

RELIANT ENERGY INC  
Form 424B5  
May 29, 2007

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Registration No. 333-107296

**Subject to Completion. Dated May 29, 2007.**

The information in this preliminary prospectus supplement and accompanying prospectus is not completed and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Prospectus Supplement to Prospectus dated December 11, 2003.

**\$1,250,000,000**

## Reliant Energy, Inc.

**\$ % Senior Notes due 2014**

**\$ % Senior Notes due 2017**

We will pay interest on the 2014 notes and the 2017 notes (which we refer to collectively as the notes) on \_\_\_\_\_ and \_\_\_\_\_ of each year. The first such payment will be made on \_\_\_\_\_, 2007. The notes will be issued only in denominations of \$2,000 and integral multiples of \$1,000.

See *Risk Factors* beginning on page S-16 to read about important factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per 2014 Note	Per 2017 Note	Total
Initial public offering price	%	%	\$
Underwriting discount	%	%	\$
Proceeds, before expenses, to Reliant Energy, Inc.	%	%	\$

The initial public offering price set forth above does not include accrued interest, if any. Interest on the notes will accrue from \_\_\_\_\_, 2007 and must be paid by the purchasers if the notes are delivered after \_\_\_\_\_, 2007.

The underwriters expect to deliver the notes through the facilities of The Depository Trust Company against payment in New York, New York on June \_\_\_\_\_, 2007.

**Goldman, Sachs & Co.**

**Deutsche Bank Securities**

**JPMorgan**

**Merrill Lynch & Co.**

**Bear, Stearns & Co. Inc.**

**ABN AMRO Incorporated**

Prospectus Supplement dated \_\_\_\_\_, 2007.



**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

Other factors that could cause our actual results to differ from our projected results are discussed or referred to in Item 1A of our annual report on Form 10-K for the year ended December 31, 2006, filed with the SEC on February 28, 2007, which is incorporated by reference herein. Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## SUMMARY

*This summary highlights information contained elsewhere in this prospectus supplement or the accompanying prospectus. To understand all the terms of this offering, and for a more complete understanding of our business, you should read carefully this entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference herein and the other documents to which we refer. Unless the context requires otherwise, Reliant Energy, we, us, our and similar terms in this prospectus supplement refer to Reliant Energy, Inc. and its subsidiaries on a consolidated basis. The term you refers to a prospective investor. We have included terms that are important to an understanding of our business in the section entitled Glossary of Terms.*

### General

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

- *Retail energy* provides electricity and energy services to approximately 1.9 million retail electricity customers in Texas, including residential and small business customers and commercial, industrial and governmental/institutional customers. We also serve commercial, industrial and governmental/institutional customers in the PJM Market, and we regularly evaluate entering other markets.
- *Wholesale energy* provides electricity and energy services in the competitive wholesale energy markets in the United States through our ownership and operation or contracting for power generation capacity. As of March 31, 2007, we had approximately 15,500 MW of owned, leased or contracted for generation capacity in operation.

For information about our corporate history, business segments and disposition activities, see notes 1, 18, 20 and 21 to our consolidated financial statements and Selected Financial Data in Item 6 of our annual report on Form 10-K for the year ended December 31, 2006.

### Retail Energy

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

Our retail business for residential and small business customers is primarily concentrated in Texas. Based on metered locations, as of March 31, 2007, we had approximately 1.64 million residential and 152,000 small business customers, making us the second largest mass market electricity provider in Texas. Approximately 67% of our customers are in the Houston area. We also have customers in other Texas cities, including Dallas, Ft. Worth and Corpus Christi.

In Texas and the PJM Market, we market electricity and energy services to commercial, industrial and governmental/institutional customers. These customers include refineries, chemical plants, manufacturing facilities, hospitals, universities, governmental agencies, restaurants and other facilities. Based on metered locations, as of March 31, 2007, we had approximately 87,000 commercial, industrial and governmental/institutional customers.

Under our supply strategy for our retail business, we structure our supply portfolio to match our load demands by procuring sufficient power prior to or concurrent with entering into retail sales commitments. Following the initiation of our credit-enhanced retail structure, we are no longer required to post collateral for our Texas retail supply purchases.

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## Operations Data

	Years Ended			Three Months	
	December 31, 2006	2005	2004	Ended March 31, 2006	2007
<b>Electricity Sales to End-Use Retail Customers:</b>					
Mass:					
Residential:					
Houston	15,447	18,029	19,314	2,913	2,690
Non-Houston	7,955	6,504	4,505	1,547	1,952
Small Business:					
Houston	3,587	3,640	4,474	697	725
Non-Houston	1,375	891	528	296	333
Total Mass	28,364	29,064	28,821	5,453	5,700
Commercial and Industrial:					
ERCOT(1)(2)	33,393	32,309	35,445	7,496	7,857
Non-ERCOT	5,572	6,152	3,619	1,588	1,006
Total Commercial and Industrial	38,965	38,461	39,064	9,084	8,863
Market usage adjustments(3)	8	(250 )	(51 )	7	(86 )
Total	67,337	67,275	67,834	14,544	14,477

- (1) These volumes include customers of the Texas General Land Office for whom we provide services.
- (2) ERCOT is the Electric Reliability Council of Texas.
- (3) The revenues and the related energy supply costs in our retail energy segment include our estimates of customer usage based on initial usage information provided by the independent system operators and the distribution companies. We revise these estimates and record any changes in the period as additional settlement information becomes available (collectively referred to as market usage adjustments). These amounts represent the adjustments to volumes for market usage adjustments. See footnote (2) in our quarterly report on Form 10-Q under Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006 Retail Energy Margins.

