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June 4, 2002

William A. Mundell, Chairman
Jim Irvin, Commissioner
Marc Spitzer, Commissioner
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

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As requested in Arizona Corporation Commission Chairman William Mundell's letter of May 14, 2002, to parties in the above referenced proceedings, Reliant Energy Services, Inc. and Reliant Energy Power Generation, Inc. (referred to together as "Reliant") provides it copy of its Responses to the FERC's second set of Requests for Admissions:

Fact-Finding Investigation of Potential Manipulation of Electric and Natural Gas Prices, Docket No. PA02-2-000; May 30, 2002 Responses of Reliant Energy Services, Inc., and Reliant Energy Power Generation, Inc.

Should you have any questions regarding the enclosed Responses, please do not hesitate to contact Mr. Aldie Warnock, at 713-207-7318.

Respectfully submitted on behalf of Reliant,

Patricia L. vanMidde
Regulatory Consultant
22006 N. 55th Street
Phoenix, Arizona 85054

Enclosure

Hand delivered to:
Chairman William Mundell
Hercules Dellas, Aide to Chairman Mundell
Commissioner Jim Irvin
Kevin Barlay, Aide to Commissioner Irvin
Commissioner Marc Spitzer
Paul Walker, Aide to Commissioner Spitzer
Lyn Farmer, Chief Administrative Law Judge
Chris Kempley, Chief Counsel
Ernest Johnson, Utilities Division Director
Steve Oleo, Utilities Division

Arizona Corporation Commission

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DOCKET NO. PA02-2-000

**FACT FINDING INVESTIGATION OF POTENTIAL MANIPULATION OF
ELECTRIC AND NATURAL GAS PRICES**

Responses to Requests for Admissions and Requests for Production

FOR RELIANT ENERGY SERVICES, INC.
AND RELIANT ENERGY POWER GENERATION, INC.

Responses to Requests for Admissions

- A. Admit or Deny: The company engaged in activities referred to as "wash," "round trip" or "sell/buyback" trading. This trading involves the sale of an electricity product to another company together with a simultaneous purchase of the same product at the same price.

RESPONSE During 2000 and 2001, Reliant¹ made one volume-boosting roundtrip trade in the WSCC at Palo Verde in Arizona (the "Palo Verde transaction"). As detailed in public communications and in a May 20, 2002 SEC filing, Reliant has engaged in a limited number of roundtrip electricity transactions in the cash market with commercial counterparties at prices within a reasonable range of market prices for the purpose of increasing volume, but the balance of these transactions are not within the scope of this Request. The Palo Verde transaction was executed at market price, and Reliant has not found evidence to suggest that the price was reported by Reliant to any market index or price publication.

In the course of its investigation, Reliant has identified a range of transaction types that superficially resemble the form of a sell/buyback, but that occurred for reasons of coincidence or accident. For example, a coincidental matching of buy and sell and counterparty is a natural consequence of the large number of transactions conducted in a short period of time around a fairly small price range and for standard industry products. Such transactions frequently were conducted through brokers or online trading platforms, and in some cases through different brokers or platforms, where participants are unaware of counterparties' identities until after the trade is executed. Execution of large numbers of transactions in a short period of time also results in mistakes, particularly likely in the case of an unintended buy or mistaken offer on an online trading platform. An offsetting buy or sell may be made to correct the error. As another example, a market participant may submit via a broker or online trading platform buy and sell offers at the same price as a research or discovery method for identifying market trends or directions. Sometimes this practice may coincidentally generate trades

in which the same counterparty is matched by the broker or on-line platform with both the buy and the sell offer.

Additionally, Reliant has identified in the course of its investigation a small number of transactions entered into in the ordinary course of business with the same counterparty for conventional business purposes, not for volume-building purposes, but which also superficially resemble a sell/buyback. For example, Reliant may execute simultaneous buys and sells with a third party to manage Reliant's internal risk limitations and hedged positions of its generation assets and fuel costs. In other instances, to maintain good will in the market, Reliant may occasionally transact to accommodate a counterparty's request when the trade presents no material benefit or risk for Reliant.

Unlike the Palo Verde transaction, which took the form of an unusually large transaction quantity, these other trades identified by Reliant and described above were transacted in the size range of normal trading volumes, such as 25 MW/h. These transactions represent a fraction of a percent of Reliant's trading and marketing business in the WSCC in 2000 and 2001. Reliant does not believe that these transactions are responsive to the Commission's Request for the reasons stated.

B. If you so admit, provide transaction by transaction details for all such transactions your company engaged in, including, but not limited to, the following:

1. Indicate the methods and rationale used to arrive at the value or compensation of such transactions.

RESPONSE: The Palo Verde transaction referenced in response to Request A above was entered into on April 19, 2000 for \$34.25/MWh, which was based on the market prices for trades of the same product at the same point on the date that the transaction was executed.

