RELIANT ENERGY INC
Form 10-K
March 02, 2009

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

or

o **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 and Zip Code of Principal Executive Offices)*	**(713) 497-3000** *(Registrant s Telephone Number, Including Area Code)*

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $.001 per share, and associated rights to purchase Series A Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was $7,291,274,515 (computed by reference to the closing sale price of the registrant s common stock on the New York Stock Exchange on June 30, 2008, the last business day of the registrant s most recently completed second fiscal quarter).

As of February 13, 2009, the registrant had 350,362,189 shares of common stock outstanding and no shares of common stock were held by the registrant as treasury stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement for its 2009 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2008, are incorporated by reference into Part III of this Form 10-K.

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Forward-Looking Statement

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 the outcome of pending legal actions, our revenues, income, capital structure and other financial items, our plans and objectives for future operations or about our future economic performance, transactions and dispositions, financings or offerings and approvals related thereto. In many cases, you can identify forward-looking statements by terminology such as anticipate, estimate, believe, continue, could, intend, may, plan, potential, predict, should, will, expect, objective, projecti guidance, outlook, effort, target and other similar words. However, the absence of these words does not mean that t statements are not forward-looking.

Actual results may differ materially from those expressed or implied by the forward-looking statements as a result of many factors or events, including, but not limited to, the following:

- Demand and market prices for electricity, purchased power and fuel and emission allowances;
- Limitations on our ability to set rates at market prices;
- Legislative, regulatory and/or market developments;
- Our ability to obtain adequate fuel supply and/or transmission and distribution services;
- Interruption or breakdown of our generating equipment and processes;
- Failure of third parties to perform contractual obligations;
- Changes in environmental regulations that constrain our operations or increase our compliance costs;
- Failure by transmission system operators to communicate operating and system information properly and timely;
- Failure to meet our debt service, restrictive covenants, collateral postings or obligations related to our credit-enhanced retail structure or in connection with any unwind of that structure;
- Ineffective hedging and other risk management activities;
- Changes in the wholesale energy market or in our evaluation of our generation assets;
- The outcome of pending or threatened lawsuits, regulatory proceedings, tax proceedings and investigations;
- Weather-related events or other events beyond our control;
- The timing and extent of changes in commodity prices or interest rates;
- Our ability to attract and retain retail customers or to adequately forecast their energy needs and usage;

- Our ability to complete an unwind of our credit-enhanced retail structure or failure of such structure;
- Financial market conditions and our access to capital; and
- The outcome of our strategic alternatives review, including regulatory approvals for the sale of our Texas retail business.

Other factors that could cause our actual results to differ from our projected results are discussed or referred to in Item 1A of this report. 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. Our filings and other important information are also available on our website at www.reliant.com.

GLOSSARY OF TECHNICAL TERMS

BCFe	Billion cubic feet equivalent of natural gas.
C&I	Commercial, industrial and governmental/institutional.
Cal ISO	California Independent System Operator.
capacity	Energy that could have been generated at continuous full-power operation during the period.
capacity factor	The ratio of actual net electricity generated to capacity.
CenterPoint	CenterPoint Energy, Inc. and its subsidiaries, on and after August 31, 2002, and Reliant Energy, Incorporated and its subsidiaries, prior to August 31, 2002.
Channelview	Reliant Energy Channelview LP, Reliant Energy Channelview (Texas) LLC, Reliant Energy Channelview (Delaware) LLC and Reliant Energy Services Channelview LLC.
CO_2	Carbon dioxide.
commercial capacity factor	Generation divided by economic generation.
contribution margin	Revenues less (a) cost of sales, (b) operation and maintenance, (c) selling and marketing and (d) bad debt expense.
EBITDA	Earnings (loss) before interest expense, interest income, income taxes, depreciation and amortization expense.
economic generation	Estimated generation at 100% plant availability based on an hourly analysis of when it is economical to generate based on the price of power, fuel, emission allowances and variable operating costs.
EITF	Emerging Issues Task Force.
EPA	United States Environmental Protection Agency.
ERCOT	Electric Reliability Council of Texas.
ERCOT ISO	ERCOT Independent System Operator.
ERCOT Region	The electric market operated by ERCOT.
FASB	Financial Accounting Standards Board.

FERC	Federal Energy Regulatory Commission.
GAAP	Accounting principles generally accepted in the United States of America.
gross margin	Revenues less cost of sales. Gross margin excludes depreciation, amortization, labor and other product costs.
GWh	Gigawatt hour.
ISO	Independent system operator.
LIBOR	London Inter Bank Offering Rate.
market usage adjustments	The revenues and the related energy supply costs in our retail energy segment include our estimates of customer usage based on initial usage information provided by the independent system operators and the distribution companies. We revise these estimates and

	record any changes in the period as additional settlement information becomes available (collectively referred to as market usage adjustments).
mass	Residential and small business.
Merrill Lynch	Merrill Lynch & Co., Inc. and an affiliate.
MISO	Midwest Independent Transmission System Operator, which is an RTO.
MW	Megawatt.
MWh	Megawatt hour.
net generating capacity	The average of a facility s summer and winter generating capacities, net of auxiliary power.
NO_x	Nitrogen oxides.
NYMEX	New York Mercantile Exchange.
Orion Power	Orion Power Holdings, Inc. and its subsidiaries.
PEDFA	Pennsylvania Economic Development Financing Authority.
PJM	PJM Interconnection, LLC, which is an RTO.
PJM Market	The wholesale and retail electric market operated by PJM primarily in Delaware, the District of Columbia, Illinois, Maryland, New Jersey, Ohio, Pennsylvania, Virginia and West Virginia.
PUCT	Public Utility Commission of Texas.
REMA	Reliant Energy Mid-Atlantic Power Holdings, LLC and its subsidiaries.
RERH Holdings	RERH Holdings, LLC and its subsidiaries.
RPM	Model utilized by the PJM Interconnection, LLC to meet load serving entities forecasted capacity obligations via a forward-looking commitment of capacity resources.
RTO	Regional transmission organization.
SEC	United States Securities and Exchange Commission.
SO_2	Sulfur dioxide.

PART I

Item 1. *Business.*

General

We provide electricity and energy services to wholesale and retail customers through two business segments.

Wholesale energy provides electricity and energy services in the competitive wholesale energy markets in the United States through our ownership and operation or contracting for power generation capacity. We have over 14,000 MW of power generation capacity.

Retail energy provides electricity and energy services to approximately 1.8 million retail electricity customers primarily in Texas, including residential and small business (mass) customers and commercial, industrial and governmental/institutional (C&I) customers.

As discussed in Management s Discussion and Analysis of Financial Conditions and Results of Operations Business Overview and 2008 Significant Events in Item 7 of this Form 10-K, we are exploring a full range of possible strategic alternatives to enhance stockholder value, including, among other possibilities, the sale of all or substantially all of Reliant Energy, as well as the sale of some or all of our retail business. We are exiting the C&I portion of our retail energy business either through a wind down or sale of our C&I contracts. In late 2008, we sold all of our PJM market (excluding Illinois) and New York (collectively referred to as Northeast) C&I contracts.

Sale of Our Texas Retail Business. On February 28, 2009, we entered into several agreements related to the sale of our Texas retail business. We entered into a purchase agreement to sell our interests in the affiliates that operate our Texas retail mass and C&I business to a subsidiary (the buyer) of NRG Energy, Inc. (NRG) for $287.5 million in cash plus the value of the net working capital. This sale includes the rights to our name. NRG has guaranteed the obligations of the buyer. Upon closing, our affiliates that are party to the credit sleeve and reimbursement agreement with Merrill Lynch will be owned by the buyer. We have agreed to pay Merrill Lynch a $7.5 million fee and to increase the fees under the credit sleeve and reimbursement agreement by $3 million per month until the close. The bulk of the fees payable to Merrill Lynch are payable only upon and at closing. When the sale closes, the litigation with Merrill Lynch against our affiliates that conduct our retail business related to the termination of the working capital facility supporting our retail business will be dismissed. We and Merrill Lynch have agreed to stay further proceedings in the litigation until June 1, 2009, or in the event regulatory approvals delay closing, July 1, 2009. The sale is subject to customary closing conditions, including the Hart-Scott-Rodino review. The buyer may terminate the agreement in connection with certain takeover proposals that it may receive prior to closing subject to the payment of a $45 million termination fee. We expect to close in the second quarter of 2009. We will enter a one-year transition services agreement with the buyer in connection with the closing, which will include terms and conditions for information technology services, accounting services and human resources. NRG s guarantee will also apply to this transition services agreement. As required by our debt agreements, a par exchange offer will be made with the net proceeds to holders of our secured notes and PEDFA bonds.

For information about our corporate history, business segments and disposition activities, see notes 1, 18, 19, 20 and 21 to our consolidated financial statements and Selected Financial Data in Item 6 of this Form 10-K.

Wholesale Energy

As of December 31, 2008, we owned, had an interest in or leased 36 operating electric power generation facilities with an aggregate net generating capacity of 14,580 MW in five regions of the United States. The net generating capacity of these facilities consists of approximately 38% base-load, 37% intermediate and 25% peaking capacity.

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We sell electricity and energy services from our generation portfolio in hour-ahead, day-ahead and forward markets in bilateral and ISO markets. We sell these products to investor-owned utilities, municipalities, cooperatives and other companies that serve end users or purchase power at wholesale for resale. For our power generation, we obtain transmission and distribution services from various RTOs, ISOs, utilities and municipalities. Because our facilities are not subject to traditional cost-based regulation, we can generally sell electricity at market-determined prices. The following table identifies the principal markets where we own, lease or have under contract wholesale generation assets:

Region	Principal Markets
PJM	Illinois, New Jersey and Pennsylvania
MISO	Illinois, western Pennsylvania and Ohio
Southeast	Florida, Mississippi and Texas (non-ERCOT)
West	California

Through the PJM Market s reliability pricing model auctions, we have committed approximately 6,400 MW of capacity through the planning year ending May 2012. We expect that a substantial portion of our capacity that clears a PJM auction will continue to be committed to the PJM Market up to three years in advance. Revenue from these capacity sales is determined by market rules designed to ensure regional reliability, encourage competition and reduce price volatility. The California Public Utility Commission and Cal ISO are considering possible enhancements to existing resource adequacy requirements, including alternatives similar to capacity markets designed in New England and PJM.

To ensure adequate fuel supplies, we contract for natural gas, coal and fuel oil for our generation facilities. For our natural gas-fired plants, we also arrange for, schedule and balance natural gas from our suppliers and through transporting pipelines. To perform these functions, we lease natural gas transportation and storage capacity.

In February 2006, we completed an evaluation of our wholesale energy segment s hedging strategy and use of capital. As a result of our evaluation, we substantially reduced hedging activity. See Quantitative and Qualitative Disclosures about Market Risk in Item 7A of this Form 10-K and notes 2(f) and 5 to our consolidated financial statements.

The following table describes our electric power generation facilities as of December 31, 2008:

Region	Number of Generation Facilities	Net Generating Capacity (MW)	Fuel Type	Dispatch Type
PJM(1)	22	6,969	Coal/Gas/Oil/Dual	Base-load/Intermediate/Peaking
MISO	4	1,678	Coal/Gas/Oil	Base-load/Intermediate/Peaking
Southeast(2)(3)	5	2,541	Gas/Dual	Base-load/Intermediate/Peaking
West	5	3,392	Gas/Dual	Intermediate/Peaking
Total	36	14,580		

(1) We lease a 100%, 16.67% and 16.45% interest in three Pennsylvania facilities having 572 MW, 1,711 MW and 1,712 MW of net generating capacity, respectively, through facility lease agreements expiring in 2026, 2034 and 2034, respectively. The table includes our net share of the capacity of these facilities.

(2) We own a 50% interest in one of these facilities located in Texas (non-ERCOT) having a net generating capacity of 108 MW. An unaffiliated party owns the other 50%. The table includes our net share of the capacity of this facility.

(3) We are party to a tolling agreement entitling us to 100% of the capacity of a Florida facility having 630 MW of net generating capacity. This tolling agreement expires in 2012 and is treated as an operating lease for accounting purposes.

Operations Data

See discussion of our wholesale energy strategy in Management s Discussion and Analysis of Financial Condition and Results of Operation Business Overview in Item 7 of this Form 10-K. See discussion of Competition and Seasonality below and a discussion of competition, weather events and other factors that

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could have an adverse effect on our wholesale energy business in Risk Factors in Item 1A of this Form 10-K.

	2008		2007		2006	
	GWh	% Economic[1]	GWh	% Economic[1]	GWh	% Economic[1]
Economic Generation[2]:						
PJM Coal	21,288.3	73%	23,886.2	82%	23,541.9	81%
MISO Coal	5,848.4	53%	7,998.3	73%	6,525.1	59%
PJM/MISO Gas	1,362.4	4%	1,584.2	5%	1,011.1	4%
West	2,553.9	10%	3,711.8	13%	2,833.3	11%
Other	74.5	1%	3,802.2	48%	5,731.1	86%
Total	31,127.5	30%	40,982.7	39%	39,642.5	39%

	2008	2007	2006
Commercial Capacity Factor:			
PJM Coal	86.6%	82.4%	82.9%
MISO Coal	85.3%	69.0%	85.5%
PJM/MISO Gas	90.6%	91.2%	91.9%
West	93.7%	95.5%	86.1%
Other	82.7%	91.9%	91.9%
Total	87.1%	82.2%	85.1%
Generation[2]:			
PJM Coal	18,437.8	19,677.1	19,522.3
MISO Coal	4,988.1	5,518.0	5,577.7
PJM/MISO Gas	1,234.8	1,444.0	929.3
West	2,393.2	3,543.9	2,439.0
Other	61.6	3,493.6	5,268.8
Total	27,115.5	33,676.6	33,737.1

(1) Represents economic generation (hours) divided by maximum generation hours (maximum plant capacity multiplied by 8,760 hours).

(2) Excludes generation related to power purchase agreements, including tolling agreements.

Retail Energy

As a retail electricity provider, we arrange for the transmission and delivery of electricity to our customers, bill customers, collect payment for electricity sold and maintain call centers to provide customer service. We purchase the electricity we sell to customers from generation companies, utilities and power marketers and other retail energy companies in the wholesale market. We obtain our transmission and distribution services in Texas from entities regulated by the PUCT and ERCOT.

Our retail business for residential and small business customers is in Texas. Based on metered locations, as of December 31, 2008, we had approximately 1.5 million residential and 150,000 small business customers, making us the second largest mass market electricity provider in Texas. Approximately 65% of our Texas customers are in the Houston area. We also have customers in other parts of Texas, including the Dallas, Ft. Worth and Corpus Christi areas.

We market electricity and energy services to C&I customers in Texas and, until the end of 2008, the Northeast. These customers include refineries, chemical plants, manufacturing facilities, hospitals, universities, governmental agencies, restaurants and other facilities. In connection with our intention to unwind our credit-enhanced retail structure with Merrill Lynch and to reduce our future collateral posting obligations, we decided to exit the C&I portion of our retail business over time. Except where we are contractually obligated to do so,

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we are no longer entering into contracts with new C&I customers and we do not expect to renew contracts with our current customers. We sold all of our Northeast C&I contracts and are actively seeking to sell our Illinois C&I contracts. For discussion of our agreement to sell our Texas retail business, see General.

Under our supply strategy for our retail business, we structure our supply portfolio to match our load demands by procuring sufficient power prior to or concurrent with entering into retail sales commitments. See Quantitative and Qualitative Disclosures about Market Risk in Item 7A of this Form 10-K and notes 2(f) and 5 to our consolidated financial statements. Because of our credit-enhanced retail structure, we are not required to post collateral for our retail supply purchases. However, we intend to wind down this structure because, among other things, of disagreements with Merrill Lynch regarding the minimum adjusted retail EBITDA covenant in our working capital facility and ongoing turmoil in the financial markets has created uncertainty regarding our significant concentration of credit risk with Merrill Lynch. See discussion of the status of our credit-enhanced retail structure in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in Item 7 of this Form 10-K and related legal action in note 13(b) to our consolidated financial statements.

Operations Data

See discussion of our retail energy strategy in Management s Discussion and Analysis of Financial Condition and Results of Operations Business Overview in Item 7 of this Form 10-K. See discussion of Competition and Seasonality below and a discussion of competition, weather events and other factors that could have an adverse effect on our retail energy business in Risk Factors in Item 1A of this Form 10-K.

	2008	**2007**	**2006**
		(gigawatt hours)	
Electricity Sales to End-Use Retail Customers:			
Mass:			
Residential:			
Houston	12,700	13,516	15,447
Non-Houston	8,081	8,361	7,955
Small Business:			
Houston	2,818	3,035	3,587
Non-Houston	1,416	1,433	1,375
Total Mass	25,015	26,345	28,364
C&I:			
ERCOT[1]	36,901	36,926	33,393
Non-ERCOT	6,300	4,680	5,572
Total C&I	43,201	41,606	38,965
Market usage adjustments	(47)	(67)	8
Total	68,169	67,884	67,337

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

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	2008	2007	2006
	(In thousands, metered locations)		
Weighted Average Retail Customer Count:			
Mass:			
Residential:			
Houston	992	1,056	1,164
Non-Houston	547	563	504
Small Business:			
Houston	108	116	132
Non-Houston	40	36	29
Total Mass	1,687	1,771	1,829
C&I[(1)]	91	89	75
Total	1,778	1,860	1,904

(1) Includes customers of the Texas General Land Office for whom we provide services.

	December 31, 2008	2007
	(In thousands, metered locations)	
Retail Customers:		
Mass:		
Residential:		
Houston	975	1,016
Non-Houston	543	555
Small Business:		
Houston	107	109
Non-Houston	43	38
Total Mass	1,668	1,718
C&I[(1)]	86	93
Total	1,754	1,811

(1) Includes customers of the Texas General Land Office for whom we provide services.

Regulation

Texas

We are certified by the PUCT to sell electricity to retail customers in Texas. Effective January 1, 2007, we began selling electricity in the competitive areas of ERCOT to customers at unregulated prices. Our activities in Texas are subject to standards and regulations adopted by the PUCT and ERCOT. See Risk Factors in Item 1A of this Form 10-K.

Until January 1, 2007, we were required to make electricity available to Houston area residential and small business customers at the PUCT-approved price-to-beat. Any residential price-to-beat customers who did not select an alternative product by December 31, 2006 continued being served under our residential services plan.

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Other States

We are licensed in several states outside ERCOT to supply C&I customers. As a result of our decision to exit the C&I portion of our retail business over time and the sale of our Northeast C&I contracts, in 2009 we will have C&I customers only in Texas and Illinois. Our C&I retail activities in Illinois are subject to standards and regulations adopted by PJM and the Illinois Commerce Commission.

We operate electric generation facilities in regions administered by PJM, Cal ISO and MISO. These ISOs operate under FERC-approved market rules. The market rules include price limits or caps applicable to all generators and numerous other FERC-approved requirements relative to the manner in which we must operate our generating facilities.

Federal Energy Regulatory Commission

A number of our subsidiaries are public utilities under the Federal Power Act and are subject to FERC rules and oversight regulations. As public utilities, these subsidiaries sell power at either market-based rates (if FERC has granted market-based rate authority) or cost-based rates. Each of these subsidiaries has been granted market-based rate authority, although a limited number of services sold by some of them is sold at cost-based rates.

Competition and Seasonality

The retail and wholesale energy industries are intensely competitive. Our competitors include merchant energy companies, utilities, retail electric service providers and other companies, including in recent years companies owned by investment banking firms, hedge funds and private equity funds. Our principal competitors in the retail electricity markets outside of Houston are typically incumbent retail electric providers, which have the advantage of long-standing relationships with customers. In general, competition in the retail energy markets is on the basis of price, service, brand image, product offerings and market perceptions of creditworthiness and competition in the wholesale energy markets is on the basis of price, service and market perceptions of creditworthiness. For additional information on the effect of competition and for a discussion of how seasonality impacts our business, see Risk Factors in Item 1A of this Form 10-K and note 17 to our consolidated financial statements.

Environmental Matters

We are subject to numerous federal, state and local requirements relating to the protection of the environment and the safety and health of personnel and the public. These requirements relate to a broad range of our activities, including the discharge of compounds into the air, water and soil; the proper handling of solid, hazardous and toxic materials and waste; noise and safety and health standards applicable to the workplace.

Based on existing regulations, our market outlook, and our current assessment of the costs of labor and materials and the state of evolving technologies, we estimate that we will invest approximately $123 million in 2009, $27 to $52 million in 2010 and $28 million to $306 million in 2011 through 2014 on projects to reduce our emission levels and lessen the environmental impact of our operations. These amounts include $45 million for future ash landfill expansions from 2009 through 2014. As described below, a significant amount of these expenditures relate to our election to upgrade the SO_2 emissions controls at some of our facilities.

In some cases, which are described below, environmental laws and regulations are pending, are under consideration, are in dispute or could be revised. Unless otherwise noted, we cannot predict the outcome or ultimate effect of these matters on our business. For additional information on how environmental matters may impact our business, including a January 2009 Notice of Violation from the EPA regarding New Source Review, see Risk Factors in Item 1A of this

Form 10-K and note 13(c) to our consolidated financial statements.

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Air Quality

Under the Clean Air Act, the EPA has implemented a number of emission control programs that affect industrial sources, including power plants, by limiting emissions of nitrogen oxides (NO_x) and sulfur dioxide (SO_2). NO_x and SO_2 are precursors to the formation of acid rain, fine particulate matter and regional haze. NO_x is also a precursor to the formation of ozone.

NO_x and SO_2 Emissions

In March 2005, the EPA finalized the Clean Air Interstate Rule (CAIR), to further reduce emissions of NO_x and SO_2 in the Eastern United States in two phases. The first phase, which takes effect in 2009 for NO_x and 2010 for SO_2, requires overall reductions within the area of approximately 50% in NO_x and SO_2 emissions on an annual basis. The second phase, which takes effect in 2015, requires additional reductions of approximately 10% for a 60% total reduction in NO_x and approximately 15% for a 65% reduction in SO_2. The EPA regulations include the use of cap-and-trade programs to achieve these reductions. These regulations require us to provide an allowance for each ton of NO_x and SO_2 that we emit under a cap-and-trade program. We maintain emission allowances that at a minimum correspond with forward power sales. In general, we do not have emission allowances for all of our generation. We purchase emission allowances, as needed, to correspond with our generation of electricity.