	Years Ended			Three Months	
	December 31, 2006	2005	2004	Ended March 31, 2006	2007
<b>Weighted Average Retail Customer Count:</b>					
Mass:					
Residential:					
Houston	1,164	1,256	1,360	1,212	1,083
Non-Houston	504	390	271	472	555
Small Business:					
Houston	132	139	153	136	121
Non-Houston	29	17	10	28	33
Total Mass	1,829	1,802	1,794	1,848	1,792
Commercial and Industrial:					
ERCOT(1)	74	70	77	72	83
Non-ERCOT	1	2	1	2	1
Total Commercial and Industrial	75	72	78	74	84
Total	1,904	1,874	1,872	1,922	1,876

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



**Wholesale Energy**

As of March 31, 2007, we owned, had an interest in or leased 36 operating electric power generation facilities with an aggregate net generating capacity of 15,469 MW in five regions of the United States. The net generating capacity of these facilities consists of approximately 39% base-load, 36% intermediate and 25% peaking capacity.

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

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

Beginning June 1, 2007, we expect that a substantial portion of our capacity that clears a PJM auction will be committed to the PJM Market up to three years in advance. Revenue from these capacity sales will be determined by new market rules, which are designed to ensure regional reliability, encourage competition and reduce price volatility. Cal ISO is considering similar reforms to its wholesale market rules in California, which are currently expected to be implemented in early 2008.

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

In February 2006, we completed an evaluation of our wholesale energy segment's hedging strategy and use of capital. As a result of our evaluation, we substantially reduced hedging activity of our coal generation.

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The following table describes our electric power generation facilities and net generating capacity by region as of March 31, 2007:

Region			Number of Generation Facilities		Net Generating Capacity (MW)		Fuel Type		Dispatch Type
<b>PJM</b>									
Operating(1)			21		7,230		Coal/Gas/Oil/Dual		Base-load/Intermediate/Peaking
Mothballed			1		68		Dual		Peaking
Combined			22		7,298				
<b>MISO</b>									
Operating			4		1,678		Coal/Gas/Oil		Base-load/Intermediate/Peaking
<b>Southeast</b>									
Operating(2)(3)			4		1,741		Gas/Dual		Base-load/Intermediate/Peaking
Mothballed			1		800		Gas		Intermediate
Combined			5		2,541				
<b>West</b>									
Operating			6		3,990		Gas/Dual		Base-load/Intermediate/Peaking
<b>ERCOT</b>									
Operating			1		830		Gas		Base-load
<b>Total</b>									
Operating			36		15,469				
Mothballed			2		868				
Combined			38		16,337				

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

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

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



## Operations Data

	Years Ended December 31,				Three Months Ended March 31,					
	2006		2005		2004		2006		2007	
	GWh	% Economic(1)	GWh	% Economic(1)	GWh	% Economic(1)	GWh	% Economic(1)	GWh	% Economic(1)
<b>Economic Generation Volume(2):</b>										
PJM Coal	23,541.9	81 %	23,152.2	81 %	20,249.4	80 %	5,844.9	81 %	6,098.5	84 %
MISO Coal	6,525.1	59 %	7,047.2	63 %	7,675.6	69 %	1,292.0	47 %	2,181.5	81 %
PJM/MISO Gas	998.0	3 %	1,562.9	6 %	672.3	2 %	38.2	0 %	67.3	1 %
West	2,830.0	11 %	2,032.0	9 %	4,542.9	16 %	924.9	13 %	8.8	0 %
Other	5,731.1	86 %	6,005.9	56 %	6,627.1	62 %	1,407.1	86 %	1,337.0	65 %
Total	39,626.1	39 %	39,800.2	39 %	39,767.3	38 %	9,507.1	36 %	9,693.1	37 %
<b>Commercial Capacity Factor(3):</b>										
PJM Coal	82.9 %		78.9 %		79.1 %		86.1 %		79.2 %	
MISO Coal	85.5 %		83.3 %		68.0 %		94.9 %		61.3 %	
PJM/MISO Gas	91.8 %		77.1 %		83.0 %		15.7 %		60.2 %	
West	86.1 %		95.9 %		91.7 %		99.9 %		100.0 %	
Other	91.9 %		91.1 %		84.1 %		83.2 %		90.8 %	
Total	85.1 %		82.3 %		79.3 %		87.9 %		76.7 %	
<b>Generation Volume(4):</b>										
PJM Coal	19,522.3		18,259.3		16,010.0		5,030.6		4,832.3	
MISO Coal	5,577.7		5,871.4		5,219.3		1,225.9		1,336.3	
PJM/MISO Gas	916.4		1,205.5		557.7		6.0		40.5	
West	2,435.8		1,948.5		4,163.9		924.0		8.8	
Other	5,268.8		5,474.3		5,571.6		1,170.1		1,214.2	
Total	33,721.0		32,759.0		31,522.5		8,356.6		7,432.1	

- (1) Represents economic generation volume (hours) divided by maximum generation hours (maximum plant capacity X 8,760 hours).
- (2) Estimated generation at 100% plant availability based on an hourly analysis of when it is economical to generate based on the price of power, fuel, emission allowances and variable operating costs.
- (3) Generation volume divided by economic generation volume.
- (4) Excludes generation volume related to power purchase agreements, including tolling agreements.

