

RELIANT ENERGY INC  
Form 10-Q  
November 09, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2006

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-16455

**Reliant Energy, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**76-0655566**

(I.R.S. Employer Identification No.)

**1000 Main Street  
Houston, Texas 77002**

(Address of Principal Executive Offices) (Zip Code)

**(713) 497-3000**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of October 31, 2006, the latest practicable date for determination, Reliant Energy, Inc. had 308,488,738 shares of common stock outstanding and no shares of treasury stock.

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**FORWARD-LOOKING INFORMATION**

Projections, estimates or assumptions about revenues, costs, income, cash flow and other future events are called forward-looking statements. These forward-looking statements are within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1934. In some cases, you can identify forward-looking statements by words like anticipate, estimate, believe, intend, may, expect or similar words. Forward-looking statements are not guarantees of future performance. Actual results may differ from forward-looking statements. Each forward-looking statement speaks only as of its date and we are under no obligation to update these statements. For information about factors that could cause our actual results to differ from forward-looking statements, see Risk Factors in Item 1A of Reliant Energy, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2005 (Form 10-K), note 14 to our interim financial statements in Item 1 of this Quarterly Report on Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of this Quarterly Report on Form 10-Q.

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**PART I.**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**RELIANT ENERGY, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Thousands of Dollars, Except Per Share Amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<b>Revenues:</b>				
Revenues (including \$(14,579), \$(226,509), \$187,320 and \$(326,849) unrealized gains (losses) on energy derivatives)	\$ 3,305,568	\$ 2,963,021	\$ 8,533,156	\$ 7,111,730
<b>Expenses:</b>				
Purchased power, fuel and cost of gas sold (including \$(340,886), \$(127,367), \$(467,288) and \$235,483 unrealized gains (losses) on energy derivatives)	2,989,956	2,697,009	7,473,913	5,877,446
Operation and maintenance	220,460	178,393	635,990	556,106
Selling, general and administrative	116,465	99,085	278,895	241,982
Western states settlement	35,000	350,805	35,000	350,805
Gains on sales of assets and emission allowances, net	(3,457)	(91,874)	(159,787)	(115,793)
Depreciation and amortization	108,256	124,159	279,853	336,530
Total operating expense	3,466,680	3,357,577	8,543,864	7,247,076
<b>Operating Loss</b>	(161,112)	(394,556)	(10,708)	(135,346)
<b>Other Income (Expense):</b>				
Income of equity investments, net	1,268	27,029	3,655	23,185
Other, net	(163)	62	666	(22,817)
Interest expense	(100,840)	(99,774)	(312,446)	(293,680)
Interest income	6,889	3,228	22,784	15,280
Total other expense	(92,846)	(69,455)	(285,341)	(278,032)
<b>Loss from Continuing Operations Before Income Taxes</b>	(253,958)	(464,011)	(296,049)	(413,378)
Income tax benefit	(100,135)	(197,226)	(25,886)	(155,228)
<b>Loss from Continuing Operations</b>	(153,823)	(266,785)	(270,163)	(258,150)
Income (loss) from discontinued operations	(1,340)	(3,512)	(4,911)	61,655
<b>Loss Before Cumulative Effect of Accounting Change</b>	(155,163)	(270,297)	(275,074)	(196,495)
Cumulative effect of accounting change, net of tax			968	
<b>Net Loss</b>	\$ (155,163)	\$ (270,297)	\$ (274,106)	\$ (196,495)
<b>Basic and Diluted Earnings (Loss) per Share:</b>				
Loss from continuing operations	\$ (0.50)	\$ (0.88)	\$ (0.88)	\$ (0.86)
Income (loss) from discontinued operations		(0.01)	(0.01)	0.21

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Loss before cumulative effect of accounting change	(0.50)	)	(0.89)	)	(0.89)	)	(0.65)	)				
Cumulative effect of accounting change, net of tax												
Net loss	\$	(0.50)	)	\$	(0.89)	)	\$	(0.89)	)	\$	(0.65)	)

See Notes to our Unaudited Consolidated Interim Financial Statements

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**RELIANT ENERGY, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Thousands of Dollars, Except Share and Per Share Amounts)

