

FILED

MAR 06 2007

RICHARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

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10
11 UNITED STATES DISTRICT COURT
12 NORTHERN DISTRICT OF CALIFORNIA
13 SAN FRANCISCO DIVISION
14

15 UNITED STATES OF AMERICA,)
16 Plaintiff,)
17 v.)
18 RELIANT ENERGY SERVICES, INC.,)
JACKIE R. THOMAS,)
19 V. REGINALD HOWARD II,)
LISA L. FLOWERS and)
20 J. KEVIN FRANKENY,)
21 Defendants)
22

No. CR 04-0125 VRW

DEFERRED PROSECUTION AGREEMENT
WITH RESPECT TO CORPORATE
DEFENDANT

23 Defendant Reliant Energy Services, Inc., ("Reliant"), a Delaware Corporation, by
24 the undersigned, pursuant to authority granted by the Board of Directors of Reliant's
25 parent company, Reliant Energy, Inc. (formerly Reliant Resources, Inc.), and the United
26 States Attorney's Office for the Northern District of California ("the Government"), enter
27 into this Deferred Prosecution Agreement ("Agreement").

28 1. The United States has filed a Third Superseding Indictment against Reliant

3208

1 and several individuals in the United States District Court for the Northern District of
2 California charging the defendants with (1) one count of commodity price manipulation,
3 in violation of 7 U.S.C. § 13(a)(2); (2) four counts of wire fraud, in violation of 18 U.S.C.
4 § 1343; and (3) one count of conspiracy to commit commodities manipulation and to
5 commit wire fraud, in violation of 18 U.S.C. § 371.

6 2. Reliant accepts and acknowledges responsibility for the conduct of Reliant
7 personnel giving rise to the Indictment as described in the Statement of Facts attached as
8 Appendix A and agrees not to contest or contradict the factual statements set forth
9 therein, as more fully addressed in ¶ 5 hereof. Reliant does not endorse, ratify, or
10 condone improper or unlawful conduct and, as set forth below, has taken steps to prevent
11 any such conduct from occurring in the future.

12 3. Based upon Reliant's acceptance of responsibility; its adoption of internal
13 compliance measures, set forth below and in Appendix B; its agreement with the
14 Government to pay a monetary penalty as specified in ¶ 8 hereof; and its willingness to
15 continue to cooperate with the Government in its investigation of the matters described
16 herein; the Government, on the understandings specified below, agrees:

- 17 a. To dismiss the pending Indictment against Reliant without prejudice,
18 subject to the agreements and understandings set forth in ¶ 7, below;
19 and
20 b. Not to prosecute Reliant for any other conduct arising out of the
investigation that led to the Indictment.

21 4. Reliant understands and agrees that if it commits a material, willful and
22 knowing breach of this Agreement, the Government can reindict Reliant for conduct
23 committed by it through its officers and employees relating to the conduct alleged in the
24 Indictment and any other conduct arising out of the investigation that led to the
25 Indictment, subject to the limitations of ¶ 15 hereof. This Agreement does not provide
26 any protection to any individual or any entity other than Reliant and its parent company
27 and affiliates.

28 5. Reliant agrees that it will not, through its parent, present or future attorneys,

1 boards of directors, agents, affiliates, officers or employees, make any public statement,
2 including statements or positions in litigation in which any United States department or
3 agency is a party, contradicting any statement of fact set forth in Appendix A. Any such
4 willful, knowing and material contradictory public statement by Reliant, its parent,
5 present or future attorneys, board of directors, agents, officers or employees shall
6 constitute a breach of this Agreement, and Reliant thereafter would be subject to
7 prosecution pursuant to the terms of this Agreement. The decision as to whether any
8 contradictory public statement by any such person will be imputed to Reliant for the
9 purpose of determining whether Reliant has breached this Agreement shall be at the sole
10 and reasonable discretion of the Government, subject to ¶ 14 hereof. Upon the
11 Government reaching a determination that such a contradictory statement has been made
12 by Reliant, the Government shall so notify Reliant and Reliant may avoid a breach of this
13 Agreement by publicly repudiating such statement within forty-eight hours after
14 notification by the Government. This paragraph is not intended to apply to any statement
15 made by any individual in the course of any criminal, regulatory, or civil case initiated by
16 an agency other than the U.S. Attorney's Office for the Northern District of California
17 against such individual, unless such individual is speaking on behalf of Reliant. It is
18 consistent with Reliant's obligations set forth above that Reliant is permitted to assert and
19 support good faith claims, defenses and positions in litigation involving any private party.

20 6. Reliant agrees to cooperate fully with the Government and with any other
21 agency designated by the Government or the Department of Justice, regarding the actual
22 or attempted manipulation of energy prices in California, including false reporting, false
23 statements, illegal gas trading practices, wash trades, and any other matters relating to the
24 instant Indictment. Reliant's agreement to cooperate shall extend until the completion of
25 the Government's investigation and prosecution of any criminal activity relating to these
26 matters, including any investigations or prosecutions of others. Reliant agrees that its
27 cooperation shall include, but is not limited to, the following:
28

- 1 a. Completely and truthfully disclosing all information as may be
2 requested by the Government with respect to the activities of Reliant,
3 its parent company and affiliates, and its present and former officers,
4 agents, and employees concerning the actual or attempted
5 manipulation of energy prices in California, including false
6 reporting, false statements, illegal gas trading practices, wash trades
7 and any other matters relating to the instant Indictment;
- 8 b. Assembling, organizing, and providing on request from the
9 Government, all documents, records, or other tangible evidence in
10 Reliant's possession, custody, or control concerning these subject
11 matters;
- 12 c. Not asserting a claim of attorney-client or work-product privilege as
13 to any documents, information, or testimony requested by the
14 Government related to factual internal investigations or
15 contemporaneous advice given to Reliant concerning these subject
16 matters. In making production of any such documents, Reliant
17 neither expressly nor implicitly waives its right to assert any
18 privilege with respect to the produced documents or the subject
19 matters thereof that is available under law against non-parties to this
20 Agreement and the Government agrees that the documents will
21 remain confidential;
- 22 d. Providing testimony and other information deemed necessary by the
23 Government or a court to identify or establish the original location,
24 authenticity, or other evidentiary foundation of documents regarding
25 the subject matters relating to the Indictment and to explain any
26 materials produced in the investigation and/or prosecution of this
27 matter, to include any information necessary to admit such materials
28 or documents into evidence in any criminal or other proceeding as
requested by the Government. "Documents," as defined by the
Federal Rules of Evidence, include audiotapes and other written and
recorded materials, if any, kept in the regular course of Reliant's
business;
- e. Making available to the Government any current officers, directors
or employees to provide information and/or testimony, including
sworn testimony before a federal grand jury or in federal trials and
interviews with federal law enforcement authorities, concerning
these subject matters; and
- f. Providing assistance to the Government in locating and making
available to the Government whenever possible, all former officers,
directors or employees to provide information and/or testimony,
including sworn testimony before a federal grand jury or in federal
trials, and interviews with federal law enforcement authorities,
concerning these subject matters. Cooperation under this paragraph
shall include identification of witnesses who, to Reliant's
knowledge, may have material information regarding the matters
under investigation and/or prosecution

7. In accordance with its obligations under this Agreement, Reliant will adopt
modifications to its existing compliance program pursuant to which it will inform the

1 Government and/or the Department of Justice of any new matter reported to Reliant's
2 parent company's Audit Committee that involves substantial and credible evidence of any
3 federal criminal law violation and occurs during the term of this Agreement. This
4 obligation to inform the Government and/or the Department of Justice under such
5 modifications shall be subject to the following limits: (i) it shall apply only to matters
6 involving conduct committed at Reliant after the date of this Agreement; (ii) it shall apply
7 only to matters that are in fact reported to Reliant's parent's Audit Committee, and
8 although Reliant may voluntarily choose to investigate further, no investigation shall be
9 required as a condition of this Agreement; (iii) it shall require reasonably timely
10 notification to the Government and/or Department of Justice; and (iv) it shall not require
11 the disclosure of any information protected by the attorney-client or work product
12 privileges. Reliant's compliance program may be modified during the term of this
13 Agreement so long as the modified program continues to satisfy the requirements of this
14 Agreement.

15 8. As a monetary penalty for the conduct described in the Statement of Facts,
16 within ten (10) days of the acceptance of this Agreement by the Court, Reliant shall pay
17 to the United States Treasury \$36 million, less a credit of \$13.8 million for payments
18 already made in connection the same conduct that led to the Indictment, arising out of a
19 civil settlement with the Federal Energy Regulatory Commission ("FERC"), FERC
20 Docket No. PA02-2-001.

