other purpose whatsoever under any Operative Agreement have any right to examine any Tax return or related books and records of any Applicable Payee.

(k) Contests.

(i) If any Tax Claim shall be made against any Lessor Indemnified Person for any Tax as to which the Owner Trust may have an indemnity obligation pursuant to this Section 13.3, such Lessor Indemnified Person shall as soon as practicable after its receipt or commencement, and in any event within thirty (30) days notify the Owner Trust and Agent in writing and furnish the Owner Trust and Agent with copies of such Tax Claim and all other writings received from the taxing authority to the extent relating to such Tax Claim (provided, that failure to so notify the Owner Trust and Agent within thirty (30) days shall not alter such Lessor Indemnified Person's rights under this Section 13.3 except to the extent such failure precludes or materially adversely affects the ability to conduct a contest of any Tax Claim) and shall not take any action with respect to such Tax Claim without the written consent of the Owner Trust and Agent (such consent not to be unreasonably withheld or unreasonably delayed) for thirty (30) days after the receipt of such notice by the Owner Trust and Agent; provided, however, that in the case of any such Tax Claim, if such Lessor Indemnified Person shall be required by law or regulation to take action prior to the end of such 30-day period, such Lessor Indemnified Person shall in such notice to the Owner Trust and Agent, so inform the Owner Trust and Agent, and such Lessor Indemnified Person shall not take any action with respect to such Tax Claim without the consent of the Owner Trust and Agent (such consent not to be unreasonably withheld or unreasonably

delayed) for ten (10) days after the receipt of such notice by the Owner Trust and Agent unless the Lessor Indemnified Person shall be required by law or regulation to take action prior to the end of such 10-day period.

(ii) The Agent shall be entitled for a period of thirty (30) days from receipt of such notice from the Lessor Indemnified Person (or such shorter period reasonably specified by the Lessor Indemnified Person as the Lessor Indemnified Person has notified the Agent as required by law or regulation for such Lessor Indemnified Person to commence such contest of such Tax Claim), to request in writing that such Lessor Indemnified Person contest the imposition of such Tax, at the Agent's sole cost and expense and the Lessor Indemnified Person shall not pay such Tax Claim during such period. The provisions of Section 12.3(k) shall control the conduct of any Tax Claim with all references in such Section to "Indemnified Person" being deemed references to "Lessor Indemnified Person."

(iii) Notwithstanding anything contained herein to the contrary, a Lessor Indemnified Person will not be required to contest (and the Agent shall not be permitted to contest) a Tax Claim with respect to the imposition of any Tax if such Lessor Indemnified Person shall waive its right to indemnification under this Section 13.3 with respect to such Tax Claim (and any Tax Claim with respect to such year or any other taxable year the contest of which is materially adversely affected as a result of such waiver and shall promptly repay to the Agent any Tax Advances paid to such Lessor Indemnified Person in respect of such Taxes).

(l) Refunds. To the extent that any Lessor Indemnified Person has actually and finally received a refund of any Impositions or Other Taxes (including interest) that can be clearly identified as specifically relating to Impositions or Other Taxes paid or reimbursed by the Owner Trust pursuant to this Section 13.3 and that, after taking into account the amount of such refund, would result in the total payments under this Section 13.3 exceeding the amount due to such Lessor Indemnified Person from Owner Trust under this Section 13.3, such Lessor Indemnified Person shall pay to the Owner Trust, or Agent, as applicable, with reasonable promptness following the date on which it actually receives such refund, an amount equal to the lesser of the amount of such refund or the amount of such excess, in each case net of all

reasonable out-of-pocket expenses incurred by such Lessor Indemnified Person in securing such refund.

13.4 Owner Trust's Special Tax Indemnity. To the extent any Tax results from actions by Agent, or failures by Agent to act (provided that indemnification hereunder with respect to any Tax arising as a result of Agent's acts or failures by Agent to act which are related to Completion shall be paid solely through payments in accordance with Article V hereof), Owner Trust shall pay and assume all liability for and does hereby agree to, indemnify, defend and hold harmless any Lessor Indemnified Person on an After Tax Basis (but without duplication for any amount payable elsewhere under this Agreement or under any other Operative Agreement to the extent actually paid) from and against (a) any Tax or other cost resulting from the breach, inaccuracy or incorrectness of the representation found in Section 7.1(o) and (b) any Taxes that have to be paid by Owner Trust under Section 4.1(b) of the Credit Agreement. Any Taxes subject to indemnification hereunder shall be reimbursed in accordance with the provisions of Section 13.3(e).

13.5 Indemnity Exclusions. Any Claim, to the extent resulting from or arising out of or attributable to any of the following, is excluded from each Owner Trust's agreement to indemnify any Lessor Indemnified Person under this Section 13 other than Sections 13.3 and 13.4:

(a) acts, omissions or events occurring after the expiration or early termination of this Agreement and, where required by this Agreement, surrender to the Agents or its successor of the Facility in compliance with the provisions of this Agreement;

(b) with respect to the relevant Lessor Indemnified Person, any offer, sale, assignment, transfer or other disposition (voluntary or involuntary) by or on behalf of (i) Owner Trust Parent or its Affiliates of any of their interest in the applicable Owner Trust, or (ii) the applicable Owner Trust of all or any of its interest in the Facility, or (iii) the Lenders of any of their interests in the Loans, unless such transfer is required by the terms of the Operative Agreements or occurs in connection with the exercise of remedies during an Event of Default;

(c) the gross negligence or willful misconduct of the Lessor Indemnified Person seeking indemnification;

(d) the noncompliance with the terms of the Operative Agreements by, or the breach of any agreement, covenant, representation or warranty of, the Lessor Indemnified Person seeking indemnification;

(e) any obligation or liability expressly borne, assumed or to be paid in any Operative Agreement by the Lessor Indemnified Person seeking indemnification;

(f) with respect to the Lessor Indemnified Person seeking indemnification, any claim constituting or arising from a Lien attributable to such Lessor Indemnified Person (other than these Liens arising or created as a result of action undertaken or documents or instruments executed by the Owner Trust pursuant to the request of Administrative Agent on behalf of the Lenders or the Authorized Representative of any other Secured Party);

(g) any amendment other than an amendment to which any Agent is a party or has been expressly requested by Agent in writing;

(h) any Claim resulting from any event of default not caused by an Agent Event of Default, if applicable, an Owner Trust Termination Event or a Guarantor Event of Default; and

(i) any misdirection or misapplication of funds by any Certificate Participant, Owner Trust Parent or by Owner Trust (but in the case of Owner Trust, only to the extent such misdirection or misapplication is attributable to such Certificate Participant or Owner Trust Parent or their Affiliates).

13.6 Indemnification Procedure under Section 13.1 or 13.2. Each Lessor Indemnified Person under Section 13.1 or 13.2 shall promptly after such Lessor Indemnified Person shall have actual knowledge thereof notify the Owner Trust and Agent in writing of any Claim as to which indemnification is sought; provided, that the failure so to notify the Owner Trust and Agent shall not reduce or affect the Owner Trust's liability which it may have to such Lessor Indemnified Person under Section 13.1, 13.2, 13.3 or 13.4. Any amount payable to any Lessor Indemnified Person shall be paid within fifteen (15) days after receipt of such written demand therefor from such Lessor Indemnified Person, accompanied by a certificate of such Lessor Indemnified Person stating in reasonable detail the basis for the indemnification thereby sought and (if such Lessor Indemnified Person is not a party hereto) an agreement to be bound by the terms hereof as if such Lessor Indemnified Person were such a party. Promptly after the Owner Trust receives notification of such Claim accompanied by a written statement describing in reasonable detail the Claims which are the subject of and basis for such indemnity and the computation of the amount so payable, the Owner Trust (acting at the direction of Agent) shall notify such Lessor Indemnified Person whether it intends to pay, object to, compromise or defend any matter involving the asserted liability of such Lessor Indemnified Person. The Agent shall have the right to investigate and so long as no Event of Default shall have occurred and be continuing, the Agent shall have the right in its sole discretion to defend or compromise any Claim for which indemnification is sought under Section 13.1 or 13.2, provided, further, that no Claim shall be compromised by the Agent on a basis that admits any criminal violation or gross negligence or willful misconduct on the part of such Lessor Indemnified Person without the express written consent of such Lessor Indemnified Person. If the Agent elects, subject to the foregoing, to compromise or defend any such asserted liability, the provision of Section 12.7

shall control with all references therein to "Indemnified Person" being deemed to be references to "Lessor Indemnified Person."

13.7 Subrogation. To the extent that a Claim indemnified by the Owner Trust under this Article XIII is in fact paid in full by the Owner Trust, Agent or an insurer under an insurance policy maintained by the Owner Trust or Agent, the Owner Trust or, (so long as no Event of Default shall have occurred and be continuing, Agent,) or such insurer shall be subrogated to the rights and remedies of the Lessor Indemnified Person on whose behalf such Claim was paid to the extent of such payment (other than rights of such Lessor Indemnified Person under insurance policies maintained at its own expense) with respect to the transaction or event giving rise to such Claim. Should a Lessor Indemnified Person receive any refund, in whole or in part, with respect to any Claim paid by the applicable Owner Trust hereunder, it shall promptly pay over to the applicable Owner Trust the lesser of (a) the amount refunded reduced by the amount of any Tax incurred by reason of the receipt or accrual of such refund and increased by the amount of any Tax (but not in excess of the amount of such reduction) saved as a result of such payment or (b) the amount the applicable Owner Trust or any of its insurers has paid in respect of such Claim.

13.8 Survival of Indemnification Obligations. It is expressly understood and agreed that the indemnification obligations of the Owner Trust provided for in this Article XIII shall survive the expiration or termination of and shall be separate and independent from any remedy under this Agreement or any direct or indirect acquisition of any Property by Agent or a Designee.

13.9 Limitation on Indemnification. Notwithstanding the provisions of this Article XIII, each of the Lessor Indemnified Persons hereby acknowledge and agree that with respect to those matters covered in Article XII hereof Owner Trust's obligations set forth in this Article XIII are intended to pass through the obligations of the Agent set forth in such Article XII or, shall be contingent upon receipt of payments from the Agent under such Article XII and the Owner Trust agrees not to contest the amount of any indemnification paid by Agent (and received by the applicable Owner Trust) pursuant to court order, arbitration proceeding or agreement reached among the applicable Lessor Indemnified Person and Agent with respect thereto and be bound by such court order, arbitration proceeding or agreement.

13.10 Third Party Beneficiary Rights. Any Person who is or becomes an Indemnified Party hereunder but which is not a signatory hereto shall have the rights granted under this Article XIII to enforce such provisions.

ARTICLE XIV

CREDIT AGREEMENT,
MASTER TRUST AGREEMENT AND
OTHER FINANCING DOCUMENT RIGHTS

14.1 Assignment of Credit Agreement, Master Trust Agreement Rights and Other Financing Documents. Notwithstanding anything to the contrary contained in the Financing Documents, Owner Trust hereby irrevocably assigns and conveys to Agent the following rights of Owner Trust as "Borrower" or "Company", as applicable, under the Financing Documents and agrees that so long as no Agent Event of Default has occurred and is continuing:

(a) Agent shall have the right to execute and deliver all Payment Directions/Borrowing Notices hereunder and similar notices under the Financing Documents as such notices relate to the Facility;

(b) Agent shall have the right to convert or continue Lease Indebtedness relating to the Facility in accordance with the Financing Documents;

(c) Agent shall have the right to receive copies of all notices delivered to the Secured Parties under the Financing Documents and the other Operative Agreements and such notices shall not be effective until received by Agent;

(d) Agent shall have the right, but not the obligation, to cause prepayment of the Lease Indebtedness in accordance with the Intercreditor Agreement;

(e) Agent shall have the right but not the obligation to cure, to the extent susceptible to a cure, any event of default of Owner Trust under the Financing Documents;

(f) Agent shall have the right, but not the obligation, to approve any successor Issuing Bank or any Administrative Agent pursuant to Section 7.9 of the Credit Agreement or similar Person pursuant to any similar provision of any Financing Document;

(g) [Intentionally Omitted];

(h) Agent shall have the right, but not the obligation, to control the defense of any Claim or Imposition and consent to the settlement thereof, in each case pursuant to any Financing Document;

(i) Agent shall have the right to approve the form of Letter of Credit Applications under (and as defined in) the Credit Agreement and other Financing Documents;

(j) Agent shall have the right to reallocate the Lenders' Commitments amongst the various Tranches pursuant to Section 2.9(c) of the Credit Agreement or similar provisions of the other Financing Documents;

(k) Agent shall have the right to replace Issuing Bank, Administrative Agent or any Lender or any Authorized Representative or Secured Party at any time; provided, however, that the Administrative Agent may only be removed hereunder for cause;

(l) Agent shall have the right to approve the form of collateral for the Deposit Account Collateral for loans subject to a collateral deposit requirement in accordance with Section 5.1(e) of the applicable Construction Agency Agreement;

(m) Agent shall have the right to execute and deliver all Disbursement Requests under each Loan Agreement or other Bond Document or Financing Document;

(n) Agent shall have the right, but not the obligation (except as specifically provided for herein), to cause redemption of the Bonds in accordance with any Loan Agreement or other Bond Document or Financing Document;

(o) Agent shall have the right, but not the obligation, to direct the investment or reinvestment of Bond Proceeds pursuant to each Loan Agreement or other Financing Document;

(p) Agent shall have the right, but not the obligation, to control the defense of any indemnification claim and consent to the settlement thereof, in each case pursuant to each Loan Agreement or other Financing Document; and

(q) Agent shall have the right, but not the obligation, to direct Owner Trust in the administration of each Loan Agreement or other Financing Document.

Owner Trust shall have no right to perform any of the foregoing actions or exercise any of the foregoing rights.

