

RELIANT ENERGY INC
Form 10-Q/A
August 09, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

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

For the quarterly period ended March 31, 2005

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 Energy, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

76-0655566

(I.R.S. Employer Identification No.)

1000 Main Street

Houston, Texas 77002

(Address of Principal Executive Offices) (Zip Code)

(713) 497-3000

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 2, 2005, the latest practicable date for determination, Reliant Energy, Inc. had 300,914,012 shares of common stock outstanding and no shares of common stock were held as treasury stock.

EXPLANATORY NOTE

As previously disclosed in our Current Report on Form 8-K filed on August 3, 2005, we concluded that certain parts of our unaudited interim financial statements in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, initially filed with the Securities and Exchange Commission on May 5, 2005 (the Original Form 10-Q), should be restated to correct offsetting classification errors. The errors related to transactions in our wholesale energy segment that should have been reported on a net basis in our consolidated statement of operations for the three months ended March 31, 2005. The transactions pertain to sales by our generation facilities to the PJM Interconnection, LLC (PJM) to meet our retail energy supply commitments in the PJM market. In January 2005, we began to use a new corporate subsidiary to make sales in the PJM market to facilitate our efforts to continue to grow certain retail market segments. The classification error occurred in connection with recording these transactions in the new entity. See note 1(c) to our interim financial statements for the detail of the restatement.

The misstatements had the effect of overstating revenues and purchased power by the same amount (\$68 million) for the three months ended March 31, 2005. There was no impact on (a) gross margin, (b) contribution margin, (c) operating income, (d) loss from continuing operations or (e) net loss. These misstatements also had no impact on our consolidated balance sheet as of March 31, 2005 or on our consolidated statement of cash flows for the three months ended March 31, 2005.

This Amendment No. 1 to our Quarterly Report on Form 10-Q/A is being filed to amend and restate Items 1, 2 and 4 of Part 1. The impact of the restatement is also reflected in (a) note 11; (b) note 12; and (c) (i) the operational data or volumes relating to our wholesale energy segment, (ii) the wholesale energy revenues table and (iii) the wholesale energy fuel and cost of gas sold and purchased power table, each in Management's Discussion and Analysis of Financial Condition and Results of Operations. In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, each of the foregoing items, notes and tables has been amended and restated, in its entirety, and no attempt has been made to modify or update any other items, notes, tables or other disclosures presented in the Original Form 10-Q except as required to reflect the effects of the restatement.

TABLE OF CONTENTS

Cautionary Statement Regarding Forward-Looking Information

PART I.
FINANCIAL INFORMATION

<u>ITEM 1.</u>	<u>FINANCIAL STATEMENTS</u> <u>Consolidated Statements of Operations (unaudited)</u> <u>Three Months Ended March 31, 2005 (As Restated) and 2004</u> <u>Consolidated Balance Sheets (unaudited)</u> <u>March 31, 2005 and December 31, 2004</u> <u>Consolidated Statements of Cash Flows (unaudited)</u> <u>Three Months Ended March 31, 2005 and 2004</u> <u>Notes to Unaudited Consolidated Interim Financial Statements</u>
<u>ITEM 2.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION</u> <u>AND RESULTS OF OPERATIONS</u> <u>Business Overview</u> <u>Consolidated Results of Operation</u> <u>Financial Condition</u> <u>New Accounting Pronouncements, Significant Accounting Policies and Critical</u> <u>Accounting Estimates</u>
<u>ITEM 3.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT NON-TRADING</u> <u>AND TRADING ACTIVITIES AND RELATED MARKET RISKS</u> <u>Market Risk and Risk Management</u> <u>Non-Trading Market Risks</u> <u>Trading Market Risk</u>
<u>ITEM 4.</u>	<u>CONTROLS AND PROCEDURES</u> <u>Evaluation of Disclosure Controls and Procedures</u> <u>Changes in Internal Control Over Financial Reporting</u>

PART II.
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 6. EXHIBITS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

When we make statements containing projections, estimates or assumptions about our revenues, income and other financial items, our plans for the future, future economic performance, transactions and dispositions and financings related thereto, we are making forward-looking statements. Forward-looking statements relate to future events and anticipated revenues, earnings, business strategies, competitive position or other aspects of our operations or operating results. In many cases you can identify forward-looking statements by terminology such as anticipate, estimate, believe, continue, could, intend, may, plan, position, potential, predict, should, will, expect, goal, guidance, outlook, effort, target and other similar words. However, the absence of these words does not mean that the statements are not forward-looking.

Although we believe that the expectations and the underlying assumptions reflected in our forward-looking statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are not guarantees of future performance or events. These statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in the forward-looking statements. Among other things, the matters described in:

Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors in Item 7 and note 14 to our consolidated financial statements, in our Annual Report on Form 10-K for the year ended December 31, 2004 (Form 10-K) and

Management's Discussion and Analysis of Financial Condition and Results of Operations and note 10 to our interim financial statements in this Amendment No. 1 to our Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2005 (this Form 10-Q/A)

could cause actual results to differ materially from those expressed or implied in our forward-looking statements.

Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

PART I.
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RELIANT ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Thousands of Dollars, Except Per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
	2005	2004
	(As Restated)	
Revenues:		
Revenues (including \$(149,458) and \$(4,151) unrealized losses)	\$ 1,869,091	\$ 1,664,714
Expenses:		
Fuel and cost of gas sold (including \$126,284 and \$22,174 unrealized gains)	392,728	215,302
Purchased power (including \$152,990 and \$8,350 unrealized gains)	1,018,098	998,233
Operation and maintenance	206,468	229,710
Selling and marketing	18,985	17,666
Bad debt expense	8,610	8,744
Other general and administrative	31,664	56,042
Loss on sales of receivables		9,187
Accrual for payment to CenterPoint Energy, Inc.		1,658
Loss on sale of landfill-gas assets	4,461	
Depreciation	109,386	98,382
Amortization	5,883	8,429
Total	1,796,283	1,643,353
Operating Income	72,808	21,361
Other Income (Expense):		
Gains (losses) from investments, net	7	(169)
Loss of equity investments, net	(168)	(806)
Other, net	80	760
Interest expense	(105,345)	(91,867)
Interest income	5,212	5,103
Total other expense	(100,214)	(86,979)
Loss from Continuing Operations Before Income Taxes	(27,406)	(65,618)
Income tax benefit	(2,484)	(22,857)
Loss from Continuing Operations	(24,922)	(42,761)
Loss from discontinued operations before income taxes		(6,809)
Income tax benefit		(3,909)
Loss from discontinued operations		(2,900)
Loss Before Cumulative Effect of Accounting Change	(24,922)	(45,661)
Cumulative effect of accounting change, net of tax		7,290
Net Loss	\$ (24,922)	\$ (38,371)
Basic and Diluted Earnings (Loss) per Share:		
Loss from continuing operations	\$ (0.08)	\$ (0.14)

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Loss from discontinued operations, net of tax			(0.01)
Loss before cumulative effect of accounting change	(0.08)		(0.15)
Cumulative effect of accounting change, net of tax			0.02
Net loss	\$	(0.08)	\$ (0.13)

See Notes to our Unaudited Consolidated Interim Financial Statements

RELIANT ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars, Except Share and Per Share Amounts)

(Unaudited)

	March 31, 2005	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 115,280	\$ 106,613
Restricted cash	11,609	15,610
Accounts and notes receivable, principally customer, net of allowance of \$33,035 and \$42,589	919,977	1,089,058
Inventory	282,246	273,128
Derivative assets	190,881	312,232
Margin deposits on energy trading and hedging activities	737,399	509,726
Accumulated deferred income taxes	106,472	117,341
Prepayments and other current assets	169,494	205,569
Total current assets	2,533,358	2,629,277
Property, plant and equipment, gross	8,384,099	8,403,308
Accumulated depreciation	(1,091,968)	(1,013,178)
Property, Plant and Equipment, net	7,292,131	7,390,130
Other Assets:		
Goodwill	439,362	440,534
Other intangibles, net	621,268	611,524
Net California receivables subject to refund	201,000	200,086
Equity investments	83,632	83,819
Derivative assets	347,340	272,254
Accumulated deferred income taxes		2,000
Prepaid lease	253,310	243,463
Restricted cash		25,547
Other	264,141	248,231
Total other assets	2,210,053	2,127,458
Total Assets	\$ 12,035,542	\$ 12,146,865
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt and short-term borrowings	\$ 310,952	\$ 618,854
Accounts payable, principally trade	552,627	572,886
Derivative liabilities	309,427	409,110
Margin deposits from customers on energy trading and hedging activities	20,307	19,040
Retail customer deposits	68,288	64,486
Accumulated deferred income taxes	2,192	6,878
Other taxes payable	67,783	90,075
Other	302,643	288,686
Total current liabilities	1,634,219	2,070,015
Other Liabilities:		
Accumulated deferred income taxes	321,225	395,491
Derivative liabilities	503,781	311,222
Benefit obligations	152,335	156,472
Other	229,476	250,454
Total other liabilities	1,206,817	1,113,639
Long-term Debt	4,910,121	4,576,857

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Commitments and Contingencies 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; 300,708,456 and 299,812,305 issued)		62	61
Additional paid-in capital		5,799,810	5,790,007
Treasury stock at cost, 0 and 128,264 shares			(2,209)
Retained deficit		(1,392,870)	(1,367,948)
Accumulated other comprehensive loss		(122,617)	(33,557)
Stockholders equity		4,284,385	4,386,354
Total Liabilities and Stockholders Equity		\$ 12,035,542	\$ 12,146,865

See Notes to our Unaudited Consolidated Interim Financial Statements

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Cash Payments:

Interest paid (net of amounts capitalized) for continuing operations	\$	87,229	\$	107,523
Income taxes paid (net of income tax refunds received) for continuing operations	\$	(3,557)	\$	(88,809)

See Notes to our Unaudited Consolidated Interim Financial Statements

RELIANT ENERGY, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(1) Background, Basis of Presentation and Restatement

(a) Background.

As used in this Form 10-Q/A, Reliant Energy refers to Reliant Energy, Inc. and we, us and our refer to Reliant Energy, Inc. and its consolidated subsidiaries, unless we specify or the context indicates otherwise. Our business operations consist primarily of two business segments. See note 12. This Form 10-Q/A includes our consolidated interim financial statements and notes (interim financial statements). The interim financial statements are unaudited, omit certain financial statement disclosures and should be read in conjunction with our audited consolidated financial statements and notes in our Form 10-K.

(b) Basis of Presentation.

Estimates. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), we 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.

Adjustments and Reclassifications. In September 2004, we sold plants having a net capacity of 770 megawatts (MW) (hydropower plants). In December 2004, we transferred a project-financed generation plant (Liberty) to the project lenders. The operations of these plants are reported as discontinued operations. See note 14.

The interim financial statements reflect all normal recurring adjustments necessary, in management's opinion, to present fairly our financial position and results of operations for the reported periods. Amounts reported for interim periods, however, may not be indicative of a full year period due to seasonal fluctuations in demand for energy and energy services, changes in energy commodity prices, timing of maintenance and other expenditures, dispositions, changes in interest expense and other factors.