In July 2008, the District of Columbia Circuit Court of Appeals ruled that CAIR was legally flawed, vacated CAIR in its entirety and remanded CAIR to the EPA for revision of CAIR consistent with the Court s opinion. On rehearing, in December 2008, the Court decided that CAIR will remain in effect pending EPA s modification to cure the defects identified by the Court. The Court s most recent decision will reinstate CAIR s proposed annual allowance-based NO_x program beginning in 2009 and the increased surrender rate for SO_2 allowances beginning in 2010. The existing ozone season NO_x program and the SO_2 allowance requirements under the Clean Air Act s acid rain program will continue to be in force.

We have undertaken studies to evaluate possible impacts of CAIR and similar legislative and regulatory proposals, which will primarily affect our coal-fired facilities in the Eastern United States. Based on an economic analysis that includes plant operability, changes in the emission allowances market, potential impact of state-imposed regulations and our estimates at this time of capital expenditures, we have elected to invest $64 million in 2009 and up to an estimated $304 million in 2010 through 2013 to principally reduce our emissions of SO_2.

Mercury Emissions

In December 2000, the EPA found that regulation of mercury emissions from power plants is appropriate and necessary, triggering the requirement to regulate such emissions using the Maximum Achievable Control Technology standard (MACT) of the Clean Air Act. However, the EPA pursued an alternate market-based approach for regulating mercury emissions from power plants, known as the Clean Air Mercury Rule (CAMR). In February 2008, the D.C. Circuit Court of Appeals struck down CAMR. The EPA appealed, but in February 2009, it withdrew the appeal and stated its intent to proceed with rulemaking under the MACT standard. This approach considers the most effective control technologies in operation, without regard to cost effectiveness. Despite the EPA s statement of regulatory intent, there are multiple legal actions pending with respect to regulation of mercury from power plants.

While the EPA was pursuing CAMR, a number of states, including Pennsylvania, pursued mercury regulations that were more stringent than CAMR. The Pennsylvania rule generally requires mercury reductions on a facility basis in two phases, with 80% reductions in 2010 and 90% reductions in 2015. This rule is the subject of current litigation, and a state court declared Pennsylvania s rule unlawful in January 2009.

Our capital investment plan is based on compliance with the Pennsylvania rule. Our estimate of capital expenditures to comply primarily with the first phase of Pennsylvania s mercury control program is $49 million in 2009. However, we are continuing to evaluate our plan given that regulation of mercury from power plants at both federal and state levels is uncertain.

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Air Particulates

In September 2006, the EPA issued revised national ambient air quality standards for fine particulate matter with an aerodynamic diameter less than or equal to 2.5 microns, or PM2.5. In December 2008, the EPA identified geographic areas that are not in compliance with the revised standard (nonattainment areas). Ten of our 11 coal-fired power generation facilities are located in nonattainment areas. States must develop emission reduction plans by April 2012 that bring nonattainment areas into compliance by 2014. These plans may be state-specific or regional in scope. The EPA has estimated that the power generation sector SO_2 and NO_x emissions reductions required by CAIR will allow many of the nonattainment areas to achieve compliance with the revised PM2.5 standard. However, states are not precluded from developing plans that would require further reductions in NO_x and SO_2 emissions.

Greenhouse Gas Emissions

There is an increased focus within the United States over the direction of domestic climate change policy. Several states in the northeast, midwest and west are increasingly active in developing state-specific or regional regulatory initiatives to stimulate CO_2 emission reductions in the electric power generation industry and other industries. The United States Congress is considering legislation that would impose mandatory limitation of CO_2 and other greenhouse gas emissions for the domestic power generation sector. The specific impact on our business will depend upon the form of emissions-related legislation or regulations ultimately adopted by the federal government or states in which our facilities are located.

Ten northeastern states, including New Jersey and Maryland, have formed the Regional Greenhouse Gas Initiative, or RGGI, which requires power generators to reduce CO_2 emissions by ten percent by 2019, beginning in 2009. California adopted legislation designed to reduce greenhouse gas emissions to 25% below 1990 levels by 2020, beginning in 2012. In July 2008, the Pennsylvania Climate Change Act was adopted. This legislation requires development of reports of the impacts of climate change in Pennsylvania and potential economic opportunities resulting from mitigation strategies. It also requires development of an annual greenhouse gas emissions inventory and establishment of cost-effective strategies for reducing or offsetting greenhouse gases.

In addition, the EPA has announced plans to consider regulations to address CO_2 emissions as part of the Clean Air Act s New Source Review program. Individual states may also begin to take into account CO_2 emissions when considering permits to construct or modify significant sources of emissions.

In September 2007, we joined the Chicago Climate Exchange, a voluntary greenhouse gas registry, reduction and trading system. By joining the exchange, we have committed to reduce our greenhouse gas emissions to six percent below the average of our 1998-2001 levels by 2010. We expect to satisfy our reduction targets through previously implemented unit retirements and capacity factor reductions, ongoing heat rate improvement efforts and transacting on the exchange.

Water Quality

In July 2007, the EPA suspended its 2004 regulations relating to cooling water intake structures at large existing power plants pending further rulemaking. This action was in response to the Second Circuit Court of Appeals January 2007 remand of the 2004 regulations. The EPA retained interim requirements that plant intakes employ best technology available controls as determined on a plant-by-plant, best professional judgment basis. The Supreme Court is reviewing the Second Circuit s decision and is expected to rule in 2009.

Other

As a result of their age, many of our facilities contain significant amounts of asbestos insulation, other asbestos containing materials, as well as lead-based paint. Existing state and federal rules require the proper management and disposal of these potentially toxic materials. We believe we properly manage and dispose of such materials in compliance with these state and federal rules. See note 13(c) to our consolidated financial statements.

We do not believe we have any material liabilities or obligations under the Comprehensive Environmental Response Corporation and Liability Act of 1980 or similar state laws. These laws impose clean up and restoration liability on owners and operators of facilities from or at which there has been a release or threatened release of hazardous substances, together with those who have transported or arranged for the disposal of those substances.

Employees

As of December 31, 2008, we had 3,816 full-time and part-time employees. Of these employees, 1,125 are covered by collective bargaining agreements, which expire on various dates from March 31, 2009 through October 31, 2013. The following table sets forth the number of our employees as of December 31, 2008:

Wholesale energy	1,950
Retail energy	1,208
Other operations	658
Total	3,816

Executive Officers

Name	Age[1]	Present Position
Mark M. Jacobs	46	President and Chief Executive Officer
Brian Landrum	46	Executive Vice President and Chief Operating Officer
Rick J. Dobson	50	Executive Vice President and Chief Financial Officer
Charles S. Griffey	49	Senior Vice President, Market Design and Regulatory Affairs
D. Rogers Herndon	40	Senior Vice President, Strategic Planning and Business Development
Michael L. Jines	50	Senior Vice President, General Counsel and Corporate Secretary
Suzanne L. Kupiec	42	Senior Vice President, Chief Risk and Compliance Officer
Thomas C. Livengood	53	Senior Vice President and Controller
Albert H. Myres	45	Senior Vice President, Government and Public Affairs
Karen D. Taylor	51	Senior Vice President, Human Resources and Chief Diversity Officer

(1) Age is as of February 1, 2009.

Mark M. Jacobs has served as our President and Chief Executive Officer since May 2007. Prior to that, he served as our Executive Vice President and Chief Financial Officer from July 2002 to October 2007.

Brian Landrum has served as our Executive Vice President and Chief Operating Officer since May 2007. Prior to that, he served as our Executive Vice President, Operations from February 2006 to May 2007. He was Senior Vice President, Commercial and Retail Operations, IT from February 2005 to February 2006; Senior Vice President, Customer Operations and Information Technology from January 2004 to February 2005; President, Reliant Energy Retail Services from June 2003 to January 2004.

Rick J. Dobson has served as our Executive Vice President and Chief Financial Officer since October 2007. Prior to that, he served as Senior Vice President and Chief Financial Officer of Novelis Inc., an international aluminum rolling and recycling company, from July 2006 to August 2007 and Senior Vice

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President and Chief Financial Officer of Aquila, Inc., an electric and natural gas distribution company that also owns and operates generation assets, from October 2002 to July 2006.

Charles S. Griffey has served as our Senior Vice President, Market Design and Regulatory Affairs since December 2007. Prior to that, he was Senior Vice President, Regulatory Affairs from February 2003 to December 2007.

D. Rogers Herndon has served as our Senior Vice President, Strategic Planning and Business Development since November 2007. He was Senior Vice President, Commercial Operations and Origination from May 2006 to November 2007. Prior to that, he was a Managing Director for PSEG Energy Resources and Trade from April 2003 to December 2005.

Michael L. Jines has served as our Senior Vice President, General Counsel and Corporate Secretary since May 2003.

Suzanne L. Kupiec has served as our Senior Vice President, Chief Risk and Compliance Officer since July 2007. She served as our Senior Vice President, Risk and Structuring from January 2004 to June 2007. She was our Vice President and Chief Risk and Corporate Compliance Officer from June 2003 to January 2004.

Thomas C. Livengood has served as our Senior Vice President and Controller since May 2005. Prior to that, he served as our Vice President and Controller from August 2002 to May 2005.

Albert H. Myres has served as our Senior Vice President, Government and Public Affairs since December 2007. He served as Shell Oil Corporation s Chief of Staff and Senior Advisor to the President and Country Chairman from August 2005 to December 2007 and Senior Advisor, Government Affairs from June 2002 to August 2005.

Karen D. Taylor has served as our Senior Vice President, Human Resources since December 2003. In November 2005, she was appointed as our Chief Diversity Officer.

Available Information

Our principal offices are at 1000 Main, Houston, Texas 77002 (713-497-7000). The following information is available free of charge on our website (http://www.reliant.com):

Our corporate governance guidelines and standing board committee charters;

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports; and

Our business ethics policy.

You can request a free copy of these documents by contacting our investor relations department. It is our intention to disclose amendments to, or waivers from, our business ethics policy on our website. No information on our website is incorporated by reference into this Form 10-K. In addition, certain of these materials are available on the SEC s website at (http://www.sec.gov) or at its public reference room: 100 F Street, NE, Room 1580, Washington, D.C. 20549 (1-800-SEC-0330).

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Certifications

We will timely provide the annual certification of our Chief Executive Officer to the New York Stock Exchange. We filed last year s certification in June 2008. In addition, our Chief Executive Officer and Chief Financial Officer each have signed and filed the certifications under Section 302 of the Sarbanes-Oxley Act of 2002 with this Form 10-K.

Item 1A. *Risk Factors.*

Risks Related to the Wholesale and Retail Energy Businesses

The financial results of our wholesale and retail energy segments are subject to market risks beyond our control.

Our results of operations, financial condition and cash flows are significantly impacted by the prevailing demand and market prices for electricity, purchased power, fuel and emission allowances over which we have no control. Market prices can fluctuate dramatically in response to many factors, including weather conditions; changes in the prices of related commodities; changes in law and regulation; regulatory intervention (including the imposition of price limitations, bidding rules or similar mechanisms); market illiquidity; transmission constraints; environmental limitations; generation unit outages; fuel supply issues; national and world-wide economic conditions; and other events. Current national and world-wide conditions may result in ongoing reduced demand for electricity, commodity price volatility, changes in law or regulation and other events.

The markets in which we operate are relatively immature markets that are characterized by elements of both deregulated and regulated markets. Changes in the regulatory environment in which we operate could adversely affect our ability to set rates, or the cost, manner or feasibility of conducting our business.

We operate in a regulatory environment that is undergoing varying restructuring initiatives. In many instances, the regulatory structures governing the electricity markets are still evolving, creating gaps in the regulatory framework and associated uncertainty. In addition, existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to our facilities or our commercial activities. We cannot predict the future direction of these initiatives or the ultimate effect that this changing regulatory environment will have on our business. Consequently, future regulatory restrictions, regulatory or political intervention or changes in laws and regulations, may constrain our ability to set rates at market prices or otherwise have an adverse effect on our business. See Business Regulation in Item 1 of this Form 10-K.

The tightening of the supply and demand balance for electricity may result in significant long- and short-term price volatility in both our wholesale and retail businesses. Price volatility may result in legislative, regulatory or judicial initiatives intended to mitigate the impact of such volatility.

The permitting and construction of new generation facilities is a lengthy process. Additionally, the progressive tightening of environmental regulatory requirements and their reflection in permits and regulations may result in generation facilities being removed from service prior to their end of useful life or derated permanently or temporarily. As a result, there may be periods when the supply of electricity is reduced or constrained relative to the demand for electricity. During these periods the wholesale price and retail price of electricity may increase significantly. In response to this, legislators, regulators, consumers and others may seek legislative, regulatory or judicial relief in an attempt to control or limit the wholesale price and/or the retail price of electricity.

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We depend on sources, facilities and systems that we do not own or control for our fuel and fuel supply and to deliver electricity to and bill our customers. Any disruption in these sources, facilities or systems could have an adverse effect on our business.

We depend on fuel sources and fuel supply facilities owned and operated by third parties to supply our generation plants. We depend on power transmission and distribution facilities and metering systems owned and operated by third parties to deliver electricity to our customers and provide energy usage data. If these sources, facilities or systems fail, are disrupted or become unavailable to us, we may be unable to generate and/or provide electricity, our cost of doing so may significantly increase and/or we may be subject to contractual or other penalties. In addition, inaccurate or untimely information from third parties could hinder our ability to bill customers and collect amounts owed. We also participate in regional power pools, reliability councils and transmission organizations and changes in the rules governing such groups and/or in the composition of such groups may have an adverse effect on our business. Participation in RTOs is voluntary, and transmission owning companies may exit an RTO so long as they do so in compliance with the applicable FERC tariffs and agreements and FERC approval.

The operation of generation facilities involves significant risks that could interrupt operations and increase our costs.

Ownership of generation assets exposes us to risks relating to the breakdown of equipment or processes; fuel supply or transportation interruptions; construction delays or cost overruns; shortages of or delays in obtaining equipment, material and labor; operational restrictions resulting from environmental limitations and governmental interventions; as well as other risks. In addition, many of our facilities are old and require significant maintenance expenditures. We are party to collective bargaining agreements with labor unions at several of our plants. If our workers were to engage in a strike, work stoppage or other slowdown, other employees were to become unionized or the terms and conditions in future labor agreements were renegotiated, we could experience a significant disruption in our operations and higher ongoing labor costs. Similarly, we have an aging workforce at a number of our plants creating potential knowledge and expertise gaps as those workers retire. If we are unable to secure fuel, we will not be able to run our generation units. Construction delays could cause extended and/or unplanned outages of our generation facilities. If a generation unit fails or is unavailable, we may have to purchase replacement power from third parties at higher prices. We have insurance, subject to limits and deductibles, covering some types of physical damage and business interruption related to our generation units. However, this insurance may not always be available on commercially reasonable terms. In addition, there is no assurance that insurance proceeds will be sufficient to cover all losses, insurance payments will be timely made or the policies themselves will be free of substantial deductibles.

Our business operations expose us to the risk of loss if third parties fail to perform their contractual obligations.

We may incur losses if third parties default on their contractual obligations, such as obligations to pay us money; buy or sell electricity, fuel, emission allowances and other commodities; or provide us with fuel transportation services, power transmission or distribution services. For additional information about third party default risk, including our efforts to mitigate against this risk, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Risk in Item 7 of this Form 10-K and note 2(g) to our consolidated financial statements.

Our costs of compliance with environmental laws are significant and can affect our future financial results.

Our wholesale energy business is subject to extensive and evolving environmental regulations, particularly our coal- and oil-fired generation facilities. We incur significant costs in complying with these regulations and, if we fail to comply, could incur significant penalties. Our cost estimates for compliance with environmental regulations are based on our current assessment of the cost of labor and materials and the state of evolving technologies. Changes to the preceding factors, revisions of environmental regulations, litigation and new

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legislation and/or regulations (including new climate change legislation and regulations), as well as other factors, could cause our actual costs to vary outside the range of our estimates. In addition, failure to comply with environmental requirements could require us to shut down or reduce production on our generation facilities or create liability exposure. New environmental laws or regulations may be adopted that would further constrain our operations or increase our environmental compliance costs. We also may be responsible for the environmental liabilities associated with generation facilities even if a prior owner caused the liabilities. We are required to surrender emission allowances equal to emissions of specific substances to operate our facilities. Surrender requirements may require purchase of allowances which may be unavailable or only available at costs that would make it uneconomical to operate our generating assets. See Business Environmental Matters in Item 1 of this Form 10-K and note 13(c) to our consolidated financial statements.

Failure to obtain or maintain any required permits or approvals could prevent or limit us from operating our business.

To operate our generating facilities and retail electric business, we must obtain and maintain various permits, licenses, approvals and certificates from governmental agencies. In some jurisdictions, we must also meet minimum requirements for customer service and comply with local consumer protection and other laws. Our failure to obtain or maintain any necessary governmental permits or licenses or to satisfy these legal requirements, including environmental compliance provisions, could limit our ability to operate our business or create liability exposure.

We could be liable for a share of the payment defaults of other market participants.

If a market participant defaults on its payment obligations to an ISO, we, together with other market participants, are liable for a portion of the default obligation that is not otherwise covered by the defaulting market participant. Each ISO establishes credit requirements applicable to market participants and the basis for allocating payment default amounts to market participants. In ERCOT, the allocation is based on share of the total load. As of December 31, 2008, we would have been liable for approximately 21% of any defaulted amount in ERCOT. In PJM, MISO and Cal ISO, the methods of allocating the share of defaults differ, and our exposure from these markets is currently relatively small.

Significant events beyond our control, such as hurricanes and other weather-related problems or acts of terrorism, could have a material adverse effect on our business.

The uncertainty associated with events beyond our control, such as significant weather events and the risk of future terrorist activity, may affect our results of operations and financial condition in unpredictable ways. These events could result in adverse changes in the insurance markets and disruptions of power and fuel markets. In addition, significant weather events or terrorist actions could damage or shut down our generation facilities or the fuel and fuel supply facilities or the power transmission and distribution facilities upon which our generation and retail businesses are dependent. Power supply may be sold at a loss if these events cause a significant loss of retail customer load. We do not have business interruption insurance related to our retail energy business. These events could also adversely affect the United States economy, create instability in the financial markets and, as a result, have an adverse effect on our ability to access capital on terms and conditions acceptable to us.

Risks Relating to Our Retail Business

Merrill Lynch, credit support provider for our retail business, contends we have violated the terms of the credit support agreement.

Under the terms of our credit-enhanced retail structure entered into in December 2006, Merrill Lynch provides guarantees and posts collateral for the supply purchases and related transactions of our retail energy business. Merrill Lynch contends that we violated the credit sleeve and reimbursement agreement (the agreement) when we terminated our working capital facility with them in December 2008, and has filed an

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action in a New York Court seeking a judgment declaring an event of default under the agreement. If Merrill Lynch is successful with its claim, it could seek to exercise remedies under the agreement. There is a range of possible remedies available to Merrill Lynch under the agreement, including, without limitation:

- declaring an unwind of the agreement, which would result in Merrill Lynch ceasing to provide credit support for new retail supply and hedging transactions;
- delivering notice to our retail supply counterparties that future transactions will not have Merrill Lynch collateral support; and
- seeking to foreclose on its collateral, the assets comprising our retail energy business.

Depending on the specific remedy that Merrill Lynch may elect to pursue, cross defaults could occur under our June 2007 credit facilities. Although we would seek a waiver from the lenders to avoid any cross defaults, such waiver may not be available on commercially reasonable terms and we may choose to terminate the June 2007 credit facilities. If we were to do so, we may be required to post cash for outstanding letters of credit. For these credit facilities, as of December 31, 2008, we have $0 outstanding in debt, $296 million outstanding as letters of credit and $454 million as available liquidity. There are a number of events, including non-payments of obligations and a non-investment-grade credit rating that could cause Merrill Lynch to default under our credit-enhanced retail structure. Furthermore, if Merrill Lynch experiences downgrades in its credit rating or credit outlook, our suppliers may require other credit support or cease doing business with us pursuant to the credit-enhanced retail structure. If any of these events occurs, our ability to operate our retail business could be impaired and our liquidity, cash flows and results of operations could be adversely affected. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in Item 7 of this Form 10-K and notes 7 and 13(b) to our consolidated financial statements.

We may have to post significant amounts of collateral, which could adversely affect our liquidity, financial position and business.

In connection with any unwind of our credit-enhanced retail structure with Merrill Lynch, we will have to post collateral for new retail supply and hedging transactions. Our levels of collateral postings would be determined and impacted by the terms and timing of the unwind, the nature and volume of our commodity hedging agreements, commodity prices and other strategic alternatives that we may undertake. Depending on the specific timing and the movement in underlying commodity prices, we could incur significant collateral posting obligations that may require us to seek additional sources of liquidity, including additional debt. The covenants in our credit agreements and our agreement with Merrill Lynch restrict our ability to, among other things, obtain additional financing. If we were unable to generate sufficient cash flows from operations or raise cash from other sources, we may not be able to meet our collateral posting obligations. These situations could result from further adverse developments in the energy, fuel or capital markets, a disruption in our operations or those of third parties or other events adversely affecting our cash flows and financial performance. We cannot make any assurances that we would be able to obtain such additional liquidity on commercially reasonable terms or at all.

Volatile power supply costs and demand for power could adversely affect the financial performance of our retail business.

We purchase substantially all of our supply requirements from third parties. As a result, our financial performance depends on our ability to obtain adequate supplies of electric generation from third parties at prices below the prices we charge our customers. Our earnings and cash flows could be adversely affected in any period in which our power supply costs rise at a greater rate than our rates charged to customers. The price of our power supply purchases associated with our energy commitments can be different than that reflected in the rates charged to customers due to, among other factors:

- varying supply procurement contracts used and the timing of entering into related contracts;

- subsequent changes in the overall price of natural gas;

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daily, monthly or seasonal fluctuations in the price of natural gas relative to the 12-month forward prices;

transmission constraints and our ability to move power to our customers; and

changes in market heat rate (i.e., the relationship between power and natural gas prices).

Our earnings and cash flows could also be adversely affected in any period in which the demand for power significantly varies from our forecasted supply, which could occur due to, among other factors, weather events, competition and economic conditions.

We may lose further market share in the Houston retail electricity market.