ARTICLE XV

MISCELLANEOUS

15.1 Intent. It is the intent of the parties hereto that for purposes of commercial, real estate, bankruptcy, federal, state and local tax law and banking regulations, (a) the transactions contemplated hereby are a financing arrangement between Agent, as borrower, and the Secured Parties, as lenders; (b) Owner Trust is a security device for the repayment of the amounts due the Secured Parties; (c) the Property is pledged to secure the payment of the debt owed the Secured Parties as provided for in the Security Documents (and for tax purposes, the debt owed Certificate Participants); and (d) the obligation of Agent to pay the Termination Amount or the Funded Budget Amount pursuant to this Agreement shall be treated as payments of interest on and principal of, respectively, from the Secured Parties. For commercial, real estate, bankruptcy and banking regulations, it is the intent of the parties hereto that Agent hereby collaterally conveys, assigns, transfers and sets over to Owner Trust on behalf of the Secured Parties and grants a security interest in, all of the right, title and interest of Agent in, to and under the Property and all proceeds thereof and all of Agent's right, title and interest in, to and under Agent's estate under this Agreement, all to secure payment and performance of all obligations of Agent under the Operative Agreements, effective on the date hereof in accordance with the terms of the Intercreditor Agreement. Specifically, but without limiting the generality of this Section 15.1, Owner Trust and Agent further intend and agree that, for the purpose of securing Agent's obligations for the repayment of the amounts outstanding from Owner Trust to Agent, (x) this Agreement shall be deemed to be a security agreement and financing statement within the meaning of Article 9 of the UCC; and (y) the conveyance provided for hereby shall be deemed to be a grant by Agent to Owner Trust of a lien and security interest in all of Agent's present and future right, title and interest in and to the Property (whether now existing or hereafter acquired), including all right, title and interest of Agent in all proceeds of the conversion, voluntary or involuntary, of the foregoing into cash, investments, securities or other property, whether in the form of cash, investments, securities or other property to secure the amounts outstanding hereunder. The parties further intend that Owner Trust and Owner Trust Parent shall be disregarded for income tax purposes and that Agent shall be treated as owner of the Property for income tax purposes and shall be entitled to all tax benefits associated with ownership, including deductions for depreciation. Each party hereto agrees and covenants that it shall not (unless required to do so under Applicable Law) file any tax return, statement, or schedule, or take any other action, inconsistent with such treatment, or take any action that would cause Owner Trust or Owner Trust Parent to be taxed as an association taxable as a corporation or to cause Owner Trust to be taxable as a trust that is not a grantor trust for United States federal income tax purposes. Solely to the extent that a court were to construe this Agreement as a Lease under (and as defined in) Article 2A of the Uniform Commercial Code as in effect from time to time in the State of New York (the "NY UCC"), to the maximum extent permitted by Applicable Law, Agent hereby waives any rights to which it may be entitled as a lessee under

Article 2A of the NY UCC, including, without limitation, the right to revoke or reject acceptance of the relevant goods.

15.2 Notices. (a) Unless otherwise specifically provided herein, all notices, consents, directions, approvals, instructions, requests and other communications required or permitted by the terms hereof to be given to any Person shall be given in writing and delivered (i) personally, (ii) by a nationally recognized overnight courier service, (iii) by mail (by registered or certified mail, return receipt requested, postage prepaid) or (iv) by facsimile (with verbal confirmation of such transmission), in each case directed to the address of such Person as indicated below, or to such other address as may be hereafter notified by the respective parties hereto:

Agent:	Reliant Energy [_____], LLC 1111 Louisiana Street Houston, TX 77002 Attention: James E. Hammelman Telephone: (713) 207-3351 Facsimile: (713) 207-9916 and Attention: Michael Jines Telephone: (713) 207-7465 Facsimile: (713) 207-0116
With a copy to:	Reliant Resources, Inc. 1111 Louisiana Street, 47th Floor Houston, TX 77002 Attention: Rex Clevenger Telephone: (713) 207-3160 Facsimile: (713) 207-0988
Owner Trust:	[_____] Trust c/o First Union Trust Company, National Association One Rodney Square 920 King Street Suite 102 Wilmington, Delaware 19801 Attention: Corporate Trust Administration Telephone: (302) 888-7532 Facsimile: (302) 888-7544

Bank: First Union Trust Company, National Association
One Rodney Square
920 King Street
Suite 102
Wilmington, Delaware 19801
Attention: Corporate Trust Administration
Telephone: (302) 888-7532
Facsimile: (302) 888-7544

Administrative Agent:

Certificate Participants, Lender Agents and Lenders: At the addresses set forth on Schedule I

Any such notice shall be effective upon receipt or refusal. From time to time any party may designate a new address for purposes of notice hereunder by written notice to each of the other parties hereto in accordance with this Section. The parties agree and acknowledge that time is of the essence for purposes of notices under this Agreement.

(a) Agent acknowledges and agrees that any agreement of Owner Trust to receive certain notices by facsimile (including any Payment Directions/Borrowing Notices and Quarterly Certificates) from Agent is solely for the convenience and at the request of Agent. Owner Trust shall be entitled to reasonably rely on any notices signed by a Responsible Officer of Agent and Owner Trust shall not have any liability to Agent or other Person on account of any action taken or not taken by Owner Trust in reliance upon such facsimile notice. The obligation of Agent to make any payment pursuant to Section 8.2, 10.1, 11.2 or Article XII shall not be affected in any way or to any extent by any failure by Owner Trust to receive written confirmation of any facsimile notice or the receipt by Owner Trust of a confirmation which is at variance with the terms contained in the facsimile notice.

15.3 Assignment; Successors and Assigns. (a) This Agreement shall be binding upon and inure to the benefit of Owner Trust and Agent and their respective permitted successors and assigns.

(b) Subject to Article X, Agent shall not assign any of its rights or obligations hereunder without the prior written consent of Owner Trust and Administrative Agent and Collateral Agent; provided, that notwithstanding the foregoing, Agent shall have the right, from time to time, to assign any or all of its rights or obligations hereunder to any Designee

(in the case of an assignment of the Purchase Option in accordance with Section 10.1(c)) or any Affiliate of Agent, so long as (i) the Guaranty remains in full force and effect, as confirmed in writing by the Guarantor, and Agent agrees to provide Owner Trust with at least five (5) Business Days prior written notice of any such assignment and (ii) in the event the assignee is a non-United States Affiliate of Agent, such assignee agrees in writing that service of process may be made on such assignee at the address of Guarantor in the same manner as provided for in the Guaranty; provided, that Agent also delivers to Owner Trust and Collateral Agent new UCC Financing Statements, legal opinions and such other documents necessary for the perfection of Liens on the Facility as Owner Trust may reasonably request.

(c) If as a result of any change in applicable law or regulation (i) Owner Trust is prohibited from making or maintaining any Payments or (ii) being party to the Purchase Agreements or owning the assets contemplated thereby, or (iii) Owner Trust's participation in the transactions contemplated by this Agreement becomes substantially more costly or administratively burdensome, Owner Trust may, or at the direction of Agent shall, assign to one or more Owner Trust Eligible Assignees all or a portion of Owner Trust's rights and obligations under this Agreement (including all or a portion of its Aggregate Owner Trust's Contribution Commitment and the Payments owing to it); provided, however, that (A) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement, (B) except in the case of an assignment of all of Owner Trust's rights and obligations under this Agreement, the amount of the Aggregate Owner Trust's Contribution Commitment being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than $10,000,000, (C) the parties to each such assignment shall execute an Assignment and Acceptance and (D) at the time of execution of the Assignment and Acceptance, such assignee shall deliver to Agent any necessary Prescribed Forms in accordance with Section 13.3(f). Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of Owner Trust hereunder and (y) Owner Trust shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all of Owner Trust's rights and obligations under this Agreement, Owner Trust shall cease to be a party hereto, except that the rights of Owner Trust under Article XII shall continue with respect to events and occurrences before or concurrently with its ceasing to be a party hereto).

(d) By executing and delivering an Assignment and Acceptance, Owner Trust and the assignee thereunder confirm to and agree with each other as follows: (i) other than as provided in such Assignment and Acceptance, Owner Trust makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with any Operative Agreement or any other instrument or document furnished pursuant hereto or in connection herewith or the

execution, legality, validity, enforceability, genuineness, sufficiency or value of any Operative Agreement or any other instrument or document furnished pursuant hereto or in connection herewith; (ii) Owner Trust makes no representation or warranty and assumes no responsibility with respect to the financial condition of Agent or the Guarantor or any other Person or the performance or observance by Agent or the Guarantor or any other Person of any of its respective obligations under any Operative Agreement or any other instrument or document furnished pursuant hereto or in connection herewith; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 3.01(a) of the Guaranty and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon Owner Trust and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement, any of the other Operative Agreements or any other instrument or document; (v) such assignee confirms that it is an Owner Trust Eligible Assignee; and (vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it.

(e) Upon the execution of an Assignment and Acceptance by an Owner Trust Eligible Assignee, Owner Trust shall give prompt written notice thereof to Agent.

(f) Owner Trust may, in connection with any assignment or proposed assignment pursuant to this Section 15.3, disclose to the assignee or proposed assignee any information relating to Agent or any of its Affiliates furnished to Owner Trust by or on behalf of Agent or any of its Affiliates; provided, that prior to any such disclosure, the assignee or proposed assignee shall execute and deliver to Owner Trust and Agent a confidentiality agreement reasonably satisfactory to Owner Trust and Agent.

(g) Notwithstanding any other provision set forth in this Agreement, Owner Trust may at any time create a security interest in all or any portion of its rights under this Agreement (including the Payments owing to it) in favor of the Secured Parties.

15.4 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (EXCLUDING ANY CONFLICT-OF-LAW OR CHOICE-OF-LAW RULES WHICH MIGHT LEAD TO THE APPLICATION OF THE INTERNAL LAWS OF ANOTHER JURISDICTION).

15.5 SUBMISSION TO JURISDICTION; WAIVERS; SERVICE OF PROCESS. EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(a) SUBMITS FOR ITSELF AND ITS PROPERTY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT AND THE OTHER

OPERATIVE AGREEMENTS TO WHICH IT IS A PARTY, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT THEREOF, TO THE EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK, THE COURTS OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK, AND APPELLATE COURTS FROM ANY THEREOF;

(b) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME;

(c) WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LEGAL ACTION OR PROCEEDING REFERRED TO IN THIS SECTION 15.5(c) ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES;

(d) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY DELIVERING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, RETURN RECEIPT REQUESTED TO SUCH PARTY AT ITS ADDRESS SET FORTH IN SECTION 15.2 OR AT SUCH OTHER ADDRESS AS SUCH PARTY SHALL HAVE GIVEN NOTICE TO THE OTHER PARTIES; AND

(e) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

15.6 WAIVERS OF JURY TRIAL. EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER OPERATIVE AGREEMENT AND FOR ANY COUNTERCLAIM THEREIN.

15.7 Amendments and Waivers. No amendments, waivers, supplements or modifications hereto, shall be effective unless the same shall be in writing and signed by Owner Trust and Agent, with the consent of the requisite applicable Authorized Representatives and Secured Parties, subject to Section 5 of the Intercreditor Agreement.

15.8 Counterparts. This Agreement may be executed on any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

15.9 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

15.10 Headings and Table of Contents. The headings and table of contents contained in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

15.11 Parties in Interest. Except as expressly provided herein, none of the provisions of this Agreement are intended for the benefit of any Person except the parties hereto.

15.12 Payment Obligations Absolute. Except as otherwise specifically provided in this Agreement, to the extent permitted by Applicable Law, all payments to Owner Trust by Agent pursuant to Section 8.2, 10.1, 11.2 or Article XII shall be made in all events without any abatement, suspension, deferment, reduction, deduction, defense, setoff or counterclaim to Administrative Agent for the account of the Secured Parties and Owner Trust at Collateral Agent's office specified in Section 19 of the Collateral Agency and Intercreditor Agreement to be distributed as provided in Sections 8 of the Collateral Agency and Intercreditor Agreement.

15.13 Further Assurances. Each of the parties hereto shall promptly cause to be taken, executed, acknowledged or delivered, at the sole expense of Agent (subject to reimbursement by Owner Trust pursuant to the Budget), all such further acts, conveyances, documents and assurances as the other party hereto may from time to time reasonably request in order to carry out and effectuate the intent and purposes of this Agreement and the transactions contemplated hereby.

15.14 Limitations on Recourse. The parties hereto agree that Bank, in its individual capacity shall have no personal liability whatsoever to Agent or its respective successors and assigns for any claim based on or in respect of this Agreement or any of the other Operative Agreements or arising in any way from the transactions contemplated hereby or thereby; provided, however, that Bank shall be liable in its individual capacity (a) for its own willful misconduct or gross negligence (or negligence in the handling of funds), (b) for liabilities that may result from the incorrectness of any representation or warranty expressly made by it in Section 7.3 or (c) for any Taxes based on or measured by any fees, commission or compensation received by it for acting as Trustee as contemplated by the Operative Agreements. It is understood and agreed that, except as provided in the preceding proviso: (i) Bank shall have no personal liability under any of the Operative Agreements as a result of acting pursuant to and

consistent with any of the Operative Agreements; (ii) all obligations of Bank to Agent are solely nonrecourse obligations except to the extent that Bank has received payment from others and are enforceable solely against Owner Trust's interest in the Property; (iii) all such personal liability of Bank is expressly waived and released as a condition of, and as consideration for, the execution and delivery of the Operative Agreements by Owner Trust; and (iv) this Agreement is executed and delivered by Bank solely in the exercise of the powers expressly conferred upon it as the Trustee of Owner Trust under the Trust Agreement.

15.15 No Petition. Each of Agent, Owner Trust and Bank hereby covenants and agrees that, prior to the date of the winding up of Owner Trust and payment of all liabilities in accordance with Section 3808 of the Business Trust Statute (as defined in the Trust Agreement), each of the parties will not institute against, or join with any other Person in instituting against, Owner Trust Parent or Owner Trust any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or other similar proceedings under the laws of the United States or any state of the United States. This Section 15.15 shall survive termination of this Agreement.