We have reclassified certain amounts reported in this Form 10-Q/A from prior periods to conform to the 2005 presentation of financial statements. These reclassifications had no impact on reported earnings.

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In our consolidated statement of cash flows for the three months ended March 31, 2005 and 2004, we reclassified \$30 million and \$17 million, respectively, from operating cash flows to investing cash flows relating to changes in restricted cash. Restricted cash primarily includes cash held by subsidiaries that cannot be transferred to Reliant Energy or our other subsidiaries pursuant to financing and other agreements, but is available to the applicable subsidiary to use to satisfy certain of its obligations. This classification is consistent with our June 30, 2005 presentation. In future filings, we will reclassify prior period changes in restricted cash amounts to be consistent with this presentation.

Changes in Estimates for Retail Energy Sales and Costs. The revenues and the related energy supply costs in our retail energy segment include our estimates of customer usage after consideration of initial usage information provided by the Electric Reliability Council of Texas (ERCOT) Independent System Operator (ISO) and the electric distribution companies in the PJM Interconnection, LLC (PJM). We revise these estimates and record any changes in the period as information becomes available (collectively referred to as market usage adjustments).

As of March 31, 2005 and December 31, 2004, we recorded unbilled revenues of \$304 million and \$328 million, respectively, for retail energy sales. During the three months ended March 31, 2005 and 2004, we recognized in gross margin (revenue less fuel and cost of gas sold and purchased power) \$15 million and \$9 million of expense, respectively, related to market usage adjustments.

As of March 31, 2005, the ERCOT ISO has issued true-up settlements through September 2004. As of March 31, 2005, the ERCOT ISO's settlement calculations indicate that our customers utilized electricity volumes that exceeded our estimates by approximately 140,000 megawatt hours (MWh) for 2003 and 186,000 MWh for January through September 2004. As of March 31, 2005, we have a net receivable of \$15 million recorded for final settlement with ERCOT, consisting of a \$9 million receivable related to 2003, a \$3 million receivable related to 2004 and a \$3 million receivable related to 2005.

Although we believe that the estimates and assumptions utilized to recognize revenues and the related supply costs are reasonable and represent our best estimates, actual results could differ.

(c) Restatement.

On August 2, 2005, we concluded that we should reclassify certain parts of our unaudited interim financial statements for the three months ended March 31, 2005, to correct offsetting classification errors. The errors related to transactions in our wholesale energy segment that should have been reported on a net basis in our consolidated statement of operations for the three months ended March 31, 2005. The transactions pertain to sales by our generation facilities to the PJM Interconnection, LLC (PJM) to meet our retail energy supply commitments in the PJM market. In January 2005, we began to use a new corporate subsidiary to make sales in the PJM market to facilitate our efforts to continue to grow certain retail market segments. The classification error occurred in connection with recording these transactions in the new entity.

The misstatements had the effect of overstating revenues and purchased power by the same amount (\$68 million) for the three months ended March 31, 2005. There was no impact on (a) gross margin, (b) contribution margin, (c) operating income, (d) loss from continuing operations or (e) net loss. These misstatements also had no impact on our consolidated balance sheet as of March 31, 2005 or on our consolidated statement of cash flows for the three months ended March 31, 2005.

Following is the impact on our consolidated statement of operations:

	Three Months Ended March 31, 2005	
	As Restated	As Previously Reported
	(in millions)	
Revenues	\$ 1,869	\$ 1,937
Purchased power	1,018	1,086
Total expenses (operating)	1,796	1,864
Loss from continuing operations	(25)	(25)
Net loss	(25)	(25)

(2) Stock-based Compensation Plans and Retirement Plans**(a) Stock-based Compensation Plans.**

We apply the intrinsic value method of accounting for employee stock-based compensation plans in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25).

The Financial Accounting Standards Board issued SFAS No. 123R, Share-Based Payment (SFAS No. 123R), which requires that we account for employee share-based transactions using a fair value based method. SFAS No. 123R is effective for us for all share-based transactions initiated on or after January 1, 2006. We will apply this statement using a modified version of prospective application. We will recognize compensation cost for the unvested portion of awards granted prior to the effective date, based on the grant-date fair value of those awards used in the pro forma disclosures below. We have assessed the impact that the adoption of this statement will have on our consolidated financial statements to the extent possible. The impact with respect to variable instruments is dependent on our stock price on the date of implementation.

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If employee stock-based compensation costs had been expensed based on the fair value (determined using the Black-Scholes model) method of accounting applied to all stock-based awards, our pro forma results would be:

	Three Months Ended March 31,	
	2005	2004
	(in millions, except per share amounts)	
Net loss, as reported	\$ (25)	\$ (38)
Add: Stock-based employee compensation expense (benefit) included in reported net loss, net of related tax effects	(1)	2
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(5)	(6)
Pro forma net loss	\$ (31)	\$ (42)
Loss per share:		
Basic and diluted, as reported	\$ (0.08)	\$ (0.13)
Basic and diluted, pro forma	\$ (0.10)	\$ (0.14)

(b) **Retirement Plans.**

The components of net benefit cost for our qualified retirement plans are:

	Pension Benefits		Postretirement Benefits	
	2005	2004	2005	2004
	Three Months Ended March 31,			
	(in millions)			
Service cost	\$ 1.9	\$ 2.0	\$ 0.6	\$ 0.7
Interest cost	1.2	1.1	1.1	1.1
Expected return on plan assets	(1.0)	(0.8)		
Net amortization	0.2	0.3	0.5	0.4
Net benefit cost	\$ 2.3	\$ 2.6	\$ 2.2	\$ 2.2

Pension expense associated with our non-qualified pension plan was \$0 and \$2 million during the three months ended March 31, 2005 and 2004, respectively. During the three months ended March 31, 2004, we recognized an accounting settlement charge of \$2 million (pre-tax) related to distributions paid.

We expect to make cash contributions of approximately \$7 million during 2005. As of March 31, 2005, we had contributed \$1 million.

(3) **Comprehensive Income (Loss)**

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The components of total comprehensive income (loss) are:

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Net loss	\$ (25)	\$ (38)
Other comprehensive income (loss), net of tax:		
Deferred gain (loss) from cash flow hedges	(79)	31
Reclassification of net deferred (gain) loss from cash flow hedges realized in net loss	(10)	4
Comprehensive loss resulting from discontinued operations		(2)
Comprehensive loss	\$ (114)	\$ (5)

(4) Goodwill and Property, Plant and Equipment

We perform our goodwill impairment test annually and evaluate goodwill and property, plant and equipment when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We initially selected November 1 as our annual goodwill impairment testing date since we had historically completed our annual strategic planning process by that date. Since the time we selected the November 1 date, we have modified our strategic planning process and are no longer completed by November 1. In addition, our year-end closing and reporting process has been truncated in order to meet the accelerated periodic reporting requirements with the Securities and Exchange Commission resulting in significant constraints on our resources at year-end and during our first fiscal quarter. Accordingly, in order to align our annual goodwill impairment test with our annual strategic planning process, to meet the accelerated reporting deadlines and to provide adequate time to complete the analysis each year, beginning in 2005, we changed the date on which we perform our annual goodwill impairment test from November 1 to April 1. The change is not intended to delay, accelerate or avoid an impairment charge. We believe that this accounting change is an alternative accounting principle that is preferable under the circumstances.

January and March 2005 Goodwill Impairment Tests Related to our Wholesale Energy Reporting Unit. In January and March 2005, we signed agreements to sell 48 MW and 30 MW of generation assets, respectively. See note 13. These sales required us to allocate a portion of the goodwill in the wholesale energy reporting unit to the assets being sold on a relative fair value basis as of January and March 2005 in order to compute the gain/loss on disposals. As of January and March 2005, we also analyzed the recoverability of goodwill in our remaining wholesale energy reporting unit and determined that no impairment had occurred.

(5) Derivative Instruments

For discussion of our derivative activities, see notes 2(d) and 6 to our consolidated financial statements in our Form 10-K. Below is the pre-tax income (loss) of our derivative instruments, including energy and interest rate derivatives:

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Energy derivatives:		
Hedge ineffectiveness ⁽¹⁾	\$ 7	\$
Other net unrealized gains ⁽²⁾	123	26
Interest rate derivatives:		
Hedge ineffectiveness ⁽¹⁾		
Other net unrealized losses ⁽²⁾	(5)	(7)
Total	\$ 125	\$ 19

(1) No component of the derivatives gain or loss was excluded from the assessment of effectiveness.

(2) There were no amounts for the three months ended March 31, 2005 and 2004 recognized in our results of operations as a result of the discontinuance of cash flow hedges because it was probable that the forecasted transaction would not occur.

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As of March 31, 2005 and December 31, 2004, the maximum length of time we are hedging our exposure to the variability in future cash flows for forecasted energy transactions is eight years. As of March 31, 2005 and December 31, 2004, the maximum length of time we are hedging our exposure to the payment of variable interest rates is nine months and 12 months, respectively. As of March 31, 2005 and December 31, 2004, accumulated other comprehensive loss from derivatives, net of tax, was \$122 million and \$33 million, respectively. As of March 31, 2005, we expect \$4 million of accumulated other comprehensive gain to be reclassified into our results of operations during the period from April 1, 2005 to March 31, 2006.

In March 2003, we discontinued our proprietary trading business. Prior to that date, our trading activities included (a) transactions establishing open positions in the energy markets, primarily on a short-term basis and (b) energy price risk management services to customers primarily related to natural gas, electric power and other energy-related commodities. Although we have exited our proprietary trading activities, we have legacy positions, which will be closed as economically feasible or in accordance with their terms. In addition to our legacy trading activities, we have other transactions, which we record on a net basis in our results of operations that are accounted for under the mark-to-market method of accounting. Such transactions include financial hedges of certain natural gas inventory held in storage. During the three months ended March 31, 2005 and 2004, the margins associated

with these transactions (our legacy positions and optimization around our storage positions) of \$26 million loss and \$3 million gain, respectively, are included in fuel and cost of gas sold.

(6) Credit Facilities, Bonds, Notes and Other Debt

As of March 31, 2005, we were in compliance with all of our debt covenants. An overview of our outstanding debt is:

	Weighted Average Stated Interest Rate(1)	March 31, 2005		Weighted Average Stated Interest Rate(1)	December 31, 2004	
		Long-term	Current (in millions, except interest rates)		Long-term	Current
<u>Banking or Credit Facilities, Bonds and Notes:</u>						
Reliant Energy:						
Senior secured notes due 2010	9.25%	\$ 550	\$	9.25%	\$ 550	\$
Senior secured notes due 2013	9.50	550		9.50	550	
Senior secured notes due 2014	6.75	750		6.75	750	
Convertible senior subordinated notes due 2010	5.00	275		5.00	275	
Senior secured term loans due 2010	6.02	1,287	13	4.80	1,290	10
Senior secured revolver due 2009 ⁽²⁾	6.23	207		7.13	199	
Subsidiary Obligations:						
Orion Power Holdings senior notes due 2010	12.00	400		12.00	400	
PEDFA fixed-rate bonds for Seward plant due 2036	6.75	500		6.75	500	
Reliant Energy Mid-Atlantic Power Holdings, LLC (REMA) term loans due 2005 to 2006				4.94	14	14
Reliant Energy Channelview LP:						
Term loans and revolving working capital facility:						
Floating rate debt due 2005 to 2024	4.39	270	16	3.83		284
Fixed rate debt due 2014 to 2024	9.55	75		9.55		75
RE Retail Receivables, LLC facility due 2005	4.33		272	3.90		227
Total facilities, bonds and notes		4,864	301		4,528	610
Other:						
Adjustment to fair value of debt ⁽³⁾		46	9		49	8
Adjustment to fair value of debt due to warrants		(1)			(1)	

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Other	1		1		1		1
Total other debt	46		10		49		9
Total debt	\$ 4,910	\$	311	\$	4,577	\$	619

(1) The weighted average stated interest rates are for borrowings outstanding as of March 31, 2005 or December 31, 2004.