In recent years, we have experienced declines in our share of the Houston retail electricity market, which represents approximately 65% of our residential and small business customer base. This trend could continue. The new competitive market has attracted a number of new participants. Competitors are putting downward pressure on our Houston sales volumes and may put downward pressure on our margins over time. See Management s Discussion and Analysis of Financial Condition and Results of Operations Business Overview in Item 7 of this Form 10-K.

Violations of market power standards may negatively impact the wholesale cost of power.

In 2006, the PUCT implemented a new rule on resource adequacy and market power in the ERCOT Region. In this rule, the PUCT increased the current price cap applicable to generation offers into the ERCOT energy market, eliminated current market power mitigation measures and adopted new market power standards. If a market participant violates the market power standards and it is not adequately mitigated, such violation could have the impact of increasing the wholesale cost of power, which could adversely impact our gross margins in the Texas retail market.

We depend on the ISOs to communicate operating and system information in a timely and accurate manner. Information that is not accurate or timely can have an impact on our current and future reported financial results.

Each ISO communicates information relating to a customer s choice of retail electric provider and other data needed for servicing of customer accounts to utilities and retail electric providers. Any failure to perform these tasks will result in delays and other problems in enrolling, switching and billing customers. Some of the ISOs are also responsible for settling all electricity supply volumes in their region. Information that is not accurate or timely may result in incorrect estimates of our settled volumes and supply costs that would need to be corrected when such information is received. See Management s Discussion and Analysis of Financial Condition and Results of Operations New Accounting Pronouncements, Significant Accounting Policies and Critical Accounting Estimates Critical Accounting Estimates in Item 7 of this Form 10-K.

Risks Related to Our Company

Our borrowing levels, debt service obligations and restrictive covenants may adversely affect our business. We may be vulnerable to reductions in our cash flow.

As of December 31, 2008, we had total debt of $2.9 billion:

We must dedicate a portion of our cash flows to pay debt service requirements, which reduces the amount of cash available for other business purposes;

The covenants in our debt agreements and in our agreement with Merrill Lynch restrict our ability to, among other things, obtain additional financing, make investments or acquisitions, create additional liens on our assets and take other actions to react to changes or opportunities in our business;

If we do not comply with the payment and other material covenants under our debt agreements and our agreement with Merrill Lynch, we could be required to repay our debt immediately and, in the case of our revolving credit facilities, terminate their commitment to lend us money; and

Our debt levels and credit ratings may affect the evaluation of our creditworthiness by suppliers or customers, which could put us at a competitive disadvantage to competitors with less debt or investment grade credit ratings.

If we were unable to generate sufficient cash flows, access funds from operations or raise cash from other sources, we would not be able to meet our debt service and other obligations. These situations could result from adverse developments in the energy, fuel or capital markets, a disruption in our operations or those of third parties or other events adversely affecting our cash flows and financial performance. See further discussion of risks related to our credit-enhanced retail structure under Risks Related to our Retail Business.

Our hedging and other risk management activities may not work as planned.

Our hedges may not be effective as a result of basis price differences, transmission issues, price correlation, volume variations or other factors, including margins being compressed as a result of market prices behaving differently than expected. See Quantitative and Qualitative Disclosures About Market Risk in Item 7A of this Form 10-K.

Changes in the wholesale energy market or changes in our evaluation of generation assets could result in impairments.

If our outlook for the wholesale energy market changes negatively, or if our ongoing evaluation of our wholesale energy segment results in decisions to mothball, retire or dispose of generation assets, we could have impairment charges related to our fixed assets. See note 2(i) to our consolidated financial statements.

Lawsuits, regulatory proceedings and tax proceedings could adversely affect our future financial results.

From time to time, we are named as a party to, or our property is the subject of, lawsuits, regulatory proceedings or tax proceedings. These proceedings involve highly subjective matters with complex factual and legal questions. Their outcome is uncertain. Any claim that is successfully asserted against us could result in significant damage claims and other losses. Even if we prevail, any proceedings could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations, which could adversely affect our financial condition, results of operations or cash flows. See notes 11, 13 and 14 to our consolidated financial statements.

We have entered into outsourcing arrangements with third party service providers. In addition, our operations are highly dependent on computer and other operating systems, including telecommunications systems. Any interruptions in these arrangements or systems could significantly disrupt our business operations.

In recent years, we have entered into outsourcing arrangements, such as information technology production software, infrastructure and development and certain functions within customer operations, with third party service providers. If these service providers do not perform their obligations, we may incur significant costs and experience interruptions in our business operations in connection with switching to other service providers or assuming these obligations ourselves. We are also highly dependent on our specialized computer and communications systems, the operation of which could be interrupted by fire, flood, power loss, computer viruses or similar disruptions. There is no guarantee that our backup systems and disaster recovery plans will be effective.

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If we acquire or develop additional generation assets, or dispose of existing generation assets, we may incur additional costs and risks.

We may seek to purchase or develop additional generation facilities or dispose of existing generation facilities. There is no assurance that these efforts will be successful. In any sale, we may be required to indemnify a purchaser against liabilities. To finance future acquisitions, we may be required to issue additional equity securities or incur additional debt. We cannot make any assurances that we would be able to obtain such additional liquidity on commercially reasonable terms or at all.

Our process of exploring strategic alternatives may not be successful.

On October 6, 2008, we announced that our Board of Directors authorized the exploration of strategic alternatives to enhance stockholder value. There can be no assurance that the exploration of strategic alternatives will result in a transaction, or that the benefits of any strategic alternative pursued will in fact be realized. The pendency of this process may create uncertainties with current and potential customers, employees, suppliers and business partners. In addition, the market price of our stock may be volatile as we explore strategic alternatives, and volatility may persist or be increased if and when a decision to pursue an alternative is announced or we announce that we are no longer exploring strategic alternatives.

Other Risks

For other company risks, see Business in Item 1 and Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

Our principal executive offices are leased through 2018, subject to two five-year renewal options. Our principal generation facilities are described under Business Wholesale Energy in Item 1 of this Form 10-K. We believe that our properties are adequate for our present needs. We have satisfactory title, rights and possession to our owned facilities, subject to exceptions, which, in our opinion, would not have a material adverse effect on the use or value of the facilities.

Item 3. ***Legal Proceedings.***

For a description of our material pending legal and regulatory proceedings and settlements, see notes 13 and 14 to our consolidated financial statements.

Item 4. ***Submission of Matters to a Vote of Security Holders.***

None.

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Our common stock trades on the New York Stock Exchange under the ticker symbol RRI. On February 13, 2009, we had 34,659 stockholders of record.

The closing price of our common stock on December 31, 2008 was $5.78.

	Market Price	
	High	**Low**
2008:		
First Quarter	$ 26.74	$ 18.06
Second Quarter	$ 28.06	$ 20.47
Third Quarter	$ 24.15	$ 4.94
Fourth Quarter	$ 7.60	$ 2.77
2007:		
First Quarter	$ 21.70	$ 13.52
Second Quarter	$ 27.79	$ 20.37
Third Quarter	$ 30.69	$ 22.72
Fourth Quarter	$ 28.74	$ 24.11

We have never paid dividends. Some of our debt agreements restrict the payment of dividends. See note 6 to our consolidated financial statements.

Stock Price Performance Graph. The following line graph compares the yearly percentage change in our cumulative total stockholder return on common stock with cumulative total return of a broad equity market index (Standard & Poor s 500 Stock Index) and the cumulative total return of a group of our peer companies comprised of Calpine Corporation, Constellation Energy Group, Inc., Dominion Resources, Inc., Dynegy Inc., Exelon Corporation, Mirant Corporation, NRG Energy, Inc., Sempra Energy and TXU Corp. TXU Corp. has been excluded from the graph for 2007 and 2008 because it was acquired and is no longer a publicly-traded company.

This stock price performance graph is furnished in this Form 10-K and is not filed, as permitted by 17 CFR 229.201(e).

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Item 6. *Selected Financial Data.*

	2008 (1)(2)(3)(4)(5)(6)	2007 (1)(2)(6)(7)(8)	2006 (1)(2)(6)(9)(10)	2005 (1)(2)(6)(11)	2004 (1)(2)(6)
			(in millions)		
Statements of Operations Data:					
Revenues	$ 12,553	$ 11,209	$ 10,877	$ 9,712	$ 8,098
Operating income (loss)	(659)	876	(24)	(321)	(13)
Income (loss) from continuing operations	(748)	358	(327)	(441)	(276)
Cumulative effect of accounting changes, net of tax			1	(1)	7
Net income (loss)	(740)	365	(328)	(331)	(29)

	2008 (1)(2)(3)(4)(5)(6)	2007 (1)(2)(6)(7)(8)	2006 (1)(6)(9)(10)	2005 (1)(6)(11)	2004 (1)(6)
Diluted Earnings (Loss) per Share:					
Income (loss) from continuing operations	$ (2.15)	$ 1.01	$ (1.06)	$ (1.46)	$ (0.93)

	2008 (1)(2)(3)(4)(5)(12)(13)	2007 (1)(2)(7)(8)(10)(12)(13)	2006 (1)(9)(11)(12)(13)	2005 (1)(12)(13)	2004 (1)(12)(13)(14)
			(in millions)		
Statements of Cash Flow Data:					
Cash flows from operating activities	$ 183	$ 762	$ 1,276	$ (917)	$ 106
Cash flows from investing activities	216	(179)	1,057	306	900
Cash flows from financing activities	(45)	(292)	(1,957)	594	(1,047)

	December 31,				
	2008 (1)(2)(15)	2007 (1)(2)	2006 (1)	2005 (1)(16)	2004 (1)(16)
			(in millions)		
Balance Sheet Data:					
Net margin deposits	$ 235	$ 140	$ 436	$ 1,700	$ 487
Total assets	10,636	10,192	11,768	13,569	12,194
Current portion of long-term debt and short-term borrowings	13	52	355	789	619
Long-term debt	2,871	2,903	3,178	4,317	3,939
Stockholders equity	3,778	4,477	3,950	3,864	4,386

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(1) We sold or transferred the following operations, which have been classified as discontinued operations. Desert Basin, European energy, Orion Power s hydropower plants, Liberty, Ceredo and Orion Power s New York plants. We sold the following operations, which are included in continuing operations: REMA hydropower plants in April 2005, landfill-gas fueled power plants in July 2005, our El Dorado investment in July 2005 and our Bighorn plant in October 2008.

(2) We deconsolidated Channelview on August 20, 2007 and sold its assets in July 2008.

(3) During 2008, we recorded and paid $66 million for costs related to the unwind of the credit-enhanced retail structure (included in selling, general and administrative expenses).

(4) During 2008, we recorded a goodwill impairment charge of $305 million related to our wholesale energy segment. This charge is non-cash.

(5) During 2008, we recorded $37 million in expenses and paid $34 million for Western states litigation and similar settlements relating to natural gas cases.

(6) During 2008, 2007, 2006, 2005 and 2004, we had net gains on sales of assets and emission and exchange allowances of $156 million, $26 million, $159 million, $168 million and $20 million, respectively.

(7) During 2007, we recorded and paid a $22 million charge related to resolution of a 2004 indictment for alleged violations of the Commodity Exchange Act, wire fraud and conspiracy charges.

(8) During 2007, we recorded $73 million in debt extinguishments expenses and expensed $41 million of deferred financing costs related to accelerated amortization for refinancings and extinguishments.

(9) During 2006, we recorded $37 million in debt conversion expense.

(10) During 2006, we recorded a $35 million charge (paid in 2007) related to a settlement of certain class action natural gas cases relating to the Western states energy crisis.

(11) During 2005, we recorded charges of $359 million relating to various settlements associated with the Western states energy crisis, which were paid during 2006.

(12) During 2008, 2007, 2006, 2005 and 2004, we had net cash proceeds from sales of assets of $538 million, $82 million, $1 million, $149 million and $11 million, respectively.

(13) During 2008, 2007, 2006, 2005 and 2004, we had net proceeds from sales of (purchases of) emission and exchange allowances of $(19) million, $(85) million, $183 million, $89 million and $(65) million, respectively.

(14) During 2004, 2003 and 2002, we recorded charges of $2 million, $47 million and $128 million, respectively, relating to a payment made to CenterPoint in 2004 of $177 million.

(15) See note 13 to our consolidated financial statements for discussion of our contingencies.

(16) The balance sheet data for total assets as of December 31, 2005 and 2004 has not been restated for the adoption of FIN 39-1 as it was impracticable to reasonably retrieve and reconstruct the historical information due to migration of data driven by a system conversion.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

Business Overview

Financial Flexibility. Given the ongoing turmoil in the financial markets and the uncertainty in the overall economic outlook, our focus has been and continues to be on our liquidity and financial flexibility. We are regularly assessing the impact on our business of a wide variety of economic and commodity price scenarios. We believe we have the ability to operate through a significant downturn.

Review of Strategic Alternatives. In October 2008, our Board of Directors initiated a process to review strategic alternatives and formed a special committee to oversee this process. We are exploring a full range of possible strategic alternatives to enhance stockholder value, including, among other possibilities, the sale of all or substantially all of Reliant Energy, as well as the sale of some or all of our retail business. For discussion of our agreement to sell our Texas retail business, see Business General in Item 1 of this Form 10-K.

Ongoing Operations. Our objective is to be a leader in delivering the benefits of competitive electricity markets to customers. Our business focuses on the competitive mass retail and wholesale electricity markets. We are committed to delivering superior returns from competitive markets through insights into the fundamentals of our core markets and a commitment to risk-weighted investments whose return on invested capital exceeds our weighted-average cost of capital.

Company-wide. We are focusing on the following value-creation levers:

- Establishing and maintaining a flexible capital structure to achieve a competitive cost of capital;
- Building a highly disciplined return on invested capital focus; and
- Continuing to develop innovative structures and transactions that improve returns and reduce risk.

We also believe that stockholder value is enhanced through the development of a highly motivated and customer-focused work force. We continue to focus on:

- communicating openly with our employees;
- fostering company pride among our employees;
- providing a satisfying and safe work environment;
- recognizing and rewarding employee contributions and capabilities; and
- motivating our employees to be collaborative leaders committed to our future.

Wholesale Energy. The wholesale energy segment is a capital-intensive, cyclical business. Earnings are significantly impacted by spark and dark spreads and capacity prices. Our margins are driven by a number of factors, including the prices of power, natural gas, coal and fuel oil, the cost of emissions, transmission, weather and global macro-economic factors, none of which we control and many of which are volatile. The factor that we have the most control over is the percentage of time that our generating assets are available to run when it is economical for them to do so (commercial capacity factor). The key earnings drivers in the wholesale energy segment are the amount of time our power plants are economical to operate (economic generation) and commercial capacity factor, which both determine the amount of electricity we generate, the margin we earn for each unit of electricity sold, the availability of our generating assets to meet demand and capacity revenues (other margin) and operating costs. These earnings drivers are impacted by various factors including:

Economic generation

- Supply and demand fundamentals
- Spark spreads (difference between power prices and natural gas fuel costs)
- Dark spreads (difference between power prices and coal fuel costs)
- Generation asset fuel type and efficiency

Commercial capacity factor

- Operations excellence
- Maintenance practices

Unit margin

- Supply and demand fundamentals
- Commodity prices
- Generation asset fuel type and efficiency

- Hedging strategy

Other margin

- Capacity prices
- Power purchase agreements sold to others
- Ancillary services

Operating costs

- Operating efficiencies
- Maintenance practices
- Generation asset fuel type

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We are focusing on the following value-creation levers:

- Maximizing cash flow from our existing portfolio of assets while minimizing collateral requirements;
- Achieving operating and commercial excellence in order to reliably and economically meet customer needs; and
- Proactively monitor environmental regulations and respond to changes to maximize the value of our portfolio of assets.

For a discussion of our plans for investment to comply with existing environmental regulations, see Business Regulation Environmental Matters in Item 1 of this Form 10-K and Liquidity and Capital Resources below. For a discussion of pending and contingent matters related to environmental regulations, see note 13(c) to our consolidated financial statements.

Retail Energy. The retail energy segment is an electricity resale business. We earn a margin by selling electricity to end-user customers, meeting the service needs of such customers and acquiring supply for the estimated demand. The key earnings drivers in the retail energy segment are the volume of electricity we sell to customers, the unit margins received on those sales and the cost of acquiring and serving those customers (operating costs). These earnings drivers are impacted by various factors including:

Volume of electricity sales

- Local weather patterns
- Number and type of customers
- Energy consumption behaviors
- Macro-economic factors affecting demand

Unit margins

- Revenue rate charged compared to cost of supply, which includes
  - Commodity price volatility when actual and estimated demand differ
  - Load-related charges
  - Transmission congestion
  - Hedging costs
- Competitive tactics of other retailers in the market
- Incremental value-added services

Operating costs

- Collateral costs
- Operating efficiencies
- Cost to acquire and retain customers
- Ability to collect

We are focusing on the following value-creation levers:

- Improving our operating cost effectiveness;
- Reducing risk of extreme earnings volatility through increased supply hedging;
- Managing the capital commitment (collateral obligations) to supply our customers; and
- Supporting the competitive electricity market in Texas and providing innovative and value-enhancing services to our customers.

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To reduce the risk of extreme earnings variability in our retail energy segment, we have designed and are implementing changes in our hedging approach such as matching supply and load by geographic zone, buying heat rate and fixed-price call options for volumes significantly above expected levels and considering the use of gas, power and weather options to mitigate extreme events. These changes will result in higher expected supply costs over time. We are reviewing our core processes that support the business to ensure that we have the right people, skills and systems.

For a discussion of our ongoing plan to exit the C&I portion of our retail business over time and the related reduction in our long-term capital requirements for collateral, see 2008 Significant Events and Liquidity and Capital Resources below.

Our ability to achieve these objectives and execute these actions is subject to a number of factors, some of which we may not be able to control. See Cautionary Statement Regarding Forward-Looking Information and Risk Factors in Item 1A of this Form 10-K.

2008 Significant Events

ERCOT. The Houston area experienced thirty-year record heat in late May and early June 2008. As a result, load demand in Houston and south Texas was greater than we expected. Additionally, transmission constraints limited the ability to move power into the Houston and south Texas zones, which caused some of our power supply to be unavailable to meet expected demand. In response, we purchased power in Houston and south Texas to meet our increased load at market prices. This extraordinary event negatively impacted our retail contribution margin by approximately $150 million during primarily the second quarter of 2008.

Hurricane Ike Stranded Supply Costs. In September 2008, Hurricane Ike struck the upper Texas coast, which left over 2.1 million electric consumers (more than 90 percent of the metered electric consumers in the Houston-Galveston area) without power. More than 1.0 million electric consumers were without power for at least six days and more than 500,000 customers remained without power ten days after the storm. Retail contribution margin was negatively impacted by approximately $75 million as a result of the effects of Hurricane Ike, including reduced sales volumes and the sale of excess supply at a loss.

Hurricane Ike, Higher Supply Costs and Pricing Decisions. Due to a substantial increase in natural gas prices, we incurred much higher supply costs in the second and third quarters of 2008 compared to 2007. Natural gas prices declined rapidly in the third quarter and after Hurricane Ike, we decided to not take pricing actions that would have immediately and fully offset the higher supply costs at that time. The combination of increased supply costs and the associated pricing decisions lowered 2008 retail contribution margin by approximately $250 million.

Merrill Lynch. The results in our retail energy segment in 2008 were substantially below our expectations as a result of a variety of factors, including the record heat in the Houston area and ERCOT transmission constraints experienced in late May and early June, the devastating impact of Hurricane Ike on the Gulf Coast and the significant volatility in commodity prices experienced in 2008. As a consequence, we concluded that terminating our $300 million retail working capital facility agreement with Merrill Lynch would be appropriate in order to address any issue that might be asserted regarding the minimum adjusted retail EBITDA covenant in that facility. In December 2008, we terminated the working capital facility and Merrill Lynch contends that we did not have this right. See further discussion of Merrill Lynch s claim and related legal actions in Liquidity and Capital Resources below and note 13(b) to our consolidated financial statements.

Exit from C&I Portion of Our Retail Business. Prior to our decision to exit the C&I portion of our retail energy business either through a wind down or sale of our C&I contracts, roughly 70% of our retail collateral posting obligations were associated with C&I. In contrast, C&I represented only approximately 30% of the contribution margin associated with our retail business. Without the Merrill Lynch credit support under the credit sleeve and reimbursement agreement, we do not believe that the C&I margins covered our cost of capital associated with this business. As a result, we decided to exit the C&I portion of our retail business. Except where we are contractually obligated to do so, we are no longer entering into contracts with new C&I customers and we do not expect to renew contracts with our current customers. In December 2008, we sold all of our Northeast C&I contracts. The Northeast C&I activity was (a) $505 million of our consolidated revenues (or 4%) and (b) $18 million of our consolidated gross margin, excluding unrealized gains/losses on energy derivatives (or 1%) during 2008. We expect that approximately 13,000 MW (36%), 7,000 MW (19%) and 15,000 MW (45%) of our remaining contracted volumes for the C&I activity will roll off during 2009, 2010 and thereafter, respectively.

The following details the C&I activity in our consolidated results of operations:

	2008		2007		2006	
	Dollars	Percentages[1]	Dollars	Percentages[1]	Dollars	Percentages[1]
			(dollars in millions)			
Revenues from C&I customers[2]	$ 4,283	34%	$ 3,709	33%	$ 3,345	31%
Gross margin from C&I customers[3]	106	6%	244	12%	208	12%

(1) These percentages represent the C&I portion of the business as compared to our consolidated results.

(2) Amounts exclude (a) unrealized gains/losses on energy derivatives and (b) market usage adjustments.

(3) Amounts exclude (a) unrealized gains/losses on energy derivatives, (b) sale of Northeast C&I derivative liability and (c) market usage adjustments and contract terminations.

Disposition of Generation Facilities. In July 2008, Channelview completed the sale of its plant for $500 million. In October 2008, we sold our Bighorn plant for $500 million. See notes 19 and 20 to our consolidated financial statements.

Consolidated Results of Operations

The following discussion includes non-GAAP financial measures, which are not standardized; therefore, it may not be possible to compare these financial measures with other companies non-GAAP financial measures having the same or similar names. These non-GAAP financial measures, which are discussed below, reflect an additional way of viewing aspects of our operations that, when viewed with our GAAP results, may provide a more complete understanding of factors and trends affecting our business segments. Investors should review our consolidated financial statements and publicly filed reports in their entirety and not rely on any single financial measure.