15.16 Conflict in Operative Agreements. If there is any conflict between any Operative Agreements, such Operative Agreement shall be interpreted and construed, if possible, so as to avoid or minimize such conflict but, to the extent (and only to the extent) of such conflict, this Agreement shall prevail and control.

ARTICLE XVI

REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE CERTIFICATE PARTICIPANTS

16.1 Trust Agreements. Each Certificate Participant hereby agrees to perform its obligations under, and otherwise comply with, the provisions of the Operative Agreements to which such Person is a party (the "Trust Agreements"). None of the Secured Parties shall terminate, amend, modify or waive any of the Trust Agreements or any of the organizational documents of Owner Trust or Owner Trust Parent, if any such termination, amendment, modification or waiver could reasonably be expected to have a material adverse effect on (a) the rights and obligations of Agent under this Agreement, including the rights of Agent to obtain or benefit from Payments, distributions or the release of any Liens pursuant to this Agreement or (b) the intent of the parties as expressed in Section 15.1.

16.2 [Intentionally Omitted].

16.3 Upstream Purchase and Releases. Each Certificate Participant and Owner Trust Parent agrees to be bound by, and comply with, the provisions of Article X. The Secured Parties agree to release any Liens and to take other actions necessary or appropriate to effectuate

the consummation of the Purchase Option at the cost and expense of the Agent and subject to the compliance by Agent in all respects with the terms of Article X.

16.4 Disclosure. The parties to this Agreement agree that, notwithstanding any contrary implication in any of the documents related to this transaction to the contrary, disclosure of this structure and the aspects (as defined and used in Treas. Reg. Section 301.6111-2T(c)(i)) of the transactions contemplated hereby are not limited in any way. The parties further agree that the structure and tax aspects of the transactions contemplated hereby are not protected from disclosure or use in any manner (such as a claim that the tax aspects or structure are proprietary to any Person).

16.5 Representations and Warranties of Secured Parties. Each of the Secured Parties other than Bondholders represents and warrants to each of the other parties hereto as follows:

(a) Due Organization, etc. It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has the power and authority to enter into the Operative Agreements to which such Person is a party (the "Financier Documents") (assuming due authorization, execution and delivery thereof by the other parties thereto), and perform the obligations under each of the Financier Documents to which such Person is or will be a party and each other agreement, instrument and document to be executed and delivered by it in connection with or as contemplated by the Financier Documents.

(b) Authorization. The execution, delivery and performance of each Financier Document to which such Person is or will be a party (assuming due authorization, execution and delivery thereof by the other parties thereto) has been duly authorized by all necessary action on its part.

(c) Enforceability, etc. Each of the Financier Documents to which such Person is a party is the legal, valid and binding obligation of such Person, and has been duly executed and delivered by such Person, and the other Financier Documents to which such Person will, upon execution and delivery thereof, constitute a legal, valid and binding obligation enforceable against such Person, in accordance with the terms thereof, except as the same may be limited by insolvency, bankruptcy, reorganization or other laws relating to or affecting creditors' rights or by general equitable principles.

(d) ERISA. No part of the funds to be used by any Secured Party to make its investment pursuant to the Financier Documents, directly or indirectly, constitutes or is deemed to constitute assets (within the meaning of ERISA and any applicable rules, regulations and court decisions thereunder) of any employee benefit plan (as defined in Section 3(3) of ERISA).

16.6 Confidentiality. Each of Owner Trust and the Secured Parties agrees to exercise its best efforts to keep and to cause any third party recipient of the information described in this Section 16.6 to keep any information delivered or made available by Agent to it (including any information obtained pursuant to Section 7.4) confidential; provided, that nothing shall prevent Owner Trust or any Secured Party from disclosing such information (a) to any other Secured Party for the purpose of administering or enforcing this Agreement or the other Operative Agreements, (b) pursuant to subpoena or upon the order of any court or administrative agency, (c) upon the request or demand of any Governmental Authority having jurisdiction over Owner Trust or such Secured Party, (d) if such information has been publicly disclosed other than in connection with a breach of this Section, (e) to the extent reasonably required in connection with any litigation to which either Owner Trust, any Secured Party or their respective Affiliates may be a party, (f) to the extent reasonably required in connection with the exercise of any remedy hereunder, (g) to Owner Trust's or such Secured Party's, as the case may be, legal counsel, independent auditors and other professional advisors, (h) to any actual or proposed permitted assignee of Owner Trust or a Secured Party that has agreed in writing to be bound by the provisions of this Section 16.6. Unless prohibited from doing so by applicable law, in the event that any Secured Party is legally requested or required to disclose any confidential information pursuant to clause (b), (c), or (e) of this Section 16.6, such party shall promptly notify the Agent of such request or requirement prior to disclosure so that the Agent may seek an appropriate protective order and/or waive compliance with the terms of this Agreement. If, however, in the opinion of counsel for such party, such party is nonetheless, in the absence of such order or waiver, compelled to disclose such confidential information or otherwise stand liable for contempt or suffer possible censure or other penalty or liability, then such party may disclose such confidential information without liability to the Agent; provided, however, that such party will use its best efforts to minimize the disclosure of such information. Subject to the exceptions above to disclosure of information, each Secured Party agrees that it shall not publish, publicize, or otherwise make public any information regarding this Agreement or the transactions contemplated hereby without the written consent of the Agent, in its sole discretion. Subject to the exceptions above to disclosure of information, Owner Trust, each of the Secured Parties and Agent agrees that it shall not publish, publicize, or otherwise make public any information regarding this Agreement or the transactions contemplated hereby without the written consent of Agent and the Secured Parties.

IN WITNESS WHEREOF, the parties hereto have caused this Amended and Restated Construction Agency Agreement to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

OWNER:

[_____] TRUST

By: First Union Trust Company, National Association, not in its individual capacity, but solely as Owner Trustee

By:

Name: Michael W. Orendorf
Title: Vice President

AGENT:

RELIANT ENERGY [_____], LLC

By:

Name:
Title:

BANK:

FIRST UNION TRUST COMPANY, NATIONAL ASSOCIATION, in its individual capacity, but only to the extent expressly provided for herein

By:

Name: Michael W. Orendorf
Title: Vice President

OWNER TRUST PARENT:

APPLE INVESTMENTS 2001 TRUST

By: First Union Trust Company, National Association, not in its individual capacity, but solely as Owner Trustee

By: _____
Name: Michael W. Orendorf
Title: Vice President

LEAD ARRANGER:

SALOMON SMITH BARNEY INC.

By: _____
Name:
Title:

ADMINISTRATIVE AGENT:

CITICORP USA, INC.

By: _____
Name:
Title:

ISSUING BANK:

WESTDEUTSCHE LANDESBANK GIROZENTRALE,
NEW YORK BRANCH

By:

Name:
Title:

By:

Name:
Title:

DOCUMENTATION AGENT:

ABN AMRO BANK N.V.

By:

Name:
Title:

SYNDICATION AGENT:

ROYAL BANK OF CANADA

By:

Name:
Title:

By:

Name:
Title:

CO-SYNDICATION AGENT:

COMMERZBANK AG, NEW YORK AND GRAND CAYMAN BRANCHES

By:

Name:
Title:

CO-DOCUMENTATION AGENT:

TORONTO DOMINION (TEXAS) INC.

By:

Name:
Title:

CERTIFICATE PARTICIPANTS:

SALOMON SMITH BARNEY INC.

By:

Name:
Title:

CITICORP USA, INC.

By:

Name:
Title:

WESTDEUTSCHE LANDESBANK GIROZENTRALE,
NEW YORK BRANCH

By:

Name:
Title:

By:

Name:
Title:

ROYAL BANK OF CANADA

By:

Name:
Title:

By:

Name:
Title:

ABN AMRO BANK N.V.

By:

Name:
Title:

LENDERS:

SALOMON SMITH BARNEY INC.

By:

Name:
Title:

CITICORP USA, INC.

By:

Name:
Title:

WESTDEUTSCHE LANDESBANK GIROZENTRALE,
NEW YORK BRANCH

By:

Name:
Title:

By:

Name:
Title:

ROYAL BANK OF CANADA

By:

Name:
Title:

By:

Name:
Title:

JOINDER

The undersigned hereby join in the execution of the foregoing Amended and Restated Construction Agency Agreement, solely for the purpose of Section 1.5.

RELIANT ENERGY CONSTRUCTION, LLC

By:

Name:
Title:

APPLE EQUITY CAPITAL TRUST

By:

Name:
Title:

APPLE INVESTMENTS LLC

By:

Name:
Title:

EXHIBIT 10.39

AMENDED AND RESTATED GUARANTY

[_____] Project

THIS AMENDED AND RESTATED GUARANTY, dated as of November __, 2001 (this "Guaranty") made by RELIANT RESOURCES, INC., a Delaware corporation (the "Guarantor"), in favor of [_____] TRUST, a Delaware business trust and the other Persons identified in the definition of Beneficiary below (the "Beneficiary").

WITNESSETH:

WHEREAS, the Beneficiary, Reliant Energy [_____], LLC, a Delaware limited liability company (by way of assignment from Reliant Energy Construction, LLC) (the "Agent"), First Union Trust Company, National Association, a national banking association ("First Union"), Apple Investments LLC, a Delaware limited liability company ("Original Owner Trust Parent"), Apple Equity Capital Trust, a Delaware business trust and Westdeutsche Landesbank Girozentrale, New York Branch have entered in a Construction Agency Agreement, dated as of April 27, 2001, as amended by Amendment No. 1 to Construction Agency Agreement, dated as of July 25, 2001, and as amended by Amendment No. 1 to Letter of Intent and Amendment No. 2 to Construction Agency Agreements dated October 23, 2001 (as so amended, the "Existing CAA");

WHEREAS, in connection with the Existing CAA, Guarantor entered into a Guaranty Agreement, dated as of April 27, 2001, in favor of Owner Trust (the "Original Guaranty");

WHEREAS, Owner Trust, Agent, First Union, Apple Investments 2001 Trust ("Owner Trust Parent"), certain lenders and agents for such lenders and equity participants have amended and restated the Existing CAA by entering into an Amended and Restated Construction Agency Agreement, dated as of November __, 2001 (as the same may be amended, supplemented or otherwise modified from time to time, the "Construction Agency Agreement");

WHEREAS, the Construction Agency Agreement requires that Guarantor amend and restate the Original Guaranty by executing and delivering this Guaranty as a condition to the obligation of Owner Trust to make Payments (as defined in the Construction Agency Agreement) thereunder, and Guarantor has concluded that it will derive substantial benefits from the transactions contemplated by the Construction Agency Agreement; and

WHEREAS, Guarantor is executing and delivering this Guaranty to induce Owner Trust, the lenders and equity participants to enter into the Construction Agency Agreement and to induce other Secured Parties from time to time to enter into Financing Documents (as defined in the Intercreditor Agreement) in respect of Lease Indebtedness (as defined in the Intercreditor Agreement);

NOW, THEREFORE, for value received, Guarantor hereby agrees with and for the benefit of Beneficiary as follows:

ARTICLE I

DEFINED TERMS

SECTION 1.01 Interpretation. In this Guaranty, unless a clear contrary intention appears:

(a) the singular number includes the plural number and vice versa;

(b) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Guaranty, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually;

(c) reference to any gender includes each other gender;

(d) reference to any agreement (including this Guaranty), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms of this Guaranty and the other Operative Agreements;

(e) reference to any Applicable Law means such Applicable Law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder and reference to any section or other provision of any Applicable Law means that provision of such Applicable Law from time to time in effect and constituting the substantive amendment, modification, codification, replacement or reenactment of such section or other provision;

(f) reference in this Guaranty to any Article, Section, Appendix, Schedule or Exhibit means such Article or Section thereof or Appendix, Schedule or Exhibit thereto;

(g) "hereunder", "hereof", "hereto" and words of similar import shall be deemed references to this Guaranty as a whole and not to any particular Article, Section or other provision thereof;

(h) "including" (and with correlative meaning "include") shall be deemed to be followed by the words "without limitation";

(i) relative to the determination of any period of time, "from" means "from and including" and "to" means "to but excluding";

(j) with reference to any time or date specified herein, time is of the essence; and

(k) with respect to any rights and obligations of the parties under the Operative Agreements, all such rights and obligations shall be construed to the extent permitted by Applicable Law.

SECTION 1.02 Accounting Terms and Determinations. In this Guaranty, unless expressly otherwise provided, all terms of an accounting character used herein shall be construed and interpreted, and all accounting determinations and computations hereunder shall be made, and all financial statements required to be delivered shall be prepared, in accordance with GAAP, as in effect from time to time.

SECTION 1.03 Legal Representation of the Parties. This Guaranty was negotiated by the parties with the benefit of legal representation and any rule of construction or interpretation otherwise requiring this Guaranty to be construed or interpreted against any party shall not apply to any construction or interpretation hereof or thereof.

SECTION 1.04 Certain Defined Terms.

(a) The capitalized terms used herein which are defined in the Construction Agency Agreement or the Credit Agreement and not otherwise defined herein have, as used herein, the respective meanings provided for therein.

(b) As used in this Guaranty, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and the plural forms of the terms defined):

"Agent" shall have the meaning set forth in the first recital to this Guaranty, provided that except for purposes of such recitals, wherever the term Agent is used in this Guaranty, it shall be deemed to include Lessee.

"Beneficiary" shall mean Owner Trust and with respect to the indemnification provisions of the Lease, each Lease Indemnified Person (as defined in the Lease).

"Board" means the Board of Governors of the Federal Reserve System of the United States (or any successor).

"Business Day" means (a) any day other than a Saturday, Sunday or other day on which commercial banks in New York City or Houston, Texas are authorized or required by law to close, or (b) if the applicable Business Day relates to any LIBOR Payments, any day which is a "Business Day" described in clause (a) and which is also a day for trading by and between banks in the London interbank market.

"Capital Lease" means a lease that would be recorded as a capital lease on the balance sheet of the lessee.