21 9. Attached as Appendix B is a Corporate Compliance Plan and Business
22 Ethics Policy (together, the "Corporate Compliance Plan") that has been adopted by
23 Reliant's parent to detect and prevent misconduct in the future. Reliant and its parent and
24 affiliates agree to retain and to fully implement this Corporate Compliance Plan
25 consistent with the requirements specified by this Agreement. In particular, Reliant and
26 its parent and affiliates agree:

- 27 a. The Corporate Compliance Officer shall directly report to the CEO
28 and the Audit Committee of the Board of Directors of Reliant's
parent and shall have the primary responsibility for ensuring that all
necessary company employees are trained and acting in accordance

1 with all applicable laws, regulations and tariffs;

- 2 b. Reliant shall maintain an internal system of monitoring and audits to
3 include specific steps to be taken if any employee suspects that any
4 bid, proposal, plant operation decision, or other company conduct is
5 not in accordance with the company's Corporate Compliance Plan
6 and/or applicable law or regulation. This will include maintaining
7 and promoting a telephone and e-mail hotline system in which all
8 employees are encouraged to report, on an anonymous basis, any
9 believed violation of law, regulation or tariff by any officer or
10 employee. The Compliance Officer shall be responsible for
11 monitoring the internal hotline system and undertaking all reasonable
12 and necessary investigations arising from any reported matter(s);
- 13 c. Reliant shall ensure that there are quarterly reports to the CEO and
14 Board of Directors of Reliant's parent, which reports shall be made
15 available to the Government upon request, regarding compliance
16 activities, to include a summary of the number, type and general
17 description of compliance investigations undertaken, the general
18 results of these investigations, steps taken to address and correct any
19 problems, and a certification by the Compliance Officer signed under
20 penalty of perjury that the problem(s) have been adequately
21 addressed and rectified;
- 22 d. Reliant shall educate and train all responsible employees involved in
23 the purchase and sale of electricity and the purchase and sale of
24 natural gas on at least an annual basis of their obligations under the
25 Federal Power Act and other applicable laws and regulations,
26 including the anti-manipulation and false reporting provisions of the
27 Commodity Exchange Act, applicable tariff requirements,
28 regulations and procedures, and criminal and civil penalties for mail
fraud, wire fraud, false statements, false reporting, commodities
manipulation and obstruction of justice;
- e. Reliant shall provide the FERC Office of Enforcement ("OE"), upon
request of the OE and pursuant to the confidentiality provisions of 18
C.F.R. § 388.112 (2006), with copies of e-mails, instant messages
(e.g., AOL Instant Messages), audiotapes and communications, if
any, by Reliant's power traders with market participants for
transactions in the United States. To facilitate OE's review, Reliant
shall retain copies of all such records for at least 6 months following
the term of this Agreement. In addition, Reliant shall have an
employee who reports to the Compliance Officer located on the trade
floor(s) to monitor trading activity and will also randomly monitor e-
mails, instant messages and telephone conversations and shall make
reports to the Compliance Officer within 24 hours after they have
been told of, discovered or have concerns about any unlawful
conduct by anyone at Reliant.

26 10. In light of Reliant's remedial actions to date and its willingness to (i)
27 acknowledge responsibility for the conduct set forth in the Statements of Facts, (ii)
28 cooperate with the Government and other governmental regulatory agencies, and (iii)

1 demonstrate its future good conduct and full compliance with all applicable laws and
2 regulations including the Federal Power Act and FERC's regulations and policies
3 governing the production and sale of electricity and natural gas, and the anti-manipulation
4 and false reporting provisions of the Commodity Exchange Act, the Government agrees
5 to dismiss the Indictment without prejudice against Reliant. Reliant stipulates and agrees
6 that for a period of 24 months following the dismissal of the Indictment, it waives all
7 rights to a speedy trial pursuant to the Sixth Amendment of the United States
8 Constitution, Title 18, United States Code, Section 3161, Federal Rule of Criminal
9 Procedure 48(b), and any applicable Local Rules of the United States District Court.
10 Reliant further stipulates and agrees that for a period of 25 months following the
11 dismissal of the Indictment, it waives any rights under the applicable statute of limitations
12 to any prosecution based on the charges contained in the Indictment and to any other
13 federal criminal charges that could have been brought arising out of the investigation that
14 led to the instant Indictment. Reliant's waiver of its rights, including the tolling of the
15 statute of limitations, is knowing and voluntary and in express reliance on the advice of
16 counsel.

17 11. Between 30 and 60 days before the expiration of this Agreement, Reliant
18 shall submit to the Government a written certification signed under penalty of perjury by
19 the CEO of Reliant's parent that, to the best of his/her knowledge after due inquiry,
20 Reliant is in full compliance with all of its obligations under this Agreement. The
21 Government agrees that if Reliant fully complies with all of its obligations under this
22 Agreement for 24 months following the dismissal of the Indictment, the Government will
23 not reindict Reliant for any conduct arising out of the investigation that led to this
24 Indictment, nor will the Government seek any additional charges against Reliant that
25 could have been filed as a result of the investigation that led to the captioned Indictment.

26 12. It is further understood that should the Government, in its sole and
27 reasonable discretion, and in good faith, determine that Reliant willfully and knowingly
28 has given materially false, incomplete, or misleading information under this Agreement,

1 or has committed any Federal Crimes (as defined below) subsequent to the date of this
2 Agreement, or that Reliant otherwise has breached this Agreement by willfully,
3 knowingly and materially violating any provision of this Agreement, this Agreement shall
4 become null and void and Reliant shall thereafter be subject to prosecution for any federal
5 criminal violation, contained in the Indictment and/or arising out of the investigation that
6 led to the Indictment. Any such prosecutions may be premised on information provided
7 by Reliant. Reliant understands and agrees that its payment made pursuant to ¶ 8 above is
8 final, and that these funds will not be returned or refunded to Reliant once paid. As used
9 in this paragraph, Federal Crimes is limited to: fraud or price manipulation related to
10 Reliant's business activities committed by Reliant officers or directors at or above the
11 level of Vice President.

12 13. It is further agreed that in the event that the Government, in its reasonable
13 discretion and in good faith, determines that Reliant has committed a willful and knowing
14 material breach of this Agreement as described above, then Reliant:

- 15 a. Stipulates to the admissibility into evidence of the Statement of Facts
16 and agrees not to offer any contradictory evidence or arguments;
- 17 b. Agrees that all statements made by or on behalf of Reliant, including
18 testimony given by Reliant and any employee (current or former)
19 before a grand jury, the Commodities Futures Trading Commission,
20 FERC, or elsewhere, shall be admissible in evidence in any and all
21 criminal proceedings brought by the Government against Reliant;
22 and
- 23 c. Shall not assert any claim under the United States Constitution, Rule
24 410 of the Federal Rules of Evidence, or any other rule, that
25 statements made by or on behalf of Reliant prior to or subsequent to
26 this Agreement, or any leads derived therefrom, should be
27 inadmissible or suppressed.

28 14. The decision whether conduct and statements of any individual will be
imputed to Reliant for the purpose of determining whether Reliant has committed a
willful and knowing material breach of this Agreement shall be in the sole and reasonable
discretion of the Government.

15. Should the Government determine in its sole and reasonable discretion, and
in good faith, that Reliant has committed a willful and knowing material breach of any

1 provision of this Agreement, the Government shall, within 30 days of its discovery of the
2 events giving rise to the alleged breach, provide written notice to Reliant of the alleged
3 breach and provide Reliant with a two-week period in which to make a presentation to the
4 Government to demonstrate that no breach has occurred, or, to the extent applicable, that
5 the breach is not a willful and knowing material breach or has been cured. The parties
6 hereto expressly understand and agree that should Reliant fail to make a presentation to
7 the Government within a two-week period, the Department of Justice in its sole and
8 reasonable discretion may presume that Reliant is in willful and knowing material breach
9 of this Agreement. The parties further understand and agree that the decision to file a
10 new indictment against Reliant for a violation of this Agreement is left to the sole and
11 reasonable discretion of the Government and is not subject to judicial review.

12 16. Reliant agrees that if it sells or merges all or substantially all of its business
13 operations as they exist as of the date of this Agreement to or into a single purchaser or
14 group of affiliated purchasers during the term of this Agreement, it shall include in any
15 contract for sale or merger a provision binding the purchaser/successor to the obligations
16 described in this Agreement.

17 17. It is understood that this Agreement is binding on Reliant and its parent and
18 the Government, but specifically does not bind any other federal agencies, or any state or
19 local law enforcement or licensing authorities. The Government will bring the
20 cooperation of Reliant and its compliance with its other obligations under this Agreement
21 to the attention of other federal agencies and state and local law enforcement or licensing
22 authorities, if requested by Reliant or its attorneys.

23 18. Absent any material breach, this Agreement expires 24 months from the
24 date from the date of the dismissal of the Indictment.

25 20. Reliant and the Government agree that this Agreement and appendices shall
26 be publicly filed in the United States District Court for the Northern District of California.

27 21. Reliant hereby warrants and represents that the Board of Directors of
28 Reliant's parent has duly authorized the execution and delivery of this Agreement and

1 that the corporate officer signing the Agreement has authority to bind Reliant. This
2 Agreement may not be modified except in writing signed by all the parties.

3 22. This Agreement may be executed in counterparts.

4
5 Respectfully submitted,

6 SCOTT N. SCHOOLS
7 United States Attorney

8 Date: MAR 6 2007

9 
10 MICHAEL LI-MING WANG
11 Assistant United States Attorney

12 Agreed and Accepted:

13 Date: _____

14 MICHAEL L. JINES
15 Vice President and Secretary
16 Reliant Energy Services, Inc.

17 Date: _____

18 WILLIAM H. JEFFRESS
19 Counsel to Reliant Energy Services, Inc.

20 Date: _____

21 WILLIAM M. GOODMAN
22 Counsel to Reliant Energy Services, Inc.

1 that the corporate officer signing the Agreement has authority to bind Reliant. This
2 Agreement may not be modified except in writing signed by all the parties.

3 22. This Agreement may be executed in counterparts.