2008 Compared to 2007 and 2007 Compared to 2006

We reported $740 million consolidated net loss, or $2.13 loss per share, for 2008 compared to $365 million consolidated net income, or $1.04 diluted income per share, for 2007 and $328 million consolidated net loss, or $1.07 loss per share, for 2006.

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	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Wholesale energy contribution margin, including wholesale hedges and unrealized gains/losses on energy derivatives[(1)]	$ 877	$ 524	$ 146	$ 353	$ 378
Retail energy contribution margin including unrealized gains/losses on energy derivatives and sale of Northeast C&I derivative liability[(1)]	(789)	942	250	(1,731)	692
Other contribution margin	1	1	1		
Other general and administrative	(225)	(171)	(172)	(54)	1
Western states litigation and similar settlements	(37)	(22)	(35)	(15)	13
Gains on sales of assets and emission and exchange allowances, net	156	26	159	130	(133)
Wholesale energy goodwill impairment	(305)			(305)	
Depreciation and amortization	(337)	(424)	(373)	87	(51)
Income of equity investment, net	1	5	6	(4)	(1)
Debt extinguishments and conversions	(1)	(73)	(37)	72	(36)
Other, net	5			5	
Interest expense	(248)	(349)	(428)	101	79
Interest income	29	34	34	(5)	
Income tax (expense) benefit	125	(135)	122	260	(257)
Income (loss) from continuing operations	(748)	358	(327)	(1,106)	685
Income (loss) from discontinued operations	8	7	(2)	1	9
Cumulative effect of accounting change, net of tax			1		(1)
Net income (loss)	$ (740)	$ 365	$ (328)	$ (1,105)	$ 693

(1) These represent our segment measures. See the tables below under Wholesale Energy Margins and Retail Energy Margins.

Wholesale Energy Segment.

In analyzing the results of our wholesale energy segment and in communications with investors, analysts, rating agencies, banks and other parties, we use the non-GAAP financial measures open energy gross margin, open wholesale gross margin and open wholesale contribution margin, which exclude the items described below, as well as our wholesale energy segment profit and loss measure, contribution margin, including wholesale hedges and unrealized gains/losses on energy derivatives. Open energy gross margin, open wholesale gross margin and open wholesale contribution margin should not be relied upon without considering the GAAP financial measures.

Wholesale Hedges. We exclude the recurring effect of certain wholesale hedges that were entered into primarily to mitigate certain operational risks at our generation assets. These amounts primarily relate to settlements of fuel hedges, long-term natural gas transportation contracts and storage contracts. We also exclude the effect of our wholesale energy segment s 2008 sale of natural gas contracts to our retail energy segment. We entered into this intersegment transaction to reduce Merrill Lynch s collateral posting obligations. The wholesale hedges described above are derived based on methodology consistent with the calculation of open energy gross margin. We also exclude the recurring effect of certain historical wholesale hedges that were entered into in order to hedge the economics of a portion of our wholesale operations. These amounts primarily relate to settlements of forward power hedges, long-term tolling purchases, long-term natural gas transportation contracts not serving our generation assets and our legacy energy trading. We believe that it is useful to us, investors, analysts and others to show our results in the absence of hedges. The impact of these hedges on our financial results is not a function of the operating performance of our generation assets, and excluding the impact better reflects the operating performance of our generation assets based on prevailing market conditions. We previously referred to these hedges as Historical and Operational Wholesale Hedges.

Unrealized Gains/Losses on Energy Derivatives. We use derivative instruments to manage operational or market constraints and to increase the return on our generation assets. We are required to record in our consolidated statement of operations non-cash gains/losses related to future periods based on current changes in forward commodity prices for derivative instruments receiving mark-to-market accounting treatment. We refer to these gains and losses prior to settlement, as well as ineffectiveness on cash flow hedges, as unrealized gains/losses on energy derivatives. In some cases, the underlying transactions being hedged receive accrual accounting treatment, resulting in a mismatch of accounting treatments. Since the application of mark-to-market accounting has the effect of pulling forward into current periods non-cash gains/losses relating to and reversing in future delivery periods, analysis of results of operations from one period to another can be difficult. We believe that excluding these unrealized gains/losses on energy derivatives provides a more meaningful representation of our economic performance in the reporting period and is therefore useful to us, investors, analysts and others in facilitating the analysis of our results of operations from one period to another. These gains/losses are also not a function of the operating performance of our generation assets, and excluding their impact helps isolate the operating performance of our generation assets under prevailing market conditions.

Our wholesale energy segment s contribution margin, including wholesale hedges and unrealized gains/losses on energy derivatives was $877 million in 2008 compared to $524 million in 2007. The $353 million increase was primarily due to reduced negative effect of wholesale hedges of $339 million partially offset by net change in unrealized gains/losses on energy derivatives of $24 million. Open wholesale contribution margin increased $38 million primarily due to $48 million decrease in operation and maintenance expense partially offset by $8 million decrease in open wholesale gross margin. Our wholesale energy segment s contribution margin, including wholesale hedges and unrealized gains/losses on energy derivatives was $524 million in 2007 compared to $146 million in 2006. The $378 million increase was primarily due to (a) reduced negative effect of wholesale hedges of $272 million partially offset by net change in unrealized gains/losses on energy derivatives of $49 million. Open wholesale contribution margin increased $155 million primarily due to $196 million increase in open wholesale gross margin partially offset by $40 million increase in operation and maintenance expense. See Wholesale Energy Margins below for explanations.

Wholesale Energy Revenues.

	2008	2007	2006 (in millions)	Change from 2007 to 2008	Change from 2006 to 2007
Wholesale energy third-party revenues	$ 3,138	$ 2,877	$ 2,487	$ 261(1)	$ 390(2)
Wholesale energy revenues intersegment	208	394	571	(186)(3)	(177)(4)
Subtotal	3,346	3,271	3,058	75	213
Revenues affiliates(5)	253(5)	127(5)		126	127
	(1)	32	192	(33)(6)	(160)(7)

Unrealized gains (losses) on energy derivatives					
Total wholesale energy revenues	$ 3,598	$ 3,430	$ 3,250	$ 168	$ 180

(1) Increase primarily due to (a) higher power and natural gas sales prices and (b) higher capacity payments. This increase was partially offset by (a) lower natural gas and power sales volumes and (b) lower steam sales due to the deconsolidation of Channelview on August 20, 2007.

(2) Increase primarily due to (a) higher power sales prices and (b) higher power sales volumes. These increases were partially offset by lower natural gas sales volumes.

(3) Decrease primarily due to (a) lower power sales volumes and (b) lower natural gas sales volumes related to a contract that ended in October 2007. This decrease was partially offset by higher power sales prices.

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(4) Decrease primarily due to lower power sales volumes. This decrease was partially offset by (a) higher power sales prices and (b) higher natural gas sales volumes related to a tolling agreement.

(5) We deconsolidated Channelview on August 20, 2007. These revenues represent sales of fuel to Channelview.

(6) See footnote 21 under Wholesale Energy Margins.

(7) See footnote 22 under Wholesale Energy Margins.

Wholesale Energy Cost of Sales.

	2008	2007	2006 (in millions)	Change from 2007 to 2008	Change from 2006 to 2007
Wholesale energy third-party costs	$ 1,942	$ 2,138	$ 2,371	$ (196)[1]	$ (233)[2]
Cost of sales intersegment[3]	(30)[3]			(30)	
Cost of sales affiliates[4]	201[4]	105[4]		96	105
Unrealized losses on energy derivatives	135	25	136	110[5]	(111)[6]
Unrealized gains on energy derivatives intersegment[7]	(119)[7]			(119)[7]	
Total wholesale energy cost of sales	$ 2,129	$ 2,268	$ 2,507	$ (139)	$ (239)

(1) Decrease primarily due to lower natural gas volumes purchased. This decrease was partially offset by higher prices paid for natural gas and coal.

(2) Decrease primarily due to (a) lower purchased natural gas and power volumes and (b) lower purchased capacity.

(3) Relates to an internal 40 BCFe hedge that extends to December 2010 between the wholesale energy and retail energy segments associated with the unwind of our credit-enhanced retail structure. The realized and unrealized gains/losses on this internal hedge are included in cost of sales for our retail energy and wholesale energy segments and eliminate in consolidation.

(4) We deconsolidated Channelview on August 20, 2007. These cost of sales represent purchases of power from Channelview.

(5) See footnote 21 under Wholesale Energy Margins.

(6) See footnote 22 under Wholesale Energy Margins.

(7) Relates to unrealized gains on the internal 40 BCFe hedge. See footnote 3 above.

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Wholesale Energy Margins.

	2008	2007	2006 (in millions)	Change from 2007 to 2008	Change from 2006 to 2007
Open energy gross margin[1]:					
PJM Coal	$ 608	$ 617	$ 526	$ (9)	$ 91[2]
MISO Coal	111	161	121	(50)[3]	40[4]
PJM/MISO Gas	42	50	44	(8)	6
West	(1)	20	12	(21)[5]	8
Other	1	24	4	(23)[6]	20[7]
Total	761	872	707	(111)	165
Other margin[8]:					
PJM Coal	120	56	29	64[9]	27[10]
MISO Coal	19	14	8	5	6
PJM/MISO Gas	145	109	49	36[11]	60[12]
West	167	141	155	26[13]	(14)[14]
Other	35	63	111	(28)[15]	(48)[16]
Total	486	383	352	103	31
Open wholesale gross margin	1,247	1,255	1,059	(8)	196
Operation and maintenance	(591)	(639)	(599)	48[17]	(40)[18]
Bad debt expense	(1)	1	2	(2)	(1)
Open wholesale contribution margin	655	617	462	38	155
Wholesale hedges	239	(100)	(372)	339[19]	272[20]
Unrealized gains (losses) on energy derivatives	(17)	7	56	(24)[21]	(49)[22]
Total wholesale energy contribution margin, including wholesale hedges and unrealized gains/losses on energy derivatives[23]	$ 877	$ 524	$ 146	$ 353	$ 378

(1) Open energy gross margin is calculated using the power sales prices received by the plants less delivered spot fuel prices. This figure excludes the effects of other margin, our wholesale hedges and unrealized gains/losses on energy derivatives.

(2)

Increase primarily due to (a) higher open energy unit margins (higher power prices partially offset by higher fuel costs) and (b) higher economic generation.

(3) Decrease primarily due to (a) lower open energy unit margins (higher fuel costs partially offset by higher power prices) and (b) lower economic generation. This decrease was partially offset by increased commercial capacity factor due to lower planned and unplanned outages in 2008.

(4) Increase primarily due to (a) higher open energy unit margins (higher power prices) and (b) higher economic generation. These increases were partially offset by lower commercial capacity factor primarily due to higher planned outages in 2007.

(5) Decrease primarily due to (a) lower open energy unit margins (higher fuel costs partially offset by higher power prices) and (b) lower economic generation.

(6) Decrease primarily due to lower economic generation related to the deconsolidation of Channelview on August 20, 2007.

(7) Increase primarily due to higher open energy unit margins (higher power prices partially offset by higher fuel costs). This increase was partially offset by lower economic generation due primarily to the deconsolidation of Channelview on August 20, 2007.

(8) Other margin represents power purchase agreements, capacity payments, ancillary services revenues and selective commercial hedge strategies.

(9) Increase primarily due to higher RPM capacity payments.

(10) Increase primarily due to (a) higher RPM capacity payments and (b) ancillary services revenues.

(11) Increase primarily due to higher RPM capacity payments. This increase was partially offset by lower revenue from purchase power agreements.

(12) Increase primarily due to higher RPM capacity payments.

(13) Increase primarily due to higher capacity payments.

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(14) Decrease primarily due to (a) a decrease in selective commercial hedge activities and (b) lower revenue from power purchase agreements. These decreases were partially offset by higher capacity payments.

(15) Decrease primarily due to (a) the deconsolidation of Channelview on August 20, 2007 and (b) loss on selective commercial hedge activity.

(16) Decrease primarily due to (a) the deconsolidation of Channelview on August 20, 2007 and (b) lower revenue from power purchase agreements.

(17) Decrease primarily due to (a) the deconsolidation of Channelview on August 20, 2007 and (b) $19 million decrease in planned outages and maintenance spending.

(18) Increase primarily due to (a) $21 million increase in planned outages and maintenance spending and (b) $19 million increase in services and support primarily due to strategic initiatives for improving plant performance ($16 million). These increases were partially offset by decreases due to the deconsolidation of Channelview on August 20, 2007.

(19) Increase primarily due to (a) $191 million in increased gains on fuel hedges and (b) $137 million decrease in losses on closed power hedges.

(20) Increase primarily due to (a) $134 million increase on hedges of natural gas transportation and storage contracts, (b) $120 million decrease in losses on closed power hedges and (c) $11 million increased gains on fuel hedges.

(21) Decrease primarily due to (a) $64 million loss from changes in prices on our energy derivatives marked to market and (b) $78 million reversal of previously recognized unrealized gains on energy derivatives settled during the period, partially offset by $119 million gain on the internal 40 BCFe hedge. See footnote 3 under Wholesale Energy Cost of Sales.

(22) Decrease primarily due to $75 million reversal of previously recognized unrealized gains on energy derivatives which settled during the period, partially offset by $14 million gain due to change in prices on our derivatives marked to market.

(23) Wholesale energy segment profit and loss measure.

Retail Energy Segment.

In analyzing the results of our retail energy segment and in communications with investors, analysts, rating agencies, banks and other parties, we use the non-GAAP financial measures retail gross margin and retail contribution margin, which exclude the items described below, as well as our retail energy segment profit and loss measure, contribution margin, including unrealized gains/losses on energy derivatives and sale of Northeast C&I derivative liability. Retail gross margin and retail contribution margin should not be relied upon without considering the GAAP financial measures.

Unrealized Gains/Losses on Energy Derivatives. We use derivative instruments to manage operational or market constraints and to execute our retail energy segment s supply procurement strategy. We are required to record in our consolidated statement of operations non-cash gains/losses related to future periods based on current changes in forward commodity prices for derivative instruments receiving mark-to-market accounting treatment. We refer to these gains and losses prior to settlement, as well as ineffectiveness on cash flow hedges, as unrealized gains/losses on energy derivatives. In substantially all cases, the underlying transactions being hedged receive accrual accounting treatment, resulting in a mismatch of accounting treatments. Since the application of mark-to-market accounting has the effect of pulling forward into current periods non-cash gains/losses relating to and reversing in future delivery periods, analysis of results of operations from one period to another can be difficult. We believe that excluding these unrealized gains/losses on energy derivatives provides a more meaningful representation of our economic performance in the reporting period and is therefore useful to us, investors, analysts and others in facilitating the analysis of our results of operations from one period to another.

Sale of Northeast C&I Derivative Liability. In December 2008, we sold our C&I contracts in the Northeast and recognized a gain of $63 million. In connection with this sale, we assigned contracts accounted for as derivatives that had a liability balance of $56 million at the time of the sale. This $56 million liability represents the realized loss on the derivatives sold in the sale of Northeast C&I contracts. We exclude this realized loss since it is more than offset by the gain on the sale of the sold contracts, which is not included in retail gross margin or retail contribution margin. When analyzing margins for our ongoing retail energy business, management does not consider the effect of this $56 million realized loss. We believe that excluding this item provides a more meaningful representation of our economic performance in the reporting period and is therefore useful to us, investors, analysts and others in facilitating the analysis of our results of operations from one period to another.

Our retail energy segment s contribution margin, including unrealized gains/losses on energy derivatives and sale of Northeast C&I derivative liability was $(789) million in 2008 compared to $942 million in 2007. The $1.7 billion decrease was primarily due to the net change in unrealized gains/losses on energy derivatives

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of $1.2 billion and a $501 million decrease in retail gross margin. Our retail energy segment s contribution margin, including unrealized gains/losses on energy derivatives was $942 million in 2007 compared to $250 million in 2006. The $692 million increase was primarily due to the net change in unrealized gains/losses on energy derivatives of $725 million, partially offset by a $32 million decrease in retail gross margin. See Retail Energy Margins below for explanations.

Retail Energy Revenues.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Retail energy revenues from end-use retail customers:					
Mass:					
Residential:					
Houston	$ 1,971	$ 2,057	$ 2,466	$ (86)[1]	$ (409)[2]
Non-Houston	1,175	1,175	1,109		66[3]
Small Business:					
Houston	457	493	593	(36)[4]	(100)[5]
Non-Houston	205	203	189	2	14
Total Mass	3,808	3,928	4,357	(120)	(429)
C&I:					
ERCOT	3,712	3,334	2,964	378[6]	370[7]
Non-ERCOT	571	375	381	196[8]	(6)
Total C&I	4,283	3,709	3,345	574	364
Total	8,091	7,637	7,702	454	(65)
Retail energy revenues from resales of purchased power and other hedging activities	1,063	540	488	523[9]	52[9]
Market usage adjustments	1	(4)	7	5	(11)
Unrealized gains on energy derivatives	4			4	
Total retail energy revenues	$ 9,159	$ 8,173	$ 8,197	$ 986	$ (24)

(1) Decrease primarily due to lower volumes driven by (a) fewer number of customers and (b) change in customer usage primarily due to Hurricane Ike, partially offset by warmer weather. This decrease was partially offset by higher unit sales prices.

(2) Decrease primarily due to (a) lower volumes driven by (i) fewer number of customers and (ii) a change in customer usage and mix and (b) lower unit sales prices.

(3) Increase primarily due to increased number of customers, partially offset by lower volumes due to a change in customer usage and mix.

(4) Decrease primarily due to lower volumes driven by fewer number of customers.

(5) Decrease primarily due to lower volumes primarily driven by (a) fewer number of customers and (b) a change in customer usage and mix.

(6) Increase primarily due to higher unit sales prices due to (a) variable rate contracts, which are tied to the market price of natural gas and (b) fixed price contracts at higher market rates due to higher prices of electricity when contracts were executed. This increase was partially offset by lower volumes driven by a change in average customer usage and mix primarily due to Hurricane Ike, partially offset by increased number of customers.

(7) Increase primarily due to (a) higher volumes due to increased number of customers and (b) higher unit sales prices. These increases were partially offset by lower volumes due to a change in customer usage and mix.

(8) Increase primarily due to (a) higher volumes due to increased number of customers, partially offset by a change in customer usage and mix and (b) higher unit sales prices due to higher prices of electricity when contracts were executed.

(9) Increase primarily due to higher unit sales prices associated with our supply management activities in various markets in Texas.

Retail Energy Cost of Sales.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Costs of sales	$ 8,445	$ 6,820	$ 6,635	$ 1,625	$ 185
Retail energy costs intersegment	238	394	571	(156)	(177)
Subtotal	8,683	7,214	7,206	1,469(1)	8(2)
Market usage adjustments and contract terminations	21	7	7	14	
Unrealized (gains) losses on energy derivatives	611	(438)	287	1,049(3)	(725)(4)
Unrealized losses on energy derivatives intersegment(5)	119(5)			119(5)	
Sale of Northeast C&I derivative liability	56(6)			56(6)	
Total retail energy cost of sales	$ 9,490	$ 6,783	$ 7,500	$ 2,707	$ (717)

(1) Increase primarily due to higher unit prices driven by (a) higher market prices of purchased power at the time of procurement, (b) the sell back of excess power at reduced market rates due to Hurricane Ike, (c) increased cost of intra-month congestion, (d) higher load related charges and (e) higher transmission and distribution losses in ERCOT.

(2) Increase primarily due to higher costs of purchased power at the time of procurement, partially offset by lower volumes due to a change in customer usage and mix.

(3) See footnote 8 under Retail Energy Margins.

(4) See footnote 9 under Retail Energy Margins.

(5) Relates to unrealized losses on the internal 40 BCFe hedge. See footnote 3 under Wholesale Energy Cost of Sales.

(6) See footnote 10 under Retail Energy Margins.

Retail Energy Margins.

	Change from 2007	Change

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Mass gross margin	$ 365	$ 719	$ 776	$ (354)[1]	$ (57)[2]
C&I gross margin	106	244	208	(138)[3]	36[4]
Market usage adjustments and contract terminations	(20)	(11)		(9)	(11)
Retail gross margin	451	952	984	(501)	(32)
Operation and maintenance	(247)	(245)	(234)	(2)	(11)[5]
Selling and marketing expense	(157)	(124)	(124)	(33)[6]	
Bad debt expense	(54)	(79)	(89)	25[7]	10
Retail contribution margin	(7)	504	537	(511)	(33)
Unrealized gains (losses) on energy derivatives	(726)	438	(287)	(1,164)[8]	725[9]
Sale of Northeast C&I derivative liability	(56)[10]			(56)	
Total retail energy contribution margin, including unrealized gains/losses on energy derivatives and sale of Northeast C&I derivative liability[11]	$ (789)	$ 942	$ 250	$ (1,731)	$ 692

(1) Decrease primarily due to (a) higher supply costs during the second and third quarters not passed through to customers, (b) higher market rates on incremental volumes purchased for higher customer load due to weather and increased cost of intra-month congestion in the second quarter, (c) Hurricane Ike impacts, which include sell back of excess supply at reduced market rates and lower customer usage and (d) fewer number of customers.

(2) Decrease primarily due to lower volumes driven by (a) a change in customer usage and mix and (b) fewer number of customers.

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(3) Decrease primarily due to (a) higher supply costs during the second and third quarters, (b) increased cost of intra-month congestion and (c) Hurricane Ike impacts, which include sell back of excess supply at reduced market rates and lower customer usage.

(4) Increase primarily due to higher unit margins (higher unit sales prices, partially offset by higher unit prices of purchased power at the time of procurement).

(5) Increase primarily due to (a) $18 million increase in salaries, contract services and professional fees and (b) $4 million for a technology licensing settlement. These increases were partially offset by (a) $4 million decrease in corporate allocations and (b) $4 million decrease in gross receipts taxes.

(6) Increase primarily due to (a) $23 million increase in salaries and benefits resulting from increased staffing levels and professional fees and services and (b) $10 million increase from more marketing campaigns.

(7) Decrease in bad debt expense due to improved collections.

(8) Decrease primarily due to (a) $727 million loss from changes in prices on our derivatives marked to market, (b) $307 million reversal of previously recognized unrealized gains on energy derivatives settled during the period, (c) $119 million loss on the internal 40 BCFe hedge and (d) $9 million reversal of previously recognized unrealized gains on energy derivatives related to derivatives sold in the Northeast C&I sale (consisting of $65 million unrealized losses and $56 million reversal of unrealized losses during 2008). See footnote 3 under Wholesale Energy Cost of Sales.

