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RELIANT RESOURCES INC
Form S-3
July 24, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 24, 2003

REGISTRATION NO. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

RELIANT RESOURCES, 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 Number)

1111 LOUISIANA STREET
HOUSTON, TEXAS 77002
(713) 497-3000
(Address, Including Zip Code, and Telephone Number, Including Area Code,
of Registrant's Principal Executive Offices)

MICHAEL L. JINES
SENIOR VICE PRESIDENT, GENERAL COUNSEL
AND CORPORATE SECRETARY
1111 LOUISIANA STREET
HOUSTON, TEXAS 77002
(713) 497-3000
(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent For Service)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as
practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered
pursuant to dividend or interest reinvestment plans, please check the following
box. []

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

----- CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER NOTE (2)
5.00% Convertible Senior Subordinated Notes due 2010....	\$275,000,000	100%
Common stock, par value \$0.001.....	28,822,970 (3)	

- (1) Represents the aggregate principal amount of the notes that were originally issued by the Registrant.
- (2) Equals the actual issue price of the aggregate principal amount of the notes being registered. Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) under the Securities Act.
- (3) Represents the number of shares of common stock that are currently issuable upon conversion of the notes registered hereby. The number of shares of common stock that may be issued in the future is indeterminate, and the Registrant is also registering this indeterminate amount pursuant to Rule 416 of the Securities Act.
- (4) No separate consideration will be received for the shares of common stock issuable upon conversion of the notes and, therefore, no registration fee is required pursuant to Rule 457(i) under the Securities Act.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING SECURITY HOLDERS MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING OFFERS TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 24, 2003

PRELIMINARY PROSPECTUS

(RELIANT RESOURCES LOGO)

\$275,000,000

RELIANT RESOURCES, INC.

5.00% CONVERTIBLE SENIOR SUBORDINATED NOTES DUE 2010 AND SHARES OF
COMMON STOCK ISSUABLE UPON CONVERSION OF THE NOTES

On June 24, 2003, we issued and sold \$225,000,000 aggregate principal amount of our 5.00% Convertible Senior Subordinated Notes due 2010 to Deutsche Bank Securities Inc., Goldman, Sachs & Co., Banc of America Securities LLC, Barclays Capital Inc., ABN AMRO Rothschild LLC and Commerzbank Capital Markets Corp. (the initial purchasers) in a private placement. On July 2, 2003, we issued and sold, at the option of the initial purchasers, an additional \$50,000,000 aggregate principal amount of the notes to the initial purchasers to cover over-allotments. This prospectus will be used by selling securityholders to resell the notes and register the common stock issuable upon conversion of the notes.

The notes will mature on August 15, 2010. You may convert the notes into shares of Reliant Resources' common stock at any time prior to their maturity or one business day prior to their redemption or repurchase by Reliant Resources. The conversion rate is 104.8108 shares of common stock per each \$1,000 principal amount of notes, subject to adjustment in certain circumstances. This is equivalent to a conversion price of approximately \$9.54 per share. On July 21, 2003, the last reported sale price for the common stock on The New York Stock Exchange was \$5.15 per share. The common stock is listed under the symbol "RRI".

Reliant Resources will pay interest on the notes on February 15 and August 15 of each year. The first interest payment will be made on August 15, 2003. The notes are subordinated in right of payment to all of Reliant Resources' existing and future senior debt and effectively subordinated to all indebtedness and liabilities of Reliant Resources' subsidiaries. As of March 31, 2003, the aggregate amount of Reliant Resources' outstanding senior debt, as defined in this prospectus, was approximately \$5.1 billion and the aggregate amount of indebtedness and other liabilities of Reliant Resources' subsidiaries was approximately \$6.5 billion (excluding \$1.8 billion related to Reliant Resources' European energy operations). The notes were issued only in denominations of \$1,000 and integral multiples of \$1,000.

