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NEWS RELEASE

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FERC APPROVES SETTLEMENT WITH RELIANT IN CALIFORNIA CASES; PROCEEDS COULD TOTAL $50 MILLION

The Federal Energy Regulatory Commission today approved a settlement between the Commission's enforcement staff and Houston-based Reliant Energy Services, Inc., and the company's five California-based generating subsidiaries, which resolves matters relating to California's electricity crisis in 2000 and 2001. The proceeds of the settlement to resolve pending cases stemming from a FERC staff investigation of the West's energy problems could total $50 million.

The settlement agreement, FERC's largest ever, addresses allegations regarding potentially manipulative bidding practices in the California markets, including economic withholding, physical withholding of generation, and a FERC staff finding that Reliant attempted to manipulate prices at an electricity trading hub near the California border.

The agreement does not resolve any liabilities Reliant may have in the overall California refund case, which is an ongoing proceeding before the Commission (EL00-95-000). Also separate from today's agreement is a pending settlement between Reliant and FERC trial staff involving alleged market gaming (EL03-170-000).

"Today's settlement should serve as a warning to all energy companies that attempts to manipulate energy markets will have consequences," said FERC Chairman Pat Wood, III.

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Chairman Wood, underscoring that the settlement with Reliant is just a small part of FERC's response to California's electricity crisis, said he expected other companies to follow Reliant's lead and settle allegations of market manipulation in California rather than engage in costly litigation. "Judgment of the Commission's overall response to the California electricity crisis should be reserved until we complete these complicated proceedings," the FERC Chairman stressed.

In testimony before Congress, Chairman Wood has supported legislation that would enhance the Commission's limited civil penalty authority. Stronger civil penalty authority would help FERC address and prevent market abuses, the Chairman said, noting that FERC has no civil penalty authority it could apply in this instance.

The Office of Market Oversight and Investigations' (OMOI) investigation of anomalous bidding practices by Reliant between May 2000 and October 2000 looked at, among other things, potential economic withholding. The settlement also resolved a show-cause proceeding involving three electricity trades between Reliant and BP Energy at the Palo Verde trading hub in Arizona. BP Energy separately settled its end of the show-cause proceeding for $3 million earlier in the summer.

Reliant did not admit to the violations in agreeing to today's settlement.

In considering allegations of physical withholding by Reliant, OMOI reviewed and analyzed volumes of materials regarding alleged instances of questionable outages by Reliant generators during the time period May 2000 through June 2001. Based on its review and analysis, OMOI concluded that no further investigation was warranted with respect to the physical withholding. The company previously settled with the Commission for $13.8 million allegations of physical generation withholding for two days in June 2000.

Today's agreement calls for the company to pay $15 million in cash within 30 days. Two more installments of $5 million each are due by September 30, 2005, and September 30, 2006. Under terms of the agreement, as much as another $25 million could be derived from Reliant's auctioning of 824 megawatts of generation capacity over the next three years. The settlement proceeds from the three annual auctions will be dependent upon market conditions, but will not exceed $25 million. California's investor-owned and municipal utilities will have the right of first refusal for this low-cost capacity. The settlement funds will be deposited into a special Treasury fund for the benefit of California and western electricity customers. The Commission will address dispersal of those funds in a future proceeding.

Extensive reforms to Reliant's compliance program, already implemented by the company's management, were an important factor in acceptance of the settlement. The agreement calls for strict reporting by Reliant to OMOI of all sales for one year, and providing any additional data to OMOI upon request. Reliant is further required to retain all telephone conversation tapes of employees trading electricity for three years.

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