(2) As of December 31, 2004, the entire amount borrowed under this revolver was subject to prime rate-based rates. The London inter-bank offered rate (LIBOR) based rate would have been 4.90% as of December 31, 2004. As of March 31, 2005, the majority of the outstanding balance was subject to LIBOR-based rates.

(3) Included in interest expense is amortization of \$2 million for valuation adjustments for debt for the three months ended March 31, 2005 and 2004.

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Amounts borrowed and available for borrowing under our revolving credit agreements as of March 31, 2005 are:

	Total Committed Credit	Drawn Amount	Letters of Credit (in millions)	Unused Amount
Reliant Energy senior secured revolver due 2009	\$ 1,700	\$ 207	\$ 792	\$ 701
Reliant Energy Channelview LP revolving working capital facility due 2007	14	5		9
Total	\$ 1,714	\$ 212	\$ 792	\$ 710

As of March 31, 2005 and December 31, 2004, committed credit facilities, bonds and notes aggregating \$675 million and \$703 million, respectively, were unsecured.

RE Retail Receivables, LLC Facility. We have a receivables facility arrangement with financial institutions to sell an undivided interest in accounts receivable from our retail business under which, on an ongoing basis, the financial institutions can invest a maximum of \$350 million for their interests in these receivables. The facility expires on September 27, 2005. We service the receivables and received a fee of 0.4% of cash collected during the three months ended March 31, 2005 and 2004, which approximates our actual service costs.

In 2002, we formed a qualified special purpose entity (QSPE) to buy certain receivables from our retail electric subsidiaries and sell undivided interests in them to financial institutions. In September 2004, the QSPE ceased to be a qualified special purpose entity and we began consolidating its results of operations. The special purpose entity is a separate entity and its assets will be available first and foremost to satisfy the claims of its creditors. We are not ultimately liable for any failure of payment of the obligors on the receivables. We have, however, guaranteed the performance obligations of the sellers and the servicing of the receivables under the related documents.

Servicing fee income and costs associated with the sale of receivables to the QSPE for the three months ended March 31, 2004 (in millions) are:

Servicing fee income	\$ 5
Interest income	3
Loss on sales of receivables	(9)
Net	\$ (1)⁽¹⁾

(1) Beginning September 28, 2004, the discount on the receivables and other related interest items are reflected as interest expense in our consolidated statements of operations and we no longer recognize service fee income and interest income.

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In calculating the loss on sale for the three months ended March 31, 2004, an average discount rate of 7.3% was applied to projected cash collections over a six-month period.

(7) Stockholders Equity**(a) Common Stock Activity.**

Our common stock activity is:

	Three Months Ended March 31,	
	2005	2004
	(shares in thousands)	
Shares of common stock outstanding, net of treasury stock, beginning of period	299,684	294,592
Shares issued to employees under our employee stock purchase plan	372	764
Shares issued to our savings plans		5
Shares issued under our long-term incentive plans	652	290
Shares of common stock outstanding, net of treasury stock, end of period	300,708	295,651

(b) Treasury Stock Issuances and Transfers.

Changes in the number of shares of our treasury stock are:

	Three Months Ended March 31,	
	2005	2004
	(shares in thousands)	
Shares of treasury stock, beginning of period	128	5,212
Shares of treasury stock issued to employees under our employee stock purchase plan		(764)
Shares of treasury stock issued to our savings plans		(5)
Shares of treasury stock issued under our long-term incentive plans	(128)	(290)
Shares of treasury stock, end of period		4,153

(8) Earnings Per Share

Reconciliations of the amounts used in the basic and diluted loss per common share computations are:

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Loss from continuing operations (basic)	\$ (25)	\$ (42)
Plus: Interest expense on 5% convertible senior subordinated notes	(1)	(1)
Loss from continuing operations (diluted)	\$ (25)	\$ (42)

(1) As we incurred a loss from continuing operations for this period, diluted loss per share is calculated the same as basic loss per share.

	Three Months Ended March 31,	
	2005	2004
	(shares in thousands)	
Diluted Weighted Average Shares Calculation:		
Weighted average shares outstanding	300,441	296,067
Plus: Incremental shares from assumed conversions:		
Stock options	(1)	(1)
Restricted stock and performance-based shares	(1)	(1)
Employee stock purchase plan	(1)	(1)
5.00% convertible senior subordinated notes	(1)	(1)
Warrants	(1)	(1)
Weighted average shares outstanding assuming conversion	300,441	296,067

(1) See note (1) above regarding diluted loss per share.

The following potential common shares and other impacts were excluded from the calculation of diluted earnings (loss) per common share due to their anti-dilutive effect or, in the case of certain stock options, because their exercise price was greater than the average market price for the periods presented:

	Three Months Ended March 31,	
	2005	2004
	(shares in thousands, dollars in millions)	
Potential common shares excluded from the calculation of diluted earnings (loss) per common share:		
Stock options	2,621	1,619
Restricted stock and performance-based shares	1,274	1,431
Employee stock purchase plan	20	41
5.00% convertible senior subordinated notes	28,823	28,823
Warrants	4,599	2,681

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Potential common shares excluded from the calculation of diluted earnings (loss) per common share because the exercise price was greater than the average market price:

Stock options	4,839	13,362
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Warrants

Interest expense that would have been added to income from continuing operations if 5.00% convertible senior subordinated notes were dilutive

\$	2	\$	2
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(9) Income Taxes**(a) Tax Rate Reconciliations.**

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

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Loss from continuing operations before income taxes	\$ (27.4)	\$ (65.6)
Federal statutory rate	35%	35%
Income tax benefit at statutory rate	(9.6)	(23.0)
Net addition (reduction) in taxes resulting from:		
Federal tax reserves	1.3	1.5
State income taxes, net of federal income taxes	5.5	(3.3)
Federal and foreign valuation allowances		1.2
Other, net	0.3	0.7
Total	7.1	0.1
Income tax benefit	\$ (2.5)	\$ (22.9)
Effective rate	9.1% ⁽¹⁾	34.8%

(1) The effective tax rate differs from the federal statutory rate primarily due to providing valuation allowances against certain state tax benefits.

(b) Tax Contingencies.

Our income tax returns for certain prior tax reporting periods are presently under audit by federal and state taxing authorities. During some of the years under audit, we were consolidated with CenterPoint Energy, Inc. for federal income tax purposes. We evaluate the need for contingent tax liabilities on a quarterly basis and any changes in estimates are recorded in our results of operations. However, there are inherent risks associated with income tax audits and we cannot predict the ultimate resolution of these matters.

(10) Contingencies**(a) Legal and Environmental Matters.**

We are involved in a number of legal, environmental and other proceedings before courts and governmental agencies. Unless otherwise disclosed, we cannot predict the outcome of these proceedings, some of which involve substantial claim amounts or potential exposure, which, in the event of an adverse judgment or decision could have a material adverse effect on our results of operations, financial condition and cash

flows. For information regarding legal proceedings and environmental matters, see note 14 to our consolidated financial statements in our Form 10-K, which note, as updated below, is incorporated herein by reference and filed as an exhibit to this Form 10-Q/A.

Legal Matters.

Western States Electricity and Natural Gas Litigation

Natural Gas Actions. In March 2005, a consolidated complaint for seven new class action lawsuits was filed in California state court against us and Reliant Energy Services, Inc., one of our wholly-owned subsidiaries. The lawsuits, which include allegations similar to those asserted in the 25 previously disclosed natural gas lawsuits, allege that we participated in an unlawful conspiracy to increase natural gas prices in California from 2000 to 2001 in violation of antitrust and other laws. The lawsuits seek injunctive relief, treble damages, restitution of overpayments, disgorgement of unlawful profits and legal expenses.

In April 2005, the United States District Court of Nevada dismissed one of the 25 previously disclosed natural gas lawsuits alleging violations of federal and state antitrust laws and violations of the California unfair competition law. The allegations in this case are substantially similar to the allegations in the other pending natural gas cases that have been filed against us. The court ruled that, under the Natural Gas Act, the Federal Energy Regulatory Commission (FERC) retains statutory authority over wholesale natural gas prices and that the plaintiff's federal

antitrust claims and state law claims, accordingly, were barred by the filed rate doctrine. The decision is subject to appeal.

California Attorney General Ancillary Services. In April 2005, the United States Supreme Court denied a request to transfer to state court a lawsuit filed against us in March 2002 by the California Attorney General. The lawsuit, which we had removed to a federal court, asserts alleged violations of state law in the California ancillary services markets. In March 2003, a federal district court dismissed the lawsuit on the basis of federal preemption and the filed rate doctrine. The dismissal was subsequently affirmed by a federal appellate court.

Other Litigation

Texas Commercial Energy and Utility Choice Electric. The lawsuit filed by Texas Commercial Energy, LLC (TCE) against several ERCOT power market participants (including us and certain subsidiaries), which was dismissed in June 2004 from the Corpus Christi Federal District Court for the Southern District of Texas is on appeal and is currently scheduled to be heard in May 2005 by the United States Court of Appeals for the Fifth Circuit (Fifth Circuit).

In April 2005, the defendants to the lawsuit (filed by Utility Choice Electric pending in the Federal District Court for the Southern District of Texas, Houston Division) filed a motion to stay this litigation pending the decision by the Fifth Circuit in the TCE litigation.

Environmental Matters.

Regulation of Emissions of Mercury and Other Hazardous Air Pollutants. In December 2003, the United States Environmental Protection Agency (EPA) proposed two alternative regulations to control emissions of mercury from coal-fired power plants and nickel from certain oil-fired power plants. In March 2005, the EPA adopted the cap-and-trade version of the mercury regulation. In addition, the EPA withdrew its proposed regulation to reduce emissions of nickel from oil-fired power plants. Withdrawal of the nickel reduction provision of the regulation resulted in the elimination of an estimated \$35 million of capital costs associated with nickel controls at one of our power plants.

Regulation of Emissions of Sulfur Dioxide (SO₂) and Nitrogen Oxides (NO_x). In December 2003, the EPA proposed a regulation called the Clean Air Interstate Rule (CAIR) to reduce emissions of SO₂ and NO_x from power plants. The rule was proposed as a cap-and-trade program and had the potential to have a significant impact on our operations. In March 2005, the EPA finalized CAIR. The final rules are substantially similar to the proposed rules.