On or after August 20, 2008, Reliant Resources has the option to redeem the notes, in whole or in part, at the prices described in this prospectus if the last reported sale price of Reliant Resources' common stock is at least 125% of the then effective conversion price for at least 20 trading days within a period of 30 consecutive trading days ending on the trading day before the date of the redemption notice. You have the option, subject to certain conditions, to require Reliant Resources to repurchase any notes held by you in the event of a change of control, as described in this prospectus, at a price equal to 100% of

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the principal amount of the notes plus accrued and unpaid interest to the date of repurchase.

The notes are evidenced by a global note deposited with a custodian for and registered in the name of a nominee of The Depository Trust Company. Except as described in this prospectus, beneficial interests in the global note will be shown on, and transfers thereon will be effected only through, records maintained by The Depository Trust Company and its direct and indirect participants.

We will not receive any of the proceeds from the sale of the notes or the shares of common stock by any of the selling securityholders. The notes and the shares of common stock may be offered in negotiated transactions or otherwise, at market prices prevailing at the time of sale or at negotiated prices. The timing and amount of any sale are within the sole discretion of the selling securityholders. In addition, the shares of common stock may be offered from time to time through ordinary brokerage transactions on the New York Stock Exchange. See "Plan of Distribution." The selling securityholders may be deemed to be "underwriters" as defined in the Securities Act of 1933, as amended. Any profits realized by the selling securityholders may be deemed to be underwriting commissions. If the selling securityholders use any broker-dealers, any commission paid to broker-dealers and, if broker-dealers purchase any notes or shares of common stock as principals, any profits received by such broker-dealers on the resale of the notes or shares of common stock may be deemed to be underwriting discounts or commissions under the Securities Act.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

SEE "RISK FACTORS" BEGINNING ON PAGE 16 TO READ ABOUT IMPORTANT FACTORS YOU SHOULD CONSIDER BEFORE BUYING THE NOTES.

Preliminary Prospectus dated _____, 2003.

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WHERE YOU CAN FIND MORE INFORMATION

Reliant Resources files annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. You may read and copy any document Reliant Resources files at the SEC's public reference room in Washington, D.C., 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-888-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's web site at www.sec.gov or from Reliant Resources' web site at www.reliantresources.com. However, the information on Reliant Resources' web site does not constitute a part of this prospectus.

In this document, Reliant Resources "incorporates by reference" the information it files with the SEC, which means that Reliant Resources can disclose important information to you by referring to that information. The information incorporated by reference is considered to be a part of this prospectus, and later information filed with the SEC will update and supersede this information. Reliant Resources incorporates by reference the documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, or the Exchange Act, after the date of the initial registration statement and prior to the effectiveness of the registration statement and any filings thereafter and prior to the termination of this offering:

- Reliant Resources' Annual Report on Form 10-K/A filed on May 1, 2003 for the fiscal year ended December 31, 2002;
- Reliant Resources' Proxy Statement on Schedule 14A, filed on April 30, 2003;

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- Reliant Resources' Quarterly Report on Form 10-Q filed on May 14, 2003 for the quarter ended March 31, 2003;
- Reliant Resources' Current Report on Form 8-K filed on January 10, 2003;
- Reliant Resources' Current Report on Form 8-K filed on February 3, 2003;
- Reliant Resources' Current Report on Form 8-K filed on February 24, 2003;
- Reliant Resources' Current Report on Form 8-K filed on March 17, 2003;
- Reliant Resources' Current Report on Form 8-K filed on March 24, 2003;
- Reliant Resources' Current Report on Form 8-K filed on March 28, 2003;
- Reliant Resources' Current Report on Form 8-K filed on April 1, 2003 (to the extent filed by Reliant Resources under the Securities Exchange Act of 1934);
- Reliant Resources' Current Report on Form 8-K filed on April 16, 2003 (other than Exhibit 99.2);

