

RELIANT ENERGY INC
Form 10-Q
May 03, 2007

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

FORM 10-Q

(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, 2007

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 25, 2007, the latest practicable date for determination, Reliant Energy, Inc. had 341,621,856 shares of common stock outstanding and no shares of treasury stock.

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FORWARD-LOOKING INFORMATION

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements that contain projections, assumptions or estimates about our revenues, income and other financial items, our plans and objectives for future operations or about our future economic performance, transactions and dispositions and financings related thereto. In many cases you can identify forward-looking statements by terminology such as anticipate, estimate, believe, continue, could, intend, may, plan, potential, should, will, expect, objective, projection, forecast, goal, guidance, outlook, effort, target and other similar words. The use of these words does not mean that the statements are not forward-looking.

Actual results may differ materially from those expressed or implied by forward-looking statements as a result of many factors or events, including, but not limited to, changes in our business plan, changes in legislative and regulatory developments, the outcome of pending lawsuits, governmental proceedings and investigations, the effects of competition, financial market conditions, access to capital, the timing and extent of changes in commodity prices and interest rates, weather conditions, and other factors we discuss in the Risk Factors section of our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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.

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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,	
	2007	2006
Revenues:		
Revenues (including \$14,570 and \$149,506 unrealized gains)	\$ 2,362,601	\$ 2,452,685
Expenses:		
Purchased power, fuel and cost of gas sold (including \$507,659 and \$(126,038) unrealized gains (losses))	1,443,491	2,250,049
Operation and maintenance	230,741	185,555
Selling, general and administrative	87,597	70,740
Western states and similar settlements	22,000	
Gains on sales of assets and emission allowances, net		(151,476)
Depreciation and amortization	91,969	80,505
Total operating expense	1,875,798	2,435,373
Operating Income	486,803	17,312
Other Income (Expense):		
Income of equity investment, net	1,160	326
Other, net	1,068	85
Interest expense	(87,070)	(108,162)
Interest income	10,464	9,018
Total other expense	(74,378)	(98,733)
Income (Loss) from Continuing Operations Before Income Taxes	412,425	(81,421)
Income tax expense	152,062	57,646
Income (Loss) from Continuing Operations	260,363	(139,067)
Income (loss) from discontinued operations	(1,652)	4,980
Income (Loss) Before Cumulative Effect of Accounting Change	258,711	(134,087)
Cumulative effect of accounting change, net of tax		968
Net Income (Loss)	\$ 258,711	\$ (133,119)
Basic Earnings (Loss) per Share:		
Income (loss) from continuing operations	\$ 0.77	\$ (0.46)
Income (loss) from discontinued operations	(0.01)	0.02
Income (loss) before cumulative effect of accounting change	0.76	(0.44)
Cumulative effect of accounting change, net of tax		
Net income (loss)	\$ 0.76	\$ (0.44)
Diluted Earnings (Loss) per Share:		
Income (loss) from continuing operations	\$ 0.75	\$ (0.46)
Income (loss) from discontinued operations	(0.01)	0.02
Income (loss) before cumulative effect of accounting change	0.74	(0.44)
Cumulative effect of accounting change, net of tax		
Net income (loss)	\$ 0.74	\$ (0.44)

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)

	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 488,046	\$ 463,909
Restricted cash	10,838	24,980
Accounts and notes receivable, principally customer, net of allowance of \$26,742 and \$33,332	1,020,345	1,043,637
Inventory	243,043	275,437
Derivative assets	282,841	489,726
Margin deposits	349,736	452,605
Accumulated deferred income taxes	132,479	279,479
Prepayments and other current assets	145,756	141,016
Current assets of discontinued operations	2,567	2,460
Total current assets	2,675,651	3,173,249
Property, plant and equipment, gross	7,216,151	7,192,437
Accumulated depreciation	(1,509,961)	(1,450,442)
Property, Plant and Equipment, net	5,706,190	5,741,995
Other Assets:		
Goodwill	379,644	381,594
Other intangibles, net	421,218	423,745
Derivative assets	232,456	203,857
Accumulated deferred income taxes	72,858	87,858
Prepaid lease	272,314	264,328
Other	286,996	290,507
Total other assets	1,665,486	1,651,889
Total Assets	\$ 10,047,327	\$ 10,567,133
LIABILITIES AND EQUITY		
Current Liabilities:		
Current portion of long-term debt and short-term borrowings	\$ 359,745	\$ 355,264
Accounts payable, principally trade	659,900	664,630
Derivative liabilities	511,565	1,164,809
Margin deposits	16,490	16,490
Other	424,025	488,764
Current liabilities of discontinued operations	3,382	3,286
Total current liabilities	1,958,617	2,693,243
Other Liabilities:		
Derivative liabilities	323,262	420,534
Other	310,858	324,145
Total other liabilities	634,120	744,679
Long-term Debt	3,173,751	3,177,691
Commitments and Contingencies		
Temporary Equity Stock-based Compensation	2,140	1,647
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; 341,212,794 and 337,623,392 issued)	102	99
Additional paid-in capital	6,190,816	6,174,665
Retained deficit	(1,741,922)	(2,026,316)
Accumulated other comprehensive loss	(170,297)	(198,575)
Total stockholders' equity	4,278,699	3,949,873
Total Liabilities and Equity	\$ 10,047,327	\$ 10,567,133

Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation

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See Notes to our Unaudited Consolidated Interim Financial Statements

RELIANT ENERGY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)
(Unaudited)

	Three Months Ended March 31,	
	2007	2006
Cash Flows from Operating Activities:		
Net income (loss)	\$ 258,711	\$ (133,119)
(Income) loss from discontinued operations	1,652	(4,980)
Net income (loss) from continuing operations and cumulative effect of accounting change	260,363	(138,099)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Cumulative effect of accounting change		(968)
Depreciation and amortization	91,969	80,505
Deferred income taxes	147,422	55,238
Net changes in energy derivatives	(508,770)	(13,869)
Amortization of deferred financing costs	3,666	3,931
Gains on sales of assets and emission allowances, net		(151,476)
Other, net	5,643	1,328
Changes in other assets and liabilities:		
Accounts and notes receivable, net	45,811	88,805
Inventory	22,263	26,291
Margin deposits, net	86,379	120,392
Net derivative assets and liabilities	(19,944)	(50,002)
Western states and similar settlements payments	(35,000)	(155,102)
Accounts payable	24,385	(75,817)
Other current assets	(4,741)	(3,120)
Other assets	(11,974)	(20,653)
Taxes payable/receivable	4,790	134
Other current liabilities	(82,471)	(6,543)
Other liabilities	5,691	10,636
Net cash provided by (used in) continuing operations from operating activities	35,482	(228,389)
Net cash provided by (used in) discontinued operations from operating activities	(1,664)	7,279
Net cash provided by (used in) operating activities	33,818	(221,110)
Cash Flows from Investing Activities:		
Capital expenditures	(42,167)	(21,897)
Proceeds from sales of assets, net		1,238
Proceeds from sales of emission allowances	1	187,910
Purchases of emission allowances	(990)	
Restricted cash	14,142	(33,739)
Other, net		2,500
Net cash provided by (used in) continuing operations from investing activities	(29,014)	136,012
Net cash provided by discontinued operations from investing activities		967,743
Net cash provided by (used in) investing activities	(29,014)	1,103,755
Cash Flows from Financing Activities:		
Payments of long-term debt	(3,466)	(321,372)
Increase in short-term borrowings and revolving credit facilities, net	6,554	27,241
Payments of financing costs	(440)	
Proceeds from issuances of stock	16,685	5,016
Net cash provided by (used in) continuing operations from financing activities	19,333	(289,115)
Net cash used in discontinued operations from financing activities		(638,000)
Net cash provided by (used in) financing activities	19,333	(927,115)
Net Change in Cash and Cash Equivalents	24,137	(44,470)
Cash and Cash Equivalents at Beginning of Period	463,909	88,397
Cash and Cash Equivalents at End of Period	\$ 488,046	\$ 43,927
Supplemental Disclosure of Cash Flow Information:		
Cash Payments:		

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Interest paid (net of amounts capitalized) for continuing operations	\$ 74,845	\$ 95,447
Income taxes paid (net of income tax refunds received) for continuing operations	(150)	\$ 1,195

See Notes to our Unaudited Consolidated Interim Financial Statements

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RELIANT ENERGY, INC. AND SUBSIDIARIES**NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS****(1) Background and Basis of Presentation****(a) Background.**

Reliant Energy refers to Reliant Energy, Inc. and we, us and our refer to Reliant Energy, Inc. and its consolidated subsidiaries. Our business consists primarily of two business segments, retail energy and wholesale energy. See note 12. Our consolidated interim financial statements and notes (interim financial statements) are unaudited, omit certain 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. Management makes estimates and assumptions to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) that affect:

- the reported amount of assets, liabilities and equity,
- the reported amounts of revenues and expenses and
- our disclosure of contingent assets and liabilities at the date of the financial statements.