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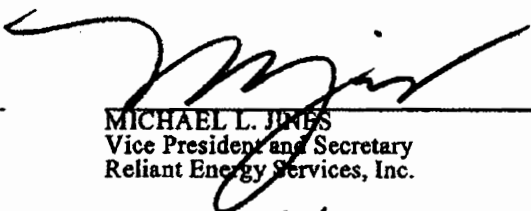
Respectfully submitted,
SCOTT N. SCHOOLS
United States Attorney

Date: _____

MICHAEL LI-MING WANG
Assistant United States Attorney

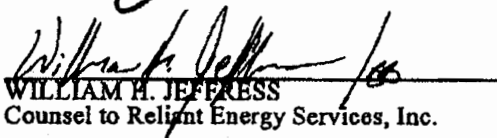
Agreed and Accepted:

Date: 3-5-07




MICHAEL L. JONES
Vice President and Secretary
Reliant Energy Services, Inc.

Date: 3/5/07



WILLIAM H. JEFFRESS
Counsel to Reliant Energy Services, Inc.

Date: 3/5/07



WILLIAM M. GOODMAN
Counsel to Reliant Energy Services, Inc.

1 **CERTIFICATE OF SERVICE**

2 The undersigned hereby certifies that she is an employee of the office of the United States
3 Attorney, Northern District of California and is a person of such age and discretion to be
4 competent to serve papers. The undersigned certifies that she caused copies of

5 ***DEFERRED PROSECUTION AGREEMENT WITH
6 RESPECT O CORPORATE DEFENDANT***

7 ***NOTICE OF DISMISSAL***

8 ***DEFERRED PROSECUTION AGREEMENT WITH
9 RESPECT TO INDIVIDUAL DEFENDANTS***

in the case of **UNITED STATES V. RELIANT ENERGY SERVICES, ET AL.,**

10 **CR-04-0125-VRW** to be served on the parties in this action, by placing a true copy thereof in a
11 sealed envelope, addressed as follows which is the last known address:

12 Mary G. McNamara, Esq.
13 Swanson & McNamara LLP
14 300 Montgomery Street, Suite 1100
15 San Francisco, CA 94104
16 Tel: (415) 477-3800
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21 Topel & Goodman
22 832 Sansome Street, 4th Floor
23 San Francisco, CA 94111
24 Tel: (415) 421-6140
25 Fax: (415) 398-5030

23 _____ (By Personal Service), I caused such envelope to be delivered by hand to the person or
24 offices of each addressee(s) above.

25 _____ (By Facsimile), I caused each such document to be sent by Facsimile to the person or
26 offices of each addressee(s) above.

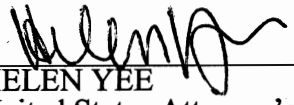
27 X (By Mail), I caused each such envelope, with postage thereon fully prepaid, to be placed
in the United States mail at San Francisco, California.

28 _____ (By Fed Ex), I caused each such envelope to be delivered by FED EX to the address
listed above.

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I declare under penalty of perjury that the foregoing is true and correct.

Dated: March 6, 2007


HELEN YEE
United States Attorney's Office

1 SCOTT N. SCHOOLS (CSBN 9990)
United States Attorney
2
3 MARK L. KROTOSKI (CSBN 138549)
Chief, Criminal Division
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9 Attorneys for Plaintiff

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

UNITED STATES OF AMERICA,)
Plaintiff,)
v.)
RELIANT ENERGY SERVICES, INC.,)
JACKIE R. THOMAS,)
V. REGINALD HOWARD II,)
LISA L. FLOWERS and)
J. KEVIN FRANKENY,)
Defendant.)

No. CR 04-0125 VRW

AGREED STATEMENT OF FACTS WITH
RESPECT TO CORPORATE DEFENDANT

For purposes of resolving a criminal matter initiated by the United States
Attorney's Office for the Northern District of California into the deliberate unlawful
manipulation of electricity prices in California during June 2000, defendant Reliant
Energy Services, Inc. states as follows:

//

1 **Reliant Energy Services, Inc.**

2 1. Reliant Energy Services, Inc. ("Reliant") is a Delaware corporation
3 headquartered in Houston, Texas. It is a separately incorporated, wholly-owned,
4 subsidiary of Reliant Energy, Inc., formerly known as Reliant Resources, Inc., (the
5 "Company"). The Company is a publicly-traded holding company, headquartered in
6 Houston, Texas. Through its subsidiaries, including Reliant, the Company provides
7 electricity and energy services to retail and wholesale customers throughout the United
8 States. It currently employs approximately 3,500 people worldwide and had a reported
9 operating loss of approximately \$24 million in 2006.

10 **Background**

11 2. In 1996, California enacted legislation to fundamentally restructure its
12 electricity market with the intent of facilitating competition in the generation and sale of
13 energy. While the traditional utilities remained responsible for serving the needs of their
14 retail customers, the legislation required divestiture of some of the utilities' power plants.
15 Between 1997 and 1999, the utilities auctioned and sold all of their natural gas based
16 power plants in California to five different companies, including subsidiaries of the
17 Company. Through this sale, the Company acquired five plants in California: Coolwater
18 (4 units), Ellwood (1 unit), Etiwanda (5 units), Mandalay (3 units), and Ormond Beach (2
19 units). These plants represented approximately 8% of the total, and 20% of the gas-fired,
20 power generation in the control area of the California Independent System Operator
21 Corporation ("ISO").

22 3. In June 2000, Reliant directed the operation of the California plants and the
23 marketing (or buying and selling) of energy through its West Power Trading Desk ("West
24 Power"), located in Houston, Texas. Electricity is a commodity in interstate commerce as
25 defined in the Commodity Exchange Act. West Power was responsible for buying and
26 selling electricity through a variety of markets, including the California Power Exchange
27 Corporation ("PX") "day-ahead" market for energy delivery the following day, and the
28 California ISO "real-time" market for energy delivery during the operating hour.

1 Through these “spot” markets, purchasers (such as the utilities) and suppliers (such as
2 Reliant) submitted bids to buy and sell California electricity on a daily and hourly basis.
3 All sellers in each market were paid a single “market clearing price” for the electricity
4 sold except for ancillary services and out-of-market purchases. West Power traders also
5 determined how much electricity should be produced from the Company’s California
6 power plants in a given period of time. Payments and charges for the sale of electricity
7 and other energy services in the PX and ISO markets were collected and paid by the PX
8 and ISO via wire transmission through separate accounts with the Bank of America in
9 San Francisco, California.

10 4. On April 8, 2004, Reliant and some of its employees were charged with
11 commodities manipulation in violation of the Commodity Exchange Act, 7 U.S.C. §
12 13(a)(2) (1992), wire fraud in violation of 18 U.S.C. § 1343, and conspiracy in violation
13 of 18 U.S.C. § 371. On December 10, 2004, Reliant and the indicted employees filed a
14 motion to dismiss the Indictment on various grounds including that the anti-manipulation
15 prong of the Commodity Exchange Act is unconstitutional and that Reliant’s conduct was
16 not prohibited by applicable regulations at the time. That motion was denied by the
17 United States District Court for the Northern District of California on February 28, 2006.

18 **Reliant’s Trading and Generation of Electricity the Week of June 19, 2000**

19 5. In May and June 2000, over a period of weeks, Reliant, acting through a
20 West Power term trader, acquired a long trading position in Reliant’s speculative trading
21 book at the Palo Verde delivery hub for the third quarters (“Q3”) of 2000 and 2001 (i.e.,
22 “term” contracts or positions) expecting that the price of electricity would rise. On the
23 morning of Monday, June 19, 2000, prices for electricity in these term positions
24 unexpectedly dropped. Based on its trading positions and the then-current market prices,
25 West Power faced an estimated \$3 million loss in its speculative trading book.

26 6. In an effort to stem its projected trading losses, Reliant shut down many of
27 the Company’s power plants in California for two days (delivery days June 21 and 22,
28 2000) for the purpose of increasing electricity prices in California. Reliant’s West Power

1 personnel also spread false or misleading information in the marketplace to justify the
2 Company's reduced production of electricity and to create the impression that the
3 reduction in power supply was a result of market forces. In particular, they gave false or
4 misleading information that the reason Reliant was producing less electricity during these
5 two days was due to concerns about Nitrous Oxide ("NOx") emissions and plant
6 maintenance. Reliant also submitted electricity bids to the PX at high prices believing
7 that they would not be accepted. In addition to curtailing available supply by reducing
8 production, Reliant also purchased electricity from the PX and other markets to cover
9 Reliant's pre-existing delivery commitments.

10 7. These actions were undertaken with the intent of creating higher prices for
11 electricity. By this intentional and deliberate conduct, Reliant caused the price of
12 electricity in the California spot markets to be artificially inflated. In particular, Reliant
13 intentionally shifted the supply curve, causing: (1) the PX market clearing price to be
14 higher than if Reliant had offered its supply at normal quantities and prices, (2) less
15 electricity to "clear" the PX market, and (3) more electricity to be purchased in the ISO
16 real-time and ancillary services markets.

17 8. Reliant's West Power personnel engaged in the above described conduct
18 because they believed it would cause an increase in electricity prices beyond what would
19 have occurred had the Company's California power plants continued to generate and
20 supply power at their normal rates. They further believed that this conduct would
21 mitigate losses in Reliant's speculative trading book. During the week of June 19, 2000,
22 instead of suffering an anticipated trading loss of approximately \$3 million, Reliant
23 profited by June 23, 2000 in its term positions. Reliant's conduct during the week of June
24 19, 2000, caused losses to the state of California of an amount that is undetermined, but
25 may be as large as \$36 million.