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- Reliant Resources' Current Report on Form 8-K filed on May 12, 2003;
- Reliant Resources' Current Report on Form 8-K filed on June 5, 2003;
- Reliant Resources' Current Report on Form 8-K filed on June 18, 2003;
- Reliant Resources' Current Report on Form 8-K filed on June 24, 2003;
- Reliant Resources' Current Report on Form 8-K filed on June 30, 2003;
- Reliant Resources' Current Report on Form 8-K filed on July 11, 2003
- Reliant Resources' Current Report on Form 8-K filed on July 23, 2003; and
- the description of our common stock, par value \$.001 per share contained in our Registration Statement on Form 8-A, filed with the SEC on April 27, 2001, as amended by Amendment No. 1 thereto on Form 8-A/A, filed with the SEC on May 1, 2001.

You may request a copy of these filings at no cost, by writing or telephoning Reliant Resources at: P.O. Box 4567, Houston, Texas 77210-4567, Attention: Investor Relations, telephone (713) 497-7000.

For our most recent annual consolidated financial statements and notes, see our Current Report on Form 8-K filed on June 30, 2003 and incorporated by reference herein. For our most recent annual "Management's Discussion and Analysis of Financial Condition and Results of Operations," see our Current Report on Form 8-K filed on June 5, 2003 and incorporated by reference herein. For our most recent interim consolidated financial statements and notes and interim "Management's Discussion and Analysis of Financial Condition and Results of Operations," see our Current Report on Form 8-K filed on July 23, 2003 and incorporated by reference herein.

You should rely only upon the information provided in this document or incorporated in this document by reference. Reliant Resources has not authorized anyone to provide you with different information. You should not assume that the information in this document, including any information incorporated by reference, is accurate as of any date other than the date indicated on the front cover.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes statements concerning expectations, assumptions, beliefs, plans, projections, objectives, goals, strategies and future events or performance that are intended as "forward-looking statements". You can identify our forward-looking statements by the words "anticipates", "believes", "continue", "could", "estimates", "expects", "forecast", "goal", "intends", "may", "objective", "plans", "potential", "predicts", "projection", "should", "will" and similar words.

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We have based our forward-looking statements on management's beliefs and assumptions based on information available at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events and performance may and often do vary materially from actual results. Therefore, actual results may differ materially from those expressed or implied by our forward-looking statements. For more information regarding the risks and uncertainties that could cause our actual results to differ materially from those expressed or implied in our forward-looking

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statements, see "Risk Factors" beginning on page 16.

You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements.

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PROSPECTUS SUMMARY

In this prospectus, the words "Reliant Resources" and "RRI" refer to Reliant Resources, Inc. and the words, "we", "our", "ours", and "us" refer to Reliant Resources, Inc. and its subsidiaries. The following summary contains basic information about us, the notes and our common stock. It does not contain all of the information that may be important to you. For a complete understanding of us, the notes and our common stock, we encourage you to read this entire document and the documents we have referred you to herein. We provide a glossary of terms used in this prospectus beginning on page A-1.

COMPANY OVERVIEW

We are based in Houston, Texas and provide electricity and energy services to retail and wholesale customers. We provide a complete suite of energy products and services to approximately 1.7 million electricity customers in Texas under the Reliant Energy brand name. These customers range from residences and small businesses to large commercial, industrial and institutional customers. Our business includes approximately 22,000 MW of power generation capacity in operation, under construction or under contract in the United States. In addition, we have the exclusive option to acquire CenterPoint's 81% ownership interest in Texas Genco, which owns approximately 14,000 MW of generating capacity in Texas.