(9) Increase primarily due to (a) $187 million reversal of previously recognized unrealized losses on energy derivatives which settled during the period, (b) $71 million of decreased losses from cash flow hedge ineffectiveness, (c) $372 million of decreased losses due to changes in prices on our derivatives marked to market and (d) $51 million of decreased losses resulting from the termination of commodity contracts with a counterparty.

(10) Represents the realized loss on the derivatives sold in the sale of Northeast C&I contracts. This amount is offset by $63 million gain on the sale of the Northeast C&I contracts included in the line item gains on sales of assets and emission and exchange allowances, net. See footnote 8 above.

(11) Retail energy segment profit and loss measure.

Other General and Administrative.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Salaries and benefits	$ 77	$ 87	$ 90	$ (10)	$ (3)
Credit-enhanced retail structure fees and unwind costs[1]	66	1	13	65	(12)
	38	38	29		9

Professional fees, contract services and information systems maintenance					
Rent and utilities	22	21	20	1	1
Legal costs	10	13	11	(3)	2
Costs in connection with Channelview s reorganization	1	3		(2)	3
Other, net	11	8	9	3	(1)
Other general and administrative	$ 225	$ 171	$ 172	$ 54	$ (1)

(1) The amounts for 2006 and 2007 are the initial structuring fees. The amounts for 2008 relate to the unwind of the agreement and are as follows: (a) $35 million paid to a third party for termination of a convertible participating preferred stock agreement, (b) $13 million paid to a third party in connection with a potential financing for term loans, (c) $10 million paid to Merrill Lynch for waiver fees in connection with the retail working capital facility and (d) $8 million related to attorneys fees, consulting fees and other third party costs in connection with the aforementioned items.

Western States Litigation and Similar Settlements. See notes 13 and 14 to our consolidated financial statements.

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Gains on Sales of Assets and Emission and Exchange Allowances, Net.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Northeast C&I contracts	$ 63	$	$	$ 63	$
Bighorn plant	47			47	
CO_2 exchange allowances	38			38	
Investment in and receivables from Channelview	6(1)			6	
Equipment		24		(24)	24
SO_2 and NO_x emission allowances(2)		1	159(3)	(1)	(158)
Other, net	2	1		1	1
Gains on sales of assets and emission and exchange allowances, net	$ 156	$ 26	$ 159	$ 130	$ (133)

(1) In 2008, we sold the Channelview plant. This amount represents our change in the estimate of the recovery of the net investment in and receivables from Channelview.

(2) In the past few years, we sold some excess emission allowances. See Business Environmental Matters in Item 1 of this Form 10-K.

(3) Includes gains of $157 million related to sales of SO_2 emission allowances.

Wholesale Energy Goodwill Impairment. See note 4 to our consolidated financial statements and New Accounting Pronouncements, Significant Accounting Policies and Critical Accounting Estimates Critical Accounting Estimates in this Form 10-K.

Depreciation and Amortization.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Depreciation on plants	$ 226	$ 269	$ 247	$ (43)(1)	$ 22(2)
Depreciation on information systems	34	35	50	(1)	(15)(3)
Other, net depreciation	5	5	6		(1)
Depreciation	265	309	303	(44)	6

Amortization of emission allowances	68	110	65	(42)(4)	45(5)
Other, net amortization	4	5	5	(1)	
Amortization	72	115	70	(43)	45
Depreciation and amortization	$ 337	$ 424	$ 373	$ (87)	$ 51

(1) Decrease primarily due to (a) early retirements of plant components when replacement components are installed for upgrades (from $29 million in 2007 to $4 million in 2008), (b) classification of Bighorn assets as held for sale in April 2008, which requires depreciation to cease and (c) the deconsolidation of Channelview on August 20, 2007.

(2) Increase primarily due to early retirements of plant components when replacement components are installed for upgrades (from $9 million in 2006 to $29 million in 2007). This increase was partially offset by $5 million decrease related to Channelview, which was deconsolidated on August 20, 2007.

(3) Decrease primarily due to assets becoming fully depreciated. This decrease was partially offset by depreciation on assets placed into service during 2007.

(4) Decrease primarily due to (a) decrease in average cost of SO_2 allowances purchased and used and (b) decrease in allowances used.

(5) Increase primarily due to higher average cost of SO_2 allowances purchased and used.

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Income of Equity Investment, Net.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Sabine Cogen, LP	$ 1	$ 5	$ 6	$ (4)	$ (1)
Income of equity investment, net	$ 1	$ 5	$ 6	$ (4)	$ (1)

Debt Extinguishments and Conversions. See note 6 to our consolidated financial statements.

Other, Net.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Impairment of investments	$ (2)	$ (3)	$	$ 1	$ (3)
Other, net	7	3		4	3
Other, net	$ 5	$	$	$ 5	$

Interest Expense.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Fixed-rate debt	$ 228	$ 235	$ 249	$ (7)	$ (14)[(1)]
Fees for MWh s delivered under credit-enhanced retail structure[(2)]	27	26	2	1	24
Financing fees expensed	8	12	27	(4)	(15)
Deferred financing costs[(3)]	8	51	32	(43)	19
Variable-rate debt		14	88	(14)[(4)]	(74)[(5)]
Channelview		16	25	(16)[(6)]	(9)[(6)]
Unrealized losses on derivatives[(7)]		5	11	(5)	(6)

Amortization of fair value adjustment of acquired debt	(11)	(11)	(9)		(2)
Capitalized interest[8]	(17)	(4)		(13)	(4)
Other, net	5	5	3		2
Interest expense	$ 248	$ 349	$ 428	$ (101)	$ (79)

(1) Decrease primarily due to decrease in outstanding debt principal balances.

(2) See notes 7 and 13(b) to our consolidated financial statements.

(3) See notes 2(s) and 6 to our consolidated financial statements.

(4) Decrease primarily due to decrease in outstanding debt principal balances.

(5) Decrease primarily due to decrease in outstanding debt principal balances.

(6) Decrease due to the deconsolidation of Channelview on August 20, 2007.

(7) See notes 2(f) and 5 to our consolidated financial statements.

(8) Relates primarily to scrubber projects at our Cheswick and Keystone plants.

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Interest Income.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Interest on temporary cash investments	$ 23	$ 25	$ 6	$ (2)	$ 19[1]
Net margin deposits	5	8	27	(3)	(19)[2]
Other, net	1	1	1		
Interest income	$ 29	$ 34	$ 34	$ (5)	$

(1) Increase primarily due to increase in cash equivalents due to (a) the return of net margin deposits as a result of the credit-enhanced retail structure that became effective on December 1, 2006 and (b) cash flows from operations.

(2) Decrease primarily due to credit-enhanced retail structure that became effective on December 1, 2006.

Income Tax Expense (Benefit). See note 11 to our consolidated financial statements.

Income (Loss) from Discontinued Operations. See note 21 to our consolidated financial statements.

Liquidity and Capital Resources

In addition to the factors discussed above under 2008 Significant Events, the ongoing turmoil in the financial markets and uncertainty in the overall economic outlook have resulted in a significant increase in the cost and reduction in the availability of capital. The impact of this turmoil and uncertainty has been to increase Merrill Lynch s cost to perform under the credit-enhanced retail structure. To us, the credit-enhanced retail structure represents a significant concentration of credit risk with Merrill Lynch. As a result of this and because of disagreements with Merrill Lynch regarding the minimum adjusted retail EBITDA covenant in our working capital facility, in September 2008, we decided to pursue an orderly unwind of the credit-enhanced retail structure. The amount of credit support that Merrill Lynch provides for our retail business varies depending on commodity prices and contracted volumes for our supply purchases. As of January 1, 2009, Merrill Lynch was providing credit support for our retail business that would represent collateral posting obligations for mass and C&I of approximately $1.5 to $2.0 billion. To ensure that we would have sufficient capital to operate our retail business without the benefit of the credit-enhanced retail structure, we secured commitments for $1 billion in new capital.

Under the credit sleeve and reimbursement agreement (the agreement), we are not required to take on this full collateral posting obligation. In November 2008, we made the decision to exit the C&I portion of our retail energy business over time, which will significantly reduce our long-term capital requirements for collateral and reached an agreement to sell our Northeast C&I contracts. In connection with this decision, we terminated the $1 billion in new capital commitments. We incurred and expensed costs of $66 million during 2008 in connection with these commitments and other events related to our decision to unwind the credit-enhanced retail structure.

In early December 2008, we exercised our right to terminate the Merrill Lynch $300 million retail working capital facility. No borrowings were outstanding under this facility. In late December 2008, Merrill Lynch filed a claim seeking a judgment declaring that under the agreement we did not have the right to terminate the working capital facility. See note 13(b) to our consolidated financial statements.

If Merrill Lynch is successful with its claim, it could seek to exercise remedies under the agreement. There is a range of possible remedies available to Merrill Lynch under the agreement, including, without limitation:

- declaring an unwind of the agreement, which would result in Merrill Lynch ceasing to provide credit support for new retail supply and hedging transactions;
- delivering notice to our retail supply counterparties that future transactions will not have Merrill Lynch collateral support; and
- seeking to foreclose on its collateral, the assets comprising our retail energy business.

However, Merrill Lynch cannot require us to post collateral to replace its credit support for our existing business. Depending on the specific remedy that Merrill Lynch may elect to pursue, cross defaults could occur under our June 2007 credit facilities. In order to prevent any possible cross defaults, we would seek a waiver of any default from these lenders. If we were unable to obtain a waiver on commercially reasonable terms, we would likely terminate these credit facilities. This would result in a $750 million reduction of available liquidity, a portion of which could take the form of posting cash for outstanding letters of credit. For these credit facilities, as of December 31, 2008, we have $0 outstanding in debt, $296 million outstanding as letters of credit and $454 million as available liquidity. It is uncertain whether Merrill Lynch would exercise any of its remedies. We do not believe any of these outcomes would have a material impact on the financial position, results of operations or cash flows of our wholesale energy business.

Merrill Lynch stated in its December 2008 claim that, reserving all its rights, until further notice it intends to continue to perform under the credit-enhanced retail structure and provide credit enhancement to us in connection with our retail energy business. We intend to continue to pursue longer-term arrangements to unwind the credit-enhanced retail structure.

In connection with any unwind, we would expect to be obligated to post collateral for new retail supply and hedging transactions. We estimate our capital requirements (including contingent capital) for the mass portion of our retail energy business to approximate $400 to $800 million in the aggregate, once legacy transactions expire and all collateral posting obligations are borne by us. These requirements include allowances for collateral posting obligations that fluctuate with the price of natural gas, as decreases in the price of natural gas could cause increases in our collateral posting obligations. For each one dollar movement in the price of natural gas, we expect our collateral posting obligations to change by $100 to $150 million for the mass portion of our retail energy business. We believe we would have sufficient liquidity to meet these capital requirements.

For discussion of our agreement to sell our Texas retail business, see Business General in Item 1 of this Form 10-K.

Sources of Liquidity and Capital Resources

Our principal sources of liquidity and capital resources are cash and cash equivalents on hand, cash flows from operations and unused borrowing capacity. We expect these sources will be adequate to meet our expected liquidity needs in 2009. However, if additional liquidity is required, it could be sourced from borrowings, net proceeds from asset sales or securities offerings. We cannot make any assurances that we would be able to obtain such additional liquidity on commercially reasonable terms or at all. Also, as discussed in notes 6 and 7 to our consolidated financial statements, there are certain restrictive covenants and other contractual restrictions related to our ability to obtain additional borrowings.

As of February 13, 2009, we had total available liquidity of $2.0 billion, consisting of unused borrowing capacity, letters of credit capacity and cash and cash equivalents. This amount includes $192 million in cash and cash equivalents related to our retail business, which could be restricted from time to time to use by that business. During 2008, we generated $173 million in operating cash flows from continuing operations, including the changes in margin deposits of $96 million (cash outflow). During 2008, we received $500 million in proceeds from the sale of our Bighorn plant (classified as investing cash flows). We expect operating cash flows to increase in 2009 compared to 2008.

During the latter half of 2008 and continuing into 2009, the markets in which our wholesale generation assets operate have experienced compressed spark and dark spreads. In addition, given the current economic environment, it is likely the demand for power could decrease. These could lead to lower margins for our wholesale energy segment. However, we currently have fixed sales commitments for receipts of RPM capacity payments through May 2012 and power purchase and capacity agreement payments through 2014 totaling $1.9 billion, of which $521 million relates to 2009. See note 12(c) to our consolidated financial statements. During 2008 and 2007, we recognized in revenues combined RPM capacity payments and power purchase and capacity agreement payments of $479 million and $317 million, respectively.

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For further description of factors that could affect our liquidity and capital resources, see Risk Factors in Item 1A of this Form 10-K and the discussion of restrictive covenants in notes 6 and 7 to our consolidated financial statements.

See Historical Cash Flows for further detail of our cash flows from operating activities and explanation of our $216 million cash provided by investing activities and $45 million use of cash from financing activities.

Liquidity and Capital Requirements

Our liquidity and capital requirements primarily reflect our working capital needs, capital expenditures (including environmental capital expenditures), collateral requirements, purchases of emissions allowances, discretionary debt extinguishments and debt service. Examples of working capital needs include purchases of fuel and electricity (including related settlements of derivatives), plant maintenance costs, payroll costs and fees and expenses associated with the unwind of our credit-enhanced retail structure with Merrill Lynch. Settlement costs associated with litigation and regulatory proceedings can also have a significant impact on our liquidity and cash requirements. For settlements, see notes 13 and 14 to our consolidated financial statements.

Capital Requirements. The following table provides information about our actual and estimated future capital requirements:

	2008	2009 (in millions)	2010
Maintenance capital expenditures:			
Wholesale energy(1)	$ 41	$ 36	$ 54
Retail energy	28		
Other operations	18	14	14
	87	50	68
Environmental(2)	206	123	27(3)
Capitalized interest	17	30	
Total capital expenditures	$ 310	$ 203	$ 95

(1) Excludes $8 million for 2009 through 2014 for pre-existing environmental conditions and remediation, which have been accrued for in our consolidated balance sheet as of December 31, 2008.

(2) For a discussion of pending and contingent matters related to environmental regulations, see note 13(c) to our consolidated financial statements.

(3) We have estimated environmental capital expenditures of $27 to $52 million for 2010 and have included the low end of the range in the table.

Contractual Obligations. The following table includes our obligations and commitments to make future payments under contracts as of December 31, 2008:

Contractual Obligations	Total	Less than One Year	One to Three Years (in millions)	Three to Five Years	More than Five Years
Debt, including credit facilities[1]	$ 4,881	$ 228	$ 783	$ 360	$ 3,510
Other commodity commitments[2]	1,439	595	268	156	420
Derivative liabilities	2,591	1,839	642	109	1
REMA operating lease payments	997	63	115	120	699
Maintenance agreements obligations	486	5	29	15	437
Other operating lease payments	436	91	159	63	123
Plant and equipment commitments[3]	209	153	56		
Other[4]	492	99	82	61	250
Total contractual cash obligations	$ 11,531	$ 3,073	$ 2,134	$ 884	$ 5,440

(1) Includes interest payments.

(2) Includes commitments with both fixed and variable pricing components. See note 12(c) to our consolidated financial statements.

(3) These amounts are included in the capital requirements table above under either maintenance capital expenditures for wholesale energy or environmental.

(4) Includes stadium naming rights, credit-enhanced retail structure fee on sales commitments, estimated pension and post retirement benefit payments and other contractual obligations.

As of December 31, 2008, we have estimated minimum sales commitments over the next five years, which are not classified as derivative assets and liabilities, of (in millions):

2009	$ 2,735
2010	1,975
2011	1,458
2012	878
2013	303
Total[1]	$ 7,349

(1) Includes sales commitments with both fixed and variable pricing components. See note 12(c) to our consolidated financial statements.

Contingencies and Guarantees. We are involved in a number of legal, environmental and other proceedings before courts and are subject to ongoing investigations by certain governmental agencies that could negatively impact our liquidity. See notes 13 and 14 to our consolidated financial statements.

We also enter into guarantee and indemnification arrangements in the normal course of business, none of which is expected to materially impact our liquidity. See note 12(b) to our consolidated financial statements.

Credit Risk

By extending credit to our counterparties, we are exposed to credit risk. For a discussion of our credit risk and policy, see note 2(g) to our consolidated financial statements.

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As of December 31, 2008, our derivative assets and accounts receivable from our wholesale energy and retail energy power supply counterparties, after taking into consideration netting within each contract and any master netting contracts with counterparties, are:

Credit Rating Equivalent	Exposure Before Collateral(1)	Credit Collateral Held(2)	Exposure Net of Collateral	Number of Counterparties >10%(3)	Net Exposure of Counterparties >10%(3)
			(dollars in millions)		
Investment grade	$ 173	$ 14	$ 159	2	$ 114
Non-investment grade	9	1	8		
No external ratings:(4)					
Internally rated Investment grade	48		48	1	42
Internally rated Non-investment grade	20	6	14		
Total	$ 250	$ 21	$ 229	3	$ 156

(1) The table excludes amounts related to contracts classified as normal purchase/normal sale 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 and economic risk if a counterparty does not perform. Nonperformance could have a material adverse impact on our future results of operations, financial condition and cash flows.

(2) Collateral consists of cash, standby letters of credit and other forms approved by management.

(3) See note 2(g) to our consolidated financial statements.

(4) For unrated counterparties, we perform credit analyses including review of financial statements, contractual rights and restrictions and credit support such as parent company guarantees to create an internal credit rating.

Off-Balance Sheet Arrangements

As of December 31, 2008, we have no off-balance sheet arrangements. For information regarding our principles of consolidation, see note 2(b) to our consolidated financial statements.

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Historical Cash Flows

Cash Flows Operating Activities

2008 Compared to 2007 and 2007 Compared to 2006.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Operating income (loss)	$ (659)	$ 876	$ (24)	$ (1,535)	$ 900
Wholesale energy goodwill impairment	305			305	
Depreciation and amortization	337	424	373	(87)	51
Gains on sales of assets and emission and exchange allowances, net	(156)	(26)	(159)	(130)	133
Net changes in energy derivatives	837(1)	(393)(2)	317(3)	1,230	(710)
Western states litigation and similar settlements	3(4)	(5)	35	3	(35)
Western states litigation and similar settlements payments	(4)	(35)(5)	(160)	35	125
Margin deposits, net	(96)	297	1,264(6)	(393)	(967)(6)
Settlements of exchange transactions prior to contractual period(7)	1	(9)	22	10	(31)
Net option premiums purchased	(36)	(23)	(53)	(13)	30
Interest payments	(252)	(345)	(385)	93	40
Change in accounts and notes receivable and accounts payable, net	(115)	20	32	(135)	(12)
Change in inventory	(32)	(22)	18	(10)	(40)
Income tax payments, net of refunds	(29)	(28)	(29)	(1)	1
Other, net	65	19	79	46	(60)
Net cash provided by continuing operations from operating activities	173	755	1,330	(582)	(575)
Net cash provided by (used in) discontinued operations from operating activities	10	7	(54)	3	61
Net cash provided by operating activities	$ 183	$ 762	$ 1,276	$ (579)	$ (514)

(1) Includes unrealized losses on energy derivatives of $743 million.

(2) Includes unrealized gains on energy derivatives of $445 million.

(3) Includes unrealized losses on energy derivatives of $231 million.

(4) We expensed $37 million and paid $34 million in 2008.

(5) We expensed and paid $22 million in 2007.

(6) Change primarily due to our credit-enhanced retail structure and the expiration of certain hedges.

(7) Represents exchange transactions financially settled in three business days prior to the contractual delivery month.

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Cash Flows Investing Activities

2008 Compared to 2007 and 2007 Compared to 2006.

	2008	2007	2006 (in millions)	Change from 2007 to 2008	Change from 2006 to 2007
Capital expenditures	$ (310)	$ (189)	$ (97)	$ (121)[1]	$ (92)[1]
Proceeds from sales of assets, net	538	82	1	456	81
Proceeds from sales of emission and exchange allowances	42[2]	7	205[3]	35	(198)
Purchases of emission allowances	(61)[4]	(92)[5]	(23)	31	(69)
Restricted cash	1	7	2	(6)	5
Other, net	6	6	1		5
Net cash provided by (used in) continuing operations from investing activities	216	(179)	89	395	(268)
Net cash provided by discontinued operations from investing activities			968[6]		(968)
Net cash provided by (used in) investing activities	$ 216	$ (179)	$ 1,057	$ 395	$ (1,236)

(1) Increase primarily due to environmental capital expenditures for NO_x and SO_2 emission reductions at two of our facilities beginning in 2007.

(2) Includes $38 million from sales of CO_2 exchange allowances.

(3) Includes $202 million from sales of SO_2 allowances.

(4) Includes $48 million and $13 million for purchases of SO_2 and NO_x allowances, respectively.

(5) Includes $89 million for purchases of SO_2 allowances.

(6) Includes $952 million of net cash proceeds from the sale of New York plants.

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Cash Flows Financing Activities

2008 Compared to 2007 and 2007 Compared to 2006.

	2008	2007	2006	Change from 2007 to 2008	Change from 2006 to 2007
			(in millions)		
Proceeds from issuance of senior unsecured notes	$	$ 1,300	$	$ (1,300)	$ 1,300
Payments of senior secured notes	(58)	(1,126)		1,068	(1,126)
Net payments on senior secured term loans		(400)	(452)	400	52
Net payments on receivables facility			(450)		450
Net payments on senior secured revolver			(383)		383
Proceeds from issuances of stock	14	41	25	(27)	16
Payments of debt extinguishments and conversions expenses	(1)	(73)	(36)	72	(37)
Payments of financing costs		(31)	(17)	31	(14)
Other, net		(3)	(6)	3	3
Net cash used in continuing operations from financing activities	(45)	(292)	(1,319)	247	1,027
Net cash used in discontinued operations from financing activities			(638)		638
Net cash used in financing activities	$ (45)	$ (292)	$ (1,957)	$ 247	$ 1,665

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New Accounting Pronouncements, Significant Accounting Policies and Critical Accounting Estimates

New Accounting Pronouncements

See note 2 to our consolidated financial statements.

Significant Accounting Policies

See note 2 to our consolidated financial statements.