"Capital Stock" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, and any and all equivalent ownership interests in a Person (other than a corporation), including, partnership interests in partnerships and member interests in limited liability companies.

"Change of Control" means the occurrence of any Person or group of related Persons, other than REI, Regco, or any of REI's or Regco's Affiliates, acquiring directly or indirectly in the aggregate more than 30% of the outstanding shares of the voting stock of Guarantor unless (a) Guarantor is a wholly-owned Subsidiary of such Person and (b) the stockholders of Guarantor immediately prior to Guarantor becoming a wholly-owned Subsidiary of such Person hold shares of stock of such Person immediately after Guarantor becomes a wholly-owned Subsidiary of such Person representing at least a majority of the voting power in such Person.

"Code" means the Internal Revenue Code of 1986, as amended from time to time and any successor statute.

"Commonly Controlled Entity" means an entity, whether or not incorporated, that is under common control with Guarantor within the meaning of Section 4001 of ERISA or is part of a group that includes Guarantor and that is treated as a single employer under Section 414 of the Code.

"Consolidated Net Debt" means, as of any date of determination, the total principal amount of Debt (other than Subordinated Affiliate Debt) outstanding on such date less all cash and short-term investments on such date, all as shown on the consolidated balance sheet of Guarantor and its Consolidated Subsidiaries.

"Consolidated Shareholders' Equity" means, as of any date of determination, the consolidated common equity (including common stock, additional paid in capital, retained earnings, and other comprehensive income), preferred stock, and minority interests of Guarantor and its Consolidated Subsidiaries.

"Consolidated Subsidiary" means, at any date, any Subsidiary or any other Person, the accounts of which would be consolidated with those of Guarantor in its consolidated financial statements as of such date.

"Construction Agency Agreement" shall have the meaning set forth in the third recital to this Agreement.

"Controlled" means, with respect to any Person, the ability of another Person (whether directly or indirectly and whether by the ownership of voting securities, contract or otherwise) to appoint and/or remove the majority of the members of the board of directors or other governing body of that Person (and "Control" shall be similarly construed except when used as part of the defined term "Change of Control").

"Corporate Rating" means the rating assigned by a Rating Agency (whether indicative or formal) to Guarantor as its corporate or counterparty rating, as applicable.

"Debt" of any Person means, at any date, without duplication, (a) obligations for the repayment of money borrowed which are or should be shown on a balance sheet as debt, including the unreimbursed amount of any drawings under letters of credit issued for the account of such Person, (b) obligations as lessee under Capital Leases, and (c) guaranties of payment or collection of any obligations described in clauses (a) and (b) of other Persons; provided, however, that Debt shall not include (i) any guaranties that may be incurred by endorsement of negotiable instruments for deposit or collection in the ordinary course of business or similar transactions, (ii) any obligations or guaranties of performance of obligations under performance bonds or obligations to reimburse drawings under letters of credit issued to support obligations that do not represent money borrowed or raised, so long as such reimbursement obligations are paid in full within ten (10) Business Days after the date upon which such obligation arises, (iii) trade payables, (iv) customer advance payments and deposits arising in the ordinary course of such Person's business, and (v) the liability of any Person as a general partner of a partnership for Debt of such partnership, if the partnership is not a Subsidiary of such Person.

"Default" means any event or condition which, with the lapse of time or the giving of notice, or both, would constitute a Guaranty Event of Default.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Existing CAA" shall have the meaning set forth in the first recital to this Agreement.

"Guaranty Event of Default" shall have the meaning set forth in Article V.

"Insolvency" means, with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA (and "Insolvent" shall be construed accordingly).

"Intercreditor Agreement" shall mean the Collateral Agency and Intercreditor Agreement, dated as of the Closing Date among [_____] Trust, as a Borrower,

[_____] Trust, as a Borrower, Signal Peak Trust, as a Borrower, [_____] County Trust, as a Borrower, Citicorp USA, Inc., as Lender Agent, Citibank N.A., as Collateral Agent, and certain other Secured Parties and authorized representatives.

"Lessee" shall mean Reliant Energy [_____], LLC, in its capacity as lessee under the Lease.

"Lien" means any lien (statutory or other), mortgage, pledge, hypothecation, assignment as collateral, security interest, encumbrance, or other interest in Property to secure payment of any Debt.

"Margin Stock" has the meaning assigned to such term (or, in the case of Regulation T, the term "margin security") in Regulation T or U, as the case may be.

"Material Adverse Effect" means any material adverse effect on the ability of Guarantor to perform its obligations under this Guaranty.

"Multiemployer Plan" means a Plan that is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Obligations" shall have the meaning set forth in Section 2.01(a).

"PBGC" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA or any successor.

"Permitted Liens" means with respect to any Person:

(a) Liens existing on the date hereof;

(b) Liens upon the Capital Stock of a Significant Subsidiary (or the Capital Stock of a holding company formed to acquire or hold such stock) (i) created at the time of the acquisition thereof or within one year after such time to only secure all or a portion of Debt constituting the purchase price for such Capital Stock or (ii) existing thereon (A) at the time of the acquisition thereof or (B) at the time at which such Subsidiary first becomes a Significant Subsidiary, so long as such Lien was in existence prior to such time;

(c) Liens created by Capital Leases provided that the Liens created by any such Capital Lease attach only to the Property leased to the Guarantor or one of its Subsidiaries pursuant thereto;

(d) purchase money Liens securing Debt (including such Liens securing Debt incurred within 12 months of the date on which such Property was acquired) provided

that all such Liens attach only to the Property purchased with the proceeds of the Debt secured thereby and only secure the Debt incurred to finance such purchase;

(e) Liens on accounts (as defined in the applicable Uniform Commercial Code at any time in effect), receivables, notes, ownership interests, contracts or contract rights created in connection with a sale, securitization or monetization of such accounts, receivables, notes, ownership interests, contracts or contract rights, and Liens on rights of the Guarantor or any Subsidiary related to such accounts, receivables, notes, ownership interests, contracts or contract rights which are transferred to the purchaser of such accounts, receivables, notes, ownership interests, contracts or contract rights in connection with such sale, securitization or monetization; provided that such Liens secure only the obligations of the Guarantor or any of its Subsidiaries in connection with such sale, securitization or monetization;

(f) Liens on (i) Property owned by a Project Financing Subsidiary or (ii) equity interests in a Project Financing Subsidiary (including in each case a pledge of a partnership interest, common stock or a membership interest in a limited liability company), in each case securing any Debt which constitutes a Project Financing;

(g) Liens on Property of a Person which exist at the time such Person becomes a Significant Subsidiary of the Guarantor which Liens were not granted in contemplation of such Person becoming a Significant Subsidiary of the Guarantor;

(h) extensions, renewals or replacements of any Permitted Lien referred to in clauses (a) through (g) of this definition of "Permitted Liens", provided that the principal amount of the Debt secured thereby is no greater than the greater of (i) the outstanding principal amount of such Debt immediately before such extension, renewal, or replacement and (ii) the maximum commitment of such Debt or obligation immediately before such extension, renewal, or replacement and that any such extension, renewal or replacement Lien is limited to the Property originally encumbered thereby; and

(i) other Liens securing Debt not to exceed 10% of Consolidated Shareholders' Equity.

"Person" means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture, government (or any political subdivision or agency thereof) or any other entity of whatever nature.

"Plan" means, at a particular time, any employee benefit plan that is covered by ERISA and in respect of which Guarantor or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Principal Trading Subsidiary" means (a) Reliant Energy Services, Inc., a Delaware corporation ("RES"), but only for so long as RES is a Subsidiary of Guarantor or (b) if RES transfers its business and assets to another Subsidiary of Guarantor, such other Subsidiary.

"Project Financing" means any Debt, lease or other obligations that do not constitute Capital Leases at the time such leases are entered into, in each case that are incurred to finance a project or group of projects (including any construction financing) to the extent that such Debt (or other obligations) are not recourse to the Guarantor or any of its Subsidiaries (other than a Project Financing Subsidiary) or any of their respective Property other than the Property of a Project Financing Subsidiary.

"Project Financing Subsidiary" means any Subsidiary of the Guarantor whose principal purpose is to incur Project Financing or to become an owner of interests in a Person created to conduct the business activities for which such Project Financing was incurred, and substantially all the fixed assets of which Subsidiary or Person are those fixed assets being financed (or to be financed) in whole or in part by one or more Project Financings.

"Property" means any interest or right in any kind of property or asset, whether real, personal or mixed, owned or leased, tangible or intangible and whether now held or hereafter acquired.

"Rating Agencies" means (a) Standard & Poor's Ratings Group, a division of McGraw-Hill Companies, Inc.; (b) Fitch, Inc.; and (c) Moody's Investors Service, Inc., or any successor to any of such rating agencies.

"Regco" means Center Point Energy, Inc., the holding company which is expected to become the publicly traded holding company (direct or indirect) of REI as part of the overall restructuring described in REI's December 31, 2000 SEC Form 10-K.

"Regulation T" and "Regulation U" means Regulation T and U, respectively, of the Board or any other regulation hereafter promulgated by the Board to replace the prior Regulation T or U, as the case may be, and having substantially the same function.

"REI" means Reliant Energy, Incorporated, a Texas corporation.

"Reorganization" means, with respect to any Multiemployer Plan, the condition that such Plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event" means any of the events specified in Section 4043(b) of ERISA, other than those events as to which the thirty-day notice period is waived under PBGC Reg. Section 4043.

"Responsible Officer" means the chief financial officer, the chief accounting officer, the senior vice president-finance, the treasurer, an assistant treasurer, or the comptroller

of Guarantor or any other officer of Guarantor whose primary duties are similar to the duties of any of the previously listed officers.

"Responsible Trust Officer" means a "Responsible Officer", as such term is defined in the Trust Agreement.

"SEC" means the Securities and Exchange Commission.

"Secured Parties" shall have the meaning set forth in the Intercreditor Agreement.

"Significant Subsidiary" means, as of any date, any Subsidiary of Guarantor (other than a Project Financing Subsidiary) having plant, property, and equipment net of accumulated depreciation as of the most recent fiscal year end equal to or greater than 10% of Guarantor's consolidated plant, property, and equipment net of accumulated depreciation as of the most recent fiscal year end based on the financial reports which have been delivered under Section 3.01(a).

"Single Employer Plan" means any Plan that is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Subordinated Affiliate Debt" means all Debt of Guarantor and its Subsidiaries to REI or its Subsidiaries which are not Subsidiaries of Guarantor that is subordinated to the obligations under this Guaranty under subordination terms substantially similar to or more restrictive than the subordination terms listed on the attached Exhibit 1.01.

"Subsidiary" means, as to any Person, a corporation, partnership or other entity of which more than 50% of the outstanding shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect directors or other managers of such corporation, partnership or other entity are at the time owned, directly or indirectly, through one or more Subsidiaries of such Person, by such Person.

"Termination Date" shall have the meaning set forth in Section 6.05.

SECTION 1.05 Amendment and Restatement. This Guaranty amends and restates in its entirety the Original Guaranty and, upon effectiveness of this Guaranty, the terms and provisions of the Original Guaranty shall be superseded hereby; provided that nothing contained herein shall be construed as a novation of the Original Guaranty.

ARTICLE II

GUARANTEE AND INDEMNITIES

SECTION 2.01 Guarantee of Obligations Under Operative Agreements.

(a) The Guarantor hereby confirms and reaffirms its obligations under the Original Guaranty. Guarantor irrevocably and unconditionally guarantees to Beneficiary the due, complete and punctual performance and observance of all payment obligations of Agent and Lessee under the Operative Agreements, and the due, complete and punctual performance of, and compliance with, each and all other obligations, covenants and agreements of Agent and Lessee under the Operative Agreements (in each case, including any and all indemnities and liabilities for breach of covenant or warranty now or hereafter incurred by Agent or Lessee to Beneficiary arising pursuant or with respect to the Operative Agreements), in each case strictly in accordance with the terms thereof (all such obligations and other covenants, indemnities and agreements being referred to herein as the "Obligations"). In the event that Agent or Lessee fails to pay, perform or observe duly, completely and punctually any Obligation when and as the same shall be due and payable, or required to be observed or performed, as the case may be, in accordance with the terms of the applicable Operative Agreement, Guarantor shall forthwith pay, perform or observe, as the case may be, such Obligation or cause the same forthwith to be paid, performed or observed, as the case may be, within five (5) Business Days following Guarantor's receipt of written notice of such failure signed by a Responsible Trust Officer of Beneficiary to pay, perform or observe, as the case may be, regardless of whether or not Beneficiary or anyone on behalf of Beneficiary shall have instituted any suit, action or proceeding or exhausted its remedies or taken any steps to enforce any rights against Agent, Lessee or any other Person or entity to compel any such performance or observance or to collect all or any part of such amount pursuant to the provisions of the Operative Agreements or at law or in equity, or otherwise, and regardless of any other condition or contingency.

(b) Guarantor agrees to pay within five (5) Business Days following Guarantor's receipt of written demand signed by a Responsible Trust Officer of Beneficiary (which demand shall itemize in reasonable detail the expenses for which demand is made by Beneficiary) any and all reasonable expenses (including reasonable attorneys' fees and disbursements) that may be paid or incurred by Beneficiary in enforcing any rights with respect to, or collecting, any or all payments due pursuant to the terms of the Operative Agreements and/or enforcing any rights with respect to, or collecting against, Guarantor under this Guaranty (whether pursuant to Section 2.01(a) or any other provision hereof); provided, that Guarantor shall not be liable for any expenses of Beneficiary if no payment under the Operative Agreements or this Guaranty is due or determined to be due.