In June 1999, the Texas legislature adopted an electric restructuring law that amended the regulatory structure governing electric utilities in Texas in order to allow retail electric competition with respect to all customer classes beginning in January 2002. In response to this legislation, CenterPoint adopted a business separation plan in order to separate its regulated and unregulated operations. Under the business separation plan, we were incorporated in Delaware in August 2000, and CenterPoint transferred substantially all of its unregulated businesses to us. We completed an initial public offering of approximately 20% of our common stock in May 2001. In September 2002, the distribution of the remaining shares of our common stock owned by CenterPoint to its stockholders was completed and, as a result, we are no longer a subsidiary of CenterPoint.

RETAIL ENERGY

We are a certified retail electric provider in Texas, which allows us to provide electricity to residential, small commercial and large commercial, industrial and institutional customers. Our retail energy segment provides standardized electricity and related products and services to residential and small commercial customers with an aggregate peak demand for power up to approximately one MW (i.e., small and mid-sized business customers) and offers customized electric commodity and energy management services to large commercial, industrial and institutional customers with an aggregate peak demand for power in excess of approximately one MW (i.e., refineries, chemical plants, manufacturing facilities, real estate management firms, hospitals, universities, school systems, governmental agencies, multi-site retailers, restaurants, and other facilities under common ownership or franchise arrangements with a single franchiser, which aggregate to approximately one MW or greater of peak demand). We currently provide retail electric service to residential and small commercial

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customers only in Texas and primarily in the Houston area. We have no near-term plans to provide retail electric service to residential and small commercial customers outside of Texas. However, we recently entered into contracts to provide retail electric services to large commercial, industrial and institutional customers in New Jersey beginning August 1, 2003, and we are taking steps to provide electricity and related products and services to large commercial, industrial and institutional customers in certain other states, including Maryland and Pennsylvania where we have received licenses to provide retail electric service. Included in our retail energy segment are our ERCOT generation facilities which consist of ten power generation units completed or under various stages of construction at seven facilities with an aggregate net generation capacity of 805 MW located in Texas.

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WHOLESALE ENERGY

Our wholesale energy segment provides energy and energy services with a focus on the competitive segment of the United States wholesale energy markets. We have built a diversified portfolio of electric power generation facilities, through a combination of acquisitions and development, that are not subject to traditional cost-based regulation; therefore, we can generally sell electricity at prices determined by the market, subject to regulatory limitations. We market electric energy, capacity and ancillary services and procure natural gas, coal, fuel oil, natural gas transportation capacity and other energy-related commodities to optimize our physical assets and provide risk management services for our asset portfolio.

We own, own an interest in, or lease 120 operating electric power generation facilities with an aggregate net generating capacity of 19,083 MW located in five regions of the United States -- the Mid-Atlantic, New York, the Mid-Continent, the Southeast and the West regions. The generating capacity of these facilities consists of approximately 32% of base-load, 36% of intermediate and 32% of peaking capacity. Our generating capacity is fueled 39% by natural gas, 23% by coal, 3% by oil and 31% has dual-fuel capability. The remaining 4% of our generating capacity is hydroelectric. We have two electric power generation facilities and replacement or incremental electric power generation units at two existing facilities, or 2,461 MW of net generating capacity, under construction.

The following table describes our electric power generation facilities and net generating capacity by region:

REGION	NUMBER OF GENERATION FACILITIES (1)	TOTAL NET GENERATING CAPACITY (MW) (2)	DISPATCH TYPE (3)	FUEL
MID-ATLANTIC				
Operating (4)	22	4,795	Base, Intermediate, Peak	Gas/Coal/
Under Construction (5) (6) (7)	--	1,120	Base, Intermediate	Gas/ Coal
Combined	22	5,915		
NEW YORK				
Operating (8)	77	2,952	Base, Intermediate, Peak	Gas/Oil/H
MID-CONTINENT				
Operating	9	4,484	Base, Intermediate, Peak	Gas/Oil/C