26 **Telephone Conversations Among Reliant Personnel**

27 9. On June 19 and 20, 2000, Reliant's Manager of West Power (Reggie
28 Howard) met with the Senior Vice President of Power Trading (Jackie Thomas) to

1 discuss how to address the loss in Reliant's speculative trading position. They agreed to
2 shut down many of Reliant's electricity producing power plants in California with the
3 expectation that it would shorten available supply and thereby drive up the price of
4 electricity in both the near and longer term markets. In a telephone conversation early the
5 morning of June 20, Howard described this strategy including that West Power personnel
6 shut down many of Reliant's power plants and then "put-out" to the market that the plants
7 were shutting down because Reliant was running up against the NOx emissions limits and
8 that they were "worried about the capacity factor of the units, and trying to get people to
9 say look we can't, these levels don't make sense to do." Noting that "we're down to
10 \$40.00 profit margin now where as last week we were at \$70.00," Howard added that
11 they were "doing this all to prop up 2001."

12 10. In talking to a plant operator in California late in the day on June 19, 2000,
13 a Reliant operations manager (Kevin Frankeny) explained that Reliant was "trying to do
14 some moving in the market and it's really pretty low prices," and that "[l]onger term" they
15 may need "to get some units off for a couple of days to try to create some movement
16 hopefully in the PX create movement in other markets that help us out longer term."

17 11. On the morning of June 20, 2000, Frankeny told a plant manager to shut
18 down for the remainder of the week because of "some market manipulation attempts on
19 our part," and that there were "term positions" that "would benefit" from the shut down.
20 Later that day, Frankeny told a plant operator in Nevada (a joint venture in which Reliant
21 owned a half share), that the "relative strength" of electricity prices now is "being caused
22 by us taking deliberate actions to provide that strength[] [f]or longer term trading issues,"
23 and that "we're shutting down six power plants tonight." He explained that "we didn't
24 bid 'em all in tomorrow, maybe not the next day, but we'll probably be back to more
25 normal operations after that," adding that the action was "intentional." He noted that they
26 were shutting down "some of the units" to "work on tomorrow and the next day," but that
27 "[w]e probably wouldn't do that if we weren't trying to make another point."
28

1 12. In a conversation with Reliant's representative to the ISO, Howard
2 instructed the employee that, if the ISO questioned the unit shutdowns, he should tell the
3 ISO that the units "are available" but that "we're shutting them down because they did not
4 clear in the market."

5 13. On Friday, June 23, 2000, a Reliant West Power trader (Lisa Flowers) told a
6 Reliant colleague that after "losing \$3 million" on Monday when the "market just fell out
7 of bed," the "group" had "decided" to "make it go back up" and so they turned "almost
8 every plant off." According to Flowers, "[i]t worked," "[p]rices went back up," and
9 Reliant "[m]ade back" about four to five million dollars.

10 **Market Prices and Participation the Week of June 19, 2000**

11 14. Prices in the California electricity markets increased on the days that
12 Reliant's generating units were intentionally taken out-of-service. Reliant sold electricity
13 to the PX and ISO from June 21 to June 23, 2000 at the increased prices caused in part by
14 Reliant's conduct. Reliant also bought and sold electricity in the Palo Verde term markets
15 at increased prices.

16 15. The increased prices for electricity in California published by the PX and
17 ISO during the week of June 19, 2000 were inflated due to the conduct of West Power
18 personnel as set forth above. Reliant was one of the suppliers that paid increased prices
19 for electricity during this week.

20 **Reforms Instituted by the Company**

21 16. Since the conduct described above occurred, the Company has implemented
22 a number of reforms designed to prevent a recurrence of such an incident. Such reforms
23 include, but are not limited to, a new compliance program, implementation of a corporate-
24 wide training program on compliance and ethics issues, the establishment of a hotline
25 number for the reporting of possible ethical problems and the establishment and
26 implementation of a number of new policies, controls and reports designed to prevent or
27 identify behaviors that might create possible compliance or regulatory issues.


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17. There are other facts known to the parties that are not included in this statement.


Agreed and Accepted:

RELIANT ENERGY SERVICES, INC.

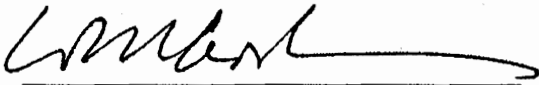
Date: 3-5-07


MICHAEL L. JINES
Vice President and Secretary
Reliant Energy Services, Inc.

Date: 3/5/07


WILLIAM H. JEFFRESS
Counsel to Reliant Energy Services, Inc.

Date: 3/5/07


WILLIAM M. GOODMAN
Counsel to Reliant Energy Services, Inc.



Corporate Compliance Program

Originally Issued as "Part 2 of the Business Ethics Policy and Corporate Compliance Program":

August 29, 2002

Revised: September 23, 2004

Summary

The Business Ethics Policy of Reliant Energy, Inc. (the "Company"), sets forth our corporate commitment to lawful and ethical business conduct. Other policies of the Company similarly set forth standards of conduct to be observed by all employees. This Corporate Compliance Program sets out the procedures that the Company has established to implement and enforce those standards of conduct (the "Compliance Program").

Scope

The Compliance Program applies to all employees of the Company at all locations.

Definitions

The Business Ethics Policy, available on the Company internet/intranet sites, sets forth the Company's policy to operate in a manner that reflects the highest ethical and legal standards, and in that regard integrity, straightforwardness and honesty is expected and required of all directors, officers and employees at all times. In addition to the Business Ethics Policy, the Company has a number of other policies that establish certain standards of conduct expected of all employees.

Program

I. Organization For Corporate Compliance

A. Audit Committee of the Board of Directors

1. The Audit Committee of the Company Board of Directors ("Audit Committee") will oversee the Compliance Program and the activities of the Corporate Compliance Officer.
2. The Corporate Compliance Officer will meet on a regular basis with the Audit Committee (and such other members of the Company Board of Directors as may be appropriate). At these meetings, the Audit Committee will be advised of (i) all reported violations of the Business Ethics Policy and such other policy violations as may be investigated by the Corporate Compliance Officer, and (ii) any disciplinary actions taken in response to such violations.
3. The Corporate Compliance Officer will periodically review with the Audit Committee (i) the efforts of the Company to prevent violations of the Business Ethics Policy, and (ii) revisions, as appropriate, to this Compliance Program.
4. The Audit Committee Charter, available on the Company internet/intranet sites, sets forth additional governance principles relevant to the Audit Committee's role in the Compliance Program.



B. Corporate Compliance Officer

1. The Corporate Compliance Officer will have operational responsibility to oversee compliance with the Business Ethics Policy and the proper functioning of the Compliance Program. The Corporate Compliance Officer will report to the Chief Executive Officer of the Company and the Chairperson of the Audit Committee, and will confer with other members of management including the Office of Ethics and Compliance described below as necessary and appropriate. The Corporate Compliance Officer will serve as a member of the Office of Ethics and Compliance.
2. The Corporate Compliance Officer will be responsible for establishing reporting procedures, including a compliance "hotline", an email address and a post office box, for use by any employee to report, on an anonymous basis, any violation of the Business Ethics Policy (or any other Company policy) and/or to request information or guidance on any compliance issue.
3. Other than any confidential, anonymous submissions made directly to the Audit Committee regarding questionable accounting or auditing matters, the Corporate Compliance Officer will promptly review any policy violations reported to the Corporate Compliance Officer to determine whether the incident should be investigated and who should investigate the reported violation. The Corporate Compliance Officer shall be kept informed of the status and proposed resolution of all such matters.
4. For all matters under investigation, the Corporate Compliance Officer will be advised on at least a quarterly basis of the status of such investigation. The Corporate Compliance Officer is responsible for ensuring that any violation of the Business Ethics Policy or the Compliance Program is appropriately and consistently handled.
5. The Corporate Compliance Officer will maintain a record of all policy violations reported to the Corporate Compliance Officer, including the status and ultimate resolution (including disciplinary action, if appropriate) of each such matter. These records will be presented to the Audit Committee during the quarterly review.
6. The Corporate Compliance Officer, in conjunction with the Office of Ethics and Compliance, will take such other actions as are necessary and appropriate to implement and to improve the Compliance Program, including utilizing an annual review for changes and additions to the Compliance Program based on, among other factors, best practices.
7. The Corporate Compliance Officer may, from time to time, designate individuals or engage advisors who have particular expertise with respect to certain functional areas to assist in assuring compliance in areas such as antitrust and business regulation, securities and commodities regulation, federal and state energy regulation, and environmental and occupational and safety affairs.



C. Office of Ethics and Compliance

1. The Office of Ethics and Compliance (the "Office") shall be comprised of:
 - a) the Chief Executive Officer;
 - b) the Chief Financial Officer;
 - c) the Chief Risk Control Officer;
 - d) the General Counsel; and
 - e) the Corporate Compliance Officer.
2. The Office will be responsible for promoting high ethical standards throughout the Company and ensuring that the Company's actions are consistent with corporate policies, including the Business Ethics Policy.
3. The Office will meet no less than once per month and more frequently if necessitated by circumstances. A majority of the members of the Office shall constitute a quorum. The Office will review policy violations reported to the Corporate Compliance Officer. The Office will review the status of pending matters and the resolution of closed matters, including any disciplinary action taken. The Office shall also review the procedures established to identify, report and investigate all policy violations reported to the Corporate Compliance Officer.
4. The Office will be responsible for helping to ensure the efficacy of the Compliance Program and that the principles embodied in the Business Ethics Policy are understood and adhered to throughout the Company. The Office will also approve procedures for monitoring the overall effectiveness of the Compliance Program.