SECTION 2.02 Unconditional Obligations. This Guaranty is a primary obligation of Guarantor independent of the obligations of Agent or Lessee under any Operative Agreement, and is an unconditional, absolute, present and continuing obligation and guarantee of payment and performance (and not merely of collection), and the validity and enforceability of this Guaranty shall be absolute and unconditional irrespective of, and, shall not be impaired, affected or in any way conditioned or contingent upon (a) the making of a demand (other than a demand on Guarantor as specifically provided in this Guaranty), the institution of any suit or the taking of any other action to enforce performance or observance by the Agent or Lessee of any of the Obligations, (b) the validity, regularity or enforceability of any Operative Agreement or any of the Obligations or any collateral security, other guarantee, if any, or credit support therefor or right of offset with respect thereto at any time or from time to time held by Beneficiary, (c) any defense, setoff or counterclaim (other than the defense of prior payment or performance by Guarantor, Agent, Lessee or otherwise of the Obligations) that may at any time be available to or be asserted by Agent, Lessee or Guarantor against Beneficiary, (d) any attempt to collect from Agent, Lessee or any other entity or to perfect or enforce any security or (e) any other action, occurrence or circumstance whatsoever which might otherwise constitute a defense available to, or a legal or equitable discharge of, Agent, Lessee or Guarantor. Guarantor waives any requirement that Beneficiary shall have instituted any suit, action or proceeding or exhausted its remedies or taken any steps to enforce any rights against Agent, Lessee or any other Person or entity to compel any such performance or to collect all or any part of such amount pursuant to the provisions of the Operative Agreements or at law or in equity, or otherwise.

SECTION 2.03 Amendments, etc., With Respect to the Obligations. Guarantor shall remain obligated hereunder and this Guaranty shall remain in full force and effect without the necessity of any reservation of rights against Guarantor and without notice to or further assent by Guarantor, notwithstanding that (a) any demand for payment or performance or observance of any of the Obligations made by Beneficiary may be rescinded by Beneficiary and any of the other Obligations continue to be in effect; (b) the Obligations, or the liability of any other Person for any part thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may be renewed, extended, amended, modified, accelerated (in each case in accordance with the terms of the Operative Agreements), compromised, waived, surrendered or released by Beneficiary; (c) any Operative Agreement, or any collateral security document or other guarantee or document executed and delivered in connection therewith or related thereto, may be amended, modified, supplemented or terminated, in each case in accordance with its terms, as the parties thereto may deem advisable; (d) any collateral security, guarantee or right to offset held by Beneficiary for the payment, performance or observance of the Obligations may be sold, exchanged, waived, surrendered or released; or (e) any default with respect to any Obligation may be waived by Beneficiary, in each case other than with respect to the defense of prior payment or performance by Guarantor, Agent, Lessee or otherwise of the Obligations. Beneficiary shall not have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Obligations or for this Guaranty or any property subject thereto. For purposes hereof, "demand" shall include the commencement and continuance of any legal proceedings.

Guarantor hereby ratifies and confirms any such extension, renewal, change, sale, release, waiver, surrender, exchange, modification, amendment, impairment, substitution, settlement, adjustment or compromise and agrees that the same shall be binding upon it, and hereby waives to the fullest extent permitted by Applicable Laws any and all defenses, counterclaims or offsets which it might or could have by reason thereof (other than the defense of prior payment or performance by Guarantor, Agent, Lessee or otherwise of the Obligations), it being understood that Guarantor shall at all times be bound by this Guaranty and remain liable hereunder until the Termination Date.

SECTION 2.04 Guarantor's Obligations Not Affected. Guarantor expressly agrees that the duties and obligations of Guarantor under this Guaranty shall remain in full force and effect, without the necessity of any reservation of rights against Guarantor or notice to or further assent by Guarantor at any time and from time to time, in whole or in part, and without regard to, and shall not be impaired, released, discharged, terminated or affected by any of the following actions or the occurrence of any of the following events:

(a) any extension, modification, amendment or renewal of, termination, addition or supplement to, or deletion from, any of the terms of or indulgence with respect to, or substitutions for, or the taking of any action or the giving of any consent with respect to, the Obligations or any part thereof or any Operative Agreement or other agreement relating thereto at any time;

(b) any failure, refusal or omission to enforce any right, power or remedy with respect to the Obligations or any part thereof or any Operative Agreement or other agreement relating thereto;

(c) any waiver of any right, power or remedy or of any default with respect to the Obligations or any part thereof or any Operative Agreement or other agreement relating thereto or to provide for any insurance on the Facility, or to establish or maintain the priority or perfection of any interest in the Facility;

(d) any release, surrender, compromise, settlement, waiver, subordination or modification, with or without consideration, of any collateral security or other guarantees with respect to the Obligations or any part thereof, or any other obligation of any Person with respect to the Obligations or any part thereof;

(e) the lack of genuineness, unenforceability, impossibility of performance or invalidity of the Obligations or any part thereof or the lack of genuineness, unenforceability, impossibility of performance or invalidity of any Operative Agreement or other agreement relating thereto or the power or authority or lack of power or authority of Agent or Lessee to execute and deliver the Operative Agreements or to perform any of its obligations thereunder or the lack of existence or continuance of Agent, Lessee or any other Person as a legal entity;

(f) any change in the ownership of Agent or Lessee or the insolvency, bankruptcy or any other change in the legal status of Agent or Lessee or any rejection, modification or release of the obligations of Agent, Lessee or those of any Person under the Operative Agreements as a result of any bankruptcy, reorganization, insolvency or similar proceeding;

(g) the change in or the imposition of any Applicable Laws or other governmental act that does or might impair, delay or in any way affect the validity, enforceability, or the payment when due, of the Obligations to the extent not prohibited by Applicable Laws or otherwise;

(h) the existence of any claim, counterclaim, setoff or other rights that Guarantor may have at any time against Agent or any other Person in connection herewith or with an unrelated transaction (other than the defense of prior payment or performance by Guarantor, Agent, Lessee or otherwise of the Obligations);

(i) any merger or consolidation of Agent, Lessee or Guarantor into or with any other Person, or any sale, lease or transfer of any or all of the assets of Agent, Lessee or Guarantor to any other Person;

(j) the rights, powers or privileges Beneficiary may now or hereafter have against any Person or collateral;

(k) any assignment of any Operative Agreement or subletting of the Facility or any part thereof or any transfer, sale or other disposition of the Facility or any destruction of the Facility or any failure of title with respect to any interest in the Facility of Beneficiary, Agent or Lessee;

(l) any exercise by the Agent of its Purchase Option or Lease Option under the Construction Agency Agreement or any exercise by Beneficiary of its Owner's Remarketing Requirement under the Construction Agency Agreement in respect of some or all Purchase Agreements or some or all Equipment or any exercise by Lessee of its Lease Purchase Option or Lease Remarketing Option under the Lease in respect of the Facility;

(m) the failure of Guarantor to receive any benefit from or as a result of its execution, delivery and performance of this Guaranty; or

(n) any other action, omission, occurrence or circumstance whatsoever which may in any manner or to any extent constitute a legal or equitable defense of Guarantor (other than the defense of prior payment or performance by Guarantor, Agent, Lessee or otherwise of the Obligations) or vary the risk, prejudice any rights of subrogation, limit the recourse or effect a discharge of Guarantor hereunder as a matter of law or otherwise

(other than the defense of prior payment or performance by Guarantor, Agent, Lessee or otherwise of the Obligations);

provided that the specific enumeration of the above-mentioned acts, failures or omissions shall not be deemed to exclude any other acts, failures or omissions, that are not specifically mentioned above, it being the purpose and intent of this paragraph that the obligations of Guarantor hereunder shall be absolute and unconditional and shall not be discharged, impaired or varied except by the payment, observance or performance to Beneficiary of Agent's and Lessee's obligations under the Operative Agreements, and then only to the extent of such payments, observance or performance.

In order to hold Guarantor liable hereunder, there shall be no obligation on the part of Beneficiary at any time to enforce or attempt to enforce any right or remedy against Agent or Lessee or to resort to any collateral, property or estates or any other rights or remedies whatsoever. Without limiting the foregoing, it is understood that repeated and successive demands may be made and recoveries may be had hereunder but without duplication of payment as and when, from time to time, Agent or Lessee shall default under the terms of any of the Operative Agreements and that notwithstanding the recovery hereunder for or in respect of any given default by Agent or Lessee under any of the Operative Agreements, this Guaranty shall remain in full force and effect and shall apply to each and every subsequent default. Each and every default in any payment, observance or performance of any Obligation of Agent or Lessee under the Operative Agreements shall give rise to a separate claim and cause of action hereunder, and, subject to the Intercreditor Agreement, separate claims or suits may be made and brought, as the case may be, hereunder as each such default occurs.

SECTION 2.05 Waiver by Guarantor. Guarantor unconditionally waives and releases, to the fullest extent permitted by Applicable Laws, any and all (a) notices of the acceptance of this Guaranty by Beneficiary and of any change in the financial condition of Agent; (b) notices of the creation, renewal, extension or accrual of any Obligation or any of the matters referred to in Section 2.04 or any notice of or proof of reliance by Beneficiary upon this Guaranty or acceptance of this Guaranty (the Obligations, and any of them, shall conclusively be deemed to have been created, contracted, incurred, renewed, extended, amended or waived in reliance upon this Guaranty and all dealings between Agent, Lessee or Guarantor and Beneficiary shall be conclusively presumed to have been had or consummated in reliance upon this Guaranty); (c) notices which may be required by statute, rule of law or otherwise, now or hereafter in effect, to preserve intact any rights of any of Beneficiary against Guarantor; (d) right to interpose all substantive and procedural defenses of the law of guaranty, indemnification and suretyship, except the defense of prior payment or prior performance by Guarantor, Agent, Lessee or otherwise of the Obligations; (e) all rights, defenses and remedies accorded by Applicable Laws to guarantors or sureties, including any extension of time conferred by any law now or hereafter in effect; (f) right or claim of right to cause a marshaling of the assets of Agent or Lessee or to cause Beneficiary to proceed against Agent or Lessee or any collateral held by Beneficiary at any time or in any particular order; (g) rights to the enforcement, assertion or

exercise by Beneficiary of any right, power, privilege or remedy conferred herein or in any Operative Agreement or otherwise, except as specified in the Operative Agreements; (h) requirements of promptness or diligence on the part of Beneficiary; (i) notices of the sale, transfer or other disposition of any right, title to or interest in any Operative Agreement; (j) demand of payment by Beneficiary or any other Person from Agent or any other Person indebted or in any manner liable on or for the Obligations hereby guaranteed; (k) presentment for payment by Beneficiary or any other Person of the Obligations, protest thereof and notice of dishonor to any party; or (l) other circumstances whatsoever (except the defense of prior payment or prior performance by Guarantor, Agent, Lessee or otherwise of the Obligations) which might otherwise constitute a legal or equitable discharge, release or defense of a guarantor or surety, or which might otherwise limit recourse against Guarantor.

SECTION 2.06 Payments; Taxes. (a) All payments hereunder shall be made by wire transfer of immediately available United States dollar funds to such account at such financial institution as Beneficiary may from time to time designate in writing.

(b) All payments by Guarantor shall be made free and clear of and without deduction for any and all present or future Impositions. If Guarantor shall be required by Applicable Law to deduct any Impositions from or in respect of any amounts payable hereunder, (i) the amounts payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.06), the recipient shall receive an amount equal on an After-Tax-Basis to the sum it would have received had no such deductions been made, (ii) Guarantor shall make such deductions, and (iii) Guarantor shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with all Applicable Laws. Within 15 days after the date of any deduction of any Imposition, Guarantor will furnish to the relevant Person, the Agent and the Trustee, the original or a certified copy of a receipt or other documentation evidencing payment thereof as is reasonably acceptable to such recipient.

(c) Each of the Operative Agreements has been entered into on the basis of the intention set forth in Section 15.1 of the Construction Agency Agreement, Section 10.17 of the Credit Agreement and Section 25.1 of the Lease. The Guarantor agrees and covenants that it shall not (unless required to do so under Applicable Law) file any tax return, statement or schedule or take any action inconsistent with such treatment.

(d) All obligations of Guarantor pursuant to this Section 2.06 shall survive the expiration, cancellation or termination of this Guaranty.

SECTION 2.07 Reinstatement. This Guaranty shall continue to be effective, or be reinstated, as the case may be, if at any time payment, in whole or in part, of any of the Obligations is invalidated, voided, declared to be fraudulent or preferential, set aside, rescinded or must otherwise be repaid, restored or returned to a trustee, receiver or any other Person by Beneficiary upon the bankruptcy, insolvency, reorganization, arrangement, adjustment,

composition, dissolution, liquidation, or the like, of Agent, Lessee or Guarantor, or as a result of, the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to Agent, Lessee or Guarantor or any substantial part of such Person's respective property, or otherwise, all as though such payment had not been made notwithstanding any termination of this Guaranty or any Operative Agreement.