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Under Construction(5).....	1	800	Intermediate, Peak	Gas
	---	-----		
Combined.....	10	5,284		
SOUTHEAST				
Operating(9) (10).....	5	2,210	Base, Intermediate, Peak	Gas/Oil
WEST				
Operating(11) (12) (13).....	7	4,642	Base, Intermediate, Peak	Gas/Oil
Under Construction(5).....	1	541	Base, Intermediate	Gas
	---	-----		
Combined.....	8	5,183		
TOTAL				
Operating.....	120	19,083		
Under Construction.....	2	2,461		
	---	-----		
Combined.....	122	21,544		
	===	=====		

-
- (1) Unless otherwise indicated, we own a 100% interest in each facility listed.
 - (2) Average summer and winter net generating capacity.
 - (3) We use the designations "Base," "Intermediate," and "Peak" to indicate whether the facilities described are base-load, intermediate, or peaking facilities, respectively.

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- (4) We lease a 100%, 16.67% and 16.45% interest in three Pennsylvania facilities having 614 MW, 284 MW and 282 MW of net generating capacity, respectively, through facility lease agreements having terms of 26.5 years, 33.75 years and 33.75 years, respectively.
- (5) We consider a project to be "under construction" once we have acquired the necessary permits to begin construction, broken ground on the project site and contracted to purchase machinery for the project, including the combustion turbines.
- (6) The 1,120 MW of net generating capacity under construction is based on 1,317 MW of net generating capacity currently under construction, less 197 MW of net generating capacity that will be retired upon completion of one of the projects.
- (7) Our two construction projects in the Mid-Atlantic region are replacement or incremental electric power generation units at existing facilities. These units are reflected in the operating generation facilities count, but the net generating capacity of such units will be reflected in the under construction count until the units begin commercial operation.
- (8) Excludes two hydro plants with a net generating capacity of 5 MW, which are not currently operational.
- (9) We own a 50% interest in one of these facilities having a net generating capacity of 108 MW. An independent third party owns the other 50%.
- (10) We lease a 100% interest in two Florida facilities having 630 MW and 474 MW of net generating capacity, respectively, through facility lease agreements having terms of 10 years and 5 years, respectively.

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- (11) Beginning in January 2003, two California generation units having 264 MW of total net generating capacity were idled due to a lack of required environmental permits.
- (12) We own a 50% interest in one Nevada facility having a total generating capacity of 470 MW. An independent third party owns the other 50%.
- (13) Includes our 588-megawatt Desert Basin plant, located in Casa Grande, Arizona. On July 9, 2003, we entered into a definitive agreement to sell our Desert Basin plant to SRP.

We seek to optimize our physical asset positions consisting of our power generation asset portfolio, pipeline transportation capacity positions, pipeline storage positions and fuel positions and provide risk management services for our asset positions. We perform these functions through procurement, marketing and hedging activities for power, fuels and other energy related commodities. With the downturn in the industry, the decline in market liquidity and our liquidity capital constraints, the principal function of our commercial activities is to optimize our assets. In March 2003, we decided to exit our proprietary trading activities and liquidate, to the extent practicable, our proprietary positions. Although we are exiting the proprietary trading business, we have existing positions which will be closed as economically feasible or in accordance with their terms. We will continue to engage in marketing and hedging activities related to our electric generating facilities, pipeline transportation capacity positions, pipeline storage positions and fuel positions.

DISCONTINUED OPERATIONS

We own and operate 13 electric power generation units organized into three clusters with an aggregate net generating capacity of 3,496 MW, of which 3,231 MW are operational, located in the Netherlands. These facilities consist of approximately 39% of base-load, 15% of intermediate and 46% of peaking capacity. Our European energy segment produces, buys and sells electricity, gas and other energy-related commodities primarily in the Netherlands wholesale market. The primary customers in the Netherlands are electric distribution companies, large industrial consumers and energy trading companies.

Our European trading and origination operations are currently centered in the Netherlands, with an additional office in Germany. Our European trading and origination operations focus on hedging and optimizing our generation assets in the Netherlands. During 2002, we traded electricity and fuel products in the Netherlands, Germany, Austria, the United Kingdom and the Scandinavian countries. In September 2002, we decided to substantially exit our proprietary trading activities in Europe.