(b) California Energy Sales Refund, Credit and Interest.

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We are a party to a refund proceeding initiated by the FERC in 2001 regarding wholesale electricity prices that we charged in California from October 2, 2000 through June 20, 2001 (2000-2001 Refund Proceeding). We have recorded receivables from the California Independent System Operator (Cal ISO) and the California Power Exchange (Cal PX) relating to power sales into the markets run by the Cal ISO and the Cal PX related to this period. See note 14(b) to our consolidated financial statements in our Form 10-K.

Based on the most recent refund methodology adopted by the FERC with respect to these receivables, we currently estimate our refund obligation in the 2000-2001 Refund Proceeding to be \$90 million.

The issues related to the California energy crisis are complex and involve a number of court and regulatory proceedings that are ongoing. See note 14(a) to our consolidated financial statements in our Form 10-K for discussion of western market legal matters and the related risks. While we continue to pursue the possible settlement of a number of these proceedings, the resolution of these matters remains uncertain and could range from litigating these matters to conclusion to resolving these matters through settlement, or some combination of both litigation and settlement. Depending on how these matters are ultimately resolved, including the impact of any proceedings initiated with respect to refund obligations for periods prior to October 2000, the amount of our net receivable could be materially impacted.

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We have adjusted these receivables (related to the period from October 2000 through June 2001) to account for (a) the estimated refund obligation in the 2000-2001 Refund Proceeding, (b) a discount on the receivables and (c) interest accrued on the receivables. We believe that the gross accounts receivable are fully collectible, subject to the estimated refund obligation. The adjustments are as follows:

	March 31, 2005	December 31, 2004	
	(in millions)		
Accounts receivable related to the period from October 2000 through June 2001, excluding estimated refund obligation	\$ 268	\$	268
Estimated refund obligation	(90)		(89)
Discount	(13)		(13)
Interest receivable	36		34
Accounts receivable, net	\$ 201	\$	200

During the three months ended March 31, 2005 and 2004, we adjusted our estimated refund obligation, credit reserve and receivables (netted in revenues) and interest income (recorded in interest income) related to energy sales in California as follows (income (loss)):

	Three Months Ended March 31,			
	2005		2004	
	(in millions)			
Estimated refund obligation	\$	(1)	\$	
Credit reserve				21(1)
Interest receivable		2		1
Pre-tax impact on income/loss	\$	1	\$	22

(1) During the three months ended March 31, 2004, we reversed the credit reserve of \$21 million, which was related to PG&E due to PG&E funding its obligation into an escrow account pursuant to a bankruptcy order.

(11) Supplemental Guarantor Information

For the issuances of senior secured notes in July 2003 and December 2004 totaling \$1.9 billion, our wholly-owned subsidiaries are either (a) full and unconditional guarantors, jointly and severally or (b) non-guarantors.

The following condensed consolidating financial information presents supplemental information for the three months ended March 31, 2005 and 2004 and as of March 31, 2005 and December 31, 2004.

Condensed Consolidating Statements of Operations.

	Three Months Ended March 31, 2005					Consolidated	
	Reliant Energy	Guarantors	Non-Guarantors		Adjustments(1)		
	(in millions)						
Revenues	\$	\$	1,754	\$	491	\$ (376)	\$ 1,869
Fuel and cost of gas sold			237		255	(99)	393
Purchased power			1,280		11	(273)	1,018
Operation and maintenance			84		127	(5)	206
General and administrative			37		23		60
Loss on sales of receivables			11		(11)		
Loss on sale of landfill-gas assets.			3			1	4
Depreciation and amortization			53		62		115
Total			1,705		467	(376)	1,796
Operating income			49		24		73
Loss of equity investments of consolidated subsidiaries		(4)	(2)			6	
Interest expense		(75)	(10)		(20)		(105)
Interest income			5				5
Interest income (expense) - affiliated companies, net		44	(11)		(33)		
Total other expense		(35)	(18)		(53)	6	(100)
Income (loss) before income taxes		(35)	31		(29)	6	(27)
Income tax expense (benefit)		(10)	17		(9)		(2)
Net income (loss)	\$	(25)	\$ 14	\$	(20)	\$ 6	\$ (25)

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	Three Months Ended March 31, 2004									
	Reliant Energy	Guarantors	Non-Guarantors (in millions)	Adjustments(1)	Consolidated					
Revenues	\$	\$	1,364	\$	473	\$	(172)	\$	1,665	
Fuel and cost of gas sold			74		223		(82)		215	
Purchased power			1,069		20		(90)		999	
Operation and maintenance			103		127				230	
General and administrative			50		32				82	
Loss on sales of receivables			9						9	
Accrual for payment to CenterPoint Energy, Inc.			2						2	
Depreciation and amortization			47		60				107	
Total			1,354		462		(172)		1,644	
Operating income			10		11				21	
Loss of equity investments			(1)						(1)	
Loss of equity investments of consolidated subsidiaries	(10)	(16)					26			
Other, net					1				1	
Interest expense	(71)	(8)			(25)		13		(91)	
Interest income		4			1				5	
Interest income (expense) - affiliated companies, net	31	(2)			(16)		(13)			
Total other expense	(50)	(23)			(39)		26		(86)	
Loss from continuing operations before income taxes	(50)	(13)			(28)		26		(65)	
Income tax benefit	(12)				(11)				(23)	
Loss from continuing operations	(38)	(13)			(17)		26		(42)	
Loss from discontinued operations before income taxes					(7)				(7)	
Income tax benefit					(4)				(4)	
Loss from discontinued operations					(3)				(3)	
Loss before cumulative effect of accounting change	(38)	(13)			(20)		26		(45)	
Cumulative effect of accounting change, net of tax		7							7	
Net loss	\$	(38)	\$	(6)	\$	(20)	\$	26	\$	(38)

(1) These amounts relate to either (a) eliminations and adjustments recorded in the normal consolidation process or (b) reclassifications recorded due to differences in classifications at the subsidiary levels compared to the consolidated level.

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Condensed Consolidating Balance Sheets.

	Reliant Energy	Guarantors	March 31, 2005 Non-Guarantors (in millions)	Adjustments(1)	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 10	\$ 24	\$ 81	\$	\$ 115
Restricted cash			12		12
Accounts and notes receivable, principally customer, net		364	578	(22)	920
Accounts and notes receivable - affiliated companies	195	906	732	(1,833)	
Inventory		123	159		282
Derivative assets		75	116		191
Other current assets	9	898	109	(2)	1,014
Total current assets	214	2,390	1,787	(1,857)	2,534
Property, plant and equipment, gross		3,999	4,385		8,384
Accumulated depreciation		(564)	(528)		(1,092)
Property, Plant and Equipment, net		3,435	3,857		7,292
Other Assets:					
Goodwill ⁽²⁾		84	295	61	440
Other intangibles, net		162	459		621
Notes receivable - affiliated companies	3,117	1,009	1	(4,127)	
Equity investments		84			84
Equity investments of consolidated subsidiaries	4,597	246		(4,843)	
Derivative assets		297	50		347
Other long-term assets	114	294	310		718
Total other assets	7,828	2,176	1,115	(8,909)	2,210
Total Assets	\$ 8,042	\$ 8,001	\$ 6,759	\$ (10,766)	\$ 12,036
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities:					
Current portion of long-term debt and short-term borrowings	\$ 13	\$ 1	\$ 297	\$	\$ 311
Accounts payable, principally trade	7	497	49		553
Accounts and notes payable - affiliated companies		848	985	(1,833)	
Derivative liabilities		182	127		309
Other current liabilities	43	372	70	(24)	461
Total current liabilities	63	1,900	1,528	(1,857)	1,634
Other Liabilities:					
Notes payable - affiliated companies		2,330	1,797	(4,127)	
Derivative liabilities		364	140		504
Other long-term liabilities	77	316	311		704
Total other liabilities	77	3,010	2,248	(4,127)	1,208
Long-term Debt	3,618	501	791		4,910
Commitments and Contingencies					

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Stockholders Equity		4,284		2,590		2,192		(4,782)		4,284
Total Liabilities and Stockholders Equity	\$	8,042	\$	8,001	\$	6,759	\$	(10,766)	\$	12,036

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	Reliant Energy	Guarantors	December 31, 2004 Non-Guarantors (in millions)	Adjustments(1)	Consolidated
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 25	\$ 33	\$ 49	\$	\$ 107
Restricted cash			16		16
Accounts and notes receivable, principally customer, net		401	710	(22)	1,089
Accounts and notes receivable - affiliated companies	219	867	529	(1,615)	
Inventory		121	152		273
Derivative assets		185	127		312
Other current assets	9	723	137	(36)	833
Total current assets	253	2,330	1,720	(1,673)	2,630
Property, plant and equipment, gross		4,001	4,402		8,403
Accumulated depreciation		(516)	(497)		(1,013)
Property, Plant and Equipment, net		3,485	3,905		7,390
Other Assets:					
Goodwill		84	295	62	441
Other intangibles, net		146	466		612
Notes receivable - affiliated companies	3,093	1,093		(4,186)	
Equity investments		84			84
Equity investments of consolidated subsidiaries	4,753	251		(5,004)	
Derivative assets		221	51		272
Restricted cash			25		25
Other long-term assets	118	283	292		693
Total other assets	7,964	2,162	1,129	(9,128)	2,127
Total Assets	\$ 8,217	\$ 7,977	\$ 6,754	\$ (10,801)	\$ 12,147
LIABILITIES AND STOCKHOLDERS EQUITY					
Current Liabilities:					
Current portion of long-term debt and short-term borrowings	\$ 10	\$ 1	\$ 608	\$	\$ 619
Accounts payable, principally trade	3	534	36		573
Accounts and notes payable - affiliated companies		662	953	(1,615)	
Derivative liabilities		321	88		409
Other current liabilities	57	354	117	(58)	470
Total current liabilities	70	1,872	1,802	(1,673)	2,071
Other Liabilities:					
Notes payable - affiliated companies		2,381	1,805	(4,186)	
Derivative liabilities		204	107		311
Other long-term liabilities	148	328	326		802
Total other liabilities	148	2,913	2,238	(4,186)	1,113
Long-term Debt	3,613	501	463		4,577
Commitments and Contingencies					
Stockholders Equity	4,386	2,691	2,251	(4,942)	4,386
Total Liabilities and Stockholders Equity	\$ 8,217	\$ 7,977	\$ 6,754	\$ (10,801)	\$ 12,147

(1) These amounts relate to either (a) eliminations and adjustments recorded in the normal consolidation process or (b) reclassifications recorded due to differences in classifications at the subsidiary levels compared to the consolidated level.

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Condensed Consolidating Statements of Cash Flows.