ARTICLE III

COVENANTS OF GUARANTOR

Guarantor covenants and agrees that so long as any Obligation remains outstanding and so long as Beneficiary has any obligation to make Payments to or lease the Facility to Agent, Lessee or any Seller (as defined in the Construction Agency Agreement) under any Operative Agreement, Guarantor will, unless Beneficiary shall otherwise consent in writing, comply with the following covenants:

SECTION 3.01 Affirmative Covenants. Guarantor hereby covenants and agrees as follows:

(a) Financial Information. Guarantor will provide the following to the Beneficiary and the Lender Agent:

(i) as soon as practicable and in any event within 120 days after the end of each fiscal year of Guarantor, a consolidated balance sheet of Guarantor and the Consolidated Subsidiaries of Guarantor as of the end of such fiscal year and the related statements of consolidated income, retained earnings and cash flows setting forth in comparative form the figures for the previous fiscal year (to the extent they exist), together with a report thereon by independent certified public accountants of nationally recognized standing selected by Guarantor (which requirement may be satisfied by Guarantor's Annual Report on Form 10-K with respect to such fiscal year as filed with the SEC);

(ii) as soon as practicable and in any event within 60 days after the end of each of the first three quarters of each fiscal year of Guarantor, beginning with the fiscal quarter ending March 31, 2002, unaudited consolidated financial statements of Guarantor and the Consolidated Subsidiaries of Guarantor consisting of at least a consolidated balance sheet as at the close of such quarter and statements of consolidated income, retained earnings and cash flows for such quarter and for the period from the beginning of such fiscal year to the close of such quarter (which requirement may be satisfied by Guarantor's Quarterly Report on Form 10-Q with respect to such fiscal quarter as filed with the SEC), accompanied by a certificate of a Responsible Officer of Guarantor to the effect that such unaudited financial statements present fairly the consolidated financial

condition and results of operations of Guarantor and the Consolidated Subsidiaries of Guarantor as of such date for the period then ending;

(iii) with each set of statements to be delivered above, a certificate in a form satisfactory to Beneficiary, signed by a Responsible Officer of Guarantor confirming compliance with Section 3.02(a) and setting out in reasonable detail the calculations necessary to demonstrate such compliance as at the date of the most recent balance sheet included in such financial statements and stating that no Default or Guaranty Event of Default has occurred and is continuing or, if there is any Default or Guaranty Event of Default, describing it and the steps, if any, being taken to cure it and describing all Subordinated Affiliate Debt then outstanding, if any, and giving the name and address for notices of the maker and payee thereof;

(iv) (A) within 10 days of the filing thereof, copies of all periodic reports (other than (x) reports on Form 11-K or any successor form, (y) current reports on Form 8-K that contain no information other than exhibits filed therewith and (z) reports on Form 10-K or 10-Q or any successor forms) under the Exchange Act (in each case other than exhibits thereto and documents incorporated by reference therein)) filed by Guarantor with the SEC; (B) promptly, and in any event within seven (7) days after a Responsible Officer of Guarantor becomes aware of the occurrence thereof, written notice of (x) any Guaranty Event of Default or any Default, which notice shall include a list of any Subordinated Affiliate Debt then outstanding which was not included on the most recent list delivered pursuant to Section 3.01(a)(iii), including the name and address for notices of the maker and payee of such Subordinated Affiliate Debt, (y) the institution of any litigation, action, suit or other legal or governmental proceeding involving Guarantor or any Subsidiary of Guarantor which could, reasonably be expected to have a Material Adverse Effect on Guarantor or any final adverse determination in any litigation, action, suit or other legal or governmental proceeding involving Guarantor or any Subsidiary of Guarantor that would have a Material Adverse Effect on Guarantor, or (z) the incurrence by Guarantor or any Significant Subsidiary of a material liability or deficiency, or the existence of a reasonable possibility of incurring a material liability or deficiency, arising out of or in connection with (1) any Reportable Event with respect to any Plan, (2) the failure to make any required contribution to a Plan, (3) the creation of any Lien in favor of the PBGC or a Plan, (4) any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (5) the institution of proceedings or the taking of any other action by the PBGC or Guarantor or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the termination, Reorganization or Insolvency of, any Plan; provided, that, as used in this clause (z), any liability or deficiency shall be deemed not to be "material" so long as the sum of all liabilities and deficiencies referred to in this clause (z) at any one time outstanding, individually and in the aggregate, is less than $100,000,000; and (C) such other information relating to Guarantor or its business, properties, condition and

operations as Beneficiary (or Lender Agent or Collateral Agent through Beneficiary) may reasonably request; and

(v) any change in the Corporate Rating by any Rating Agency, or the issuance by an additional Rating Agency of a Corporate Rating, promptly upon the effectiveness of such change or issuance.

Information required to be delivered pursuant to the foregoing Sections 3.01(a)(i), (ii), and (iv)(A) shall be deemed to have been delivered on the date on which such information has been posted on the SEC website on the Internet at sec.gov/edgar/searches.htm or at another website identified by the Guarantor in writing to the Administrative Agent and accessible by Beneficiary, any Certificate Participant, any Lender or any other Secured Party without charge; provided that if any Lender, Certificate Participant or any other Secured Party requests delivery of such information, Guarantor shall deliver paper copies of such information to Administrative Agent or the Collateral Agent as appropriate (who shall deliver copies to the requesting Lender or Certificate Participant).

(b) Existence; Laws. Guarantor will and will cause each Subsidiary of Guarantor to, do or cause to be done all things necessary (i) to preserve, renew and keep in full force and effect its corporate existence and all rights, licenses, permits and franchises and (ii) to comply with all laws and regulations applicable to it, in each case where the failure to do so, individually or in the aggregate, would have a Material Adverse Effect on Guarantor.

(c) Access. At any reasonable time and from time to time (but no more often than once each calendar year if no Default has occurred and is continuing), Guarantor will permit up to three representatives of Lenders designated by the Administrative Agent or the Collateral Agent, in each case acting jointly, on not less than five Business Days' notice, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, Guarantor and to discuss the general business affairs of Guarantor with its officers and independent certified public accountants; subject, however, in all cases to the imposition of such conditions as Guarantor shall deem necessary based on reasonable considerations of safety and security; provided, however, that notwithstanding the provisions of Section 9.1 of the Credit Agreement (or the comparable provision of any other Financing Document), Section 12.1 of the Construction Agency Agreement and Section 22.1 of the Lease, Administrative Agent and the Lenders, as the case may be, assume sole responsibility for the condition of any Property of Guarantor so visited and inspected, the access and egress thereto, and any hazard or defect therein or thereon, and assume all responsibility for and hereby release and indemnify Guarantor and its Affiliates and their officers, directors, employees, and agents against any claim for damage or injury to or by such representatives or to Guarantor's Property which may be occasioned by inspection and visitation of Guarantor's Property; provided, further, however, that neither Guarantor nor any of its Subsidiaries shall be required to disclose to Administrative Agent and any Lender, or any agents or representatives thereof any information which is the subject of attorney-client privilege or attorney work-product privilege properly asserted by the

applicable Person to prevent the loss of such privilege in connection with such information or which is prevented from disclosure pursuant to a confidentiality agreement with third parties. The expense of any exercise by the Administrative Agent or the Collateral Agent and the Lenders of their rights under this Section 3.01(c) shall be for the account of the Collateral Agent and the Lenders, as applicable unless a Default has occurred and is continuing at the time of the request or visit.

(d) Insurance. Guarantor will and will cause each Subsidiary to, maintain insurance with responsible and reputable insurance companies or associations, or to the extent that Guarantor or such Subsidiary deems it prudent to do so, through its own program of self-insurance, in such amounts and covering such risks as is usually carried by companies engaged in similar businesses, of comparable size and financial strength and with comparable risks, except where failure to so maintain insurance would not have a Material Adverse Effect.

(e) Use of Proceeds. Guarantor will cause Agent to use the proceeds of any Advance Payments made or issued by the Owner Trust to it for the purposes set forth in the Construction Agency Agreement, and not use the proceeds of any Advance Payments made or issued by the Owner Trust for any purpose that would violate the provisions of the Construction Agency Agreement. Guarantor will not, and will not permit any of its Subsidiaries to engage principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying, within the meaning of Regulation U, any Margin Stock.

(f) Maintenance of Properties. Guarantor will preserve and maintain, and will cause each Significant Subsidiary to preserve and maintain, all of its Property that is material to the conduct of its business and keep the same in good repair, working order and condition, and from time to time make, or cause to be made, such repairs, renewals and replacements thereto as in the good faith judgment of Guarantor are necessary or proper so that the business carried on in connection therewith may be properly conducted at all times, in each case unless failing to take the actions described above would not result in a Material Adverse Effect; provided, however, that nothing in this Section 3.01(f) shall prevent (i) Guarantor from selling, abandoning or otherwise disposing of any Properties (including the Capital Stock of any Subsidiary of Guarantor), the retention of which in the good faith judgment of Guarantor is inadvisable or unnecessary to the business of Guarantor or (ii) any other transaction that is expressly permitted by the terms of any other provision of this Guaranty, including, but not limited to, any transaction permitted under Section 3.02(b).

(g) Pari Passu Debt. Guarantor will assure that the obligations of Guarantor under this Guaranty shall at all times rank at least pari passu with all other unsecured and unsubordinated Debt of Guarantor (other than Debt which is mandatorily preferred by laws or regulations of general application).

SECTION 3.02 Negative Covenants. Guarantor further covenants and agrees as follows:

(a) Financial Ratio. Guarantor will not permit the ratio of (i) Consolidated Net Debt to (ii) the sum of Consolidated Shareholders' Equity, Consolidated Net Debt, and Subordinated Affiliate Debt to exceed 0.6 to 1.0.

(b) Sale of Assets. Except as permitted under Section 3.02(c), Guarantor will not sell, assign, transfer or otherwise dispose of all or substantially all of its assets other than to one of its Subsidiaries.

(c) Consolidation or Merger. Guarantor will not consolidate with, or merge into, or amalgamate with or into any other Person unless (i) both before and after giving effect to such merger or consolidation, there exists no Default or Guaranty Event of Default and (ii) either (A) Guarantor is the surviving Person or (B) if Guarantor is not the surviving Person, the surviving Person shall be incorporated or organized under the laws of the District of Columbia or a state of the United States of America and shall expressly assume in writing in form and substance reasonably satisfactory to Beneficiary all of the liabilities and obligations of Guarantor hereunder.

(d) Liens. Guarantor will not and will not permit any Significant Subsidiary of Guarantor to, create, incur, or suffer to exist any Lien in, of or on the Property of Guarantor or any of its Significant Subsidiaries, except Permitted Liens.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF GUARANTOR

Guarantor hereby represents and warrants as follows:

SECTION 4.01 Corporate Status of Guarantor. Guarantor (i) is validly organized and existing as a corporation and in good standing under the laws of the State of Delaware; (ii) is duly authorized or qualified to do business in and is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its property requires it to be so authorized or qualified to do business, except where the failure to be so duly authorized or qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect on Guarantor; and (iii) has the corporate power and authority to conduct its business, as presently conducted.

SECTION 4.02 Corporate Status of Subsidiaries of Guarantor. Each Subsidiary of Guarantor (i) is validly organized and existing and, if applicable, in good standing under the laws of the jurisdiction of its formation and is duly authorized or qualified to do business in and

is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its property requires it to be so authorized or qualified to do business, except where the failure to be so validly organized and existing or duly authorized or qualified or in good standing, individually or in the aggregate, would not have a Material Adverse Effect on Guarantor and (ii) has the power and authority to conduct its business, as presently conducted, except where the failure to have such power and authority, individually or in the aggregate, would not have a Material Adverse Effect on Guarantor.

SECTION 4.03 Corporate Powers. Guarantor has the corporate power to execute, deliver and perform and comply with its obligations under this Guaranty. This Guaranty has been duly executed and delivered on behalf of Guarantor.

SECTION 4.04 Authorization; No Conflict, Etc. The execution and delivery by Guarantor of this Guaranty and the performance by Guarantor of its obligations hereunder have been duly authorized by all requisite corporate action on the part of Guarantor and do not and will not (i) violate any law, any order to which Guarantor is subject of any court or other Governmental Authority, or the certificate of incorporation or bylaws (each as amended from time to time) of Guarantor; (ii) violate, conflict with, result in a breach of or constitute (with due notice or lapse of time or both, or any other condition) a default under, any indenture, loan agreement or other agreement relating to indebtedness for borrowed money to which Guarantor is a party or by which Guarantor, or any of its property, is bound (except for such violations, conflicts, breaches or defaults that, individually or in the aggregate, do not have or would not have a Material Adverse Effect on Guarantor); or (iii) result in, or require, the creation or imposition of any material Lien upon any of the properties of Guarantor.

SECTION 4.05 Governmental Approvals and Consents. No authorization or approval or action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by Guarantor of this Guaranty.

SECTION 4.06 Obligations Binding. This Guaranty is the legal, valid and binding obligation of Guarantor enforceable against Guarantor in accordance with its terms (assuming due and valid authorization, execution and delivery of this Guaranty by any party other than Guarantor), except as such enforceability may be (i) limited by the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting the enforcement of creditors' rights generally and (ii) subject to the effect of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 4.07 Margin Stock. Neither Guarantor nor any Subsidiary of Guarantor is principally engaged in, or has as one of its important activities, the business of extending credit for the purpose of purchasing or carrying any Margin Stock.

SECTION 4.08 Investment Company Act; PUHC Act of 1935. Neither Guarantor nor any Subsidiary of Guarantor is (i) an "investment company" as defined in, or otherwise subject to regulation under, the Investment Company Act of 1940, as amended, or (ii) subject to regulation under the Public Utility Holding Company Act of 1935, as amended, except Section 9(a)(2) thereof relating to the acquisition of securities of other public utility companies or public utility holding companies.

SECTION 4.09 Material Adverse Change. From April 30, 2001 through the date hereof, no circumstance or condition has occurred that would have a Material Adverse Effect.

SECTION 4.10 Litigation. Except as disclosed in Guarantor's Prospectus dated April 30, 2001 or in Guarantor's most recent Form 10-K, 10-Q or 8-K filed with the SEC, there is no litigation, action, suit or other legal or governmental proceeding pending or, to the best knowledge of Guarantor, threatened, at law or in equity, or before or by any arbitrator or Governmental Authority (i) relating to the transactions under this Guaranty or (ii) in which there is a likelihood of an adverse decision that would have a Material Adverse Effect.

SECTION 4.11 ERISA. Neither Guarantor nor any Significant Subsidiary has incurred any material liability or deficiency arising out of or in connection with (i) any Reportable Event or "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) with respect to any Plan that has occurred during the five-year period immediately preceding the date on which this representation is made or deemed made, (ii) any failure of a Plan to comply with the applicable provisions of ERISA and the Code, (iii) any termination of a Single Employer Plan, (iv) any complete or partial withdrawal by Guarantor or any Commonly Controlled Entity from any Multiemployer Plan or (v) any Lien in favor of the PBGC or any Plan that has arisen during the five-year period referred to in clause (i) above. In addition, no Multiemployer Plan is in Reorganization or is Insolvent, where such Reorganization or Insolvency, individually or when aggregated with the events described in the first sentence of this Section 4.11, is likely to result in a material liability or deficiency of Guarantor or any Significant Subsidiary. As used in this Section 4.11, any liability or deficiency shall be deemed not to be "material" so long as the sum of all liabilities and deficiencies referred to in this Section 4.11 at any one time outstanding, individually and in the aggregate, is less than $100,000,000.