In February 2003, we announced the sale of our European energy business to Nuon for approximately Euro 1.1 billion (as of March 31, 2003, approximately \$1.2 billion). As additional contingent consideration for the sale, we will also receive 90% of the dividends and other distributions in excess, if any, of approximately Euro 110 million (as of March 31, 2003, approximately \$120 million) paid by NEA to REPG following consummation of the sale. We intend to use the cash proceeds from the sale first to prepay the Euro 600 million bank term loan borrowed by RECE to finance a portion of the original acquisition costs of our European energy operations. We currently expect this sale to close in the summer

of 2003. In accordance with current accounting standards, the results of these operations are now reported as discontinued operations.

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OBJECTIVES AND STRATEGY

We are committed to building a balanced wholesale and retail energy business. Achievement of this goal will be facilitated by focusing on the following strategic priorities:

OPTIMIZE OUR BUSINESS

Our retail energy business has a strong competitive position in Texas and has provided us with a stable source of earnings. Following deregulation, as anticipated, we have seen a loss of residential and small business market share in the Houston area service territory. We are pursuing customers in other markets outside of the Houston area service territory to mitigate the loss of this market share. As a result of such marketing efforts, we have made out-of-territory market share gains which have helped to offset losses within the Houston area service territory. Further, our business which provides electricity and energy services to customers with an aggregate peak demand of greater than approximately one MW has grown its market share substantially since deregulation and is poised to continue to grow in Texas. In addition, we have recently opened an office in New Jersey and are focused on building a strong position in the surrounding region.

Our wholesale energy business consists of a portfolio of diverse generation assets which enable us to market electric energy, capacity and ancillary services. In addition, we procure natural gas, coal, fuel oil, natural gas transportation capacity and other energy-related commodities and maintain a commercial infrastructure to optimize our physical assets and contractual positions through marketing and hedging activities. We focus on contracting our capacity and procuring the necessary fuel to generate that power, to lock in energy margins. While current market conditions are generally weak, we expect the profitability of our wholesale energy business to improve markedly when markets return to more balanced supply and demand fundamentals and market rules and regulations improve.

IMPROVE OUR CAPITAL STRUCTURE

Our March 2003 refinancing provided us liquidity and removed near-term debt maturities which enhances our ability to access the capital markets. Our business is an inherently cyclical one; consequently, we believe that we need a more balanced capital structure, and we intend to replace the majority of our bank debt with long-term fixed income debt and equity. Our first step in the process was our issuances of \$275 million of notes (\$225 million in June 2003 and \$50 million in July 2003) and \$1.1 billion of senior secured notes in July 2003 (described below in "-- Recent Developments"). The net proceeds of the notes were placed in an escrow account for the possible acquisition of Texas Genco and the net proceeds of the senior secured notes were used to pay down our bank debt.

OPPORTUNISTICALLY DIVEST NON-CORE ASSETS

We continuously evaluate our non-core assets. As we demonstrated by our agreement to sell our European energy operations and by our recent agreement to sell our 588-megawatt Desert Basin plant operations (described below in "-- Recent Developments"), we will consider selling specific generation assets in order to narrow our focus, bolster our liquidity and strengthen our financial position.

CAPITALIZE ON UNIQUE OPPORTUNITIES

We will continue to pursue opportunities to enhance our businesses within the parameters of our capital structure. We have the exclusive option to acquire

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CenterPoint's 81% interest in Texas Genco, which could have strategic advantages, including synergies and operational benefits, given that we source a significant percentage of our electric energy supply from Texas Genco.

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The continued expansion and growth of our residential and small commercial retail energy business in Texas and our large commercial, industrial and institutional retail energy business both in Texas and other strategic markets in the United States also remain top priorities.