D. Reliant Leadership Forum

1. No less than once per year, and more often as appropriate, the Corporate Compliance Officer shall meet with the Reliant Leadership Forum to discuss:
 - a. procedures for Company employees to report violations of the Business Ethics Policy to management;
 - b. modifications to the Business Ethics Policy and the Compliance Program;
 - c. the Company's educational program for compliance matters and procedures; and
 - d. the efficacy of the Company's overall ethics and compliance commitment to Company employees and officers.
2. The individual members of the Reliant Leadership Forum, in accordance with their areas of functional responsibility, will assist with training, educating, and disseminating information necessary to apprise Company employees and representatives of their duties and responsibilities under the Business Ethics Policy, including applicable requirements of law.

E. Functional Unit Managers

1. Functional unit managers are directly responsible for ensuring that Company employees adhere to the Business Ethics Policy, other policies and all applicable requirements of law and regulation. Functional unit managers shall monitor the activities of their subordinates to the extent necessary to ensure compliance with



the Business Ethics Policy, other policies and all applicable requirements of law and regulation.

2. Functional unit managers will promote the training and education of their employees with respect to the requirements of the Business Ethics Policy, other policies and applicable laws and regulations.
3. Functional unit managers will encourage employees to report promptly any violations of the Business Ethics Policy, any other Company policies or any applicable law or regulation, and treat such reports as confidential to the extent possible. Functional unit managers will take no action that could be perceived as discouraging or retaliating for reporting any such violations.

F. Company Employees

1. Company employees are required to comply with the Business Ethics Policy, with all other Company policies, and with all applicable laws and regulations.
2. Company employees are required to promptly report any suspected or possible violations of applicable law or regulation, the Business Ethics Policy or other Company policies to their immediate supervisor or other management personnel. Alternatively, an employee is encouraged to report directly to the Corporate Compliance Officer (through the hotline number, by email or by regular mail), to any member of the Office of Ethics and Compliance or the Reliant Leadership Forum, or to any other senior Company official.
3. Company employees are required to participate, at least every two years, in training to retain familiarity with the requirements of the Business Ethics Policy. As directed, employees are also expected to participate in training on specific compliance matters relevant to their area of responsibility.
4. Reliant employees are required to cooperate fully in all investigations by the Company of suspected or possible Business Ethics Policy violations.

II. **Delegations of Authority**

- A. It is the policy of the Company to delegate substantial discretionary authority only to individuals whom the Company is confident will not engage in illegal activities or violate the Business Ethics Policy, other Company policies or other applicable laws or regulations.
- B. The Corporate Compliance Officer will review from time to time the Company's procedures (including background and reference checks) and criteria for filling (whether by new hire or by promotion) positions involving substantial discretionary authority. The Corporate Compliance Officer will recommend to the Office any changes in procedures and criteria that are appropriate so that only persons of integrity are selected for such positions.
- C. Any person in a position of authority where there is good cause to believe he or she is not complying with the Business Ethics Policy, any related policy or applicable law or regulation, shall be reassigned or otherwise dealt with in an appropriate manner.



III. Communication of Standards and Procedures to Employees

- A. The Corporate Compliance Officer assures that records are maintained confirming that:
1. every director, officer and employee of the Company acknowledges in writing, every twelve months, that he or she has reviewed, understands and has fully complied with the Business Ethics Policy; and
 2. each employee hired has, within thirty days from the commencement of employment with the Company, (i) received the Business Ethics Policy; and (ii) acknowledged in writing that he or she has reviewed and understands the provisions of the Business Ethics Policy and will comply with them; and
 3. each employee hired has, within ninety days from the commencement of employment with the Company, received training in compliance with the Business Ethics Policy.
- B. The Corporate Compliance Officer will cause to be communicated to all the Company employees:
1. the Company's commitment to the Business Ethics Policy;
 2. that no employee will suffer any penalty or retribution for good faith reporting of any suspected misconduct or impropriety;
 3. that reports of suspected misconduct or impropriety may be made anonymously to the Corporate Compliance Officer or the Audit Committee;
 4. that the Company will investigate all such reports, and that any Company employee found to have engaged in misconduct will receive appropriate discipline, up to and including dismissal; and
 5. that the Corporate Compliance Officer or his or her designee (through the hotline number, by email or regular mail) is available for consultation on any question a Company employee may have concerning (i) the application of any standard of conduct to the Company's business operations or (ii) any other matter relating to the Compliance Program.
- C. The Corporate Compliance Officer will conduct surveys on an annual basis to measure the effectiveness of the communication of the Company's standards for ethical conduct to employees. The results of such surveys will be reported to the Audit Committee and a summary of the survey results will be made available to employees.

IV. Auditing

- A. Internal audit will conduct an annual audit of the Compliance Program.
- B. Copies of internal and outside audit reports (financial and non-financial) that relate to matters covered under the Business Ethics Policy or the Compliance Program will be provided to the Corporate Compliance Officer.



V. Cooperation with Government Investigations

- A. It is the policy of the Company to cooperate with all governmental investigative authorities.
- B. It is a violation of the Company's Corporate Compliance Program for any employee to knowingly alter, destroy, mutilate, conceal, cover up, falsify, or make a false entry in any record, document, or tangible object with the intent to impede, obstruct, or influence the investigation or proper administration of any matter.

Policy Exceptions

Exceptions or waivers of the standards of conduct set forth in the Business Ethics Policy and this Compliance Program can only be authorized by the Chief Compliance Officer after consultation with the Office of Ethics and Compliance. The Corporate Compliance Officer or his or her designee will be responsible for tracking and reporting any known violation of the standards of conduct set forth in the Business Ethics Policy and this Compliance Program.

Policy Violations

Any violation of the standards of conduct set forth in the Business Ethics Policy and this Compliance Program may result in disciplinary action, up to and including termination of employment or contract services, and may also result in prosecution under the provisions of any applicable federal, state or local law. The Company does not consider conduct in violation of the Business Ethics Policy and this Compliance Program to be within the course and scope of an employee's employment, or the direct consequence of the discharge of an employee's duties. Accordingly, to the extent permitted by law, the Company reserves the right not to defend any employee charged with, and not to pay any damages awarded against an employee for, conduct in violation of the Business Ethics Policy and this Compliance Program.

Policy Administration

The Corporate Compliance Officer or his or her designee will be responsible for the administration of the Business Ethics Policy and this Compliance Program. This program shall be interpreted in accordance with all applicable federal, state or local laws.

END

Nothing in the Business Ethics Policy and this Compliance Program shall be construed as an employment contract. Employment with Reliant Energy, Inc. and its parent, subsidiary and affiliated companies (collectively "the Company") is at the will of the employee and of the Company and may be terminated by either the employee or the Company at any time, for any reason, with or without notice and with or without cause.



Business Ethics Policy

Originally Issued as "Part One of the Business Ethics Policy and Compliance Program":

January 1, 2002

Revised: January 11, 2006

Summary

It is the policy of Reliant Energy, Inc. and its subsidiary and affiliated companies ("Reliant" or the "Company") to operate in a manner that reflects the highest ethical and legal standards. In all situations, including those where there are no legal constraints, it is Reliant's policy that its business shall be conducted ethically and in accordance with all applicable laws and regulations and in such a manner that neither Reliant nor any of its Employees or Directors (collectively, "Reliant Representatives") would be embarrassed by full disclosure of all facts. Reliant expects and requires integrity, straightforwardness and honesty of all Reliant Representatives at all times.

In order to provide guidance and direction to its employees in implementing this policy, Reliant has adopted this Business Ethics Policy (the "Policy").

Scope

This policy applies to all Reliant Representatives at all locations.

Definitions

A. Who is an "Employee"?

"Employee" means any employee, including any officer, of Reliant, its subsidiaries and affiliates. This Business Ethics Policy applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and is intended to meet the requirements of the Sarbanes-Oxley Act, Section 406 and the rules set forth by the Securities and Exchange Commission.

B. Who is a "Director"?

"Director" means any member of the Board of Directors of Reliant, its subsidiaries and affiliates.

C. Who is considered an "Associate"?

"Associate" means any member of the Reliant Representative's immediate family by either blood or marriage and/or any person residing in the same household with the Reliant Representative, any organization (other than the Company) in which the Reliant Representative or a family member is an officer or partner or in which such person is the beneficial owner of ten percent (10%) or more of any class of securities or any trust or other estate in which such person has a substantial beneficial interest or for which such person serves as a trustee or in a similar capacity.

D. What is considered a "Governmental Entity"?

"Governmental Entity" means all governmental entities; state, federal, local, domestic and foreign.

E. Who is considered a "Government Official"?

"Government Official" means any officer, official, and/or employee of a Governmental Entity.



Business Ethics Policy

F. What other policies are closely related to the Business Ethics Policy?

Reliant has other policies that also deal with specific legal and ethical requirements for the conduct of its business, including a policy prohibiting Insider Trading, a policy on the Use of Electronic and Physical Resources, various Risk Control policies and a policy on Confidential Information and Intellectual Property. Reliant has also adopted Best Principles and Practices for the Transaction of Energy-Related Products. In addition, Reliant's Corporate Compliance Program directly relates to the principles and requirements set forth in this Business Ethics Policy. It is the obligation of each Reliant Representative to familiarize himself or herself with all policies and practices applicable to his or her conduct of Reliant's business and to abide by those policies as part of this Business Ethics Policy.