SECTION 4.12 Financial Statements. The audited consolidated financial statements of Guarantor dated as of December 31, 2000, copies of which have been delivered to the Beneficiary and the lenders and equity participants under the Construction Agency Agreement as part of Guarantor's Prospectus dated April 30, 2001, present fairly the financial condition and results of operations of Guarantor and its Subsidiaries as of December 31, 2000 and for the periods then ended, in accordance with GAAP.

SECTION 4.13 No Violation. Guarantor is not in violation of any order, writ, injunction or decree of any court or any order, regulation or demand of any Governmental

Authority that, individually or in the aggregate, would have a Material Adverse Effect on Guarantor.

SECTION 4.14 Ownership of Agent. Guarantor directly or indirectly is the beneficial and legal owner of 100% of the membership interests of Agent or Lessee as applicable.

SECTION 4.15 Title to Properties. Each of Guarantor and any Subsidiary of Guarantor has good title to the Properties reflected in the financial statements referred to in Section 4.12 and in any financial statements delivered pursuant to Section 3.01(a), except for (i) Permitted Liens, (ii) failures of title that would not have a Material Adverse Effect and (iii) such Properties that have been disposed of subsequent to the dates of the balance sheets included in such financial statements.

ARTICLE V

GUARANTY EVENTS OF DEFAULT

SECTION 5.01 Guaranty Events of Default. If any of the following events (each a "Guaranty Event of Default") shall occur and be continuing:

(a) Guarantor fails to make payment of any Obligation when due;

(b) Any representation or warranty made by Guarantor under or in connection with Article IV shall prove to have been incorrect in any material respect when made or deemed made and such materiality shall be continuing;

(c) Guarantor shall fail to perform or comply with any one or more of its obligations under Sections 3.01(a)(iv)(B)(x), 3.02(b), 3.02(c) or 3.02(d);

(d) Guarantor shall fail to perform or comply with any one or more of its obligations under this Guaranty (other than those set forth in Section 5.01(a) or (c)) and such failure to perform or comply shall not have been remedied within thirty (30) days after the earlier of notice to Guarantor by Beneficiary or the Administrative Agent or discovery thereof by a Responsible Officer of Guarantor;

(e) (i) Guarantor, any Significant Subsidiary or the Principal Trading Subsidiary fails to pay when due (either at stated maturity or by acceleration or otherwise but after applicable grace periods) any principal or interest in respect of any Debt of such Person if such due but unpaid amount of such Debt of such Person exceeds $100,000,000; or (ii) any Debt of the Guarantor, any Significant Subsidiary or the Principal Trading Subsidiary becomes due and payable prior to its specified maturity as a result of an event of default (however described) if the aggregate amount of all such Debt

that becomes due prior to its stated maturity exceeds $100,000,000; provided, however, that this clause (ii) shall not apply to any payment required to be made under a guaranty described in clause (c) of the definition of Debt;

(f) A final judgment or decree shall be rendered against Guarantor, any Significant Subsidiary or the Principal Trading Subsidiary for the payment of money which, together with all other such judgments or decrees then outstanding and unsatisfied against such Person exceeds $100,000,000 in aggregate amount and the same shall remain undischarged for a period of 90 days, during which the execution thereon shall not effectively be stayed, released, bonded or vacated;

(g) (i) Guarantor shall incur any liability arising out of (A) any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (B) the occurrence of any "accumulated funding deficiency" (as defined in Section 302 of ERISA) by a Plan, whether or not waived, or any Lien in favor of the PBGC or a Plan on the assets of Guarantor or any Commonly Controlled Entity, (C) the occurrence of a Reportable Event with respect to, or the commencement of proceedings under Section 4042 of ERISA to have a trustee appointed, or the appointment of a trustee under Section 4042 of ERISA, to administer or to terminate any Single Employer Plan, which Reportable Event, commencement of proceedings or appointment of a trustee is likely to result in the termination of such Plan for purposes of Title IV of ERISA, (D) the termination of any Single Employer Plan for purposes of Title IV of ERISA, (E) withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (F) the occurrence of any other event or condition with respect to a Plan, and any of such items (A) through (F) above results in or is likely to result in a material liability or deficiency of Guarantor; provided, however, that for purposes of this Section 5.01(g), any liability or deficiency of Guarantor shall be deemed not to be material so long as the sum of all liabilities or deficiencies referred to in this Section 5.01(g) at any one time outstanding, individually and in the aggregate, is less than $100,000,000, or (ii) the occurrence of any one or more of the events specified in clauses (A) through (F) above if, individually or in the aggregate, such event or events would have a Material Adverse Effect on Guarantor; or

(h) (i) There shall be commenced against the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary any case, proceeding or other action (A) seeking a decree or order for relief in respect of the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law, (B) seeking a decree or order adjudging the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary a bankrupt or insolvent, (C) seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or similar relief of or in respect of the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary or its debts under any applicable domestic or foreign law or

(D) seeking the appointment of a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or other similar official of the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary or of any substantial part of its Properties, or the liquidation of its affairs, and such petition is not dismissed within 90 days or (ii) a decree, order or other judgment is entered in respect of any remedies, reliefs or other matters for which any petition referred to in (i) above is presented, and such decree, order or other judgment is not dismissed within 90 days or (iii) there shall be commenced against the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets that results in the entry of an order for any such relief that shall not have been vacated, discharged or stayed or bonded pending appeal within 90 days from the entry thereof;

(i) (A) The commencement by the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary of a voluntary case, proceeding or other action under any applicable domestic or foreign bankruptcy, insolvency, reorganization or other similar law (i) seeking to have an order of relief entered with respect to it, (2) seeking to be adjudicated a bankrupt or insolvent, (3) seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other similar relief with respect to it or its debts under any applicable domestic or foreign law or (4) seeking the appointment of or the taking possession by a custodian, receiver, conservator, liquidator, assignee, trustee, sequestrator or similar official of the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary or of any substantial part of its Properties, (B) the making by the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary of a general assignment for the benefit of creditors, (C) the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in clause (A) or (B) above or in Section 5.01(h), or (D) the admission by the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary in writing of its inability to pay its debts generally as they become due or the failure by the Guarantor or any of its Significant Subsidiaries or the Principal Trading Subsidiary generally to pay its debts as such debts become due; or

(j) A Change of Control shall occur.

Upon the occurrence of any Guaranty Event of Default, Beneficiary may exercise any right or remedy that may be available hereunder, under any Operative Agreement or under any Applicable Laws subject to the Intercreditor Agreement.

ARTICLE VI

MISCELLANEOUS

SECTION 6.01 No Waiver; Cumulative Remedies. The failure or delay of Beneficiary in exercising any right or remedy granted it hereunder shall not operate as a waiver of such right or remedy or be construed to be a waiver of any breach of any of the terms and conditions hereof or to be an acquiescence therein. Each and every right, power and remedy herein specifically given to Beneficiary shall be cumulative and shall be in addition to every other right, power and remedy herein specifically given or now or hereafter existing at law, in equity or by statute and the exercise or the beginning of the exercise of any right, power or remedy shall not be construed as a waiver of the right to exercise at the same time or thereafter any other right, power or remedy. A waiver by Beneficiary of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy that Beneficiary would otherwise have.

SECTION 6.02 Notices. All notices, demands, declarations, consents, directions, approvals, instructions, requests and other communications required or permitted by the terms hereof shall be in writing and shall be given in accordance with, and at the addresses set forth in, Section 12.2 of the Construction Agency Agreement, and in the case of Guarantor to the following address:

Reliant Resources, Inc.
1111 Louisiana Street, 47th Floor
Houston, Texas 77002
Attention: Rex Clevenger
Telephone: (713) 207-3160
Facsimile: (713) 207-0988

With a copy to:

Reliant Resources, Inc.
1111 Louisiana Street, 43th Floor
Houston, Texas 77002
Attention: Michael Jines
Telephone: (713) 207-7465
Facsimile: (713) 207-0116

SECTION 6.03 Amendments and Waivers; Successors and Assigns.

(a) Neither this Guaranty nor any of the terms hereof may be terminated, amended, supplemented, waived or modified orally, except by an instrument in writing signed by

Guarantor and Beneficiary and any other Person as required under Section 5 of the Intercreditor Agreement.

(b) This Guaranty shall be binding upon Guarantor and its successors and permitted assigns and shall inure to the benefit of Beneficiary and its successors and assigns.

(c) Guarantor shall not assign any of its obligations hereunder without the express prior written consent of Beneficiary. Any such purported assignment by Guarantor shall be null and void.

SECTION 6.04 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 6.05 Termination. Subject to the provisions of Section 2.07, this Guaranty and Guarantor's duties and obligations hereunder shall remain in full force and effect and be binding in accordance with its terms, until the date on which all Obligations and the obligations of Guarantor hereunder shall have been satisfied by payment and performance in full (the "Termination Date").

SECTION 6.06 Entire Agreement. This Guaranty constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral between or among Guarantor and Beneficiary with respect to the subject matter hereof.

SECTION 6.07 Article Headings. The headings of the various Articles and Sections of this Guaranty are for convenience of reference only and shall not modify, define, expand or limit any of the terms or provisions hereof.

SECTION 6.08 Governing Law. THIS GUARANTY SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (EXCLUDING ANY CONFLICT-OF-LAW OR CHOICE-OF-LAW RULES WHICH MIGHT LEAD TO THE APPLICATION OF THE INTERNAL LAWS OF ANOTHER JURISDICTION).

SECTION 6.09 Submission to Jurisdiction; Waivers; Service of Process. GUARANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY:

(i) SUBMITS, FOR ITSELF AND ITS PROPERTY, IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS GUARANTY, OR FOR RECOGNITION AND ENFORCEMENT OF ANY JUDGMENT IN RESPECT HEREOF, TO THE EXCLUSIVE GENERAL JURISDICTION OF THE COURTS OF

THE STATE OF NEW YORK LOCATED IN NEW YORK COUNTY, THE COURTS OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK, AND APPELLATE COURTS FROM ANY THEREOF;

(ii) CONSENTS THAT ANY SUCH ACTION OR PROCEEDING MAY BE BROUGHT IN SUCH COURTS AND WAIVES, TO THE MAXIMUM EXTENT NOT PROHIBITED BY LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH COURT OR THAT SUCH ACTION OR PROCEEDING WAS BROUGHT IN AN INCONVENIENT COURT AND AGREES NOT TO PLEAD OR CLAIM THE SAME;

(iii) AGREES THAT SERVICE OF PROCESS IN ANY SUCH ACTION OR PROCEEDING MAY BE EFFECTED BY DELIVERING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL), POSTAGE PREPAID, RETURN RECEIPT REQUESTED TO IT AT ITS ADDRESS SET FORTH IN SECTION 6.02 OR AT SUCH OTHER ADDRESS AS IT SHALL HAVE GIVEN NOTICE OF TO BENEFICIARY;

(iv) AGREES THAT NOTHING HEREIN SHALL AFFECT THE RIGHT TO EFFECT SERVICE OF PROCESS IN ANY OTHER MANNER PERMITTED BY LAW; AND

(v) WAIVES, TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS GUARANTY OR THE OTHER OPERATIVE DOCUMENTS ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES.

SECTION 6.10 Waiver of Jury Trial. GUARANTOR HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS GUARANTY AND FOR ANY COUNTERCLAIM THERETO.

SECTION 6.11 Subrogation. Guarantor hereby acknowledges and agrees that any rights of Guarantor hereunder to bring any action or exercise any remedy to recover from Agent or Lessee as a result of Guarantor's payment or performance of the Obligations, whether by way of subrogation or otherwise, may not be enforced until all amounts due or that may become due from Agent under the Operative Agreements shall have been paid in full to the parties entitled thereto and all obligations of Beneficiary under the Operative Agreements, whether to a Seller or to the Agent, shall have terminated. Guarantor agrees (i) not to take any action to hinder or delay the exercise of any right or remedy granted to Beneficiary under any Operative Agreement or any law applicable thereto and (ii) not to exercise or pursue any other rights, remedies, powers, privileges or benefits of any kind hereunder (whether available to

Guarantor hereunder or at law or in equity) until such time as all amounts due from Agent under the Operative Agreements have been paid in full to the parties entitled thereto.

SECTION 6.12 Survival. All warranties, representations and covenants made by Guarantor herein or in any certificate or other instrument delivered by it under this Guaranty shall be considered to have been relied upon by Beneficiary and shall survive the execution and delivery of this Guaranty, regardless of any investigation made by Beneficiary. All statements in any such certificate or other instrument shall constitute warranties and representations by Guarantor hereunder.

SECTION 6.13 Counterparts. This Guaranty may be executed simultaneously in two or more counterparts each of which shall be deemed an original, and it shall not be necessary in making proof of this Guaranty to produce or account for more than one such counterpart.

SECTION 6.14 Separate Claims. Notwithstanding anything to the contrary contained in this Guaranty as to the absolute and unconditional nature of this Guaranty or any waivers by Guarantor under this Guaranty, following any payment or performance in full by Guarantor of any amounts due under this Guaranty, no provision of this Guaranty shall limit the right of the Guarantor, the Agent, the Lessee or any of their Affiliates to assert against the Beneficiary or any Person claiming by, through or under Beneficiary in a separate proceeding any claim arising out of a breach by any such Person.

[signature page follows]

IN WITNESS WHEREOF, Guarantor has caused this Amended and Restated Guaranty to be executed as of the day and year first set forth above.

RELIANT RESOURCES, INC.