RECENT DEVELOPMENTS

In March 2003, we completed a \$6.2 billion financing package that refinanced \$5.9 billion of our existing bank credit facilities with new credit facilities and provided us with an additional \$300 million senior priority credit facility. The \$5.9 billion of new credit facilities consists of a \$2.1 billion revolving credit facility and a \$3.8 billion term loan, all of which mature in 2007 and do not require any mandatory principal payments prior to May 15, 2006. The \$300 million senior priority credit facility provides us with additional liquidity in the event of extreme movements in commodity prices. It matures upon the earlier of our purchase of any of the outstanding common stock of Texas Genco or December 15, 2004.

Concurrently with our offering of the notes, we issued and sold in a private placement an aggregate principal amount of \$1.1 billion of senior secured notes. For additional information regarding the \$1.1 billion of senior secured notes, see "Description of Other Indebtedness -- Senior Secured Notes". We also entered into an amendment to our new credit facilities to, among other things, permit the senior secured note offering, share collateral with the senior secured notes and certain future senior secured note offerings and increase our flexibility to purchase CenterPoint's interest in Texas Genco. The amendment allows us to negotiate a purchase of CenterPoint's interest in Texas Genco outside the option at a price less than or equal to the price set under the option and also extends the deadline for agreeing to purchase an interest in Texas Genco until September 15, 2004. The amendment also revised the collateral mechanics to replace the collateral agent with a collateral trustee for the benefit of the banks and the secured noteholders, revised the mandatory prepayment provisions so that the senior secured notes will share pro rata with the banks any net proceeds from asset sales required to be paid to the banks and separated the Orion Power Holdings, Inc. limited guaranty from the credit agreement so it can ratably guaranty the bank debt and the senior secured notes.

On July 9, 2003, we entered into a definitive agreement to sell our 588-megawatt Desert Basin plant, located in Casa Grande, Arizona, to Salt River Project Agricultural Improvement and Power District (SRP) of Phoenix for \$289 million. Desert Basin, a combined-cycle facility that we developed, started commercial operation in 2001 and is currently providing all of its power to SRP under a 10-year power purchase agreement, which will be terminated in connection with the sale. The Desert Basin plant is the only operation of REDB, an indirect wholly-owned subsidiary of ours. The transaction is subject to regulatory approvals, including the FERC, and certain third-party consents and approvals. The transaction is expected to close by the end of 2003. We intend to use the net proceeds of approximately \$287 million to prepay indebtedness of our senior secured debt or for the possible acquisition of direct or indirect ownership interests in assets currently owned by Texas Genco.

We will recognize a loss on the sale of our Desert Basin plant operations in the third quarter of 2003 and in connection with the anticipated sale, we will report the assets and liabilities to be sold as discontinued operations effective July 2003. We preliminarily estimate the loss on disposition to be

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approximately \$75 million (\$68 million after-tax), consisting of a loss of \$18 million (\$11 million after-tax) on the tangible assets and liabilities associated with our actual investment in the Desert Basin plant operations and a loss of \$57 million (pre-tax and after-tax due to the non-deductibility of goodwill for income tax purposes) relating to the allocated goodwill of our wholesale energy reporting unit. Determination of the actual amount of goodwill to be allocated to this business requires developing an updated estimate of the fair value of our wholesale energy reporting unit, which is expected to be completed by the end of the third quarter of 2003. When this information is available, the amount of goodwill to be allocated can be finalized and will likely vary from the preliminary estimate noted above.

This anticipated sale of our Desert Basin plant operations requires us, in accordance with SFAS No. 142, to allocate a portion of the goodwill in the wholesale energy reporting unit to the Desert Basin plant operations on a relative fair value basis as of July 2003 in order to compute the gain or loss on

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disposal. SFAS No. 142 also requires us to test the recoverability of goodwill in our remaining wholesale energy reporting unit as of July 2003. After the allocation of goodwill to the Desert Basin plant operations, our wholesale energy segment's remaining goodwill is estimated to be approximately \$1.4 billion, which is being tested for impairment effective July 2003.