	Three Months Ended March 31, 2005				
	Reliant Energy	Guarantors	Non-Guarantors (in millions)	Adjustments(1)	Consolidated
Cash Flows from Operating Activities:					
Net cash provided by (used in) operating activities	\$ (33)	\$ (93)	\$ 85	\$	\$ (41)
Cash Flows from Investing Activities:					
Capital expenditures		(8)	(6)		(14)
Investments in and distributions from subsidiaries, net and Reliant Energy's advances to its wholly-owned subsidiaries, net ⁽²⁾	4	2	(2)	(4)	
Restricted cash			30		30
Net cash provided by (used in) investing activities	4	(6)	22	(4)	16
Cash Flows from Financing Activities:					
Payments of long-term debt		(1)	(30)		(31)
Increase in short-term borrowings, net	8		50		58
Changes in notes with affiliated companies, net ⁽³⁾		91	(95)	4	
Other, net	6				6
Net cash provided by (used in) financing activities	14	90	(75)	4	33
Net Change in Cash and Cash Equivalents	(15)	(9)	32		8
Cash and Cash Equivalents at Beginning of Period	25	33	49		107
Cash and Cash Equivalents at End of Period	\$ 10	\$ 24	\$ 81	\$	\$ 115

	Three Months Ended March 31, 2004				
	Reliant Energy	Guarantors	Non-Guarantors (in millions)	Adjustments(1)	Consolidated
Cash Flows from Operating Activities:					
Net cash provided by continuing operations from operating activities	\$ 10	\$ 41	\$ 23	\$	\$ 74
Net cash provided by discontinued operations from operating activities			4		4
Net cash provided by operating activities	10	41	27		78
Cash Flows from Investing Activities:					
Capital expenditures		(55)	(14)		(69)
Investments in and distributions from subsidiaries, net and Reliant Energy's advances to and distributions from its wholly-owned subsidiaries, net ⁽²⁾	2			(2)	
Purchase and sale of permits and licenses to affiliates		(20)	20		
Restricted cash			17		17

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Other		2			2
Net cash provided by (used in) continuing operations from investing activities	2	(73)	23	(2)	(50)
Net cash used in discontinued operations from investing activities			(1)		(1)
Net cash provided by (used in) investing activities	2	(73)	22	(2)	(51)
Cash Flows from Financing Activities:					
Payments of long-term debt		(1)	(46)		(47)
Increase (decrease) in short-term borrowings, net	(28)		3		(25)
Changes in notes with affiliated companies, net ⁽³⁾		18	(20)	2	
Other	17				17
Net cash provided by (used in) continuing operations from financing activities	(11)	17	(63)	2	(55)
Net cash used in discontinued operations from financing activities			(2)		(2)
Net cash provided by (used in) financing activities	(11)	17	(65)	2	(57)
Net Change in Cash and Cash Equivalents	1	(15)	(16)		(30)
Cash and Cash Equivalents at Beginning of Period	23	64	59		146
Cash and Cash Equivalents at End of Period	\$ 24	\$ 49	\$ 43	\$	\$ 116

(1) These amounts relate to either (a) eliminations and adjustments recorded in the normal consolidation process or (b) reclassifications recorded due to differences in classifications at the subsidiary levels compared to the consolidated level.

(2) Investments in and distributions from subsidiaries, net and Reliant Energy's advances to and distributions from its wholly-owned subsidiaries, net are classified as investing activities for Reliant Energy and its wholly-owned subsidiaries.

(3) Changes in notes with affiliated companies net, are classified as financing activities for Reliant Energy's wholly-owned subsidiaries.

(12) Reportable Segments

Our business operations consist of two principal business segments:

Retail energy provides electricity and related services to retail customers primarily in Texas and acquires and manages the electric energy, capacity and ancillary services associated with supplying these retail customers; and

Wholesale energy provides electric energy, capacity and ancillary services in the competitive segments of the United States wholesale energy markets.

Our remaining operations include unallocated corporate functions and other investments.

We use contribution margin to evaluate our business segments because it is the measure that is most consistent with how we organize and manage our business operations. We manage costs not included in the computation of contribution margin (other general and administrative, depreciation, amortization, interest and income taxes) on a company-wide basis. Contribution margin is defined as total revenues less (a) fuel and cost of gas sold, (b) purchased power, (c) operation and maintenance, (d) selling and marketing and (e) bad debt expense.

Financial data for business segments are as follows:

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	Retail Energy	Wholesale Energy	Other Operations (in millions)	Eliminations	Consolidated
Three months ended					
March 31, 2005 (except as denoted):					
Revenues from external customers	\$ 1,304	\$ 564	\$ 1	\$	\$ 1,869
Intersegment revenues		107		(107)	
Gross margin ⁽¹⁾	223	234	1		458
Contribution margin	157	66	1		224
Total assets as of March 31, 2005	1,619	10,603	360	(546)	12,036
Three months ended					
March 31, 2004 (except as denoted):					
Revenues from external customers	\$ 1,152	\$ 513	\$	\$	\$ 1,665
Intersegment revenues		60		(60)	
Gross margin ⁽¹⁾	162	289			451
Contribution margin	79	116			195
Total assets as of December 31, 2004	1,391	10,864	394	(502)	12,147

(1) Total revenues less (a) fuel and cost of gas sold and (b) purchased power.

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Reconciliation of Contribution Margin to Operating Income and Operating Income to Net Loss:		
Contribution margin	\$ 224	\$ 195
Other general and administrative	32	56
Loss on sales of receivables		9
Accrual for payment to CenterPoint Energy, Inc.		2
Loss on sale of landfill-gas assets	4	
Depreciation	109	99
Amortization	6	8
Operating income	73	21
Loss of equity investments, net		(1)
Other, net		1
Interest expense	(105)	(91)
Interest income	5	5
Loss from continuing operations before income taxes	(27)	(65)
Income tax benefit	(2)	(23)
Loss from continuing operations	(25)	(42)
Loss from discontinued operations		(3)
Loss before cumulative effect of accounting change	(25)	(45)
Cumulative effect of accounting change, net of tax		7
Net loss	\$ (25)	\$ (38)

(13) Sales of Assets

Hydropower Generating Plants. In January 2005, we agreed to sell two hydropower generating plants (48 MW) for \$42 million, subject to certain closing adjustments. The sale closed in April 2005 and we will recognize a pre-tax gain of \$12 million in the second quarter of 2005.

Landfill-Gas Fueled Power Plants. In March 2005, we agreed to sell our landfill-gas fueled power plants (30 MW) for \$28 million, subject to certain closing adjustments. We expect the sale to close in the second quarter of 2005. The agreement calls for us to purchase all of the power generated at the facilities, as well as the renewable energy credits for a term of five years. We recognized a pre-tax loss of \$4 million during the three months ended March 31, 2005.

(14) Discontinued Operations Sale of Our Hydropower Plants and Transfer of our Liberty Operations to its Lenders

Our results of operations for the three months ended March 31, 2004 include discontinued operations relating to our former hydropower plants operations (sold in September 2004) and our Liberty operations (transferred in December 2004).

Hydropower Plants. In September 2004, we sold our equity interests in subsidiaries of Orion Power Holdings owning 71 operating hydropower plants and a fossil-fueled, combined-cycle generation plant with a total aggregate net generating capacity of 770 MW located in upstate New York.

Revenues and pre-tax loss related to our hydropower plants discontinued operations were as follows for the three months ended March 31, 2004 (in millions):

Revenues	\$	31
Loss before income tax benefit		(2)

Liberty Operations. In December 2004, we transferred our ownership interests in Liberty, including its non-recourse debt, to Liberty's lenders. Liberty, which was in default under its credit agreement, owned a 530 MW combined-cycle, natural gas-fired power generation facility.

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Revenues and pre-tax loss related to our Liberty discontinued operations were as follows for the three months ended March 31, 2004 (in millions):

Revenues	\$	26
Loss before income tax benefit		(5)

22

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Restatement. As further described in note 1 to our interim financial statements, we restated revenues and purchased power in our consolidated statement of operations for the three months ended March 31, 2005. These misstatements related to our wholesale energy segment. In this Management's Discussion and Analysis of Financial Condition and Results of Operations, we have updated (a) operational data or volumes relating to our wholesale energy segment, (b) the wholesale energy revenues table and (c) the wholesale energy fuel and cost of gas sold and purchased power table.

The following discussion is provided as a supplement to our interim financial statements to help provide an understanding of our results of operations, financial condition and changes in financial condition. It should be read in conjunction with our Form 10-K.

Business Overview

We provide electricity and energy services to retail and wholesale customers in the United States. We provide a complete suite of energy products and services to approximately 1.9 million electricity customers in Texas ranging from residences and small businesses to large commercial, industrial and governmental/institutional customers. We also serve commercial and industrial clients in Pennsylvania, New Jersey and Maryland. We have approximately 19,000 MW of power generation capacity in operation or under contract.

Recent Developments and Other Information

Price-to-beat Adjustments. In March 2005, the Public Utility Commission of Texas (PUCT) approved an agreement reached between us and certain consumer groups and the PUCT to address future adjustments to our price-to-beat. See Business Regulation Public Utility Commission of Texas in Item 1 of our Form 10-K for further discussion. As the average 12-month forward natural gas price between March 1 and March 29, 2005 was greater than the average upon what the current fuel factor was calculated, our fuel factor will not be adjusted before August 2005. Our price-to-beat base rates will be adjusted the first billing cycle following April 29, 2005 to reflect changes in the charges we pay to CenterPoint Energy, Inc.

Consolidated Results of Operations

Retail Energy Segment. Our retail energy segment's contribution margin was \$157 million during the three months ended March 31, 2005, compared to \$79 million in the same period of 2004. The \$78 million increase in contribution margin was primarily due to the net change in unrealized gains on energy derivatives of \$144 million. See below for

discussion of our unrealized gains and losses on energy derivatives. This increase was partially offset by a decrease in gross margin, excluding unrealized gains, of \$83 million due primarily to the absence of favorable hedges recorded during the three months ended March 31, 2004 and a hedging loss associated with the price-to-beat during the three months ended March 31, 2005. Higher supply costs and lower volumes from price-to-beat customers also contributed to lower retail gross margin. However, operation and maintenance expense decreased \$17 million primarily due to decreased salaries, benefits and severance expense.

Wholesale Energy Segment. Our wholesale energy segment's contribution margin was \$66 million during the three months ended March 31, 2005, compared to \$116 million in the same period of 2004. The \$50 million decrease in contribution margin was primarily due to (a) \$40 million decrease from net unrealized gains/losses on energy derivatives and (b) \$22 million decrease due to changes in the California energy sales receivables, refund obligation and credit reserve (see note 10(b) to our interim financial statements). See below for discussion of our unrealized gains and losses on energy derivatives.

Unrealized Gains/Losses on Energy Derivatives. Unrealized gains and losses on energy derivatives result from our hedging activities, which include buying power supply for our retail business, selling the output of and buying fuel for our power plants, as well as hedging legacy trading positions and optimization of gas storage positions. Certain of these hedging transactions are treated as derivatives and are recorded using mark-to-market accounting, which requires us to record gains/losses related to future periods based on current changes in forward commodity prices. We refer to these gains and losses as unrealized energy derivative gains/losses. In general, the related underlying transactions receive accrual accounting treatment, resulting in a mismatch of accounting treatments.