Adjustments and Reclassifications. 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 electricity and energy services, changes in commodity prices, changes in our retail revenue rates and changes in regulations, timing of maintenance and other expenditures, dispositions, changes in interest expense and other factors. We have reclassified certain immaterial amounts reported in this Form 10-Q from prior periods to conform to the 2007 presentation. These reclassifications had no impact on reported earnings/losses.

New Accounting Pronouncement Not Yet Adopted - Fair Value. The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. This statement is applicable for us beginning in 2008. It applies under other accounting pronouncements that require or permit fair value measurements. The adoption, which we plan to assess throughout 2007, could have a significant impact on our consolidated financial statements.

(2) Stock-based Compensation

Our compensation expense for our stock-based incentive plans was:

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Stock-based incentive plans compensation expense (pre-tax)	\$ 7	\$ 7
Income tax impact	(3)	(2)
After-tax expense	\$ 4	\$ 5

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During February 2007, the compensation committee of our board of directors granted stock-based compensation awards to 47 of our officers under the Reliant Energy, Inc. 2002 Long-Term Incentive Plan. The committee granted 429,221 time-based stock options (exercise price of \$16.26 per share, which vest in three equal installments during February 2008, 2009 and 2010), 200,314 time-based restricted stock units (which vest during February 2010) and 345,358 performance-based cash units (each payable into a cash amount equal to the market value of one share of our common stock if our common stock closes at \$23 or higher for 20 consecutive trading days before February 2010). In addition, during February 2007, the committee granted 126,790 time-based restricted stock units

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and 126,790 time-based cash units to other employees under the Reliant Energy, Inc. 2002 Stock Plan. These awards will vest during February 2010.

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No tax benefits related to stock-based compensation were realized during the three months ended March 31, 2007 and 2006 due to our net operating loss carryforwards.

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(3) Comprehensive Income (Loss)

The components of total comprehensive income (loss) are:

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Net income (loss)	\$ 259	\$ (133)
Other comprehensive income (loss), net of tax:		
Deferred income (loss) from cash flow hedges	3	(96)
Reclassification of net deferred loss from cash flow hedges realized in net income/loss	25	42
Comprehensive income (loss)	\$ 287	\$ (187)

(4) Goodwill

2007 Annual Goodwill Impairment Tests. We are in the process of performing our annual goodwill impairment tests for our wholesale energy and retail energy reporting units effective April 1, 2007.

Estimation of Our Wholesale Energy Reporting Unit's Fair Value. We anticipate using substantially the same subjective factors and significant assumptions to estimate fair value in our 2007 test as we used in our April 2006 test. See note 4(a) to our consolidated financial statements in our Form 10-K.

(5) Derivative Instruments

For discussion of our derivative activities, see notes 2(d) and 5 to our consolidated financial statements in our Form 10-K. The income (loss) of our energy and interest rate derivative instruments is:

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Energy derivatives:		
Hedge ineffectiveness	\$ 3	\$ (49)
Other net unrealized gains	519	72
Interest rate derivatives:		
Hedge ineffectiveness		
Other net unrealized losses	(3)	(3)
Total(1)(2)	\$ 519	\$ 20

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

(2) During the three months ended March 31, 2007 and 2006, \$0 and \$3 million loss, respectively, were recognized in our results of continuing operations as a result of the discontinuance of cash flow hedges because it was probable that the forecasted transaction would not occur.

As of December 31, 2006, the maximum length of time we were hedging our exposure to the variability in future cash flows that may result from changes in commodity prices was six years. During the first quarter of 2007, we de-designated our remaining cash flow hedges; therefore, as of March 31, 2007, we have no cash flow hedges.

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Amounts included in accumulated other comprehensive loss:

	March 31, 2007	
	At the End of the Period (in millions)	Expected to be Reclassified into Results of Operations in Next 12 Months
Designated cash flow hedges	\$	\$
De-designated cash flow hedges	(144)	(74)
	\$ (144)	\$ (74)

Although we discontinued our proprietary trading business in March 2003, we have legacy positions, which will be closed as economically feasible or in accordance with their terms. The impacts associated with these transactions are (income (loss)):

	Three Months Ended March 31,	
	2007	2006
	(in millions)	
Revenues	\$	\$
Purchased power, fuel and cost of gas sold		10
Total	\$	\$ 10

(6) **Debt**

Our outstanding debt is:

	March 31, 2007			December 31, 2006		
	Weighted Average Stated Interest Rate(1)	Long-term	Current	Weighted Average Stated Interest Rate(1)	Long-term	Current
Banking or Credit Facilities, Bonds and Notes:						
Reliant Energy:						
Senior secured revolver due 2009	9.63	% \$	\$	9.63	% \$	\$