Policy

I. Use of Reliant Funds and Accuracy of Books and Records

- A.** No Reliant Representative shall use Reliant funds or assets for any unlawful or unapproved purpose. No payment shall be made using Reliant funds for any purpose other than that supported by the source document(s) justifying the payment.
- B.** No undisclosed, unrecorded or unapproved fund or asset of Reliant shall be established for any purposes.
- C.** All books and records of Reliant shall be maintained in reasonable detail so as to accurately and fairly reflect transactions and dispositions of assets. The Company's financial activities must be recorded in compliance with all applicable laws and accounting practices. No knowingly false or misleading entries shall be made in the books and records of Reliant for any reason. Falsification of Company records can result in civil and/or criminal prosecution.
- D.** Compliance with prescribed accounting policies and procedures, including internal control requirements, is required at all times. In this connection, Reliant's books and accounting records will, in reasonable detail, accurately and fairly reflect and properly describe Reliant transactions. No knowingly misleading entries may be made in Reliant's books or accounting records or in any documents relating thereto.
- E.** Each Reliant Representative is required to deal with the Company's accountants and auditors with candor and shall cooperate fully with the Company's accountants and auditors to ensure that they receive all relevant information necessary to appropriately record or audit transactions on the books and records of the Company in keeping with generally accepted accounting principles. No Reliant Representative shall take any action to fraudulently influence, coerce, manipulate or mislead the Company's independent auditors.
- F.** Any material changes to accounting policies must be reviewed with the Audit Committee of the Board of Directors.



Business Ethics Policy

II. Conflicts of Interest

- A. No Reliant Representative shall have any relationships or engage in any activities which might conflict or give the appearance of conflicting with the interests of the Company or the proper performance of his or her Reliant duties or responsibilities or which might affect his or her independence or judgment with respect to transactions between Reliant and his or her other activities.
- B. Conflicts of interest arise when a Reliant Representative or an Associate receives improper personal benefits as a result of the Reliant Representative's position in the Company. You may not accept any benefits from the Company that are not permitted by applicable law or have not been duly authorized and approved pursuant to Company policy and procedure, including any Company loans or guarantees of your personal obligations. Directors who are independent may not receive any compensation from the Company beyond directors' fees; in particular, they may not receive any consulting fees from the Company.
- C. No Employee or any Associate of an Employee shall have a significant financial interest (10% or more), either directly or indirectly, in any business organization that deals with Reliant without prior specific written approval of the head of the Employee's functional group and the Corporate Compliance Officer.
- D. An Employee or any Associate of an Employee may make a contribution request for a charitable organization that is not sponsored by Reliant to a business organization that deals with Reliant. However, the business organization must be explicitly informed that the existing relationship with Reliant will not be affected by either complying or not complying with the contribution request.
- E. No Employee or any Associate of an Employee shall lease, rent or sell any kind of facility or equipment, material, service or other resource to Reliant without prior specific written approval of the head of the Employee's functional group and the Corporate Compliance Officer.
- F. No Employee shall propose to cause, either directly or indirectly, Reliant to enter into a business transaction with a relative or an Associate of the Employee or the enterprise of such relative or Associate, without the prior specific written approval of the head of the Employee's functional group and the Corporate Compliance Officer.

Note: This policy is not intended to prohibit Employees from engaging in lawful business transactions with Reliant, *provided that* the business conducted with Reliant is a minor part of Reliant's total business, does not influence any Employee's official duties or actions and the relationship is disclosed and approved as stated above.

- G. No Employee shall provide any managerial, consulting or similar service to any outside concern that does business with Reliant unless prior specific written approval is obtained from the head of the Employee's functional group and the Corporate Compliance Officer. Providing services to or accepting employment with a competitor of Reliant is prohibited.
- H. No Reliant Representative shall engage in any type of outside employment, including self-employment, that may embarrass or discredit Reliant or that may in any way affect his or her independence, objectivity and efficiency in performing Reliant duties.



Business Ethics Policy

- I. Prior to engaging in any significant transaction or relationship not specifically addressed above that reasonably could be expected to give rise to a conflict of interest, an Employee shall consult with the Corporate Compliance Officer or the General Counsel.

III. Corporate Opportunities; Misuse of Reliant Assets and Information; Confidential Information; Fair Dealing

Each Reliant Representative is prohibited from (a) taking for themselves personally opportunities that are discovered through the use of corporate property, information or position; (b) using corporate property, information, or position for personal gain; (c) using or disclosing confidential information; and (d) engaging in any unfair practices.

- A. If an Employee learns of a business or investment opportunity through the use of Company property or information or through his or her position at the Company, the Employee may not participate in the opportunity or make the investment without the prior written approval of the head of the Employee's functional group and the Corporate Compliance Officer. Such an opportunity may arise through a competitor or actual or potential customer, vendor or business associate of the Company. Such an opportunity should be considered an investment opportunity for Reliant in the first instance, and each Reliant Representative owes a duty to the Company to advance its legitimate interests when the opportunity to do so arises.
- B. No Reliant Representative, while on the job or as a representative of Reliant, shall solicit customers to hire or contract with the Reliant Representative for outside work of any kind.
- C. No Reliant Representative shall trade upon or otherwise take advantage of his or her Reliant affiliation in the conduct of personal affairs.
 1. This policy does not affect a Reliant Representative's ability to identify his or her affiliation with Reliant in a situation such as credit references where employment or position affirmation is both proper and normal.
 2. An example of prohibited activity would be identifying oneself as a Reliant Employee or Director in a personal business situation with the intention of securing special consideration on the strength of the Reliant Representative's affiliation with Reliant.
- D. No Employee shall convert to personal use any Reliant asset. Use of computer resources of the Company is the subject of a separate policy Use of Physical and Electronic Resources Policy.
- E. When providing information to the Company, each Reliant Representative shall always provide information that is as accurate, complete, objective, relevant, timely and understandable as can be provided by such person, and shall act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing his or her independent judgment to be subordinated.
- F. No Reliant Representative shall sell, use or disclose Confidential Information, technical or otherwise for his or her private benefit or the benefit of an Associate or any other person, business, firm or other entity. "Confidential Information" means data or information concerning the Company, which is not already in the public domain. Confidential Information shall include, but not be limited to, decisions, plans, procedures, personal data on Employees, customer information, bid prices, evaluations of bids, contractual



Business Ethics Policy

terms and arrangements, prospective real estate purchases or sales, financial or business forecasts, any Inside Information (discussed below) or any other non-public information that might be of use to competitors, or harmful to the Company or its customers, if disclosed. Disclosure or use of confidential information is the subject of a separate Confidential Information and Intellectual Property Policy.

- G. Each Reliant Representative should deal with the Company's customers, suppliers, competitors and employees in an equitable, honest, and fair manner. No Reliant Representative should take unfair advantage of anyone through manipulation, concealment, abuse of confidential information, dishonesty, misrepresentation of material facts or any other unfair-dealing practice.

IV. Compliance with Laws, Rules and Regulations (including Insider Trading Laws)

A. General Compliance with Laws, Rules and Regulations

Obeying applicable laws and regulations is the foundation upon which the Company's ethical standards are built. Although Reliant Representatives are not expected to know every law that is applicable to the Company, it is important that they be familiar with those laws that apply to their areas of responsibility and know enough to ask questions and seek advice from supervisors, managers, lawyers or other appropriate personnel if they have any doubt regarding the legality of any matter. For this reason, the Company periodically organizes information and training sessions to promote compliance with laws, rules and regulations, and all invited Employees are expected to attend these information and training sessions. We each have a responsibility to promote compliance with laws, rules and regulations, and all Reliant Representatives shall proactively promote ethical behavior as a responsible partner among peers in his or her work environment and the community.

B. Securities Trading

It is unlawful and against Reliant policy for a Reliant Representative to buy or sell Reliant stocks, bonds or other securities based on or while in possession of Inside Information. Use of Inside Information for personal financial gain as well as passing on such information to others who do not have a legitimate business need to know the information is strictly prohibited. "Inside Information" is any information about the Company or its business activities which has not been generally disclosed to the public and which a reasonable investor would consider important in making a decision concerning investment in Reliant securities. This includes Confidential Information about Reliant that a Reliant Representative may learn as a part of his or her job. This prohibition applies to all purchases and sales of securities, including transfers of funds in and out of Reliant's common stock through any of Reliant's benefit plans. It also applies to trading in the securities of another public company about which a Reliant Representative acquires Inside Information in the course of his or her duties for Reliant. Trading on inside Information is the subject of a separate policy Insider Trading Policy.



Business Ethics Policy

C. Disclosure Laws

The Board of Directors of the Company is committed to achieving transparency in the Company's reporting of its financial condition and results of operations, business activities and other disclosures to regulatory authorities, shareholders and other constituencies. It is Company policy to make full, fair, accurate, timely and understandable disclosure in compliance with all applicable laws and regulations in all reports and documents that the Company files with, or submits to, the Securities and Exchange Commission and in all other public communications made by the Company. Each Reliant Representative is required to provide information that is accurate and complete, and otherwise to abide by all Company standards, policies and procedures designed to promote compliance with this policy.