Critical Accounting Estimates

We make a number of estimates and judgments in preparing our consolidated financial statements. These estimates can differ from actual results and have a significant impact on our recorded assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. We consider an estimate to be a critical accounting estimate if it requires a high level of subjectivity or judgment and a significant change in the estimate would have a material impact on our financial condition or results of operations. Each critical accounting estimate affects both our retail energy and wholesale energy segments, unless indicated otherwise. The Audit Committee of our Board of Directors reviews each critical accounting estimate with our senior management. Further discussion of these accounting policies and estimates is in the notes to our consolidated financial statements.

Fair Value Goodwill.

We consider the estimate of fair value for our wholesale energy and retail energy segments to be a critical accounting estimate because (a) a goodwill impairment could have a material impact on our financial position and results of operations and (b) the estimate is based on a number of highly subjective judgments and assumptions.

We test goodwill for impairment on an annual basis in April, and more often if events or circumstances indicate there may be impairment. We have two reporting segments: wholesale energy and retail energy. Goodwill impairment testing is performed at the reporting unit level, which is consistent with our reporting segments. We continually assess whether any indicators of impairment exist, which requires a significant amount of judgment. Such indicators may include a sustained significant decline in our share price and market capitalization; a decline in our expected future cash flows; a significant adverse change in legal factors or in the business climate; unanticipated competition; overall weaknesses in our industry; and slower growth rates. Any adverse change in these factors could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements.

During April, we tested goodwill for impairment and determined that no impairments existed.

During the third and fourth quarters of 2008, given recent adverse changes in the business climate and the credit markets (see 2008 Significant Events and Liquidity and Capital Resources above), our market capitalization being lower than our book value during all of the fourth quarter and extending into 2009, our review of strategic alternatives to enhance stockholder value and reductions in our expected near-term cash flows from operations, we reviewed our goodwill for impairment. We concluded that no goodwill impairments occurred as of September 30, 2008. As discussed below, as of December 31, 2008, we concluded that our wholesale energy segment s goodwill of $305 million was impaired. This charge is non-cash.

Goodwill is reviewed for impairments based on a two-step test. In the first step, we compare the fair value of each reporting unit with its net book value. We must apply judgment in determining the fair value of our reporting units for purposes of performing our goodwill impairment tests because quoted market prices for our reporting units are not available. In estimating the fair values of the reporting units, we use a combination of an income approach and a market-based approach.

Income approach We discount the expected cash flows of each reporting unit. The discount rate used represents the estimated weighted average cost of capital, which reflects the overall level of inherent

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risk involved in our operations and cash flows and the rate of return an outside investor would expect to earn. To estimate cash flows beyond the final year of our model, we apply a terminal value multiple to the final year EBITDA.

Market-based approach We use the guideline public company method, which focuses on comparing our risk profile and growth prospects to select reasonably similar/guideline publicly traded companies. We also use a public transaction method, which focuses on exchange prices in actual transactions as an indicator of fair value.

In weighting the results of the various valuation approaches, prior to the fourth quarter of 2008, we placed more emphasis on the income approach, using management s future cash flow projections for each reporting unit and risk-adjusted discount rates. As our earnings outlook declined, our earnings variability increased and our market capitalization declined significantly in 2008, we increased the weighting of the estimates of fair value of our reporting units determined by the market-based approaches. Further, the aggregate estimated fair value of our reporting units was compared to our total market capitalization, adjusted for a control premium. A control premium is added to the market capitalization to reflect the value that exists with having control over an entire entity.

If the estimated fair value of the reporting unit is higher than the recorded net book value, no impairment is considered to exist and no further testing is required. However, if the estimated fair value of the reporting unit is below the recorded net book value, a second step must be performed to determine the goodwill impairment required, if any. In the second step, the estimated fair value from the first step is used as the purchase price in a hypothetical acquisition of the reporting unit, which is then allocated to the reporting unit s assets and liabilities in accordance with purchase accounting rules. The residual amount of goodwill that results from this hypothetical purchase price allocation is compared to the recorded amount of goodwill for the reporting unit, and the recorded amount is written down to the hypothetical amount, if lower.

Estimation of our Wholesale Energy Reporting Unit s Fair Value. We estimate the fair value of our wholesale energy reporting unit based on a number of subjective factors, including: (a) appropriate weighting of valuation approaches, as discussed above, (b) projections about the future power generation margins, (c) estimates of our future cost structure, (d) environmental assumptions, (e) risk-adjusted discount rates for our estimated cash flows, (f) selection of peer group companies for the public company market approach, (g) required level of working capital, (h) assumed EBITDA multiple for terminal values and (i) time horizon of cash flow forecasts.

As part of our process, we develop 15-year forecasts of earnings and cash flows, assuming that demand for power grows at the rate of two percent a year. We model all of our power generation facilities and those of others in the regions in which we operate, using these assumptions: (a) the markets in which we operate will continue to be deregulated and earn a market return; (b) there will be a recovery in electricity margins over time such that companies building new generation facilities can earn a reasonable rate of return on their investment, which implies that margins and therefore cash flows in the future would be better than they are today because market prices will need to rise high enough to provide an incentive for new plants to be built, and the entire market will realize the benefit of those higher margins and (c) the long-term returns on future construction of new generation facilities will likely be driven by integrated utilities, which we expect will have a lower cost of capital than merchant generators, which implies that the revenues and margins described in (b) above will be at the level of return required for a regulated entity instead of a deregulated company. We assume that the after-tax rate of return on new construction is 7.5%.

Our assumptions for each of our goodwill impairment assessments during 2006, 2007 and 2008:

	April 2006	April 2007	April 2008	September 2008	December 2008
Income approach assumptions					
EBITDA multiple for terminal values(1)	7.5	8.0	8.0	7.0	7.0
Risk-adjusted discount rate for our estimated cash flows(2)	9.0%	9.5%	10.0%	11.0%	13.0%
Market-based approach assumptions					
EBITDA multiple for publicly traded company	N/A	8	8	5	6
Valuation approach weightings(3)					
Income approach	70%	70%	60%	80%	25%
Market-based approach	30%	30%	40%	20%	75%

(1) Changed primarily due to market factors affecting peer company comparisons.

(2) Increased primarily due to capital structure of peer company comparisons and increased required rate of return on debt and equity capital of peer companies.

(3) Changed primarily due to increased focus on market-based approaches. See discussion above.

Based on our analysis, we concluded that the wholesale energy reporting unit did not pass the first step as of December 31, 2008, primarily due to lower expected cash flows due to the adverse business climate, significantly lower expected exchange transaction values due to credit market disruptions which would make it difficult for transactions to occur and increase the price of those transactions and significantly lower valuations for our peer companies. In addition, when we compared the aggregate of our fair value estimates of both reporting units to our market capitalization, including a control premium, we determined that the market participants views of our fair value had also declined significantly.

We then performed the second step of the impairment test, which requires an allocation of the fair value as the purchase price in a hypothetical acquisition of the reporting unit. The significant hypothetical purchase price allocation adjustments made to the assets and liabilities of our wholesale energy reporting unit consisted of the following:

- Adjusting the carrying value of our property, plant and equipment to values that would be expected in the current credit and market environment;
- Adjusting the carrying value of our emission allowances, which currently trade at amounts significantly higher than our book value;
- Adjusting the carrying value of our debt, which has a lower fair value than our book value; and
- Adjusting deferred income taxes for changes in the balances listed above.

After making these hypothetical adjustments, no residual value remained for a goodwill allocation resulting in the impairment of our wholesale energy reporting unit s goodwill net carrying amount of $305 million as of December 31, 2008.

Estimation of our Retail Energy Reporting Unit s Fair Value. We estimate the fair value of our retail energy reporting unit based on a number of subjective factors, including: (a) appropriate weighting of valuation approaches, as discussed above, (b) projections about future customer mix and related revenues, (c) estimates of our future cost structure, (d) risk-adjusted discount rates for our estimated cash flows, (e) selection of peer group companies for the public company market approach, (f) required level of working capital, (g) assumed EBITDA multiple for terminal values and (h) time horizon of cash flow forecasts. For the most recent reporting period, we determined that the recently announced sale to a subsidiary of NRG Energy, Inc. was the best estimate of the value of our retail energy reporting unit. Using that measure, the fair value of the reporting unit exceeded the book value and therefore, the goodwill was not impaired as of December 31, 2008.

Fair Value Property, Plant and Equipment.

We consider the fair value estimate used to calculate impairment of property, plant and equipment a critical accounting estimate. This estimate primarily affects our wholesale energy segment, which holds approximately 98% of our total net property, plant and equipment. See note 2(i) to our consolidated financial statements. In determining the existence of an impairment in carrying value, we make a number of subjective assumptions as to:

- whether there is an indication of impairment;
- the grouping of assets;
- the intention of holding versus selling an asset;
- the forecast of undiscounted expected future cash flow over the asset s estimated useful life; and
- if an impairment exists, the fair value of the asset or asset group.

Fair Value Derivative Assets and Liabilities.

Effective January 1, 2008, we adopted SFAS No. 157 on a prospective basis for our derivative assets and liabilities. In determining fair value, we generally use the market approach and incorporate assumptions market participants would use in pricing the asset or liability.

SFAS No. 157 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs (Level 1 or Level 2) and minimizes the use of unobservable inputs (Level 3) by requiring that the observable inputs be used when available. Derivative instruments classified as Level 2 primarily include over-the-counter (OTC) derivative instruments such as generic swaps and forwards. The fair value measurements of these derivative assets and liabilities are based largely on unadjusted indicative quoted prices from independent brokers in active markets. An active market is considered to have transactions with sufficient frequency and volume to provide pricing information on an ongoing basis. Derivative instruments for which fair value is calculated using quoted prices that are deemed not active or that have been extrapolated from quoted prices in active markets are classified as Level 3. For certain natural gas and power contracts, we adjust seasonal or calendar year quoted prices based on historical observations to represent fair value for each month in the season or calendar year, such that the average of all months is equal to the quoted price. A derivative instrument that has a tenor that does not span the quoted period is considered an unobservable Level 3 measurement.

We evaluate and validate the inputs we use to estimate fair value by a number of methods, including validating against market published prices and daily broker quotes obtainable from multiple pricing services. For OTC derivative instruments classified as Level 2, indicative quotes obtained from brokers in liquid markets generally represent fair value of these instruments. Adjustments to the quotes are adjustments to the bid or ask price depending on the nature of the position to appropriately reflect exit pricing and are considered a Level 3 input to the fair value measurement. In less liquid markets such as coal, in which a single broker s view of the market is used to estimate fair value, we consider such inputs to be unobservable Level 3 inputs.

We report our derivative assets and liabilities, for which the normal purchase/normal sale exception has not been made, at fair value and consider it to be a critical accounting estimate because these estimates are highly susceptible to change from period to period and are dependent on many subjective factors, including:

- estimated forward market price curves;

valuation adjustments relating to time value;

liquidity valuation adjustments; and

credit adjustments, based on the credit standing of the counterparties and or own non-performance risk.

Fair value for energy derivatives is further derived from credit adjustments. Derivative assets are discounted using a yield curve representative of the counterparty s probability of default. The counterparty s default probability is based on a modified version of published default rates, taking 20-year historical default rates from Standard & Poor s and Moody s and adjusting them to reflect a rolling five-year average. For derivative liabilities, fair value measurement reflects the nonperformance risk related to that liability, which is our own credit risk. We derive our nonperformance risk by applying our credit default swap spread against the respective derivative liability. As of December 31, 2008, we had $0 and $97 million in reserves for nonperformance risk on derivative assets and derivative liabilities, respectively.

To determine the fair value for Level 3 energy derivatives where there are no market quotes or external valuation services, we rely on various modeling techniques. We use a variety of valuation models, which vary in complexity depending on the contractual terms of, and inherent risks in, the instrument being valued. We use both industry-standard models as well as internally developed proprietary valuation models that consider various assumptions such as market prices for power and fuel, market implied heat rates, load and price shapes, ancillary services, volatilities and correlations as well as other relevant factors as may be deemed appropriate. There is inherent risk in valuation modeling given the complexity and volatility of energy markets. Therefore, it is possible that results in future periods may be materially different as contracts are ultimately settled.

For additional information regarding our derivative assets and liabilities, see notes 2(e), 2(f) and 5 to our consolidated financial statements and Quantitative and Qualitative Disclosures about Market Risk in Item 7A of this Form 10-K.

Retail Energy Segment Estimated Revenues and Energy Supply Costs.

Accrued Unbilled Revenues. Accrued unbilled revenues of $482 million as of December 31, 2008 represented 4% of our consolidated revenues and 5% of our retail energy segment s revenues for 2008. Accrued unbilled revenues of $435 million as of December 31, 2007 represented 4% of our consolidated revenues and 5% of our retail energy segment s revenues for 2007.

Accrued unbilled revenues are critical accounting estimates as volumes are not precisely known at the end of each reporting period and the revenue amounts are material. If our estimate of electricity usage were to increase or decrease by 3%, our accrued unbilled revenues as of December 31, 2008 would have increased or decreased by approximately $15 million.

Estimated Energy Supply Costs. We record energy supply costs for electricity sales and services to retail customers based on estimated supply volumes for the applicable reporting period. This is a critical accounting estimate as volumes are not known at the end of each reporting period and the purchased power amounts are material.

A portion of our energy supply costs ($83 million and $74 million as of December 31, 2008 and 2007, respectively) consisted of estimated transmission and distribution charges not yet billed by the transmission and distribution utilities.

In estimating supply volumes, we consider the effects of historical customer volumes, weather factors and usage by customer class. We estimate our transmission and distribution delivery fees using the same method that we use for electricity sales and services to retail customers. In addition, we estimate ERCOT ISO fees based on historical trends, estimated supply volumes and initial ERCOT ISO settlements. Volume estimates are then multiplied by the supply rate and recorded as purchased power in the applicable reporting period. If our estimate of electricity usage volumes increased or decreased by 3%, our energy supply costs would have increased or decreased by approximately $13 million as of December 31, 2008. Changes in our volume usage would have resulted in a similar offsetting change in billed volumes, thus partially mitigating our energy supply costs.

Dependence on ERCOT ISO Settlement Procedures. Preliminary settlement information is due from the ERCOT ISO within two months after electricity is delivered. Final settlement information is due from the ERCOT ISO within six months after electricity is delivered. The six month settlement received from ERCOT is considered final as ERCOT will only resettle if there are data errors greater than 2% of that day s transaction dollars or if alternate dispute resolutions are granted. We record our estimated supply costs and related fees using estimated supply volumes, as discussed above, and adjust those costs upon receipt of the ERCOT ISO information. Delays in settlements could materially affect the accuracy of our recorded energy supply costs and related fees.

Loss Contingencies.

We record loss contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. We consider loss contingency estimates to be critical accounting estimates because they entail significant judgment regarding probabilities and ranges of exposure, and the ultimate outcome of the proceedings is unknown and could have a material adverse effect on our results of operations, financial condition and cash flows. See notes 13 and 14 to our consolidated financial statements.

Deferred Tax Assets, Valuation Allowances and Tax Liabilities.

We estimate (a) income taxes in the jurisdictions in which we operate, (b) deferred tax assets and liabilities based on expected future taxes in the jurisdictions in which we operate, (c) valuation allowances for deferred tax assets and (d) uncertain income tax positions. These estimates are considered critical accounting estimates because they require projecting future operating results (which is inherently imprecise) and judgments related to the ultimate determination of tax positions by taxing authorities. Also, these estimates depend on assumptions regarding our ability to generate future taxable income during the periods in which temporary differences are deductible. See note 11 to our consolidated financial statements for additional information.

We assess our future ability to use federal, state and foreign net operating loss carryforwards, capital loss carryforwards and other deferred tax assets using the more-likely-than-not criteria. These assessments include an evaluation of our recent history of earnings and losses, future reversals of temporary differences and identification of other sources of future taxable income, including the identification of tax planning strategies in certain situations.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Our primary market risk exposure relates to fluctuations in commodity prices, principally, natural gas, power, coal and oil. We also have had market risk exposure related to changes in interest rates. As described in notes 2(f) and 2(g) to our consolidated financial statements, we have a risk control framework to manage our risk exposure. However, the effectiveness of this framework can never be completely estimated or fully assured. For example, we could experience volatility in earnings from basis price differences, transmission issues, price correlation issues, volume variation or other factors, including margins being compressed as a result of market prices behaving differently than expected. In addition, a reduction in market liquidity may impair the effectiveness of our risk management practices and resulting hedge strategies. These and other factors could have a material adverse effect on our results of operations, financial condition and cash flows.

Non-trading Market Risks

Commodity Price Risk

Changes in commodity prices prior to the energy delivery period are inherent in our wholesale and retail energy businesses. However, we believe the benefits of generally hedging our generation assets do not justify the costs, including collateral postings. Accordingly, we may enter selective hedges, including originated transactions, based on our assessment of (a) market fundamentals to increase the return from our generation assets and (b) operational and market limitations requiring us to enter into fuel, capacity and emissions transactions to manage our generation assets. In our retail energy business, we routinely enter into derivative contracts to manage our purchase and sale commitments. We use derivative instruments such as futures, forwards, swaps and options to execute our wholesale hedge strategy and retail supply procurement strategy. For further discussion of these strategies and related market risks, see notes 2 and 5 to our consolidated financial statements.

As of December 31, 2008, the fair values of the contracts related to our net non-trading derivative assets and liabilities are:

Sources of Fair Value	2009	2010	2011	2012	2013	2014 and thereafter	Total fair value
				(in millions)			
Prices actively quoted (Level 1)[1]	$ (29)	$ (11)	$	$	$	$	$ (40)
Prices provided by other external sources (Level 2)[1]	(486)	(169)	(88)	(46)	(14)		(803)
Prices based on models and other valuation methods (Level 3)[1]	(174)	(20)	(10)	(1)			(205)
Total mark-to-market non-trading derivatives	$ (689)	$ (200)	$ (98)	$ (47)	$ (14)	$	$ (1,048)

(1) See note 2(e) to our consolidated financial statements.

The fair values shown in the table above are subject to significant changes due to fluctuating commodity forward market prices, volatility and credit risk. Market prices assume a functioning market with an adequate number of buyers and sellers to provide liquidity. Insufficient market liquidity could significantly affect the values that could be obtained for these contracts, as well as the costs at which these contracts could be hedged. For further discussion of how we arrive at these fair values, see note 2(d) to our consolidated financial statements and Management s Discussion and Analysis of Financial Condition and Results of Operations New Accounting Pronouncements, Significant Accounting Policies and Critical Accounting Estimates Critical Accounting Estimates in Item 7 of this Form 10-K.

A hypothetical 10% movement in the underlying energy prices would have the following potential loss impacts on our non-trading derivatives:

As of December 31,	Market Prices	Earnings Impact	Fair Value Impact
		(in millions)	
2008	10% decrease	$ (253)	$ (253)
2007	10% decrease	(353)	(353)

This risk analysis does not include the favorable impact that the same hypothetical price movements would have on our physical purchases and sales of fuel and power to which the hedges relate. The adverse impact of changes in commodity prices on our portfolio of non-trading energy derivatives would be offset (although not necessarily in the same period) by a favorable impact on the underlying physical transactions, assuming:

- the derivatives are not closed out in advance of their expected term;
- the derivatives continue to function effectively as hedges of the underlying risk; and

as applicable, anticipated underlying transactions settle as expected.

If any of these assumptions cease to be true, we may experience a benefit or loss relative to the underlying exposure.

Interest Rate Risk

As of December 31, 2008 and 2007, we have no variable rate debt outstanding. We earn interest income, for which the interest rates vary, on our cash and cash equivalents and net margin deposits. Our variable rate interest expense and interest income was $0 and $28 million, respectively, during 2008 and $14 million and $33 million, respectively, during 2007.

If interest rates decreased by one percentage point from their December 31, 2008 and 2007 levels, the fair values of our fixed rate debt would have increased by $124 million and $201 million, respectively.

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Trading Market Risks

Prior to March 2003, we engaged in proprietary trading activities as discussed in note 5 to our consolidated financial statements. Trading positions entered into prior to our decision to exit this business are being closed on economical terms or are being retained and settled over the contract terms. In addition, we have transactions relating to non-core asset management, such as gas storage and transportation contracts not tied to generation assets, which are classified as trading activities.

As of December 31, 2008, the fair values of the contracts related to our legacy trading and non-core asset management positions and recorded as net derivative assets and liabilities are:

Sources of Fair Value	2009	2010	2011	2012	2013	2014 and Thereafter	Total Fair Value
				(in millions)			
Prices actively quoted (Level 1)[1]	$ 16	$ 11	$	$	$	$	$ 27
Prices provided by other external sources (Level 2)[1]	8						8
Prices based on models and other valuation methods (Level 3)[1]	(3)	(2)					(5)
Total	$ 21	$ 9	$	$	$	$	$ 30

(1) See note 2(e) to our consolidated financial statements.

The fair values in the above table are subject to significant changes based on fluctuating market prices and conditions. See the discussion above related to non-trading derivative assets and liabilities for further information on items that impact our portfolio of trading contracts.

Our consolidated realized and unrealized margins relating to these positions are (income (loss)):

	2008	2007
	(in millions)	
Realized	$ 11	$ 8
Unrealized	14	11
Total	$ 25	$ 19

An analysis of these net derivative assets and liabilities is:

	2008	2007
	(in millions)	
Fair value of contracts outstanding, beginning of period	$ 19	$ 9
Contracts realized or settled	(9)[1]	(10)[2]
Changes in valuation techniques		
Changes in fair values attributable to market price and other market changes	20	20
Fair value of contracts outstanding, end of period	$ 30	$ 19

(1) Amount includes realized gain of $11 million partially offset by deferred settlements of $2 million.

(2) Amount includes realized gain of $8 million and deferred settlements of $2 million.

We primarily assess the risk of our legacy trading and non-core asset management positions using a value-at-risk method to maintain our total exposure within limits set by the Audit Committee. Value-at-risk is the potential loss in value of trading positions due to adverse market movements over a defined time period within a specified confidence level. We use the parametric variance/covariance method with delta/gamma approximation to calculate value-at-risk.

Our value-at-risk model utilizes four major parameters:

Confidence level 95% for natural gas and petroleum products and 99% for power products;

Volatility calculated daily from historical forward prices using the exponentially weighted moving average method;

Correlation calculated daily from daily volatilities and historical forward prices using the exponentially weighted moving average method; and

Holding period natural gas and petroleum products generally have two day-holding periods. Power products have holding periods of five to 20 days based on the risk profile of the portfolio and the liquidation period.