## Strategies and Objectives

Our objective is to be a leader in delivering the benefits of competitive electricity markets to customers. Our business focuses on the competitive segments of both the retail and wholesale electricity markets.

In 2006, we have substantially completed the process begun in 2003 to reposition our business for future success. As part of this process, we reduced debt and improved our liquidity position by utilizing cash flows from the business, proceeds from a series of asset sales and the implementation of a credit-enhanced retail structure. This new structure reduced our collateral requirements and the liquidity risk associated with commodity price volatility. We streamlined processes and reduced operating costs while shifting our focus away from energy trading to an asset performance culture. Additionally, we improved the percentage of time that our generating assets were available to run economically to 85.1% compared to 79.3% in 2004. We resolved a significant amount of legacy litigation, improved corporate governance and provided transparency into the earnings drivers of our business by introducing the open wholesale reporting model. In our retail business, we established a leadership position and transitioned to a fully competitive retail market in Texas with a significant portion of our former price-to-beat customers selecting one of our longer-term and innovative new products. We believe these accomplishments position us to emerge as a leader in competitive electricity markets.

Going forward our strategy is based on core beliefs about the power industry and the retail and wholesale electricity markets. These core beliefs reflect the issues we believe are the primary determinants of value-creation and risk. Our core beliefs about the power industry are:

- Volatile and uncertain markets drive variable earnings profiles;
- There will be a mix of competitive and regulated markets with a slow evolution to competition; and
- Environmental issues will command an increasing focus from regulators and politicians.

We are committed to delivering superior returns from competitive markets through insights into the fundamentals of our core markets and a commitment to risk-weighted investments whose return on invested capital exceeds our weighted-average cost of capital.

*Retail Energy.* The retail energy segment is a low capital investment electricity resale business with relatively stable earnings (excluding unrealized gains/losses on energy derivatives). The key earnings drivers in the retail energy segment are the volume of electricity we sell to customers, the unit margins received on those sales and the cost of acquiring and serving those customers. We earn a margin by selling electricity to end-use customers and simultaneously acquiring supply. Short-term earnings in this business are impacted by local weather patterns and the competitive tactics of other retailers in the market. The longer-term earnings drivers of the business are the level of competitive intensity and our ability to retain and grow market share by having a strong brand and excellent customer service.

Our core beliefs about the retail market are:

- We have a leadership position in the competitive electricity retail business, which has a high return on invested capital and relatively stable earnings;
- Retail competition provides opportunities to add value through customer segmentation, product and service innovation and brand;
- The confluence of market forces will provide an opportunity to dramatically alter industry load; and
- Continued success in the Texas retail market will drive new competitive market openings.

These core beliefs set the stage for our strategic direction. Looking forward, we will focus on the following value-creation levers:

- Strengthening our leadership position in ERCOT by continuing to build and exercise our operating capabilities, using customer segmentation to identify and provide value-added products and services, providing superior customer service, building our brand and developing product and service innovations;
- Entering and developing new competitive markets; and
- Leading the development of smart energy to reshape customer load.

*Wholesale Energy.* The wholesale energy segment is a capital-intensive, cyclical business. Earnings are significantly impacted by the level of natural gas prices and spark spreads. The key earnings drivers are the amount of electricity we generate and the margin we earn for each unit of electricity sold. We do not control those factors that have the most significant impact on our earnings levels. The factor that we have the most control over is the percentage of time that our generating assets are available to run when it is economical for them to do so. Short-term earnings in our wholesale business are impacted by weather and commodity price volatility. Longer-term earnings are driven by the level of commodity prices and regional supply and demand fundamentals.



Our core beliefs about the wholesale market are:

- Capital intensive, cyclical industries generally earn returns below their cost of capital over a full cycle;
- New build investment typically under earns its cost of capital unless there is a significant cost advantage; and
- Over the next several years, we anticipate a significant supply/demand recovery.

These core beliefs set the stage for our strategic direction. Looking forward, we will focus on the following value-creation levers:

- Realizing the value uplift from anticipated improving supply and demand fundamentals in the wholesale markets from our existing portfolio of assets;
- Achieving operating and commercial excellence; and
- Utilizing a highly-disciplined capital investment process with a return on invested capital focus to monetize the value of our brownfield sites, acquire assets at discounts to replacements and divest non-strategic assets.

*Company-wide.* Building on our success in repositioning the company and our rapidly improving credit profile, we will focus on establishing a flexible capital structure that ensures a competitive cost of capital with an ability to invest in value creating opportunities including returning capital to shareholders. In addition, we will continue to develop innovative structures and transactions that improve returns and reduce risk.