	September 30, 2006 (Unaudited)	December 31, 2005
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 66,670	\$ 88,397
Restricted cash	10,409	26,906
Accounts and notes receivable, principally customer, net of allowance of \$52,602 and \$34,054	1,390,954	1,171,673
Inventory	283,620	299,099
Derivative assets	448,755	725,964
Margin deposits	1,495,326	1,716,035
Accumulated deferred income taxes	333,879	361,547
Prepayments and other current assets	128,462	137,498
Current assets of discontinued operations	6,253	203,332
Total current assets	4,164,328	4,730,451
Property, plant and equipment, gross	7,160,153	7,112,684
Accumulated depreciation	(1,381,810)	(1,178,624)
<b>Property, Plant and Equipment, net</b>	<b>5,778,343</b>	<b>5,934,060</b>
<b>Other Assets:</b>		
Goodwill	386,594	386,594
Other intangibles, net	433,877	510,582
Derivative assets	258,872	527,799
Prepaid lease	279,085	259,412
Other	329,782	339,112
Long-term assets of discontinued operations		880,796
Total other assets	1,688,210	2,904,295
<b>Total Assets</b>	<b>\$ 11,630,881</b>	<b>\$ 13,568,806</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities:</b>		
Current portion of long-term debt and short-term borrowings	\$ 483,958	\$ 789,325
Accounts payable, principally trade	794,934	886,965
Derivative liabilities	1,068,776	1,219,954
Margin deposits	15,200	15,588
Other	519,992	397,942
Current liabilities of discontinued operations	24,446	96,456
Total current liabilities	2,907,306	3,406,230
<b>Other Liabilities:</b>		
Derivative liabilities	567,009	812,695
Other	363,193	389,083
Long-term liabilities of discontinued operations		779,678
Total other liabilities	930,202	1,981,456
<b>Long-term Debt</b>	<b>4,095,470</b>	<b>4,317,427</b>
<b>Commitments and Contingencies</b>		
<b>Temporary Equity Stock-based Compensation</b>	<b>1,330</b>	
<b>Stockholders Equity:</b>		
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; 308,424,830 and 304,900,193 issued)	69	66
Additional paid-in capital	5,906,298	5,846,747
Retained deficit	(1,972,610)	(1,698,504)
Accumulated other comprehensive loss	(237,184)	(284,281)

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Accumulated other comprehensive loss of discontinued operations		(335	)
Total stockholders' equity	3,696,573		3,863,693
<b>Total Liabilities and Equity</b>	<b>\$ 11,630,881</b>	<b>\$</b>	<b>13,568,806</b>

See Notes to our Unaudited Consolidated Interim Financial Statements

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

	Nine Months Ended September 30,	
	2006	2005
<b>Cash Flows from Operating Activities:</b>		
Net loss	\$ (274,106 )	\$ (196,495 )
(Income) loss from discontinued operations	4,911	(61,655 )
Net loss from continuing operations and cumulative effect of accounting change	(269,195 )	(258,150 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Cumulative effect of accounting change	(968 )	
Depreciation and amortization	279,853	336,530
Deferred income taxes	(58,324 )	(177,844 )
Net changes in energy derivatives	351,711	101,107
Amortization of deferred financing costs	12,101	11,208
Gains on sales of assets and emission allowances, net	(159,787 )	(115,793 )
Western states settlement	35,000	350,805
Income of equity investments, net	(3,655 )	(23,185 )
Other, net	12,657	24,960
Changes in other assets and liabilities:		
Accounts and notes receivable, net	(187,224 )	(329,166 )
Inventory	13,698	(21,224 )
Margin deposits, net	220,321	(881,568 )
Net derivative assets and liabilities	(127,512 )	170,208
Western states and Cornerstone settlement payments	(159,885 )	
Accounts payable	25,712	298,690
Other current assets	14,972	51,546
Other assets	(25,598 )	(62,263 )
Taxes payable/receivable	(8,141 )	1,788
Other current liabilities	77,330	(21,140 )
Other liabilities	(3,341 )	