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Net Income (Loss). We reported \$25 million consolidated net loss, or \$0.08 loss per share, for the three months ended March 31, 2005 compared to \$38 million consolidated net loss, or \$0.13 loss per share, for the same period in 2004. The \$13 million decrease in net loss is detailed as follows (in millions):

Net unrealized gains/losses on energy derivatives	\$	104
Retail energy gross margin, excluding unrealized gains/losses		(83)
Wholesale energy gross margin, excluding unrealized gains/losses		(15)
Operation and maintenance		24
Other general and administrative		24
Loss on sales of receivables		9
Loss on sale of landfill-gas assets		(4)
Depreciation and amortization		(8)
Interest expense		(14)
Other, net		1
Income taxes		(21)
Loss from continuing operations		17
Discontinued operations, net of tax		3
Net decrease before cumulative effect of accounting change		20
Cumulative effect of accounting change in 2004, net of tax		(7)
Net decrease	\$	13

Retail Energy Gross Margins. Our retail energy gross margins increased \$61 million to \$223 million during the three months ended March 31, 2005 compared to \$162 million for the same period in 2004. The increase is detailed as follows (in millions):

Net unrealized gains/losses on energy derivatives	\$	144(1)
Gains recorded prior to 2003 realized/collected in current periods		6(2)
Higher purchased power costs and volume impacts partially offset by higher revenue rates		(83) ⁽³⁾
Change in market usage adjustments		(6) ⁽⁴⁾
Net increase in margin	\$	61

(1) Increase primarily due to (a) \$120 million gain due to an increase of unrealized losses recognized in prior periods being realized during the three months ended March 31, 2005 as compared to 2004 and (b) \$60 million gain due to unrealized gains on positions entered into during the first quarters and the impact of natural gas and power prices on open positions held during the first quarter of 2005 as compared to 2004. These increases were partially offset by \$42 million loss due to lower cash flow hedge ineffectiveness gains during the three months ended March 31, 2005 as compared to 2004. See note 6 to our consolidated financial statements in our Form 10-K.

(2) Increase due to the impact of Emerging Issues Task Force (EITF) Issue No. 02-03, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, (EITF No. 02-03). See note 2(d) to our consolidated financial statements in our Form 10-K.

(3) Decrease primarily due to (a) hedging loss from price-to-beat customers realized in 2005 compared to hedging gain in 2004, (b) other increases in supply costs and (c) reduced volumes sold at price-to-beat rates to small business and residential customers. These decreases were partially offset by an increase in volumes sold at non price-to-beat rates.

(4) See note 1 to our interim financial statements.

The following tables set forth our operational data relating to electricity sales and retail customers for the periods indicated:

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Three Months Ended March 31,
2005 2004
(gigawatt hours)

Electricity Sales to End-Use Retail Customers:		
Texas:		
Residential:		
Price-to-beat	3,274	3,678
Non price-to-beat	1,124	878
Total residential	4,398	4,556
Small business:		
Price-to-beat	1,222	1,866
Non price-to-beat	496	303
Total small business	1,718	2,169
Large commercial, industrial and governmental/institutional ⁽¹⁾	7,299	7,065
Total Texas	13,415	13,790
Outside of Texas:		
Commercial, industrial and governmental/institutional	1,224	567
Total Outside of Texas	1,224	567
Total	14,639	14,357

(1) These amounts include volumes of customers of the General Land Office for whom we provide services.

March 31, December 31,
2005 2004
(in thousands, metered locations)

Retail Customers:		
Texas:		
Residential:		
Price-to-beat	1,291	1,313
Non price-to-beat	359	334
Total residential	1,650	1,647
Small business:		
Price-to-beat	157	163
Non price-to-beat	33	30
Total small business	190	193
Large commercial, industrial and governmental/institutional ⁽¹⁾	39	40
Total Texas	1,879	1,880
Outside of Texas:		
Commercial, industrial and governmental/institutional ⁽²⁾	1	1
Total Outside of Texas	1	1
Total	1,880	1,881

(1) These amounts include volumes of customers of the General Land Office for whom we provide services.

(2) As of March 31, 2005 and December 31, 2004, our retail customer count for commercial, industrial and governmental/institutional customers outside of Texas was 1,442 and 1,354, respectively.

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	Three Months Ended March 31,	
	2005	2004
	(in thousands, metered locations)	
Weighted Average Retail Customer Count:		
Texas:		
Residential:		
Price-to-beat	1,302	1,385
Non price-to-beat	344	231
Total residential	1,646	1,616
Small business:		
Price-to-beat	159	180
Non price-to-beat	31	24
Total small business	190	204
Large commercial, industrial and governmental/institutional ⁽¹⁾	39	40
Total Texas	1,875	1,860
Outside of Texas:		
Commercial, industrial and governmental/institutional ⁽²⁾	1	
Total Outside of Texas	1	
Total	1,876	1,860

(1) These amounts include volumes of customers of the General Land Office for whom we provide services.

(2) For the three months ended March 31, 2005 and 2004, our weighted average retail customer count for the periods for which we sold electricity to commercial, industrial and governmental/institutional customers outside of Texas was 1,398 and 228, respectively.

Retail Energy Revenues. Our retail energy revenues increased \$152 million during the three months ended March 31, 2005 compared to the same period in 2004. The detail is as follows:

	2005	Three Months Ended March 31,		Change
		2004		
		(in millions)		
Retail Energy:				
Retail energy revenues from end-use retail customers:				
Texas:				
Residential and small business	\$ 682	\$ 677	\$ 5	(1)
Large commercial, industrial and governmental/institutional	501	426	75	(2)
Outside of Texas:				
Commercial, industrial and governmental/institutional	70	29	41	(3)
Total	1,253	1,132	121	
Retail energy revenues from resales of purchased power and other hedging activities	82	33	49	(4)
Market usage adjustments	(26)	(2)	(24)	(5)
Gains recorded prior to 2003 realized/collected in current periods	(5)	(11)	6	(6)
Total retail energy revenues	\$ 1,304	\$ 1,152	\$ 152	

(1) Increase primarily due to (a) increase in sales prices to customers due to increases in the price of natural gas and (b) increased non price-to-beat volumes due to increased customers. These increases were coupled with higher volumes from price-to-beat customers due to fewer customers and milder weather.

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(2) Increase primarily due to (a) fixed-price contracts renewed at higher rates due to higher prices of natural gas and variable-rate contracts, which are tied to the market price of natural gas and (b) increased usage due to customer mix.

- (3) Increase primarily due to increased volumes due to market entry in Maryland in mid 2004.

- (4) Increase primarily due to our supply management activities in various markets within Texas.

(5) See note 1 to our interim financial statements.

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(6) Increase due to the impact of EITF No. 02-03. See note 2(d) to our consolidated financial statements in our Form 10-K.

Retail Energy Purchased Power. Our retail energy purchased power increased \$91 million during the three months ended March 31, 2005 compared to the same period in 2004. The detail is as follows:

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	2005	Three Months Ended March 31, 2004 (in millions)		Change
Retail Energy:				
Costs of purchased power attributable to end-use retail customers	\$ 1,163	\$ 959		\$ 204(1)
Costs of purchased power subsequently resold and other hedging activities	82	33		49(2)
Market usage adjustments	(11)	7		(18) ⁽³⁾
Unrealized gains	(153)	(9)		(144) ⁽⁴⁾
Total retail energy	\$ 1,081	\$ 990		\$ 91

(1) Increase primarily due to (a) an increase in price of purchased power primarily due to higher natural gas prices, (b) increase in volumes from customers and (c) reduced benefit in supply hedging.

(2) See footnote (4) above under Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004 Retail Energy Revenues.

(3) See note 1 to our interim financial statements.

(4) See analysis of net unrealized gains/losses on energy derivatives in the gross margins discussion above.

Wholesale Energy Gross Margins. Our wholesale energy gross margins decreased \$55 million to \$234 million during the three months ended March 31, 2005 compared to \$289 million for the same period in 2004. The decrease is detailed as follows (in millions):

California energy sales refund and reserve changes in 2005	\$ (1)
California energy sales receivables, refund and reserve changes in 2004	(21)
Net unrealized gains/losses on energy derivatives	(40) ⁽¹⁾
PJM region ⁽²⁾	(27) ⁽³⁾
New York region	9(4)
West region	20(5)
MISO region ⁽⁶⁾	21(7)
Other, net	(16)
Net decrease in margin	\$ (55)

(1) Decrease primarily due to net changes related to positions settled and changes in fair values during 2005 as compared to 2004.

(2) Our PJM region, formerly known as our Mid-Atlantic region, consists of our power generation facilities located in parts of Pennsylvania, New Jersey, Maryland, Illinois and West Virginia. In addition, beginning in the first quarter of 2005, we moved certain facilities previously reported in the Mid-Continent region to the PJM region and have reclassified the related amounts for the previous periods.

(3) Decrease primarily due to (a) lower generation volumes due to planned and unplanned outages at the Elrama plant, reduced volume from the Cheswick plant due to the expiration of a provider of last resort contract and transmission constraints and higher spot coal prices and emission credits prices, which led to reduced dispatch hours and (b) lower realized margins due to hedged power sales at lower prices and higher coal costs. These decreases were partially offset by the Seward plant achieving commercial operation in October 2004.

(4) Increase primarily due to (a) higher capacity revenues and (b) increased generation driven by higher plant availability. These increases were partially offset by lower spark spreads.

(5) Increase primarily due to (a) the Bighorn generating station achieving commercial operation in February 2004 and entering into a power purchase agreement in June 2004, (b) the restart of Etiwanda units 4 and 3 in June and September 2004, respectively, and (c) increased generation to meet the needs of the Cal ISO.

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(6) Our MISO region, formerly known as our Mid-Continent region, consists of our power generation facilities located in parts of Illinois, Ohio and Pennsylvania. In addition, beginning in the first quarter of 2005, we moved certain facilities previously reported in the Mid-Continent region to the PJM region and have reclassified the related amounts for the previous periods.

(7) Increase primarily due to (a) higher realized margins as 2004 obligations under a provider of last resort contract (which primarily ended during the fourth quarter of 2004) were priced lower than 2005 market prices and (b) increased generation driven by a planned outage at the Avon Lake plant during the first quarter of 2004. These increases were partially offset by lower generation due to expiration of a provider of last resort contract and limited market liquidity.

Our operational data relating to our wholesale energy sales are:

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	Three Months Ended March 31,	
	2005	2004
	(gigawatt hours)	
Wholesale Power Sales(1)		
Net power generation volumes	8,370	8,637
Power purchase volumes	86	135
Power sales volumes ⁽²⁾	8,456	8,772

(1) These amounts include physically delivered volumes and hedge activity related to our power generation portfolio. These amounts exclude (a) volumes associated with our discontinued operations (see note 14 to our interim financial statements), (b) generation from facilities where the generation is sold by a third party pursuant to a tolling agreement, (c) generation from facilities that are accounted for as an equity method investment and (d) physical transactions that are settled prior to delivery.

(2) For the three months ended March 31, 2005 and 2004, these amounts include sales to our retail energy segment of 1,910 gigawatt hours and 1,239 gigawatt hours, respectively.