We also believe that stockholder value is enhanced through the development of a highly motivated and customer-focused work force. We continue to focus on a series of actions designed to build a great company to work for, including (a) communicating openly with our employees, (b) fostering company pride among our employees, (c) providing a satisfying and safe work environment, (d) recognizing and rewarding employee contributions and capabilities and (e) motivating our employees to be collaborative leaders committed to our future.

Our ability to achieve these strategic objectives and execute these actions is subject to a number of factors, some of which we may not be able to control. See *Special Note Regarding Forward-Looking Statements* in this prospectus supplement and *Risk Factors* in Item 1A of our annual report on Form 10-K for the year ended December 31, 2006.

#### **Concurrent Transactions**

In connection with the offering of the notes hereby, we expect to repay our existing term loan and refinance our other existing credit facilities. We currently expect the refinanced credit facilities will include a secured revolving credit facility in an aggregate principal amount of \$500 million and a pre-funded letter of credit facility of \$250 million. The revolving credit facility will mature in June 2012 and the pre-funded letter of credit facility will mature in June 2014. Our subsidiaries, except subsidiaries prohibited by the terms of their financing or other documents from doing so, will guarantee the revolving credit facility and the pre-funded letter of credit facility. The revolving credit facility and the pre-funded letter of credit facility will be secured by the same collateral package that secures the existing credit facilities. The revolving credit facility will bear interest at LIBOR plus 1.75% or a base rate plus 0.75%.

After completion of the offering of the notes, we also intend to address the restrictive covenants in our \$750 million outstanding aggregate principal amount of 6.75% senior secured notes due 2014, or

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the 6.75% notes, and in the PEDFA guarantees. We are evaluating various alternatives, including the retirement or defeasance of some or all of this debt with proceeds from potential asset sales.

In connection with the offering of the notes hereby, we have also commenced a tender offer to purchase for cash any and all of our outstanding 9.25% senior secured notes due 2010, which we refer to as the 2010 notes and 9.50% senior secured notes due 2013, which we refer to as the 2013 notes. Collectively, we refer to such notes as the tender notes. In addition, we have solicited consents to amend the applicable indentures governing the tender notes, in each case, to eliminate substantially all of the restrictive covenants and certain events of default and modify other provisions contained in such indentures. We have also solicited consents to the release of the security interests in the collateral securing the tender notes. As a result of this release, any of the tender notes that remain outstanding after the consummation of the offers to purchase will no longer be entitled to the benefit of the collateral that secures such notes.

The net proceeds from this offering and cash from operations will be used to:

- repurchase the tender notes tendered in the offers to purchase;
- retire our \$400 million senior secured term loan;
- repay our outstanding principal and accrued interest under our existing credit facilities; and
- pay related fees and expenses.

The amount of indebtedness expected to be outstanding as a result of the transactions described above and this offering is \$1.25 billion (excluding cash amounts drawn under the revolving credit facility, if any). The actual amounts of the components of the refinancing (including the aggregate principal amounts of 2014 notes and 2017 notes offered hereby) may be adjusted in light of market conditions and other factors. The term the transactions refers to these transactions and the application of the proceeds therefrom.

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### Corporate Structure and Components of Debt

The following simplified diagram presents our general corporate structure and the components of our banking and refinanced credit facilities and other long-term debt to third parties as of March 31, 2007 (in millions), after giving effect to the transactions as if they had occurred on March 31, 2007 (all dollar amounts are in millions):

The following diagram represents our off-balance sheet obligations as of March 31, 2007:

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- (1) As of March 31, 2007, after giving effect to the transactions, we would have had \$0 outstanding under our \$500 million revolving credit facility, with \$156 million of letters of credit outstanding relating to our commercial activities and no revolving loans outstanding.
  - (2) Assumes all of the tender notes are tendered and accepted in the concurrent offers to purchase.
  - (3) Represents debt related to our Seward facility, which is guaranteed by Reliant Energy, Inc. and certain of its subsidiaries.
  - (4) In December 2006, we entered into a credit sleeve and reimbursement agreement and a \$300 million working capital facility agreement providing for revolving credit loans with Merrill Lynch Commodities, Inc. and its affiliates. There is \$0 outstanding under our working capital facility. This agreement substantially eliminated collateral postings for our Texas retail energy business. See Description Of Certain Other Financial Obligations Description of Credit-Enhanced Retail Structure.
  - (5) Includes a purchase accounting write-up of \$36 million.

(6) One of our subsidiaries, REMA, entered into sale-leaseback transactions, under operating leases that are non-recourse to us. See note 12(a) of our annual report on Form 10-K for the year ended December 31, 2006 for additional information.

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**Use of Proceeds**

The net proceeds from the sale of the notes offered hereby are estimated to be approximately \$1.2 billion, after deducting the discount payable to the underwriters and estimated offering expenses payable by us. We intend to use the net proceeds from this offering together with cash from operations to repurchase the tender notes tendered in the tender offers, to retire our \$400 million senior secured term loan and to refinance our outstanding principal and accrued interest under our existing credit facilities and pay related fees and expenses.