By:

Name:
Title:

ACKNOWLEDGED AND AGREED
FOR PURPOSES OF SECTION 1.05

[_____] TRUST

By: First Union Trust Company, National Association, not in its individual capacity, but solely as Trustee

By:

Name: Michael W. Orendorf
Title: Vice President

EXHIBIT 21.1

RELIANT RESOURCES, INC.
AND SUBSIDIARIES/AFFILIATES
as of April 1, 2002

Name Ownership Domicile
- ---- --------- -------
- RELIANT ENERGY, INCORPORATED TEX RELIANT RESOURCES, INC. 80% DEL
DIVISIONS/GROUPS:
Reliant Energy Europe
Reliant Energy Retail Group Reliant Energy Wholesale Group Arkla Finance Corporation 100% DEL GuideStreet, Inc. 100% DEL Reliant Energy Broadband, Inc. 100% DEL Reliant Energy Communications, Inc. 100% DEL Reliant Energy Communications (Delaware), LLC 100% DEL Reliant Energy Construction, LLC 100% DEL Reliant Energy Europe Trading & Marketing, Inc. 100% DEL Reliant Energy Financial Trading B.V. 100% NTH Reliant Energy Trading & Marketing, B.V. 100% NTH Reliant Energy Trading & Marketing GmbH 100% GER Reliant Energy Net Ventures, Inc. 100% DEL CapTrades GP, LLC 100% DEL CapTrades, LP 1% DEL Pantellos Corporation DEL Reliant Energy Retail Holdings, LLC 100% DEL Reliant Energy Customer Care Services, LLC 100% DEL Reliant Energy Retail Services, LLC 100% DEL Reliant Energy Electric Solutions, LLC 100% DEL Reliant Energy Solutions, LLC 100% DEL Reliant Energy Capital, LLC 100% DEL Reliant Energy Capital, LP 99% DEL Reliant Energy Solutions California, Inc. 100% DEL Reliant Energy Solutions Holdings, LLC 100% DEL Reliant Energy Solutions East, LLC 100% DEL Texas Star Energy Company 100% DEL StarEn Power, LLC 100% DEL Reliant Energy Services, Inc. 100% DEL Reliant Energy Services Channelview LLC 100% DEL Reliant Energy Services Desert Basin, LLC 100% DEL Reliant Energy Gas Storage, LLC 100% DEL Reliant Energy Services Mid-Stream, LLC 100% DEL Reliant Energy Services New Mexico, LLC 100% DEL Reliant Energy Services International, Inc. 100% DEL Reliant Energy Services Canada, Ltd. 100% CAN Reliant Energy Trading Exchange, Inc. 100% DEL Energy Platform Trading Holding Company, Inc. 16.67% DEL IntercontinentalExchange, LLC 5.33% DEL Reliant Resources International Services, Inc. 100% DEL

Name	Ownership	Domicile
Reliant Energy Ventures, Inc.	100%	DEL
Itron, Inc.	4.7%	WA
Reliant Energy Wholesale Service Company	100%	DEL
ReliantEnergy.com, Inc.	100%	DEL
RELIANT ENERGY POWER GENERATION, INC.	100%	DEL
El Dorado Energy, LLC	50%	DEL
Reliant Energy Arrow Canyon, LLC	100%	DEL
Reliant Energy Aurora Holding Corp.	100%	DEL
Reliant Energy Aurora I, LP	99%	DEL
Reliant Energy Aurora II, LP	99%	DEL
Reliant Energy Aurora, LP	99%	DEL
Reliant Energy Aurora Development Corp.	100%	DEL
Reliant Energy Bighorn, LLC	100%	DEL
Reliant Energy California Holdings, LLC	100%	DEL
Reliant Energy Coolwater, Inc.	100%	DEL
Reliant Energy Ellwood, Inc.	100%	DEL
Reliant Energy Etiwanda, Inc.	100%	DEL
Reliant Energy Mandalay, Inc.	100%	DEL
Reliant Energy Ormond Beach, Inc.	100%	DEL
Reliant Energy Capital (Europe), Inc.	100%	DEL
Reliant Energy Europe, Inc.	100%	DEL
Reliant Energy Trading and Marketing (UK) B.V.	100%	NTH
Reliant Energy Wholesale (Europe) Holdings B.V.	100%	NTH
Reliant Energy Wholesale (Europe) Holdings II C.V.	99.5%	NTH
Reliant Energy Wholesale (Europe) C.V.	99.5%	NTH
Reliant Energy UNA B.V.	52%	NTH
Reliant Energy Power Generation Benelux N. V.	100%	NTH
APX-Amsterdam Power Exchange	10%	NTH
BV Antraciet Handelsvereeniging	100%	NTH
B.V. Nederlands Elektriciteit Administratiekantoor	25%	NTH
Demkolec B.V.	100%	NTH
N.V. GKN	100%	NTH
COVRA B.V.	30%	NTH
TenneT B.V.	100%	NTH
Electorisk NV	21%	NTH
GKE BV	16%	NTH
Howo GmbH	10%	GER
KEMA NV	10%	NTH
B.V. BPA HES-West	100%	NTH
B.V. Business Park Arnhem	100%	NTH
B.V. KEMA	100%	NTH
CEBEC Registered Quality c.v.b.a.	50%	BEL
DUtrain GmbH	60%	GER
Geographic Information Technology, Inc.	80%	USA
KEMA-Arbodienst B.V.	100%	NTH
KEMA Consulting Canada Ltd.	100%	CAN

Consulting Europe
B.V. 100% NTH

Name Ownership Domicile - - --- -------- - -------- KEMA Consulting GmbH 100% GER KEMA Consulting, Inc. 100% USA KEMA-ECC, Inc. 100% USA KEMA-ETC A/O 100% RUS KEMA-GOST B.V. 50% NTH KEMA-IEV GmbH 60% GER KEMA Indonesie B. V. 100% NTH KEMA International B.V. 100% NTH KEMA International GmbH Deutschland 100% GER KEMA Nederland B.V. 100% NTH KEMA Nucleair B.V. 100% NTH KEMA Polska Sp. z o.o. 100% POL KEMA-Powertest, Inc. 100% USA KEMA-Realty LLC 100% USA KEMA Registered Quality B.V. 100% NTH KEMA Registered Quality Consultants B.V. 100% NTH KEMA Registered Quality Czech Republic spol. r.o. 100% CZE KEMA Registered Quality Hong Kong Ltd. 51% HK KEMA Registered Quality, Inc. 100% USA KEMA Registered Quality Italia S.r.l. 100% ITL KEMA Registered Quality Polska Sp. z o.o. 100% POL KEMA Technology Czech Republic spol. r.o. 100% CZE KEMA USA, Inc. 100% USA Macro Corporation 100% USA PT. KEMA Registered Quality Indonesia 100% ID PT. KEMA

Technology Indonesia 100% ID NEM BV 2% NTH
Power Investments BV 100% NTH
Axima BV 45% NTH Power Projects BV 50% NTH
Power Services BV 100% NTH
Power Total Maintenance BV 50% NTH
UNA Milieu NV 100% NTH
Ecosun BV 67% NTH
Vasim BV 15% NTH
Vliegasunie BV 16% NTH
Reliant Energy CapTrades Holding Corp. 100% DEL Reliant Energy McHenry I, L.P. 99% DEL Reliant Energy McHenry II, L.P. 99% DEL Reliant Energy McHenry County, L.P. 99% DEL Reliant Energy McHenry Development Corp. 100% DEL Reliant Energy Channelview (Delaware) LLC 100% DEL Reliant Energy Channelview LP 99% DEL Reliant Energy Channelview (Texas) LLC 100% DEL Reliant Energy Choctaw County, LLC 100% MS Reliant Energy Colusa County, LLC 100% DEL Reliant Energy Construction, LLC 100% DEL Reliant Energy Deer Park, Inc. 100% DEL Reliant Energy Desert Basin, LLC 100% DEL

Name Ownership Domicile - ---- ------ --- ------- - Reliant Energy Development Services, Inc. 100% DEL Reliant Energy Florida Holdings, LLC 100% DEL Reliant Energy Indian River, LLC 100% DEL Reliant Energy New Smyrna Beach, LLC 100% DEL Reliant Energy Osceola, LLC 100% DEL Reliant Energy Mid-Atlantic Development, Inc. 100% DEL Reliant Energy Atlantic, LLC 100% DEL Reliant Energy Erie West, LLC 100% DEL Reliant Energy Gilbert, LLC 100% DEL Reliant Energy Hunterstown, LLC 100% DEL Reliant Energy Portland, LLC 100% DEL Reliant Energy Seward, LLC 100% DEL Reliant Energy Titus, LLC 100% DEL Reliant Energy Northeast Holdings, Inc. 100% DEL Reliant Energy Northeast Generation, Inc. 100% DEL Reliant Energy Key/Con Fuels, LLC 100% DEL Reliant Energy Mid-Atlantic Power Holdings, LLC 100% DEL Reliant Energy Maryland Holdings, LLC 100% DEL Reliant Energy Mid-Atlantic Power Services, Inc. 100% DEL Reliant Energy New Jersey

Holdings, LLC 100% DEL Reliant Energy Northeast Management Company 100% PA Reliant Energy Power Operations I, Inc. 100% DEL Reliant Energy Power Operations II, Inc. 100% DEL Reliant Energy Rancho Cucamonga, LLC 100% DEL Reliant Energy Renewables, Inc. 100% DEL Reliant Energy Renewables Atascocita GP, LLC 100% DEL Reliant Energy Renewables Baytown GP, LLC 100% DEL Reliant Energy Renewables Blue Bonnet GP, LLC 100% DEL Reliant Energy Renewables Coastal Plains GP, LLC 100% DEL Reliant Energy Renewables Comal County GP, LLC 100% DEL Reliant Energy Renewables Conroe GP, LLC 100% DEL Reliant Energy Renewables Eastside GP, LLC 100% DEL Reliant Energy Renewables Fort Worth, LLC 100% DEL Reliant Energy Renewables Hillside GP, LLC 100% DEL Reliant Energy Renewables Holdings, LLC 100% DEL Reliant Energy Renewables Atascocita, LP 99% DEL Reliant Energy Renewables Baytown, LP 99% DEL Reliant Energy Renewables Blue Bonnet, LP

99% DEL
Reliant
Energy
Renewables
Coastal
Plains, LP
99% DEL
Reliant
Energy
Renewables
Comal
County, LP
99% DEL
Reliant
Energy
Renewables
Conroe, LP
99% DEL
Reliant
Energy
Renewables
Eastside,
LP 99% DEL
Reliant
Energy
Renewables
Fort Worth,
LP 99% DEL
Reliant
Energy
Renewables
Hillside,
LP 99% DEL
Reliant
Energy
Renewables
Lacy
Lakeview,
LP 99% DEL
Reliant
Energy
Renewables
Pecan
Prairie, LP
99% DEL
Reliant
Energy
Renewables
Security,
LP 99% DEL

Name	Ownership	Domicile -
Reliant Energy Renewables Temple, LP	99% DEL	Reliant Energy Renewables Williamson County, LP
99% DEL	Reliant Energy Renewables Lacy Lakeview GP, LLC	100% DEL
Reliant Energy Renewables Pecan Prairie GP, LLC	100% DEL	Reliant Energy Renewables Security GP, LLC
100% DEL	Reliant Energy Renewables Temple GP, LLC 100% DEL	Reliant Energy Renewables Williamson County GP, LLC 100% DEL
Reliant Energy Sabine (Delaware), Inc. 100%	DEL Sabine Cogen, LP	49% DEL
Reliant Energy Sabine (Texas), Inc. 100%	DEL Reliant Energy Shelby Holding Corp. 100%	DEL
Reliant Energy Shelby I, LP 99% DEL	Reliant Energy Shelby II, LP 99% DEL	Reliant Energy Shelby County, LP
99% DEL	Reliant Energy Shelby County II, LP 99% DEL	Reliant Energy Shelby Development Corp. 100%
DEL	Reliant Energy Signal	

Peak, LLC 100% DEL Reliant Energy Sunrise, LLC 100% DEL ORION POWER HOLDINGS, INC. 100% DEL Orion Power Development Company, Inc. 100% DEL Midatlantic Kelson Corporation 100% DEL Midwest Henderson Corp. 100% DEL Midwest Beaver Corporation 100% DEL Midwest Ceredo II Corporation 100% DEL Midwest Ceredo Corporation 100% DEL Ceredo Capacity, LLC 100% DEL OPD Group, Inc. 100% DEL Beaver River, LLC 98% DEL Free State Electric, LLC 98% DEL Grane Creek, LLC 98% DEL Midatlantic Liberty Corporation 100% DEL Midatlantic Liberty Member Corporation 100% DEL Midatlantic Liberty II Corporation 100% DEL Midatlantic Liberty Member II Corporation 100% DEL Liberty Electric PA, LLC DEL Liberty Electric Power, LLC 100% DEL Orion Power MidWest GP, Inc. 100% DEL Orion Power Midwest LP, Inc. 100% DEL Orion Power MidWest, L.P. 99% DEL Twelvepole Creek, LLC 100% DEL Orion Power New York GP, Inc. 100% DEL Orion

Power New York LP, Inc. 100% DEL Orion Power New York, L.P. 80% DEL Astoria Generating Company, L.P. 99% DEL Erie Boulevard Hydropower, LP 99% DEL Carr Street Generating Station, LP 99% DEL Orion Power New York GP II, Inc. 100% DEL

Name	Ownership	Domicile
- Orion Power Operating Services, Inc.	100%	DEL
Orion Power Operating Services MidAtlantic, Inc.	100%	DEL
Orion Power Operating Services Astoria, Inc.	100%	DEL
Orion Power Operating Services Coldwater, Inc.	100%	DEL
Orion Power Operating Services Carr Street, Inc.	100%	DEL
Midwest Ash Disposal, Inc.	100%	DEL
ASSOCIATED ENTITIES		
Reliant Resources Foundation	N/A	TEX

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Reliant Resources, Inc.'s Registration Statement Nos. 333-60124, 333-60328, 333-74754, and 333-74790 on Form S-8 of our report dated March 28, 2002, appearing in this Annual Report on Form 10-K of Reliant Resources, Inc. for the year ended December 31, 2001.

DELOITTE & TOUCHE LLP

Houston, Texas
April 12, 2002