While we believe that our value-at-risk assumptions and approximations are reasonable, different assumptions and/or approximations could produce materially different estimates. An inherent limitation of value-at-risk is that past market risk may not produce accurate predictions of future market risk. In addition, value-at-risk calculated for a specified holding period does not fully capture the market risk of positions that cannot be liquidated or offset with hedges within that specified period. Future transactions, market volatility, reduction of market liquidity, failure of counterparties to satisfy their contractual obligations and/or a failure of risk controls could result in material losses from our legacy trading and non-core asset management positions.

The daily value-at-risk for our legacy trading and non-core asset management positions is:

	2008	2007
	(in millions)	
As of December 31	$ 2	$ 1
Year Ended December 31:		
Average	4	3
High	13	5
Low		1

Item 8. ***Financial Statements and Supplementary Data.***

The information required by this Item is incorporated by reference from the consolidated financial statements beginning on page F-1.

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

None.

Item 9A. ***Controls and Procedures.***

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on this evaluation, these officers have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

Management s Annual Report on Internal Control Over Financial Reporting

The information required by this Item is incorporated by reference from Reliant Energy, Inc. s Report on Internal Control Over Financial Reporting on page F-1.

Changes in Internal Control Over Financial Reporting

In connection with the evaluation described above, we identified no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during our fiscal quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Item 9B. *Other Information.*

Sale of Our Texas Retail Business. On February 28, 2009, we entered into several agreements related to the sale of our Texas retail business. We (Reliant Energy) entered into a purchase agreement to sell our interests in the affiliates that operate our Texas retail mass and C&I business to NRG Retail LLC (the buyer), a subsidiary of NRG Energy, Inc. (NRG) for $287.5 million in cash plus the value of the net working capital. This sale includes the rights to our name. NRG has guaranteed the obligations of the buyer. Upon closing, our affiliates that are party to the credit sleeve and reimbursement agreement with Merrill Lynch will be owned by the buyer. We have agreed to pay Merrill Lynch a $7.5 million fee and to increase the fees under the credit sleeve and reimbursement agreement by $3 million per month until the close. The bulk of the fees payable to Merrill Lynch are payable only upon and at closing. When the sale closes, the litigation with Merrill Lynch Commodities, Inc. and Merrill Lynch & Co., Inc. (Merrill Lynch) against our affiliates that conduct our retail business (the Retail Entities) related to the termination of the working capital facility supporting our retail business will be dismissed. The Reliant Entities and Merrill Lynch have agreed to stay further proceedings in the litigation until June 1, 2009, or in the event regulatory approvals delay closing, July 1, 2009. The sale is subject to customary closing conditions, including the Hart-Scott-Rodino review. The buyer may terminate the agreement in connection with certain takeover proposals that it may receive prior to closing subject to the payment of a $45 million termination fee. We expect to close in the second quarter of 2009. We will enter a one-year transition services agreement with the buyer in connection with the closing, which will include terms and conditions for information technology services, accounting services and human resources. NRG s guarantee will also apply to this transition services agreement. As required by our debt agreements, a par exchange offer will be made with the net proceeds to holders of our secured notes and PEDFA bonds.

The foregoing summary is qualified in its entirety by reference to the LLC Membership Interest Purchase Agreement, the NRG Guarantee, the Agreement Regarding Prosecution of Litigation and the Interim Period Letter Agreement filed as Exhibits 2.4, 10.84, 10.85 and 99.1 hereto, respectively, which are incorporated herein by reference.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance.*

See Business Executive Officers in Item 1 of this Form 10-K. Pursuant to General Instruction G to Form 10-K, we incorporate by reference the information to be disclosed in our definitive proxy statement for the annual stockholder meeting at which we will elect directors (Proxy Statement).

Item 11. *Executive Compensation.*

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item 11 the information to be disclosed in our Proxy Statement.

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

Equity Compensation Plan Information

The following table provides information as of December 31, 2008 regarding our equity compensation plans.

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights[1]	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in column (a))
Equity compensation plans approved by security holders[2]	8,948,655(3)	$ 13.11	23,664,819(4)
Equity compensation plans not approved by security holders[5]	1,181,211(6)	$ 8.28	3,603,915
Total	10,129,866	$ 12.74	27,268,734

(1) The weighted average exercise prices exclude shares issuable under outstanding time-based restricted stock units (which do not have an exercise price).

(2) Plans approved by stockholders include the Reliant Energy, Inc. Employee Stock Purchase Plan, the 2002 Long-Term Incentive Plan, the Long-Term Incentive Plan of Reliant Energy, Inc. and the Reliant Energy, Inc. Transition Stock Plan.

(3) This amount includes 8,331,903 shares issuable upon the exercise of outstanding stock options and 616,752 shares issuable pursuant to outstanding restricted stock units granted under the 2002 Long-Term Incentive Plan.

(4) Includes stockholder approved reserves of 9,421,650 shares as of December 31, 2008 that may be issued under the Employee Stock Purchase Plan and 14,243,169 shares that may be issued under the 2002 Long-Term Incentive Plan. Under the 2002 Long-Term Incentive Plan, no more than 25% of the shares available for future issuance are available for grant as awards of restricted stock and non-restricted awards of common stock or units denominated in common stock. No additional shares may be issued under the Long-Term Incentive Plan of Reliant Energy, Inc. or the Reliant Energy, Inc. Transition Stock Plan.

(5) The Reliant Energy Inc. 2002 Stock Plan permits grants of stock options, stock appreciation rights, performance based stock awards, time-based stock awards and cash awards to all employees other than the executive officers subject to the reporting requirements of Section 16(a) of the Exchange Act. The Board authorized 6,000,000 shares for grant upon adoption of the 2002 Stock Plan. To the extent these 6,000,000 shares were not granted in 2002, the excess shares were cancelled. In January 2003, an additional 6,000,000 shares were authorized for the plan, with no more than 25% of these shares available for grant as awards of restricted stock and non-restricted awards of common stock or units denominated in common stock. The total number of shares available for future issuance is adjusted for new grants, exercises, forfeitures, cancellations and terminations of outstanding awards.

(6) This amount includes 699,099 shares issuable upon the exercise of outstanding stock options and 482,112 shares issuable pursuant to outstanding restricted stock units.

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into this Item 12 the information to be disclosed in our Proxy Statement under the captions Stock Ownership of Certain Beneficial Owners and Management Directors and Executive Officers, and Principal Stockholders.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence.***

Item 14. ***Principal Accountant Fees and Services.***

Pursuant to General Instruction G to Form 10-K, we incorporate by reference into each of these Items 13 and 14 the information to be disclosed in our Proxy Statement.

PART IV

Item 15. ***Exhibits and Financial Statement Schedules.***

(a) List of Documents Filed as Part of This Report

(1) Index to Consolidated Financial Statements of Reliant Energy, Inc. and Subsidiaries.

Reliant Energy, Inc. s Report on Internal Control Over Financial Reporting	F-1
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Operations for the Years Ended December 31, 2008, 2007, and 2006	F-4
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006	F-6
Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2008, 2007 and 2006	F-7
Notes to Consolidated Financial Statements	F-8

(2) Financial Statement Schedule.

Schedule II Reliant Energy, Inc. and Subsidiaries Valuation and Qualifying Accounts for the Years Ended December 31, 2008, 2007 and 2006	F-69

All other schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements.

The following financial statements are included in this report pursuant to Item 3-16 of Regulation S-X:

Consolidated Financial Statements of RERH Holdings, LLC and Subsidiaries.

Report of Independent Registered Public Accounting Firm	F-70
Consolidated Statements of Operations for the Years Ended December 31, 2008, 2007 and 2006	F-71
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-72
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006	F-73
Consolidated Statements of Members Equity and Comprehensive Income for the Years Ended December 31, 2008, 2007 and 2006	F-74
Notes to Consolidated Financial Statements	F-75
Consolidated Financial Statements of Reliant Energy Mid-Atlantic Power Holdings, LLC and Subsidiaries	
Report of Independent Registered Public Accounting Firm	F-95
Consolidated Statements of Operations for the Years Ended December 31, 2008, 2007 and 2006	F-96
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-97
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006	F-98
Consolidated Statements of Member s Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2008, 2007 and 2006	F-99

Notes to Consolidated Financial Statements	F-100
Consolidated Financial Statements of Orion Power Holdings, Inc. and Subsidiaries	
Report of Independent Registered Public Accounting Firm	F-120
Consolidated Statements of Operations for the Years Ended December 31, 2008, 2007 and 2006	F-121
Consolidated Balance Sheets as of December 31, 2008 and 2007	F-122
Consolidated Statement of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006	F-123
Consolidated Statements of Stockholders Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2008, 2007 and 2006	F-124
Notes to Consolidated Financial Statements	F-125

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(3) Index to Exhibits.

The exhibits with the cross symbol (+) are filed with the Form 10-K. The exhibits with the asterisk symbol (*) are compensatory arrangements filed pursuant to Item 601(b)(10)(iii) of Regulation S-K. The representations, warranties and covenants contained in the exhibits were made only for purposes of such exhibits, were solely for the benefit of the parties thereto, may be subject to limitations agreed upon by those parties and may be subject to standards of materiality that differ from those applicable to investors. Investors should not rely on the representations, warranties and covenants or any descriptions thereof contained in the exhibits as characterizations of our actual state of facts or condition. Information in the exhibits is as of specific dates, may change after those dates and any subsequent information may not be fully reflected in our public disclosures.

Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
2 .1	Asset Purchase Agreement by and among Reliant Energy Channelview LP, Reliant Energy Services Channelview LLC and GIM Channelview Cogeneration, LLC entered into June 9, 2008 and dated as of April 3, 2008	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2008	1-16455	2.1
2 .2	Asset Purchase Agreement for Bighorn power plant by and among Reliant Energy Wholesale Generation, LLC, Reliant Energy Asset Management, LLC and Nevada Power Company dated as of April 21, 2008	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2008	1-16455	2.1
2 .3	Amendment No. 1 to Asset Purchase Agreement for Bighorn power plant by and among Reliant Energy Wholesale Generation, LLC, Reliant Energy Asset Management, LLC and Nevada Power Company, dated as of May 12, 2008	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2008	1-16455	2.2
+2 .4	LLC Membership Interest Purchase Agreement by and between Reliant Energy, Inc. and NRG Retail LLC, dated as of February 28, 2009 (Portions of this Exhibit have been omitted pursuant to a request for confidential treatment)			
3 .1	Third Restated Certificate of Incorporation	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2007	1-16455	3.1
3 .2			1-16455	3.1

	Fourth Amended and Restated Bylaws	Reliant Energy, Inc. s Current Report on Form 8-K, filed November 18, 2008		
4 .1	Specimen Stock Certificate	Reliant Energy, Inc. s Amendment No. 5 to Registration Statement on Form S-1, filed March 23, 2001	333-48038	4.1

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
4.2	Rights Agreement between Reliant Resources, Inc. and The Chase Manhattan Bank, as Rights Agent, including a form of Rights Certificate, dated as of January 15, 2001	Reliant Energy, Inc. s Amendment No. 8 to Registration Statement on Form S-1, filed April 27, 2001	333-48038	4.2
4.3	Senior Indenture relating to the 6.75% Senior Secured Notes due 2014 among Reliant Energy, Inc. and Wilmington Trust Company, dated as of December 22, 2004	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 27, 2004	1-16455	4.1
4.4	First Supplemental Indenture relating to the 6.75% Senior Secured Notes due 2014, among Reliant Energy, Inc., the Guarantors listed therein and Wilmington Trust Company, dated as of December 22, 2004	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 27, 2004	1-16455	4.2
4.5	Second Supplemental Indenture relating to the 6.75% Senior Secured Notes due 2014, among Reliant Energy, Inc., the Guarantors listed therein and Wilmington Trust Company, dated as of September 21, 2006	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2006	1-16455	4.18
4.6	Third Supplemental Indenture relating to the 6.75% Senior Secured Notes due 2014, among Reliant Energy, Inc., the Guarantors listed therein and Wilmington Trust Company, dated as of December 1, 2006	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 7, 2006	1-16455	4.3
4.7	Indenture between Orion Power Holdings, Inc. and Wilmington Trust Company, dated as of April 27, 2000	Orion Power Holdings, Inc. s Registration Statement on Form S-1, filed August 18, 2000	333-44118	4.1
4.8	Fourth Supplemental Indenture relating to the 7.625% Senior Notes due 2014, among Reliant Energy, Inc., the Guarantors listed therein and Wilmington Trust Company, dated as of June 13, 2007	Reliant Energy, Inc. s Current Report on Form 8-K, filed June 15, 2007	1-16455	4.1
4.9	Fifth Supplemental Indenture relating to the 7.875% Senior	Reliant Energy, Inc. s Current Report on Form 8-K, filed June 15,	1-16455	4.2

Notes due 2017, among Reliant Energy, Inc., the Guarantors listed therein and Wilmington Trust Company, dated as of June 13, 2007	2007

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
10 .1	Master Separation Agreement between Reliant Resources, Inc. and Reliant Energy, Incorporated, dated as of December 31, 2000	CenterPoint Energy Houston Electric, LLC s (formerly known as Reliant Energy, Incorporated) Quarterly Report on Form 10-Q for the period ended March 31, 2001	1-3187	10.1
10 .2	Tax Allocation Agreement between Reliant Resources, Inc. and Reliant Energy, Incorporated, dated as of December 31, 2000	CenterPoint Energy Houston Electric, LLC s (formerly known as Reliant Energy, Incorporated) Quarterly Report on Form 10-Q for the period ended March 31, 2001	1-3187	10.8
10 .3A	Amended and Restated Credit Sleeve and Reimbursement Agreement among Reliant Energy Power Supply, LLC, the Guarantors listed therein, Merrill Lynch Commodities, Inc. and Merrill Lynch & Co., Inc., dated as of August 1, 2007	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended September 30, 2007	1-16455	10.1A
10 .3B	Schedules and Exhibits to the Amended and Restated Credit Sleeve and Reimbursement Agreement dated as of August 1, 2007 (Portions of this Exhibit have been omitted pursuant to a request for confidential treatment which has been granted)	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended September 30, 2007	1-16455	10.1B
10 .4	Amendment No. 1 to Amended and Restated Credit Sleeve and Reimbursement Agreement, dated as of September 18, 2007 (Portions of this Exhibit have been omitted pursuant to a request for confidential treatment which has been granted)	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2008	1-16455	10.1
10 .5	Amendment No. 2 to Amended and Restated Credit Sleeve and Reimbursement Agreement, dated as of April 22, 2008	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2008	1-16455	10.2
10 .6	Amendment No. 3 to Amended and Restated Credit Sleeve and Reimbursement Agreement, dated as of May 8, 2008 (Portions of this Exhibit have been omitted	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2008	1-16455	10.3

	pursuant to a request for confidential treatment which has been granted)			
10 .7	Amendment No. 4 to Amended and Restated Credit Sleeve and Reimbursement Agreement, dated as of July 24, 2008 (Portions of this Exhibit have been omitted pursuant to a request for confidential treatment)	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended September 30, 2008	1-16455	10.1

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
10.8	Participating Preferred Stock Purchase Agreement by and between Reliant Energy, Inc. and FR Reliant Holdings LP dated as of October 10, 2008	Reliant Energy, Inc. s Current Report on Form 8-K, filed October 16, 2008	1-16455	10.1
10.9	Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2001A, among Reliant Energy, Inc., the Subsidiary Guarantors defined therein and J.P. Morgan Trust Company, National Association, as trustee, dated as of December 22, 2004	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 27, 2004	1-16455	10.2
10.10	Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2002A, among Reliant Energy, Inc., the Subsidiary Guarantors defined therein and J.P. Morgan Trust Company, National Association, as trustee, dated as of December 22, 2004	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 27, 2004	1-16455	10.3
10.11	Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2002B, among Reliant Energy, Inc., the Subsidiary Guarantors defined therein and J.P. Morgan Trust Company, National Association, as trustee, dated as of December 22, 2004	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 27, 2004	1-16455	10.4
10.12	Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities	Reliant Energy, Inc. s Current Report on Form 8-K filed December 27, 2004	1-16455	10.5

Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2003A, among Reliant Energy, Inc., the Subsidiary Guarantors defined therein and J.P. Morgan Trust Company, National Association, as trustee, dated as of December 22, 2004

Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
10 .13	Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2004A, among Reliant Energy, Inc., the Subsidiary Guarantors defined therein and J.P. Morgan Trust Company, National Association, as trustee, dated as of December 22, 2004	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 27, 2004	1-16455	10.6
10 .14	Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2001A, among Reliant Energy Power Supply, LLC, Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and J.P. Morgan Trust Company, National Association, as trustee, dated as of September 21, 2006	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2006	1-16455	10.14
10 .15	Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2002A, among Reliant Energy Power Supply, LLC, Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and J.P. Morgan Trust Company, National Association, as trustee, dated as of September 21, 2006	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2006	1-16455	10.15
10 .16	Supplemental Guarantee Agreement relating to Pennsylvania Economic	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2006	1-16455	10.16

Development Financing
Authority s Exempt Facilities
Revenue Bonds (Reliant Energy
Seward, LLC Project),
Series 2002B, among Reliant
Energy Power Supply, LLC,
Reliant Energy, Inc., the
Subsidiary Guarantors as defined
in the Guarantee Agreement and
J.P. Morgan Trust Company,
National Association, as trustee,
dated as of September 21, 2006

Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
10 .17	Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2003A, among Reliant Energy Power Supply, LLC, Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and J.P. Morgan Trust Company, National Association, as trustee, dated as of September 21, 2006	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2006	1-16455	10.17
10 .18	Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2004A, among Reliant Energy Power Supply, LLC, Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and J.P. Morgan Trust Company, as trustee, dated as of September 21, 2006	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2006	1-16455	10.18
10 .19	Second Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2001A, among Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and The Bank of New York Trust Company, N.A., as trustee, dated as of December 1, 2006	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 7, 2006	1-16455	10.1
10 .20			1-16455	10.2

Second Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2002A, among Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and The Bank of New York Trust Company, N.A., as trustee, dated as of December 1, 2006	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 7, 2006

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
10.21	Second Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2002B, among Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and The Bank of New York Trust Company, N.A., as trustee, dated as of December 1, 2006	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 7, 2006	1-16455	10.3
10.22	Second Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2003A, among Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and The Bank of New York Trust Company, N.A., as trustee, dated as of December 1, 2006	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 7, 2006	1-16455	10.4
10.23	Third Supplemental Guarantee Agreement relating to Pennsylvania Economic Development Financing Authority s Exempt Facilities Revenue Bonds (Reliant Energy Seward, LLC Project), Series 2004A, among Reliant Energy, Inc., the Subsidiary Guarantors as defined in the Guarantee Agreement and The Bank of New York Trust Company, N.A., as trustee, dated as of December 1, 2006	Reliant Energy, Inc. s Current Report on Form 8-K, filed December 7, 2006	1-16455	10.5

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
10.24	Credit and Guaranty Agreement among Reliant Energy, Inc., as Borrower, the Other Loan Parties referred to therein as guarantors, the lenders party thereto, Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent, Deutsche Bank Securities Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers, Deutsche Bank Securities Inc., J.P. Morgan Securities Inc., Goldman Sachs Credit Partners L.P., Merrill Lynch Capital Corporation and ABN AMRO Bank N.V., as Joint Bookrunners with respect to the Revolving Credit Facility and Deutsche Bank Securities Inc., J.P. Morgan Securities Inc., Goldman Sachs Credit Partners L.P., Merrill Lynch Capital Corporation and Bear, Sterns & Co. Inc., as Joint Bookrunners with respect to the Pre-Funded L/C Facility, dated as of June 12, 2007	Reliant Energy, Inc. s Current Report on Form 8-K, filed June 15, 2007	1-16455	1.1
10.25	Facility Lease Agreement between Conemaugh Lessor Genco LLC and Reliant Energy Mid-Atlantic Power Holdings, LLC, dated as of August 24, 2000	Reliant Energy Mid-Atlantic Power Holdings, LLC s Registration Statement on Form S-4, filed December 8, 2000	333-51464	4.6a
10.26	Schedule identifying substantially identical agreements to Facility Lease Agreement constituting Exhibit 10.25	Reliant Energy Mid-Atlantic Power Holdings, LLC s Registration Statement on Form S-4, filed December 8, 2000	333-51464	4.6b
10.27	Pass Through Trust Agreement between Reliant Energy Mid-Atlantic Power Holdings, LLC and Bankers Trust Company, made with respect to the formation of the Series A Pass Through Trust and the issuance of 8.554% Series A Pass Through Certificates, dated as of	Reliant Energy Mid-Atlantic Power Holdings, LLC s Registration Statement on Form S-4, filed December 8, 2000	333-51464	4.4a

	August 24, 2000			
10 .28	Schedule identifying substantially identical agreements to Pass Through Trust Agreement constituting Exhibit 10.27	Reliant Energy Mid-Atlantic Power Holdings, LLC s Registration Statement on Form S-4, filed December 8, 2000	333-51464	4.4b

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
10.29	Participation Agreement among(i) Conemaugh Lessor Genco LLC, as Owner Lessor; (ii) Reliant Energy Mid-Atlantic Power Holdings, LLC, as Facility Lessee; (iii) Wilmington Trust Company, as Lessor Manager; (iv) PSEGR Conemaugh Generation, LLC, as Owner Participant;(v) Bankers Trust Company, as Lease Indenture Trustee; and (vi) Bankers Trust Company, as Pass Through Trustee, dated as of August 24, 2000	Reliant Energy Mid-Atlantic Power Holdings, LLC s Registration Statement on Form S-4, filed December 8, 2000	333-51464	4.5a
10.30	Schedule identifying substantially identical agreements to Participation Agreement constituting Exhibit 10.29	Reliant Energy Mid-Atlantic Power Holdings, LLC s Registration Statement on Form S-4, filed December 8, 2000	333-51464	4.5b
10.31	First Amendment to Participation Agreement, dated as of November 15, 2001	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2005	1-16455	10.20
10.32	Schedule identifying substantially identical agreements to First Amendment to Participation Agreement constituting Exhibit 10.31	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2005	1-16455	10.21
10.33	Second Amendment to Participation Agreement, dated as of June 18, 2003	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2005	1-16455	10.22
10.34	Schedule identifying substantially identical agreements to Second Amendment to Participation Agreement constituting Exhibit 10.33	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2005	1-16455	10.23
10.35	Lease Indenture of Trust, Mortgage and Security Agreement between Conemaugh Lessor Genco LLC, as Owner Lessor, and Bankers Trust Company, as Lease Indenture Trustee, dated as of August 24, 2000	Reliant Energy Mid-Atlantic Power Holdings, LLC s Registration Statement on Form S-4, filed December 8, 2000	333-51464	4.8a
10.36	Schedule identifying substantially identical agreements to Lease	Reliant Energy Mid-Atlantic Power Holdings, LLC s	333-51464	4.8b