The actual amounts of the components of our refinancing (including the aggregate principal amounts of 2014 notes and 2017 notes offered hereby) may be adjusted in light of market conditions and other factors.

**Conditions to Issuance of the Notes**

The closing of this offering is conditioned upon the closing of the refinancing of our existing credit facilities and entering into the refinanced credit facilities.

**Risk Factors**

See the Risk Factors section of this prospectus supplement for a discussion of certain factors that should be considered in evaluating an investment in the notes.

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**Summary Selected Consolidated Financial Data**

You should read the summary consolidated financial data set forth below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes included in our annual report on Form 10-K for the year ended December 31, 2006 and our quarterly report on Form 10-Q for the quarter ended March 31, 2007, which are incorporated by reference in this prospectus supplement. We derived the following summary financial information as of December 31, 2004, 2005 and 2006 and for each of the three years in the period ended December 31, 2006 from our audited consolidated financial statements. We derived the following summary financial information as of March 31, 2006 and 2007 and for the three months ended March 31, 2006 and 2007 from our unaudited interim consolidated financial statements. These unaudited financial statements were prepared on the same basis as our audited financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair presentation of our financial position at such date and our results of operations for such periods. The results for periods of less than a full year are not necessarily indicative of the results to be expected for any interim period or for a full year.

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	Years Ended December 31,						Three Months Ended March 31,				
	2004		2005		2006		2006	2007			
	(1)(2)		(1)(3)		(1)(4)						
	(in thousands)										
<b>Income Statement Data:</b>											
Revenues (including \$(32,007), \$(218,081), \$191,405, \$149,506 and \$14,570 unrealized gains (losses))	\$	8,098,222	\$	9,711,995	\$	10,877,385	\$	2,452,685	\$	2,362,601	
<b>Expenses:</b>											
Purchased power, fuel and cost of gas sold (including \$(192,395), \$25,846, \$(422,325), \$(126,038) and \$507,659 unrealized gains (losses))	6,564,137		8,365,921		9,435,892		2,250,049		1,443,491		
Operation and maintenance	782,462		736,954		833,094		185,555		230,741		
Selling, general and administrative	326,171		292,486		383,977		70,740		87,597		
Western states and similar settlements			359,436		35,000				22,000		
Loss on sales of receivables	33,741										
Accrual for payment to CenterPoint Energy, Inc.	1,600										
Gain on sale of counterparty claim	(30,000	)									
Gains on sales of assets and emission allowances, net	(19,834	)	(168,114	)	(159,386	)	(151,476	)			
Depreciation and amortization	453,042		445,871		372,616		80,505		91,969		
Total	8,111,319		10,032,554		10,901,193		2,435,373		1,875,798		
Operating income (loss)	(13,097	)	(320,559	)	(23,808	)	17,312		486,803		
<b>Other income (expense):</b>											
Income (loss) of equity investments, net	(9,478	)	25,458		5,791		326		1,160		
Debt conversion expense					(37,257	)					
Other, net	13,455		(22,672	)	203		85		1,068		
Interest expense	(417,514	)	(399,281	)	(427,867	)	(108,162	)	(87,070		
Interest income	34,960		23,227		34,317		9,018		10,464		
Total other expense	(378,577	)	(373,268	)	(424,813	)	(98,733	)	(74,378		
Income (loss) from continuing operations before income taxes	(391,674	)	(693,827	)	(448,621	)	(81,421	)	412,425		
Income tax expense (benefit)	(115,214	)	(253,080	)	(121,929	)	57,646		152,062		
Income (loss) from continuing operations	(276,460	)	(440,747	)	(326,692	)	(139,067	)	260,363		
Income (loss) from discontinued operations	239,800		110,799		(2,088	)	4,980		(1,652		
Income (loss) before cumulative effect of accounting changes	(36,660	)	(329,948	)	(328,780	)	(134,087	)	258,711		
Cumulative effect of accounting changes, net of tax	7,290		(608	)	968		968				
Net income (loss)	\$	(29,370	)	\$	(330,556	)	\$	(327,812	)	\$	258,711



	Years ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
	(1)	(1)(3)	(1)(4)		
<b>Diluted Earnings (Loss) per Share:</b>					
Income (loss) from continuing operations	\$ (0.93 )	\$ (1.46 )	\$ (1.06 )	\$ (0.46 )	\$ 0.75
Income (loss) from discontinued operations	0.81	0.37	(0.01 )	0.02	(0.01 )
Income (loss) before cumulative effect of accounting changes	(0.12 )	(1.09 )	(1.07 )	(0.44 )	0.74
Cumulative effect of accounting changes, net of tax	0.02				
Net income (loss)	\$ (0.10 )	\$ (1.09 )	\$ (1.07 )	\$ (0.44 )	\$ 0.74