V. Bribes, Gratuities, Gifts and Kickbacks

A. General

1. No Reliant Representative shall offer any direct or indirect bribe, kickback or any other unlawful payment or transfer of value. Gifts shall be given only to the extent that they are properly authorized and are not contrary to applicable law and ethical standards.
2. No Reliant Representative shall seek or accept any gift of significant value, any private discount or preferential treatment, or any payments, fees, privileges, opportunities, loans (except at conventional terms from banks or other lending institutions) or other favors from any group, person, or organization doing or seeking to do business or competing with Reliant.
 - a) Letters shall be forwarded periodically by an appropriate Reliant officer to all suppliers informing them of our policies concerning gifts and soliciting their understanding.
 - b) It is acknowledged in connection with this requirement that certain common courtesies of nominal value, occasional meals and reasonable entertainment appropriate to the business relationship and associated with business decisions are widely accepted as common business practices and may be accepted as such by Reliant Representatives and their respective families.
 - c) Gifts in the form of cash, stocks, bonds, options, below-market loans and similar items shall not be accepted, regardless of value. If a Reliant Representative doubts the propriety of accepting a gift or courtesy, the Reliant Representative should discuss the matter with the Corporate Compliance Officer or should not accept the gift or courtesy.

B. Gifts and Entertainment Policy

1. No Reliant Representative shall offer any direct or indirect bribe, kickback or any other unlawful payment or transfer of value. Gifts shall be given only to the extent that they are properly authorized and are not contrary to applicable law and ethical standards.



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2. No Reliant Representative shall seek or accept any gift of significant value, any private discount or preferential treatment, or any payments, fees, privileges, opportunities, loans (except at conventional terms from banks or other lending institutions) or other favors from any group, person, or organization doing or seeking to do business or competing with Reliant. Gifts in the form of cash or cash equivalents (including but not limited to stocks, bonds, options, below-market loans and similar items) shall not be accepted, regardless of value.
3. This Policy applies equally to offers given and received by a Reliant Representative.
4. It is acknowledged in connection with this requirement that certain common courtesies of nominal value, occasional meals and reasonable entertainment appropriate to the business relationship and associated with business decisions are widely accepted as common business practices. As such, these gifts or courtesies may be given or accepted by Reliant Representatives and their respective families as long as it is not excessive in value and there are no unusual facts and circumstances surrounding the offer. Examples of unusual facts or circumstances surrounding the offer that might create an appearance problem include, but are not limited to the following:
 - a) the Company is actively negotiating a contract with the vendor; or
 - b) the Company has a contract or other dispute with the vendor.
5. Reliant Representatives should also consider if accepting an offer might create an appearance problem, either internally or externally. Reliant Representatives with direct influence over determining the amount or magnitude of future transactions with the vendor should be particularly careful when considering an offer. If accepting the offer would in any way affect decisions related to the vendor, or create a perception of a problem, the offer should not be accepted. If a Reliant Representative doubts the propriety of accepting a gift or courtesy, the Reliant Representative should discuss the matter with the Corporate Compliance Officer or should not accept it.
6. Each Reliant Representative is responsible for his or her decision related to accepting appropriate gifts or entertainment, as he or she is the only person with knowledge of all the surrounding facts and circumstances. Though advice may be sought in interpreting this Policy, the Reliant Representative ultimately must be comfortable with his or her own interpretation and use common sense and good judgment in making decisions regarding gifts or entertainment. In addition, all gifts with an estimated value in excess of \$100 accepted by a Reliant Representative must be approved in advance by his or her supervisor.
7. Letters shall be forwarded periodically by an appropriate Reliant person to all relevant vendors informing them of our policies concerning gifts and soliciting their understanding.

C. Gifts

For purposes of this Policy, gifts are considered items given or received that require no further action or involvement by the giver. Gifts cannot be given with the intent to receive something in return. Gifts benefit the receiver and are used at the discretion of the receiver. Gifts such as small office supplies and T-shirts are routinely exchanged between vendors. Tickets to sporting or cultural events, when given or received and not attended by the giver, are considered gifts. As an example, an airline voucher that is redeemable at any time for any destination would be considered a gift that benefits the individual whereas a specific airline ticket to attend an arranged meeting at a vendor location could be considered a routine business expense that benefits the Company.

D. Entertainment

1. Entertainment involves activities where a Reliant Representative and a vendor, supplier or those whom the company does business with attends. Activities range from sporting and cultural events to lunch, dinners, etc. If the company or person who offered the tickets will be attending the event as well, then this may be considered reasonable entertainment appropriate to the business relationship and accepting these tickets generally should not be a problem. If tickets are to out-of-town events, the Reliant Representative or the Company should pay for his or her own travel and lodging. However, Reliant will not pay for the vendor's travel and lodging expenses.
2. In some cases, an event can be considered overall as entertainment but include a gift. Each Reliant Representative should be careful of such a situation and mindful of the intent of this Policy. If there are unusual facts or circumstances surrounding an offer from a vendor or supplier or to a customer or other person with whom we do business, or the offer is of an unusual value, please contact the Corporate Compliance Officer to discuss the matter.
3. Please note that because of Reliant's relationship with the Houston Texans through the naming rights of Reliant Stadium, the company receives certain unusual perquisites from the Houston Texans and the National Football League. While the principles set forth in this Policy should be considered before any gift is offered to a customer or any group, person, or organization doing or seeking to do business or competing with Reliant, it is recognized that, under certain circumstances, provision must be made for these perquisites.

VI. Special Provisions Applicable to Interacting with Government

A. General

Interactions between Reliant Representatives and Government Officials are subject to the special provisions set forth in this Section.

B. Gifts and Gratuities: Government Customers

1. No Reliant Representative, nor anyone else acting on behalf of Reliant, shall offer or provide gifts, entertainment, drink, meals, transportation, lodging, money or any other thing of value to or for the benefit of a Government Official in order to obtain a contract or favorable treatment of a contract with a Governmental Entity.



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2. This Policy does not prohibit contributions legally made to campaigns for public office (i.e., contributions by individual Reliant Representatives or REPAC, which do not involve payment of Company funds) or expenses legally incurred in connection with lobbying activities on behalf of the Company or contributions of items of nominal value made during the course of business (e.g., payment for business meals) where such contributions are consistent with applicable law.
3. Legal requirements with respect to payments and other gratuities to Government Officials are complex but substantial criminal and civil penalties are provided for both Reliant and individual Reliant Representatives who violate the law. Therefore, it is the obligation of the Reliant Representative to ensure that any dealings with Government Officials comply fully with the letter and spirit of legal provisions. When in doubt, no payment or contribution should be made before obtaining advice from the Corporate Compliance Officer or his or her designee or a member of the Law Department.

C. Government Source Selection Information

Reliant Representatives shall not solicit or receive any government source selection information by any means other than through official channels. Government source selection information includes, but is not limited to, listings, offerors and prices, identification of bidders prior to bid opening, source selection and technical evaluation plans, technical evaluations of competing proposals, competitive range determinations, rankings and source selection board reports, evaluations and recommendations.

D. Hiring of Government Employees

Complex rules, which are constantly changing, govern the recruitment and employment of Government Officials by private industry. Clearance must first be obtained from the Corporate Compliance Office before making offers to or hiring any current or former Government Official (military or civilian) where:

1. the Government Official's government service is less than 5 years before the date of employment, and
2. the Government Official served in a function related to:
 - a) regulatory or other oversight of any line of business in which Reliant participates,
 - b) procurement of goods or services of a type marketed or provided by Reliant, or
 - c) any other government role reasonably and directly related to the conduct of Reliant's business.

E. Consultants and Lobbyists

The use of consultants and lobbyists on behalf of the Company for the purposes of meeting with Government Officials requires prior approval by the Executive Vice President of Public and Regulatory Affairs. Consultants and lobbyists must abide by the standards of this Policy.



F. Government Contracts

The submission to a Governmental Entity of a proposal, quotation or other document or statement that is false, incomplete or misleading can result in civil and/or criminal liability for Reliant as well as for the involved Employee and supervisors who condone such a practice. In negotiating contracts with Governmental Entities, Reliant has an affirmative duty to disclose current, accurate, and complete cost and pricing data where such data is required under law or regulation. As with all contracts, it is Reliant's policy that contractual undertakings with Governmental Entities be performed with integrity and in a forthright manner.

G. Training and Certification

Before participating in any government business, all Employees involved in government contracting shall successfully and timely complete all required modules of the Company's Ethics Training courses dealing with government contracts and any other modules assigned to the Employee. Written certification and acknowledgement that he or she completed the required modules and that he or she has read, understands, and will comply with the Policy will be provided to the Corporate Compliance Office.

H. Political Contributions

The Company will make no financial contributions either real or in kind, directly or through intermediaries, to legal defense funds of politicians accused of criminal or ethical misconduct.

VII. Outside Activities

A. Reliant encourages Employee participation in professional, civic and public affairs activities that benefit the Employee, Reliant and the community.

B. Outside Company Involvement

Notice to the Employee's supervisor and written approval by the Reliant Corporate Compliance Officer must be obtained before accepting membership on the board of directors, committee or similar body of any outside company that:

1. does business with Reliant, or
2. is involved, directly or indirectly, in business activities that compete with Reliant.