¹ This response is provided on behalf of Reliant Energy Services, Inc. and Reliant Energy Power Generation, Inc., the affiliates of Reliant Resources, Inc. (and previously Reliant Energy Incorporated) that transact in wholesale bulk power markets within the U.S. portion of the Western Systems Coordinating Council ("WSCC").

2. Indicate whether any such transactions were reported to Platt's, Bloomberg, or any organization that monitors, publishes or reports trading data (including bid-and-ask data) or publishes or reports prices or forward indices.

RESPONSE: After thorough investigation, Reliant has concluded that the Palo Verde transaction was not reported by Reliant to Platt's, Bloomberg, or any organization that monitors, publishes or reports trading data or publishes or reports prices or forward indices. It is not Reliant's practice to report term trades to any reporting forum.² Furthermore, Reliant has reviewed its submissions to reporting organizations and the publications themselves to confirm that the volume associated Palo Verde transaction does not appear.

3. Identify all such transactions referred to in question 2 that were published or reported, or were disseminated in any manner.

RESPONSE: Not applicable.

4. Identify all traders that participated in such transactions, by name and position within your company, if employed by you, or by name and affiliation if they were not or are not presently employed by your company.

RESPONSE: See attached documents.

5. Identify how such transactions were executed (e.g., whether an electronic platform was used to initiate the sale, with the buy transaction subsequently arranged through a broker or by telephone).

RESPONSE: The Palo Verde transaction was executed directly with the counterparty without use of brokers or online trading platforms.

6. Describe all policies and procedures implemented to prevent future transactions of this type.

RESPONSE: Reliant has implemented a strict policy prohibiting volume-boosting roundtrip transactions in any circumstance. As an added measure, Reliant has initiated an internal review of all trading practices, including input from outside legal and consulting experts with experience in the energy industry, securities and other commodities trading businesses. Associated with this review, Reliant has

undertaken the development of a comprehensive set of trading rules and procedures designed to ensure that only trades done in accordance with approved criteria are executed. These rules and procedures will be communicated to all trading personnel both in writing and through formal presentations. The rules and procedures will be the foundation for an overall compliance program aimed at preventing any trading activity that would have even a hint of impropriety and ensuring that Reliant's trading practices conform to a high standard of business practice.

Responses to Requests for Production of Documents

To the extent your company engaged in "wash," "round trip," or "sell/buyback" type transactions, provide the following documents:

- A. Provide copies of all communications or correspondence, including e-mail messages, instant messages, or telephone logs, between your company and any other company (including your affiliates or subsidiaries) that refer or relate to this activity.
- B. Provide all copies of all material, including, but not limited to, opinion letters, memoranda, communications (including e-mails and telephone logs), or reports, that address or discuss your company's knowledge of, awareness of, understanding of, or employment or use of any of any such transactions in the U.S. portion of the WSCC during the period 2000-2001.

RESPONSE: See Response to Request for Admission A and attached documents.

² Reliant does, of course, submit quarterly transaction reports to the Commission, which reports are made publicly available. The Palo Verde transaction volume was included in this report.

VERIFICATION

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

Hugh Rice Kelly, being duly sworn, deposes and says:

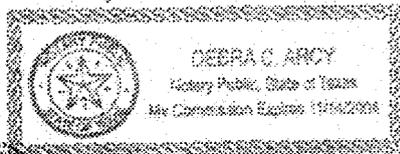
My name is Hugh Rice Kelly. I am the Executive Vice President, General Counsel and Corporate Secretary of Reliant Energy, Incorporated ("REI"), and Senior Vice President, General Counsel and Corporate Secretary of Reliant Resources, Incorporated ("RRI") and am authorized to make this verification on behalf of REI, RRI and their subsidiaries, Reliant Energy Services, Inc. and Reliant Energy Power Generation, Inc. (referred to together as "Reliant").

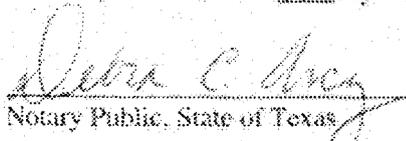
I have examined the foregoing Responses to Requests for Admissions and Requests for Production and documents provided with the responses (the "Responses"). Although facts stated in the Responses are not within my personal knowledge, I certify that the information and documents provided constitute a response that is true and accurate to the best of my knowledge, information, and belief formed, after a thorough investigation was diligently conducted, under my supervision and control, into the trading activities of the company's employees and agents, including the affiliates and subsidiaries of Reliant, in the U.S. portion of the WSCC during the years 2000 and 2001.



Hugh Rice Kelly

SUBSCRIBED AND SWORN TO BEFORE ME, on this the 30th day of May, 2002, to certify which witness my hand and seal of office.





Notary Public, State of Texas

My Commission Expires