	Years ended December 31,			Three Months Ended March 31,	
	2004	2005	2006	2006	2007
	(1)(2)	(1)	(1)(3)		
<b>(dollars in thousands)</b>					
<b>Statement of Cash Flow Data:</b>					
Net cash provided by (used in) operating activities	\$ 105,513	\$ (917,163 )	\$ 1,275,873	\$ (221,110 )	\$ 33,818
Net cash provided by (used in) investing activities	901,210	306,152	1,057,051	1,103,755	(29,014 )
Net cash provided by (used in) financing activities	(1,047,913 )	594,354	(1,957,412 )	(927,115 )	19,333
<b>Operating Data:</b>					
Capital expenditures for continuing operations	\$ (159,671 )	\$ (82,296 )	\$ (96,793 )	\$ (21,897 )	\$ (42,167 )
Ratio of earnings from continuing operations to fixed charges <sup>(5)</sup>					5.11 <sup>(6)</sup>

	December 31,			March 31,	
	2004	2005	2006	2007	
	(1)	(1)	(1)		
<b>(in thousands)</b>					
<b>Balance Sheet Data:</b>					
Property, plant and equipment, net	\$ 6,437,761	\$ 5,934,060	\$ 5,741,995	\$ 5,706,190	
Total assets	12,194,024	13,568,806	10,567,133	10,047,327	
Current portion of long-term debt and short-term borrowings	618,854	789,325	355,264	359,745	
Long-term debt to third parties	3,938,857	4,317,427	3,177,691	3,173,751	
Accounts and notes receivable principally customer, net	1,071,312	1,171,673	1,043,637	1,020,345	
Stockholders equity	4,386,354	3,863,693	3,949,873	4,278,699	

(1) We sold or transferred the following operations from 2004 through 2006, which have been classified as discontinued operations: Orion Power's hydropower plants, Liberty, Ceredo and Orion Power's New York plants. We sold the following operations, which are included in continuing operations: REMA hydropower plants in April 2005, landfill-gas fueled power plants in July 2005 and our El Dorado Energy, LLC investment in July 2005.

(2) During 2004, we recorded a charge of \$2 million relating to a payment of \$177 million made to CenterPoint in 2004.

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- (3) During 2005, we recorded charges of \$359 million relating to various settlements associated with the Western states energy crisis, which were paid during 2006. See notes 13 and 14 of our annual report on Form 10-K for the year ended December 31, 2006.
- (4) During 2006, we recorded a \$35 million charge related to a settlement of certain class action natural gas cases relating to the Western states energy crisis. See notes 13 and 14 of our annual report on Form 10-K for the year ended December 31, 2006.
- (5) For 2004, 2005 and 2006 and the three months ended March 31, 2006, our earnings were insufficient to cover our fixed charges by \$416 million, \$706 million, \$436 million and \$77 million, respectively.
- (6) The pro forma ratio of earnings from continuing operations to fixed charges for the three months ended March 31, 2007 is 3.43, after giving effect to the transactions as if they had occurred on January 1, 2007. The pro forma interest expense includes a write-off of approximately \$60 million for deferred financing costs. This amount is only an estimate and is subject to change.

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## RISK FACTORS

You should consider the risks described below carefully and all of the information contained in this prospectus supplement and the accompanying prospectus before deciding whether to purchase our notes. In addition, you should carefully consider, among other things, the matters discussed under Risk Factors in our annual report on Form 10-K for the fiscal year ended December 31, 2006, filed with the SEC on February 28, 2007, which is incorporated by reference herein, and in other documents that we subsequently file with the SEC. The risks described in this section are not the only ones we face. Additional risks and uncertainties not currently known to us or that we currently consider immaterial could also have a material adverse effect on our business operations.

### Risks Related to the Offering

***We Are Primarily a Holding Company. Our Only Material Source of Cash is and Will Be Distributions from Our Subsidiaries, and the Notes are Effectively Subordinated to the Claims of Our Subsidiaries.***

We are primarily a holding company with no material business operations of our own. Our most significant assets are the capital stock of our subsidiaries. We conduct virtually all of our business operations through those subsidiaries. Accordingly, our only material source of cash, including cash to make payments on or redeem the notes or our other indebtedness, is and will be dividends with respect to our ownership interests in our subsidiaries and other distributions that are derived from the earnings and cash flow generated by our subsidiaries. Furthermore, such subsidiaries will be permitted under the terms of the indenture to incur additional indebtedness that may restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us. Additionally, we cannot assure you that our subsidiaries will generate sufficient earnings and cash flow to pay dividends or distributions to us or that applicable state law and contractual restrictions will permit such dividends or distributions in the future.

***The Notes Are Effectively Junior to the Indebtedness and Other Liabilities of Our Subsidiaries, which are Not Providing Guarantees for the Notes.***

Our subsidiaries will not guarantee the notes and will have no legal obligation to make payments on the notes or make funds available for those payments, whether by dividends, loans or other payments. Accordingly, we may not be able to pay interest on the notes or principal when due at maturity or otherwise. The notes are accordingly effectively subordinated to the outstanding and future indebtedness and other liabilities, including trade payables, of our subsidiaries. Assuming we had completed this offering on March 31, 2007, these notes would have been effectively junior to \$2.9 billion of indebtedness and other liabilities, including trade payables (excluding intercompany liabilities) of our subsidiaries and approximately \$300 million would have been available to these subsidiaries for future borrowing under their credit facilities. In the event of our bankruptcy, liquidation, dissolution, reorganization or similar proceeding, the claims of the holders of the notes will remain effectively subordinated to the claims of creditors of all of our subsidiaries, including trade creditors and holders of indebtedness of those subsidiaries. Accordingly, there might only be a limited amount of assets available to satisfy your claims as a holder of the notes upon an acceleration of the maturity of the notes.