	Indenture of Trust constituting Exhibit 10.35	Registration Statement on Form S-4, filed December 8, 2000		
10 .37	Purchase and Sale Agreement by and between Orion Power Holdings, Inc., Reliant Energy, Inc., Great Lakes Power Inc. and Brascan Corporation, dated as of May 18, 2004	Reliant Energy, Inc. s Current Report on Form 8-K, filed May 21, 2004	1-16455	99.2

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
10 .38	Purchase and Sale Agreement between Orion Power Holdings, Inc., as Seller, Reliant Energy, Inc., as Guarantor, and Astoria Generating Company Acquisitions, L.L.C., as Buyer, dated as of September 30, 2005	Reliant Energy, Inc. s Current Report on Form 8-K, filed October 6, 2005	1-16455	10.1
10 .39	Settlement and Release of Claims Agreement among each of the Reliant Parties, OMOI, each of the California Parties, each of the Additional Claimants, each of the Class Action Parties and each of the Local Governmental Parties (each as defined therein), dated as of October 12, 2005	Reliant Energy, Inc. s Current Report on Form 8-K, filed October 20, 2005	1-16455	10.1
*10 .40	Executive Life Insurance Plan, effective as of January 1, 1994, including the first and second amendments thereto (Reliant Energy, Inc. has adopted certain obligations under this plan with respect to Brian Landrum)	Reliant Energy, Inc. s Amendment No. 8 to Registration Statement on Form S-1, filed April 27, 2001	333-48038	10.30
*10 .41	Transition Stock Plan, effective as of May 4, 2001	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2001	1-16455	10.37
*10 .42	2002 Stock Plan, effective as of March 1, 2002	Reliant Energy, Inc. s Registration Statement on Form S-8, filed April 19, 2002	333-86610	4.5
*10 .43	Annual Incentive Compensation Plan, effective as of January 1, 2001	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2001	1-16455	10.9
+*10 .44	First Amendment to Annual Incentive Compensation Plan, dated as of September 27, 2007			
*10 .45	2002 Annual Incentive Compensation Plan for Executive Officers, effective as of March 1, 2002	Reliant Energy, Inc. s 2002 Proxy Statement on Schedule 14A	1-16455	Appendix I
+*10 .46	First Amendment to 2002 Annual Incentive			

	Compensation Plan for Executive Officers, dated as of September 27, 2007			
*10 .47	Long-Term Incentive Plan, effective as of January 1, 2001	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2001	1-16455	10.10

Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
*10 .48	2002 Long-Term Incentive Plan, effective as of June 6, 2002	Reliant Energy, Inc. s Registration Statement on Form S-8, filed April 19, 2002	333-86612	4.5
*10 .49	Deferral Plan, effective as of January 1, 2002	Reliant Energy, Inc. s Registration Statement on Form S-8, filed December 7, 2001	333-74790	4.1
*10 .50	First Amendment to Deferral Plan, effective as of January 14, 2003	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2003	1-16455	10.5
+*10 .51	Second Amendment to Deferral Plan, effective as of December 31, 2004			
+*10 .52	Deferral and Restoration Plan, effective as of January 1, 2005			
*10 .53	Successor Deferral Plan, effective as of January 1, 2002	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2004	1-16455	10.30
*10 .54	Deferred Compensation Plan, effective as of September 1, 1985, including the first nine amendments thereto (This is now a part of the plan listed as Exhibit 10.53)	Reliant Energy, Inc. s Amendment No. 8 to Registration Statement on Form S-1, filed April 27, 2001	333-48038	10.25
*10 .55	Deferred Compensation Plan, as amended and restated effective as of January 1, 1989, including the first nine amendments thereto (This is now a part of the plan listed as Exhibit 10.53)	Reliant Energy, Inc. s Amendment No. 8 to Registration Statement on Form S-1, filed April 27, 2001	333-48038	10.26
*10 .56	Deferred Compensation Plan, as amended and restated effective as of January 1, 1991, including the first ten amendments thereto (This is now a part of the plan listed as Exhibit 10.53)	Reliant Energy, Inc. s Amendment No. 8 to Registration Statement on Form S-1, filed April 27, 2001	333-48038	10.27
*10 .57	Benefit Restoration Plan, as amended and restated effective as of July 1, 1991, including the first amendment thereto (This is now a part of the plan listed as Exhibit 10.53)	Reliant Energy, Inc. s Amendment No. 8 to Registration Statement on Form S-1, filed April 27, 2001	333-48038	10.12
*10 .58	Key Employee Award Program 2004-2006 of the 2002 Long-Term Incentive Plan and the Form of Agreement for Key	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2004	1-16455	10.1

Employee Award Program,
effective as of February 13, 2004

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
*10 .59	First Amendment to the Key Employee Award Program, effective as of August 10, 2005	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2005	1-16455	10.44
*10 .60	Form of 2002 Stock Plan Nonqualified Stock Option Award Agreement, 2003 Grants	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2004	1-16455	10.39
+*10 .61	Form of Change in Control Agreement for CEO, CFO and COO			
+*10 .62	Form of Change in Control Agreement for certain officers other than CEO, CFO and COO			
*10 .63	Reliant Energy, Inc. Executive Severance Plan, effective as of January 1, 2006	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2005	1-16455	10.57
+*10 .64	First Amendment to Reliant Energy, Inc. Executive Severance Plan, dated as of September 27, 2007			
*10 .65	Form of 2002 Long-Term Incentive Plan Nonqualified Stock Option Award Agreement for Directors	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2004	1-16455	10.53
*10 .66	Form of 2002 Long-Term Incentive Plan Restricted Stock Award Agreement for Directors	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2004	1-16455	10.54
+*10 .67	Form of Amendment of 2002 Long-Term Incentive Plan Restricted Stock Award Agreement for Directors			
*10 .68	Form of 2002 Long-Term Incentive Plan Quarterly Restricted and Premium Restricted Stock Units Award Agreement for Directors	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2004	1-16455	10.55
*10 .69	Form of 2002 Long-Term Incentive Plan Quarterly Common Stock and Premium Restricted Stock Award Agreement for Directors	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007	1-16455	10.65
*10 .70	Form of 2002 Long-Term Incentive Plan Restricted Stock Award Agreement for Directors	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007	1-16455	10.66
*10 .71	Form of Long-Term Incentive Plan Restricted Stock Award	Reliant Energy, Inc. s Current Report on Form 8-K, filed	1-16455	10.1

	Agreement for Directors initial grant	August 24, 2006
+*10 .72	Reliant Energy, Inc. Non-Employee Directors Compensation Program, effective as of October 13, 2008	

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
*10.73	2002 Long-Term Incentive Plan 2008 Long-Term Incentive Award Program for officers (Form of Agreement included with Program)	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2008	1-16455	10.1
*10.74	2002 Long-Term Incentive Plan 2007 Long-Term Incentive Award Program for Officers	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended March 30, 2007	1-16455	10.1
*10.75	Form of 2002 Long-Term Incentive Plan 2007 Long-Term Incentive Award Agreement for Officers	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended March 30, 2007	1-16455	10.2
*10.76	2002 Long-Term Incentive Plan 2007 Long-Term Incentive Award Agreement for Mark Jacobs	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2007	1-16455	10.3
*10.77	2002 Long-Term Incentive Plan Amendment to Nonqualified Stock Option Award Agreement by and between Reliant Energy, Inc. and Joel V. Staff dated as of May 16, 2007 March 12, 2003 grant	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2007	1-16455	10.4
*10.78	2002 Long-Term Incentive Plan Amendment to Nonqualified Stock Option Award Agreement by and between Reliant Energy, Inc. and Joel V. Staff dated as of May 16, 2007 May 8, 2003 grant	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2007	1-16455	10.5
*10.79	2002 Long-Term Incentive Plan Amendment to Nonqualified Stock Option Award Agreement by and between Reliant Energy, Inc. and Joel V. Staff dated as of May 16, 2007 August 23, 2003 grant	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2007	1-16455	10.6
*10.80	2002 Long-Term Incentive Plan Amendment to Key Employee Award Program 2004-2006 Agreement by and between Reliant Energy, Inc. and Joel V. Staff dated as of May 16, 2007 February 13, 2004 grant	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2007	1-16455	10.7
*10.81	2002 Long-Term Incentive Plan Long-Term Incentive Award	Reliant Energy, Inc. s Quarterly Report on Form 10-Q for the	1-16455	10.2

	Agreement for Rick J. Dobson	period ended September 30, 2007		
*10.82	2002 Long-Term Incentive Plan Long-Term Incentive Award Agreement for Albert H. Myres, Sr.	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007	1-16455	10.77
*10.83	2002 Long-Term Incentive Plan Long-Term Incentive Award Agreement for Charles Griffey	Reliant Energy, Inc. s Annual Report on Form 10-K for the year ended December 31, 2007	1-16455	10.78

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Exhibit Number	Document Description	Reporter or Registration Statement	SEC File or Registration	Exhibit Reference
+10 .84	Guarantee by NRG Energy, Inc., as Guarantor, in favor of Reliant Energy, Inc. dated as of February 28, 2009			
+10 .85	Agreement Regarding Prosecution of Litigation by and among Merrill Lynch Commodities, Inc., Merrill Lynch & Co., Inc., Reliant Energy Power Supply, LLC, RERH Holdings, LLC, Reliant Energy Retail Holdings, LLC, Reliant Energy Retail Services, LLC, RE Retail Receivables, LLC and Reliant Energy Solutions East, LLC dated as of February 28, 2009			
+12 .1	Reliant Energy, Inc. and Subsidiaries Ratio of Earnings from Continuing Operations to Fixed Charges			
+21 .1	Subsidiaries of Reliant Energy, Inc.			
+23 .1	Consent of KPMG LLP, independent registered public accounting firm of Reliant Energy, Inc.			
+31 .1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002			
+31 .2	Certification of 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	Interim Period Agreement regarding the LLC Membership Interest Purchase Agreement by and among Merrill Lynch Commodities, Inc., Merrill Lynch & Co., Inc., Reliant Energy, Inc., Reliant Energy Corporate Services, LLC, Reliant Energy			

Power Supply, LLC, RERH
Holdings, LLC, Reliant Energy
Retail Holdings, LLC, Reliant
Energy Retail Services, LLC, RE
Retail Receivables, LLC and
Reliant Energy Solutions East,
LLC dated as of February 28, 2009

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Reliant Energy, Inc.

(Registrant)

By:
/s/ Mark M. Jacobs

Mark M. Jacobs
President and Chief Executive Officer

March 2, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 2, 2009.

Signature	Title
/s/ Mark M. Jacobs **Mark M. Jacobs**	**President and Chief Executive Officer**
/s/ Rick J. Dobson **Rick J. Dobson**	**Executive Vice President and Chief Financial Officer (Principal Financial Officer)**
/s/ Thomas C. Livengood **Thomas C. Livengood**	**Senior Vice President and Controller (Principal Accounting Officer)**
/s/ E. William Barnett **E. William Barnett**	**Director**
/s/ Donald J. Breeding **Donald J. Breeding**	**Director**
/s/ Kirbyjon H. Caldwell **Kirbyjon H. Caldwell**	**Director**
/s/ Mark M. Jacobs **Mark M. Jacobs**	**Director**

/s/ Steven L. Miller	**Director**
Steven L. Miller	
/s/ Laree E. Perez	**Director**
Laree E. Perez	

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Signature	Title
/s/ Evan J. Silverstein	**Director**
Evan J. Silverstein	
/s/ Joel V. Staff	**Director**
Joel V. Staff	
/s/ William L. Transier	**Director**
William L. Transier	

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RELIANT ENERGY, INC. S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Reliant Energy, Inc. and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, our management used the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment we believe that, as of December 31, 2008, our internal control over financial reporting is effective based on those criteria.

Our independent auditors have issued an audit report on our internal control over financial reporting. This report appears on page F-2.

/s/ Mark M. Jacobs	*/s/ Rick J. Dobson*
Mark M. Jacobs President and Chief Executive Officer	Rick J. Dobson Executive Vice President and Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Reliant Energy, Inc.:

We have audited the accompanying consolidated balance sheets of Reliant Energy, Inc. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2008. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule II Valuation and Qualifying Accounts for each of the years in the three-year period ended December 31, 2008. We have also audited the Company s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Internal Control Over Financial Reporting on page F-1. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reliant Energy, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria

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established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in notes 2(e) and 2(f) to the consolidated financial statements, the Company changed its accounting in 2008 for fair value measurements of financial instruments and fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement and related amounts recognized upon payment or receipt of cash collateral, respectively. In addition, as discussed in note 11 to the consolidated financial statements, the Company changed its accounting for income tax uncertainties in 2007.

KPMG LLP

Houston, Texas
February 28, 2009

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RELIANT ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	2008	2007	2006
	(thousands of dollars, except per share amounts)		
Revenues:			
Revenues (including $3,039, $31,592 and $191,405 unrealized gains) (including $253,001, $127,083 and $0 from affiliates)	$ 12,553,210	$ 11,208,724	$ 10,877,385
Expenses:			
Cost of sales (including $(745,685), $413,028 and $(422,325) unrealized gains (losses)) (including $201,392, $105,118 and $0 from affiliates)	11,411,289	8,656,827	9,435,892
Operation and maintenance	841,432	883,083	833,094
Selling, general and administrative (including $65,858 credit-enhanced retail structure unwind costs in 2008)	436,618	372,528	383,977
Western states litigation and similar settlements	37,467	22,000	35,000
Gains on sales of assets and emission and exchange allowances, net	(155,600)	(25,699)	(159,386)
Wholesale energy goodwill impairment	304,859		
Depreciation and amortization	336,531	424,432	372,616
Total operating expense	13,212,596	10,333,171	10,901,193
Operating Income (Loss)	(659,386)	875,553	(23,808)
Other Income (Expense):			
Income of equity investment, net	1,198	4,686	5,791
Debt extinguishments and conversions	(1,017)	(72,779)	(37,257)
Other, net	4,727	4	203
Interest expense	(247,486)	(349,199)	(427,867)
Interest income	28,820	34,833	34,317
Total other expense	(213,758)	(382,455)	(424,813)
Income (Loss) from Continuing Operations Before Income Taxes	(873,144)	493,098	(448,621)
Income tax expense (benefit)	(125,032)	135,115	(121,929)
Income (Loss) from Continuing Operations	(748,112)	357,983	(326,692)
Income (loss) from discontinued operations	8,437	7,124	(2,088)
	(739,675)	365,107	(328,780)

Income (Loss) Before Cumulative Effect of Accounting Change						
Cumulative effect of accounting change, net of tax						968
Net Income (Loss)	$	(739,675)	$	365,107	$	(327,812)
Basic Earnings (Loss) per Share:						
Income (loss) from continuing operations	$	(2.15)	$	1.05	$	(1.06)
Income (loss) from discontinued operations		0.02		0.02		(0.01)
Net income (loss)	$	(2.13)	$	1.07	$	(1.07)
Diluted Earnings (Loss) per Share:						
Income (loss) from continuing operations	$	(2.15)	$	1.01	$	(1.06)
Income (loss) from discontinued operations		0.02		0.03		(0.01)
Net income (loss)	$	(2.13)	$	1.04	$	(1.07)

See Notes to our Consolidated Financial Statements

RELIANT ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2008	December 31, 2007
	(thousands of dollars, except per share amounts)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,109,141	$ 754,962
Restricted cash	2,721	3,251
Accounts and notes receivable, principally customer, net of allowance of $34,843 and $36,724	1,120,644	1,082,746
Inventory	315,001	285,408
Derivative assets	1,171,189	663,049
Margin deposits	235,153	139,834
Accumulated deferred income taxes	246,233	114,559
Investment in and receivables from Channelview, net	58,703	83,253
Prepayments and other current assets	102,610	104,314
Current assets of discontinued operations		2,133
Total current assets	4,361,395	3,233,509
Property, Plant and Equipment, net	4,876,590	5,222,217
Other Assets:		
Goodwill, net	52,631	379,644
Other intangibles, net	387,271	405,338
Derivative assets	402,457	376,535
Prepaid lease	273,374	270,133
Accumulated deferred income taxes	98,461	70,410
Other ($29,012 and $29,016 accounted for at fair value)	182,974	234,014
Total other assets	1,397,168	1,736,074
Total Assets	$ 10,635,153	$ 10,191,800
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt and short-term borrowings	$ 12,517	$ 52,546
Accounts payable, principally trade	636,932	687,046
Derivative liabilities	1,838,971	885,346
Margin deposits		250

Other	453,806	426,839
Current liabilities of discontinued operations	2,952	
Total current liabilities	2,945,178	2,052,027
Other Liabilities:		
Derivative liabilities	752,442	473,516
Other	275,899	278,641
Long-term liabilities of discontinued operations	3,542	3,542
Total other liabilities	1,031,883	755,699
Long-term Debt	2,871,444	2,902,346
Commitments and Contingencies		
Temporary Equity Stock-based Compensation	9,004	4,694
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; 349,812,537 and 344,579,508 issued)	111	106
Additional paid-in capital	6,238,639	6,215,512
Accumulated deficit	(2,375,201)	(1,635,526)
Accumulated other comprehensive loss	(85,905)	(103,058)
Total stockholders equity	3,777,644	4,477,034
Total Liabilities and Stockholders Equity	$ 10,635,153	$ 10,191,800

See Notes to our Consolidated Financial Statements

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RELIANT ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2008	2007	2006
	(thousands of dollars)		
Cash Flows from Operating Activities:			
Net income (loss)	$ (739,675)	$ 365,107	$ (327,812)
(Income) loss from discontinued operations	(8,437)	(7,124)	2,088
Net income (loss) from continuing operations and cumulative effect of accounting change	(748,112)	357,983	(325,724)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of accounting change			(968)
Wholesale energy goodwill impairment	304,859		
Depreciation and amortization	336,531	424,432	372,616
Deferred income taxes	(171,540)	118,631	(152,431)
Net changes in energy derivatives	836,867	(393,453)	316,742
Amortization of deferred financing costs	8,239	50,294	31,508
Debt extinguishments and conversions expenses	1,017	72,779	37,257
Gains on sales of assets and emission and exchange allowances, net	(155,600)	(25,699)	(159,386)
Western states litigation and similar settlements	3,467		35,000
Income of equity investment, net	(1,198)	(4,686)	(5,791)
Other, net	(7,083)	12,703	12,590
Changes in other assets and liabilities:			
Accounts and notes receivable, net	(52,631)	(25,731)	129,161
Changes in notes, receivables and payables with affiliate, net	3,687	(13,078)	
Inventory	(31,864)	(21,863)	18,157
Margin deposits, net	(95,569)	296,531	1,264,332
Net derivative assets and liabilities	(31,700)	(31,088)	(30,313)
Western states litigation and similar settlements payments		(35,000)	(159,885)
Accounts payable	(62,419)	46,194	(97,117)
Other current assets	2,985	12,306	17,284
Other assets	10,625	(17,953)	(35,373)
Taxes payable/receivable	17,590	(10,975)	1,302
Other current liabilities	8,185	(45,713)	64,046
Other liabilities	(3,502)	(11,597)	(2,963)
Net cash provided by continuing operations from operating activities	172,834	755,017	1,330,044
Net cash provided by (used in) discontinued operations from operating activities	9,861	6,726	(54,171)
Net cash provided by operating activities	182,695	761,743	1,275,873

Cash Flows from Investing Activities:			
Capital expenditures	(310,462)	(188,856)	(96,793)
Proceeds from sales of assets, net	538,533	82,075	1,417
Proceeds from sales of emission and exchange allowances	42,458	6,815	205,510
Purchases of emission allowances	(60,986)	(91,923)	(22,575)
Restricted cash	530	6,674	1,926
Other, net	6,562	6,045	
Net cash provided by (used in) continuing operations from investing activities	216,635	(179,170)	89,485
Net cash provided by discontinued operations from investing activities		520	967,566
Net cash provided by (used in) investing activities	216,635	(178,650)	1,057,051
Cash Flows from Financing Activities:			
Proceeds from long-term debt		1,300,000	400,000
Payments of long-term debt	(57,704)	(1,535,887)	(865,870)
Increase (decrease) in short-term borrowings and revolving credit facilities, net		6,554	(825,554)
Payments of financing costs		(31,245)	(16,673)
Payments of debt extinguishments and conversions expenses	(1,017)	(72,779)	(36,157)
Proceeds from issuances of stock	13,570	41,317	24,842
Net cash used in continuing operations from financing activities	(45,151)	(292,040)	(1,319,412)
Net cash used in discontinued operations from financing activities			(638,000)
Net cash used in financing activities	(45,151)	(292,040)	(1,957,412)
Net Change in Cash and Cash Equivalents	354,179	291,053	375,512
Cash and Cash Equivalents at Beginning of Period	754,962	463,909	88,397
Cash and Cash Equivalents at End of Period	$ 1,109,141	$ 754,962	$ 463,909
Supplemental Disclosure of Cash Flow Information:			
Cash Payments:			
Interest paid (net of amounts capitalized) for continuing operations	$ 251,741	$ 344,701	$ 385,055
Income taxes paid (net of income tax refunds received) for continuing operations	28,916	27,884	28,649

See Notes to our Consolidated Financial Statements

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RELIANT ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Stock	Additional Paid In Capital	Accumulated Deficit	Unrealized Gain (Loss) on Available For Sale Securities	Deferred Derivative Gains (Losses)	Benefits Actuarial Net Gain (Loss)	Benefits Prior Service Costs	Net Additional Minimum Benefits Liability	Total Accumulated Other Comprehensive Income (Loss)	Discontinued Operations Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity	Comp In (I
				Accumulated Other Comprehensive Income (Loss)								
				(thousands of dollars)								
er 31,	$ 66	$ 5,846,747	$ (1,698,504)	$	$ (284,133)	$	$	$ (148)	$ (284,281)	$ (335)	$ 3,863,693&	