Wholesale Energy Revenues. Our wholesale energy revenues increased \$98 million during the three months ended March 31, 2005 compared to the same period in 2004. The detail is as follows:

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	2005	Three Months Ended March 31, 2004		Change
		(in millions)		
Wholesale Energy:				
Wholesale energy third-party revenues	\$	713	\$ 517	\$ 196(1)
Wholesale energy intersegment revenues		107	60	47(2)
Unrealized losses		(149)	(4)	(145) ⁽³⁾
Total wholesale energy revenues	\$	671	\$ 573	\$ 98

(1) Increase primarily due to (a) \$248 million due to certain gas transactions, which prior to April 1, 2004, were recorded net as part of the trading activity and are now recorded gross in revenues and fuel and cost of gas sold, (b) a 9% increase in power prices due to increased natural gas and coal prices and (c) higher capacity revenues. These increases were partially offset by (a) a 5% decrease in power sales volumes and (b) a \$22 million change in our accounts receivable, refund obligation and credit reserves for energy sales in California (see note 10(b) to our interim financial statements).

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- (2) Increase primarily due to higher power prices as a result of increased natural gas prices, coupled with higher volumes.

- (3) See analysis of net unrealized gains/losses on energy derivatives in the gross margins discussion above.

Wholesale Energy Fuel and Cost of Gas Sold and Purchased Power. Our wholesale energy fuel and cost of gas sold and purchased power increased \$153 million during the three months ended March 31, 2005 compared to the same period in 2004. The detail is as follows:

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	2005	Three Months Ended March 31, 2004 (in millions)		Change
Wholesale Energy:				
Wholesale energy third-party costs	\$ 563	\$ 305	\$ 258	(1)
Unrealized gains	(126)	(21)	(105)	(2)
Total wholesale energy	\$ 437	\$ 284	\$ 153	

(1) Increase primarily due to (a) \$260 million due to certain gas transactions, which prior to April 1, 2004, were recorded net as a part of the trading activity and are now recorded gross in revenues and fuel and cost of gas sold (see footnote (1) above under Wholesale Energy Revenues) and (b) higher prices of natural gas, coal and purchased power.

(2) See analysis of net unrealized gains/losses on energy derivatives in the gross margins discussion above.

Operation and Maintenance. Operation and maintenance expenses decreased \$24 million during the three months ended March 31, 2005 compared to the same period in 2004. The detail is as follows:

	2005	Three Months Ended March 31, 2004 (in millions)		Change
Retail energy	\$ 38	\$ 55	\$ (17)	
Wholesale energy	168	175	(7)	
Consolidated	\$ 206	\$ 230	\$ (24)	

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The decrease in our retail energy segment is detailed as follows (in millions):

Severance	\$	(4)
Salaries and benefits		(11)
Other, net		(2)
Net decrease in expense	\$	(17)

The decrease in our wholesale energy segment is detailed as follows (in millions):

Taxes other than income	\$	(9) ⁽¹⁾
Salaries and benefits, not included in the other line items		(6)
Unplanned power generation maintenance projects and outages		6
Two power generation facilities achieving commercial operation in February 2004 (Bighorn) and October 2004 (Seward)		11
Other, net		(9)
Net decrease in expense	\$	(7)

(1) Decrease primarily due to the resolution of a potential tax liability.

Selling and Marketing. Selling and marketing expenses, which relate to our retail energy business, did not change significantly during the three months ended March 31, 2005 compared to the same period in 2004.

Bad Debt Expense. Bad debt expense did not change significantly during the three months ended March 31, 2005 compared to the same period in 2004. The detail is as follows:

	2005	Three Months Ended March 31, 2004 (in millions)		Change
Retail energy	\$ 9	\$ 10	\$	(1)
Wholesale energy		(2)		2
Consolidated	\$ 9	\$ 8	\$	1

Other General and Administrative. Other general and administrative expenses decreased \$24 million during the three months ended March 31, 2005 compared to the same period in 2004. The decrease is detailed as follows (in millions):

Severance costs	\$	(12)
Salaries and benefits		(11)
Other, net		(1)
Net decrease in expense	\$	(24)

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Loss on Sales of Receivables. Loss on sales of receivables decreased \$9 million during the three months ended March 31, 2005 compared to the same period in 2004. The decrease is due to a September 28, 2004 renewal and amendment to the receivables facility, at which time sales of the receivables ceased being reflected as sales for accounting purposes. See note 6 to our interim financial statements and note 8 to our consolidated financial statements in our Form 10-K.

Loss on Sale of Landfill-Gas Assets. See note 13 to our interim financial statements.

Depreciation and Amortization. Depreciation and amortization expense increased \$8 million to \$115 million during the three months ended March 31, 2005 compared to \$107 million for the same period in 2004. The increase is detailed as follows (in millions):

Depreciation for two power generation facilities achieving commercial operation in February 2004 (Bighorn) and October 2004 (Seward)	\$	8
Net accelerated depreciation on certain facilities due to early retirements		3
Net decrease in amortization of air emissions regulatory allowances		(3)
Net increase in expense	\$	8

Interest Expense. Interest expense to third parties increased \$14 million during the three months ended March 31, 2005 compared to the same period in 2004. The increase is detailed as follows (in millions):

Capitalized interest	\$	17
Increase in outstanding debt		5
Higher interest rates		4
Amortization of deferred financing costs		(4)
Financing fees expensed		(6)
Other, net		(2)
Net increase in expense	\$	14

Income Tax Benefit. During the three months ended March 31, 2005 and 2004, our effective tax rate was 9.1% and 34.8%, respectively. See note 9 to our interim financial statements.

Financial Condition

In this section, we provide updates related to sources of liquidity and capital resources, liquidity and capital requirements and historical cash flows. For additional information, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources in Item 7 of our Form 10-K.

Sources of Liquidity and Capital Resources

Our principal sources of liquidity and capital resources are cash flows from operations, borrowings under our revolving credit and receivables facilities and proceeds from certain debt offerings and equity offerings.

Credit Capacity, Cash and Cash Equivalents. As of March 31, 2005, we had consolidated current and long-term debt outstanding of \$5.2 billion and our unused borrowing capacity was \$710 million from our revolving credit agreements. In addition, we had \$115 million of cash and cash equivalents, for total available liquidity of \$825 million as of March 31, 2005. As of March 31, 2005, \$296 million of our committed credit facilities (\$272 million relates to our receivables facility) will expire by March 31, 2006, if not extended. For a discussion of our credit facilities, bonds, notes and other debt, see note 8 to our consolidated financial statements in our Form 10-K.

Liquidity and Capital Requirements

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Our liquidity and capital requirements are primarily a function of our working capital needs, capital expenditures, debt service requirements, and regulatory and legal settlements. Examples of working capital needs include purchases of fuel and electricity, plant maintenance costs (including required environmental expenditures), collateral requirements and other costs such as payroll. See Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Factors and Liquidity and Capital Resources in Item 7 of our Form 10-K.

As discussed in Item 7 of our Form 10-K, we currently have a sub-investment grade credit rating. As a function of this status, we incur greater demands on liquidity and capital resources than an investment grade company primarily due to our requirements to post collateral with our counterparties in our commercial operations and financing arrangements. Our cash collateral posted and letters of credit outstanding as of April 30, 2005 are:

	Total	Reliant Energy	Orion Power	Other
	(in millions)			
Cash collateral posted:				
For commercial operations	\$ 724	\$ 720	\$ 4	\$
In support of financings	724	720	4	
Letters of credit outstanding:				
For commercial operations	781	759	22	
In support of financings	50			50
	831	759	22	50
Total	\$ 1,555	\$ 1,479	\$ 26	\$ 50

In certain cases, our counterparties have elected not to require us to post collateral to which they are otherwise entitled under certain agreements. However, these counterparties retain the right to require such collateral. General factors that could change the requirements for collateral include changes in our credit quality, our level of hedging, commodity prices and seasonality. Based on current commodity prices, we estimate that as of April 30, 2005, we could be contractually required to post additional collateral of up to \$130 million related to our operations. As of April 30, 2005, we had total available liquidity of \$835 million, which was comprised of \$740 million in unused borrowing capacity from our revolving credit agreements and \$95 million of cash and cash equivalents.

Credit Risk

Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. Credit risk is inherent in our commercial activities. See Quantitative and Qualitative Disclosures About Non-Trading and Trading Activities and Related Market Risks in Item 7A of our Form10-K.

The following table includes derivative assets and accounts receivable from our wholesale energy and ERCOT power supply counterparties, after taking into consideration netting within each contract and any master netting contracts with counterparties, and excludes our California receivables related to the 2000-2001 Refund Proceeding (see note 10(b) to our interim financial statements), as of March 31, 2005:

Credit Rating Equivalent	Exposures Before Collateral(1)	Credit Collateral Held	Exposure Net of Collateral (dollars in millions)	Number of Counterparties >10%	Net Exposure of Counterparties >10%
Investment grade	\$ 178	\$	\$ 178		\$
Non-investment grade	371		371	1	299
No external ratings:					
Internally rated Investment grade	192		192		
Internally rated Non-investment grade	256		256	1	166
Total	\$ 997	\$	\$ 997	2	\$ 465

(1) The table excludes amounts related to contracts classified as normal purchases and sales pursuant to SFAS No. 133 and non-derivative contractual commitments that are not recorded in our consolidated balance sheets, except for any related accounts receivable. Such contractual commitments contain credit risk and economic risk in the case of nonperformance by a counterparty. Nonperformance by counterparties under these contractual commitments could have a material adverse impact on our future results of operations, financial condition and cash flows.

As of March 31, 2005, two non-investment grade counterparties represented 47% (\$465 million) of our total credit exposure, net of collateral. As of December 31, 2004, three non-investment grade counterparties represented 47% (\$329 million) of our total credit exposure, net of collateral. There were no other counterparties representing greater than 10% of our total credit exposure, net of collateral. Some amounts for the December 31, 2004 data have been reclassified to conform to our March 31, 2005 presentation of our credit risk exposure.

Historical Cash Flows

The following table provides an overview of cash flows relating to our operating, investing and financing activities:

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Cash provided by (used in):		
Operating activities	\$ (41)	\$ 78
Investing activities	16	(51)
Financing activities	33	(57)

Cash Flows Operating Activities

Net cash provided by operating activities decreased \$119 million during the three months ended March 31, 2005 compared to the same period in 2004. The change is detailed as follows (in millions):

Changes in working capital and other assets and liabilities	\$ (79) ⁽¹⁾
Changes in cash flows from operations, excluding working capital and other assets and liabilities	(36) ⁽²⁾
Changes in cash flows related to our discontinued operations	(4)
Net change	\$ (119)

(1) Change in net cash outflows to \$48 million for the three months ended March 31, 2005 from net cash inflows of \$31 million for the same period in 2004 due to an increase in cash used to meet working capital and other assets and liabilities requirements. See further analysis below.

(2) Decrease in net cash inflows to \$7 million for the three months ended March 31, 2005 from \$43 million for the same period in 2004.