***The Notes are Effectively Subordinated to the Secured Credit Agreement, Our Other Secured Debt and Any Secured Debt We May Incur in the Future.***

The notes are not secured by any of our assets or those of our subsidiaries that secure indebtedness under our credit facilities and other secured debt. See Description of Certain Other Financial Obligations Notes Description of Refinanced Credit Facilities for additional information. As a result, the notes will be effectively subordinated to REI's secured credit agreement, the PEDFA bonds and the 6.75% notes. Likewise, the notes will be effectively subordinated to any secured debt that we may incur in the future. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of our secured debt may assert rights against the pledged assets in order to receive full payment of their debt before the assets may be used to pay the holders of the notes.

***The Indenture under Which the Notes are Being Issued Contains Only Limited Protection for Holders of the Notes in the Event We Are Involved in a Highly Leveraged Transaction, Reorganization, Restructuring or Similar Transaction in the Future.***

The indenture and supplemental indenture under which the notes will be issued will not protect holders of the notes in the event we are involved in a highly leveraged transaction, reorganization, restructuring or similar transaction except that if a Change of Control occurs, as defined in the supplemental indenture, each holder of notes will have the right to require a repurchase of all or any part of that holder's notes at the purchase price set forth in the supplemental indenture. The indenture does not limit the amount of debt securities, debentures, notes or other types of indebtedness that we or any of our subsidiaries may issue nor does the indenture contain any covenants or other provisions that either restrict transactions between us and our affiliates or limit our and our subsidiaries' ability to sell assets. In addition, the indenture does not contain a restricted payment covenant and therefore there are no limits under the indenture or supplemental indenture on our ability to pay dividends or make other distributions to our shareholders.

***Our Outstanding Debt Could Negatively Impact Our Business.***

As of March 31, 2007, we had total consolidated debt of \$3.5 billion, which consisted of the existing notes and other debt, including secured facilities. Our level of debt could:

- make it difficult to satisfy our financial obligations, including debt service requirements;
- limit our ability to obtain additional financing to operate our business;
- limit our financial flexibility in planning for and reacting to business and industry changes;
- impact the evaluation of our creditworthiness by counterparties to commercial agreements and affect the level of collateral we are required to post under such agreements;
- place us at a competitive disadvantage compared to less leveraged companies;
- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates and volatility in commodity prices; and
- require us to dedicate a substantial portion of our cash flows to payments on our debt, thereby reducing the availability of our cash flow for other purposes including our operations, capital expenditures and future business opportunities.

Furthermore, we may incur additional indebtedness in the future. If new debt is added to our current debt levels and those of our subsidiaries, the related risks that we and they face could increase.

***The Terms of Our Debt May Limit Our Ability to Plan for or Respond to Changes in Our Businesses.***

The Credit Agreement, our guaranty of the fixed-rate tax-exempt facilities revenue bonds and the 6.75% notes have, and any additional long-term debt we may enter into in the future may have, terms that restrict our ability to take specific actions in planning for and responding to changes in our business without the consent of the lenders and noteholders, even if such actions may be in our best interest.

***In the Event of a Bankruptcy or Insolvency, Holders of Our Secured Indebtedness and Other Secured Obligations Will Have a Prior Secured Claim to Any Collateral Securing Such Indebtedness or Other Obligations.***

Holders of our secured indebtedness will have claims that are prior to your claims as holders of the notes to the extent of the value of the assets securing that other indebtedness. Our Credit Agreement, the 6.75% notes and the PEDFA guaranties are secured by first priority liens on substantially all of our assets and the assets of our subsidiaries that guarantee that debt. In the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization or other bankruptcy proceeding, holders of secured indebtedness will have prior claim to those of our assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as the notes, and potentially with all our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing situations, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. As a result, holders of notes may receive less, ratably, than holders of secured indebtedness.

***Financing Change of Control Offer We May Not Have the Ability to Raise the Funds Necessary to Finance the Change of Control Offer Required by the Indentures.***

Upon the occurrence of certain specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes of both series, the 6.75% notes and the PEDFA bonds at 101% of the principal amount thereof plus accrued and unpaid interest, to the date of repurchase. However, it is possible that we will not have sufficient funds at the time of the change of control to make the required repurchase of notes, the 6.75% notes and the PEDFA bonds or that restrictions in the credit agreement will not allow such repurchases. In addition, certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a Change of Control under the indentures. See Description of Notes Repurchase Upon Change of Control.

***There Is No Existing Market for the Notes, and We Cannot Assure You That an Active Trading Market Will Develop.***

There is no existing market for the notes and we do not intend to apply for listing of the notes on any securities exchange or any automated quotation system. There can be no assurance as to the liquidity of any market that may develop for the notes, the ability of the holders of the notes to sell their notes or the price at which holders of the notes will be able to sell their notes. Future trading prices of the notes will depend on many factors, including prevailing interest rates, our financial condition and results of operations, the then-current ratings assigned to the notes and the market for similar securities.