C. Public Office

Notice to the Employee's supervisor and written approval by the Reliant Corporate Compliance Officer must be obtained before an Employee accepts a public office (whether by appointment or election) with any Governmental Entity where the public office:

has taxing authority over Reliant or assets owned by Reliant,

has regulatory or other oversight over any line of business in which Reliant participates,



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has authority over procurement of goods or services of a type marketed or provided by Reliant,

otherwise has responsibility for or involvement in matters that reasonably could be expected to give rise to a conflict of interest, or

would involve a time commitment that may reasonably be expected to interfere with the performance of the Employee's duties at the company.

D. Positions in Other Organizations

An appointment to a position in a religious, charitable, professional or civic organization does not require approval by the Reliant Corporate Compliance Officer unless the duties of the position may interfere or conflict with the Employee's position and duties with Reliant.

E. Resolving Conflicts

Reliant will attempt to reasonably resolve conflicts that might develop from an Employee's acceptance or potential acceptance of an outside position described in this Section. This might involve, for example, the Employee committing to abstain from any participation in decisions affecting Reliant. If, however, a conflict cannot be resolved to the Company's satisfaction, the Employee may be required to choose between the conflicting position and continued employment with Reliant.

VIII. Restrictions Relating to CenterPoint Energy

The Public Utility Commission of Texas (the "PUC") has adopted a Code of Conduct Rule (the "Rule") governing the relationship between CenterPoint Energy Houston Electric ("CEHE") and its affiliates. The PUC's rule is designed to assure that CEHE's affiliates performing energy-related services in Texas do not have an unfair competitive advantage. Specific restrictions on sharing of information and joint marketing between CEHE and its competitive affiliates, as well as reporting requirements associated with transactions between CEHE and its competitive affiliates, are prescribed in the Rule. Under the Business Separation Plan approved by the PUC, these restrictions continue to be applicable, and Reliant continues to be considered a competitive affiliate, even though it is no longer a subsidiary of CenterPoint Energy, Inc.

IX. Provisions Applicable to Executive Officers and Directors

No executive officer or other member of the Management Committee or Director shall seek or accept from the Company or any subsidiary of the Company credit, an extension of credit or the arrangement of an extension of credit in the form of a personal loan, and any existing personal loan shall not be materially modified, extended or renewed.

Each independent Director shall use reasonable efforts to ensure that he or she does not have any relationships or engage in any activities that would result in such Director not being independent, as defined by applicable laws, rules and regulations (including, if the Director is a member of Reliant's Audit Committee, any applicable laws, rules and regulations regarding the independence of audit committee members). Prior to engaging in any material relationship or activity that reasonably could be expected to affect his or her independence, the Director shall consult with the General Counsel, who shall determine whether the relationship or activity is permitted under the independence standards established by the Board of Directors. If the



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independence standards set by the Board of Directors do not address the specific relationship or activity being reviewed, the relationship or activity shall be referred to the Board of Directors for determination.

Notwithstanding the prohibition against insider trading, the law and Company policy permit executive officers and Directors to trade in Company securities regardless of their awareness of Inside Information if the transaction is made pursuant to a pre-arranged trading plan that was established in compliance with applicable law and was entered into when the person was not in possession of Inside Information. A person who wishes to enter into a trading plan must submit the plan to the Legal Department for approval prior to the adoption, modification or termination of the trading plan.

The Company's executive officers and Directors are prohibited from trading in Company Securities acquired in connection with their service or employment (including Long Term Incentive Awards, annual director awards, etc.) during any pension fund "blackout period" in accordance with Regulation BTR as adopted by the Securities and Exchange Commission in accordance with Section 306(a) of the Sarbanes-Oxley Act of 2002.

Pursuant to Section 16 of the Rules and Regulations of the Securities Exchange Act of 1934, most purchases or sales of securities of the Company by Directors, executive officers, and stockholders who own 10% or more of the common stock of the Company must be disclosed within two business days of the transaction. Employees and Directors who are subject to these reporting requirements must comply with the Company's policy on Compliance with Short-Swing Trading and Reporting Laws.

It shall be against the Company's policy to allow the provision of tax services by the Company's independent auditors to the Company's executive officers.

Only the Board of Directors or an independent committee of the Board may authorize exceptions or waivers of this Policy for the Company's executive officers and Directors and such exceptions and waivers shall be promptly disclosed to the Company's stockholders in accordance with applicable law and regulations.

X. Reporting Procedures

- A.** Any Reliant Representative having information or knowledge that a violation of law, regulation, this Policy, or any related policy has occurred, is occurring or is likely to occur, shall promptly report the matter. Reports may be made to the Employee's immediate supervisor, the Corporate Compliance Officer, any member of the Corporate Compliance Office or the Office of Ethics and Compliance, or any other senior Reliant official. Reports may be made anonymously to the Corporate Compliance Officer via a toll-free compliance hotline, described in more detail below.
- B.** All reported violations will be promptly investigated and treated confidentially to the extent possible. It is imperative that reporting persons not conduct their own preliminary investigations. Investigations of alleged violations may involve complex legal issues, and acting on your own may compromise the integrity of an investigation and adversely affect both you and the Company.
- C.** Any Reliant Representative seeking guidance with respect to his or her obligations under this Business Ethics Policy or with respect to any compliance issue should seek guidance from his or her supervisor, the Corporate Compliance Officer, or any member of the



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Corporate Compliance Office and may also call the toll-free compliance hotline and receive advice on an anonymous basis from the Corporate Compliance Office.

- D. It is Reliant's policy that there shall be no acts of retaliation, intimidation, threat, coercion or discrimination against any individual for truthfully reporting, furnishing information or assisting or participating in any manner in an investigation, compliance review or any other activity related to the administration of this Business Ethics Policy.

XI. Reporting Complaints and Concerns Regarding Accounting, Internal Accounting Controls and Auditing Matters

The Company is committed to compliance with applicable securities and other laws, rules, and regulations, accounting standards and internal accounting controls. It is the responsibility of each Reliant Representative promptly to report complaints or concerns regarding accounting, internal accounting controls and auditing matters ("Accounting Issues"). Reports by Reliant Representatives may be made by mail, by email or by the toll-free compliance hotline. Reports will be treated confidentially to the extent possible. ***No one will be subject to retaliation because of a good faith report of a complaint or concern regarding Accounting Issues.***

A. Communicating a Complaint

The Company has established and published on its website mail and e-mail addresses and a 24-hour, toll-free telephone hotline for receiving complaints regarding Accounting issues from Employees and others. The mail address is:

**Corporate Compliance Officer
Reliant Energy, Inc.
P.O. Box 1384
Houston, Texas 77251-1384**

The email address is:

CorpComOfficer@reliant.com

The Company's 24-hour toll-free compliance hotline, **1-866-MY-ETHIC (1-866-693-8442)**, can be used to report complaints or concerns regarding Accounting issues, or to report any suspected violation of law or Company policy or to seek guidance. You may report to the hotline anonymously. However, providing your name allows the Company to contact you if necessary during any investigation. Either way, you should treat the information that you provide as confidential. To the extent possible, the Company will maintain the confidentiality of those individuals who provide their names when reporting concerns or complaints to the hotline. However, identities may be revealed during any investigation.

B. Treatment of Complaints and Retention of Records Regarding Accounting Issues

The Corporate Compliance Officer will forward copies of all complaints and concerns regarding Accounting Issues received by the Corporate Compliance Officer to the Audit Committee in a timely manner. The Corporate Compliance Officer will retain copies of all such reports, investigative reports, summaries of reports and other documents relating to complaints and concerns regarding Accounting Issues in accordance with the Company's records retention policy.



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C. Ability to Report Complaints Regarding Accounting Issues or Other Compliance Matters Directly to the Audit Committee

Anyone desiring to raise a complaint or concern regarding Accounting Issues or other compliance matters directly with the Audit Committee has the ability to do so. The Company has contracted with an outside vendor to facilitate this process. Any such complaint or concern should be forwarded to:

**Reliant Energy Compliance Hotline
P.M.B. 3767
Pinkerton Compliance Services
13950 Ballantyne Corporate Place
Charlotte, North Carolina 28277**

The Audit Committee will retain copies of all reports, investigative reports, summaries of reports and other documents relating to such complaints and concerns in accordance with the Company's records retention policy.

Policy Exceptions

Except as described under Article IX, "Provisions Applicable to Executive Officers and Directors", exceptions or waivers of the standards of conduct set forth in the Business Ethics Policy can only be authorized by the Corporate Compliance Officer after consultation with the Office of Ethics and Compliance. The Corporate Compliance Officer or his or her designee will be responsible for tracking and reporting any known violation of the standards of conduct set forth in this Policy and the Corporate Compliance Program.

Policy Violations

Any violation of this policy may result in disciplinary action, up to and including termination of employment or contract services, and may also result in prosecution under the provisions of any applicable federal, state or local law. The Company does not consider conduct in violation of this policy to be within the course and scope of an employee's employment, or the direct consequence of the discharge of an employee's duties. Accordingly, to the extent permitted by law, the Company reserves the right not to defend any employee charged with, and not to pay any damages awarded against an employee for, conduct in violation of this policy.

Policy Administration

The Corporate Compliance Office will be responsible for the administration of this Policy. This Policy shall be interpreted in accordance with all applicable federal, state or local laws.

END

Nothing in this Policy shall be construed as an employment contract. Employment with Reliant Energy, Inc. and its parent, subsidiary and affiliated companies (collectively the "Company") is at the will of the employee and of the Company and may be terminated by either the employee or the Company at any time, for any reason, with or without notice and with or without cause.