Three Months Ended March 31, 2005 and 2004. Changes in working capital and other assets and liabilities from continuing operations for the three months ended March 31, 2005 and 2004 are detailed as follows:

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Net proceeds from receivables facility	\$	\$ 46
Increase in margin deposits on energy trading and hedging activities	(226)	(76)
Net purchases of emissions credits	(16)	(42)
Net option premiums sold (purchased)	56	(11)
Net change in accounts and notes receivable and unbilled revenue and accounts payable	150(1)	75(2)

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Increase (decrease) in taxes receivable		(1)		81
Other, net		(11)		(42)
Cash provided (used)	\$	(48)	\$	31

(1) Net change primarily due to (a) seasonality in our retail operations, (b) a decrease in accounts receivable in our wholesale business driven by the discontinuation of the majority of a provider of last resort contract and (c) a decrease in net power purchase obligations in our wholesale business. See Management's Discussion and Analysis of Financial Condition and Results of Operations.

(2) Net change primarily related to decrease in power sales volumes in our wholesale energy segment.

Cash Flows - Investing Activities

Net cash provided by/used in investing activities changed by \$67 million during the three months ended March 31, 2005 compared to the same period in 2004, primarily due to (a) \$55 million decrease in capital expenditures related to our power generation development projects as one facility was completed in February 2004 and one facility was completed in October 2004 and (b) \$13 million decrease in restricted cash.

Three Months Ended March 31, 2005. Net cash provided by investing activities during the three months ended March 31, 2005 was \$16 million primarily due to \$30 million in changes in restricted cash, partially offset by capital expenditures (\$3 million for growth capital expenditures and \$11 million for maintenance capital expenditures) primarily related to our power generation operations.

Three Months Ended March 31, 2004. Net cash used in investing activities during the three months ended March 31, 2004 was \$51 million, primarily due to \$69 million of capital expenditures (\$51 million for growth capital expenditures and \$18 million for maintenance capital expenditures) primarily related to our power generation operations and development of power generation projects, partially offset by \$17 million in changes in restricted cash.

Cash Flows Financing Activities

Net cash provided by/used in financing activities during the three months ended March 31, 2005 changed by \$90 million compared to the same period in 2004. See below for discussion.

Three Months Ended March 31, 2005. Net cash provided by financing activities during the three months ended March 31, 2005 of \$33 million is primarily due to a net increase in short-term borrowings of \$58 million primarily related to our receivables facility, partially offset by \$31 million of payments of long-term debt (primarily REMA term loans).

Three Months Ended March 31, 2004. Net cash used in financing activities during the three months ended March 31, 2004 of \$57 million is primarily due to \$47 million of payments of long-term debt (primarily Orion Power MidWest, L.P.).

New Accounting Pronouncements, Significant Accounting Policies and Critical Accounting Estimates

New Accounting Pronouncements

As of April 2005, there are no new accounting pronouncements that would have a material impact on our results of operations, financial position or cash flows, which we have not already adopted and/or disclosed elsewhere in the notes to our interim financial statements.

Significant Accounting Policies

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For discussion regarding our significant accounting policies, see note 2 to our consolidated financial statements in our Form 10-K and notes 1 and 5 to our interim financial statements.

Critical Accounting Estimates

For a discussion of our critical accounting estimates, see Management's Discussion and Analysis of Financial Condition and Results of Operations Accounting Estimates New Accounting Pronouncements, Significant Accounting Policies and Critical Accounting Estimates Critical Accounting Estimates in Item 7 in our Form 10-K, note 2 to our consolidated financial statements in our Form 10-K and note 1 to our interim financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT NON-TRADING AND TRADING ACTIVITIES AND RELATED MARKET RISKS

Market Risk and Risk Management

We are exposed to various market risks arising from the ownership of our assets and the operation of our business. These risks have the potential to impact the results of our operations and cash flows from our business activities. Our market risks primarily relate to fluctuations in commodity prices and interest rates. See Quantitative and Qualitative Disclosures About Non-Trading and Trading Activities and Related Market Risks in Item 7A of our Form 10-K.

Non-Trading Market Risks

Commodity Price Risk

Derivative instruments are contracts that create exposure to commodity prices, which for cash flow hedges primarily offset the commodity exposure inherent in our business. We assess the risk of our non-trading derivatives using a sensitivity analysis that measures the potential loss in fair value based on a hypothetical 10% movement in underlying energy prices. An increase of 10% in the market prices of energy commodities from their March 31, 2005 levels would have decreased the fair value of our non-trading energy derivatives by \$80 million. This amount consists of a \$105 million loss in fair value of our non-trading derivatives that are designated as cash flow hedges and a \$25 million gain in earnings of our derivatives that are not designated as cash flow hedges. An increase of 10% in the market prices of energy commodities from their December 31, 2004 levels would have decreased the fair value of our non-trading energy derivatives by \$93 million (\$124 million loss in fair value of our non-trading derivatives that are designated as cash flow hedges and \$31 million gain in earnings of our derivatives that are not designated as cash flow hedges).

Interest Rate Risk

We assess interest rate risks using a sensitivity analysis method that measures the potential change in interest expense based on a hypothetical one percentage point movement in the underlying variable interest rate indices. We have changed our methodology for performing our interest rate sensitivity analysis from a hypothetical 10% relative change to a one percentage point absolute change in interest rates as management believes this provides a clearer measure of our exposure to interest rates. We have estimated that if interest rates increased (decreased) one percentage point from their March 31, 2005 and December 31, 2004 levels, our annual interest expense would have increased (decreased) by \$21 million and \$20 million, respectively, and our annual interest expense, net of interest income, would have increased (decreased) by \$12 million and \$14 million, respectively.

Due to our interest rate hedges, we have estimated that if three-month LIBOR had exceeded 4.4%, an additional one percentage point increase in interest rates would have increased our annual interest expense as of March 31, 2005 and December 31, 2004 by \$6 million and \$5 million, respectively, and our annual interest expense, net of interest income, would have decreased by \$3 million and \$1 million, respectively.

These net amounts were estimated considering the impact of hypothetical changes of interest rates on our variable rate debt, adjusted for interest rate hedges, cash and cash equivalents and net margin deposits on energy trading and hedging activities outstanding at the respective balance sheet dates.

We have estimated that if interest rates decreased by one percentage point from their March 31, 2005 and December 31, 2004 levels, the fair market values of our fixed rate debt would have increased by \$223 million and \$233 million, respectively.

Trading Market Risk

As of March 31, 2005, the fair values of the contracts related to our net derivative assets and liabilities relating to our legacy positions and optimization around our storage positions (see note 5 to our interim financial statements) are:

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Source of Fair Value	Twelve Months Ended March 31, 2006	Remainder of 2006	2007	2008 (in millions)	2009	2010 and thereafter	Total fair value
Prices actively quoted	\$ 38	\$ 7	\$ 2	\$	\$	\$	\$ 47
Prices provided by other external sources	(40)	6	8	3			(23)
Prices based on models and other valuation methods	(4)	(9)	(5)	8	2		(8)
Total	\$ (6)	\$ 4	\$ 5	\$ 11	\$ 2	\$	\$ 16

Our consolidated realized and unrealized margins relating to these positions are:

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Realized	\$ (13)	\$ (2)
Unrealized	(13)	5
Total	\$ (26)	\$ 3

An analysis of these net derivative assets and liabilities is:

	Three Months Ended March 31,	
	2005	2004
	(in millions)	
Fair value of contracts outstanding, beginning of period	\$ 26	\$ (1)
Contracts realized or settled	8(1)	2
Fair value of new contracts upon execution		
Changes in fair values attributable to changes in valuation techniques and assumptions		
Changes in fair values attributable to market price and other market changes	(18)	(3)
Fair value of contracts outstanding, end of period	\$ 16	\$ (2)

(1) Amount includes realized loss of \$13 million offset by deferred settlements of \$5 million.

We primarily assess the risk of our legacy positions and optimization around our storage positions using a value-at-risk method in order to maintain our total exposure within authorized limits. The daily value-at-risk for substantially all of these positions is:

	2005	2004
	(in millions)	
As of March 31	\$ 1	\$ 1
Three months ended March 31:		
Average	2	4
High	3	11
Low	1	1

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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In connection with the filing of this Form 10-Q/A, our management, with the participation of our chief executive officer and chief financial officer, re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (1934 Act)) as of March 31, 2005, the end of the period covered by this Form 10-Q/A. Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2005, our disclosure controls and procedures were effective. In reaching this conclusion, these officers noted, with respect to the restatement of our financial statements for the quarterly period ended March 31, 2005, that: (a) the reclassification underlying the restatement resulted from a discrete event (the use of a different subsidiary to enter into energy transactions in the PJM market beginning in the first quarter) that affected a limited number of transactions; (b) the reclassification issued was detected by management in the second quarter reporting process through the application of our internal controls; and (c) the reclassification was not material to revenues or expenses. In addition, these officers took into account that management's decision to restate our previously issued financial statements represented a cautionary disclosure approach and did not consider the restatement to be material.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the 1934 Act) during the period ended March 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II.
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of material legal proceedings that commenced, or material updates to pending legal proceedings that took place, during the first quarter of 2005, see note 9 to our interim financial statements included in this Form 10-Q/A. For information concerning the background of pending material legal proceedings for which there were no updates during the first quarter of 2005, see note 14 to our consolidated financial statements in our Form 10-K.

ITEM 6. EXHIBITS

Exhibits.

See Index of Exhibits.

SIGNATURE

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

RELIANT ENERGY, INC.
(Registrant)

August 8, 2005

By: /s/ Thomas C. Livengood
Thomas C. Livengood
Senior Vice President and Controller
(Duly Authorized Officer and Chief Accounting Officer)

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.

Exhibit Number	Document Description	Report or Registration Statement	SEC File or Registration Number	Exhibit Reference
3.1	Restated Certificate of Incorporation	Reliant Energy, Inc. s Amendment No. 8 to Registration Statement on Form S-1 dated April 27, 2001	333-48038	3.1
3.2	Second Amended and Restated Bylaws	Reliant Energy, Inc. s Current Report on Form 8-K dated September 21, 2004	1-16455	99.1
3.3	Certificate of Ownership and Merger Merging a Wholly-owned Subsidiary into Registrant Pursuant to Section 253 of the General Corporation Law of the State of Delaware, effective as of April 26, 2004	Reliant Energy, Inc. s Current Report on Form 8-K dated April 26, 2004	1-16455	3.1
4.1	Registrant has omitted instruments with respect to long-term debt in an amount that does not exceed 10% of the registrant s total assets and its subsidiaries on a consolidated basis and hereby undertakes to furnish a copy of any such agreement to the Securities and Exchange Commission upon request			
+12.1	Reliant Energy, Inc. and Subsidiaries Ratio of Earnings from Continuing Operations to Fixed Charges			
+31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
+31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
+32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)			
+99.1	Reliant Energy, Inc. s note 14 to its consolidated financial statements in its Annual Report on Form 10-K for the year ended December 31, 2004			
+99.2	Preferability Letter of Deloitte & Touche LLP relating to change in accounting principle for annual goodwill impairment test date			