If a particular offering of notes is sold to or through underwriters, the underwriters may attempt to make a market in the notes. However, the underwriters would not be obligated to do so and they could terminate any market-making activity at any time without notice. If a market for any of the notes does not develop, holders of those notes may be unable to resell them for an extended period of time and those notes may not be readily accepted as collateral for loans.

**USE OF PROCEEDS**

The net proceeds from the sale of the notes offered hereby are estimated to be approximately \$1.2 billion, after deducting the discount payable to the underwriters and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering together with cash from operations to:

- repurchase the tender notes tendered in the tender offers;
- retire our \$400 million senior secured term loan;
- repay our outstanding principal and accrued interest under our existing credit facilities; and
- pay related fees and expenses.

The actual amounts of the components of our refinancing (including the aggregate principal amounts of 2014 notes and 2017 notes offered hereby) may be adjusted in light of market conditions and other factors.

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**CAPITALIZATION**

The following table sets forth our cash and cash equivalents, restricted cash and certain other net assets and our consolidated historical capitalization (a) as of March 31, 2007 and (b) as adjusted as of March 31, 2007, as adjusted to give effect to the transactions as if they had occurred on March 31, 2007. The information appearing in this table should be read in conjunction with our historical and unaudited financial information, together with the notes thereto, where applicable, incorporated by reference herein.

	As of March 31, 2007			
	Actual		As Adjusted(a)	
	(in thousands)			
Cash and cash equivalents	\$	488,046	\$	133,046
Restricted cash	\$	10,838	\$	10,838
Margin deposits, net	\$	349,736	\$	349,736
Current maturities of long-term debt and short-term borrowings	\$	359,745	\$	355,745
Existing term loans		396,000		
Existing revolver				
New revolver				
Tender notes(b)		1,100,000		
6.75% notes		750,000		750,000
Convertible senior subordinated notes		2,118		2,118
Orion Power Holdings senior notes.		425,551		425,551
Notes offered hereby				1,250,000
Tax-exempt facilities revenue bonds		500,000		500,000
Other long-term debt		82		82
Total debt		3,533,496		3,283,496
Stockholders' equity:				
Preferred stock, par value \$0.001 per share; 125,000,000 shares authorized; none outstanding				
Common stock, par value \$0.001 per share; 2,000,000,000 shares authorized; 341,212,794 issued		102		102
Additional paid-in capital		6,190,816		6,190,816
Retained deficit		(1,741,922)		(1,741,922)
Accumulated other comprehensive loss		(170,297)		(170,297)
Total stockholders' equity		4,278,699		4,278,699
Total capitalization	\$	7,812,195	\$	7,562,195

(a) Assumes that the aggregate principal amount of the revolving credit facility will be \$500 million and that the notes offered hereby will be issued in \$1.25 billion aggregate principal amount. The actual amounts of these components of our refinancing (including the aggregate principal amounts of the 2014 notes and 2017 notes) may be adjusted in light of market conditions and other factors.

(b) Assumes all of the tender notes are tendered and accepted in the concurrent offers to purchase.

(c) Does not include the effects of (i) write-off of certain existing deferred financing costs, (ii) the estimated premium of approximately \$75 million to be paid to noteholders (which estimated premium amount assumes that all of the existing noteholders will tender their tender notes) or (iii) other fees that will be expensed.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA**

The following tables present our selected consolidated financial data for 2002 through 2006 and for the three months ended March 31, 2006 and 2007. We derived the following selected consolidated financial information as of December 31, 2002 and for the period ended December 31, 2002 from our unaudited consolidated financial statements. We derived the following selected consolidated financial information as of December 31, 2003, 2004, 2005 and 2006 and for each of the four years in the period ended December 31, 2006 from our audited consolidated financial statements. We derived the following selected consolidated financial information as of March 31, 2006 and 2007 and for the three months ended March 31, 2006 and 2007 from our unaudited interim consolidated financial statements. These unaudited financial statements were prepared on the same basis as our audited financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair presentation of our financial position at such date and our results of operations for such periods. The results for periods of less than a full year are not necessarily indicative of the results to be expected for any interim period or for a full year. You should read the selected consolidated financial information and other data set forth below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes included in our annual report on Form 10-K for the fiscal year ended December 31, 2006 and our quarterly report on Form 10-Q for the quarter ended March 31, 2007, which are incorporated by reference herein.

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	Years ended December 31,						Three Months Ended March 31,	
	2002	2003	2004	2005	2006	2006	2007	
	(1)(2)(3)(4)(6)	(1)(3)(5)(6)(9)	(1)(5)(6)	(1)(5)(7)	(1)(5)(8)			
	(in thousands)							
<b>Income Statement Data:</b>								
Revenues	\$ 10,230,454	\$ 10,096,789	\$ 8,098,222	\$ 9,711,995	\$ 10,877,385	\$ 2,452,685	\$ 2,362,601	
Expenses:								
Purchased power, fuel and cost of gas sold	8,245,509	7,911,615	6,564,137	8,365,921	9,435,892			