For further discussion regarding the anticipated sale of our Desert Basin plant operations and our July 2003 goodwill impairment evaluation of our wholesale energy reporting unit, see "Risk Factors -- Risks Related to Our Wholesale Energy Operations".

Based on our results of operations of our wholesale energy and retail energy segments for the second quarter of 2003 through May 31, 2003, we currently anticipate that our results from continuing operations for this period will be significantly less than our results from continuing operations for the comparable period in 2002.

* * *

Our principal executive offices are located at 1111 Louisiana Street, Houston, Texas 77002, and our telephone number is (713) 497-3000.

CORPORATE STRUCTURE AND COMPONENTS OF DEBT

The following simplified diagram presents our general corporate structure and the components of our banking and credit facilities and other long-term debt to third parties of Reliant Resources and its subsidiaries (excluding our European energy discontinued operations) as of March 31, 2003 (in billions):

(DEBT STRUCTURE CHART)

- (1) As of March 31, 2003, Reliant Resources had letters of credit outstanding of \$0.3 billion supporting the Seward Trust tax-exempt debt and \$0.2 billion of letters of credit relating to commercial activities under its senior secured revolver. In addition, Reliant Resources had letters of credit outstanding of \$0.1 billion under its cash collateralized letter of credit facility.

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- (2) As of March 31, 2003, we had margin deposits supporting commercial

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activities and collateral for letters of credit relating to commercial activities aggregating \$0.5 billion.

- (3) Includes an aggregate of 14 generation facilities located in the states of California, Arizona, Nevada, Florida, Illinois, Pennsylvania and Mississippi.
- (4) In August 2000, we entered into separate sale/leaseback transactions with each of the three owner-lessors for our interests in three generating stations acquired in the REMA acquisition. For additional discussion of these lease transactions, see note 14(a) to our consolidated financial statements incorporated by reference herein.
- (5) In July 2002, we entered into a receivables facility arrangement with a financial institution to sell an undivided interest in accounts receivable from residential and small commercial retail electric customers, on an ongoing basis. Pursuant to this receivables facility, we formed a QSPE as a bankruptcy remote indirect subsidiary of RERH. For additional information regarding this transaction, see note 15 to our consolidated financial statements incorporated by reference herein.
- (6) We issued \$275 million of notes (\$225 million in June 2003 and \$50 million in July 2003) and \$1.1 billion of senior secured notes in July 2003. The net proceeds of the notes were placed in an escrow account for the possible acquisition of Texas Genco and the net proceeds of the senior secured notes were used to pay down our bank debt. The above table does not reflect issuances of the notes and the senior secured notes and the use of the proceeds therefrom.

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THE OFFERING

Issuer.....	Reliant Resources, Inc.
Notes Offered.....	\$275,000,000 in aggregate principal amount of 5.00% Convertible Senior Subordinated Notes due 2010 issued as of July 2, 2003.
Maturity.....	August 15, 2010.
Interest Payment Dates.....	Interest on the notes is payable semi-annually on February 15 and August 15 of each year, commencing August 15, 2003.
Conversion.....	The notes are convertible at the option of the holder into shares of our common stock at a conversion rate of 104.8108 shares of common stock per \$1,000 in principal amount of notes. This is equivalent to a conversion price of approximately \$9.54 per share. The conversion rate is subject to adjustment in certain events. The notes are convertible at the above conversion rate at any time on or after issuance and prior to the close of business on the maturity date, unless we have previously redeemed or repurchased the notes. Holders of notes called for redemption or submitted for repurchase will be entitled to convert the notes up to the close of business on the business day immediately preceding the date

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fixed for redemption or repurchase, as the case may be. See "Description of Notes -- Conversion Rights".

Subordination..... The notes are subordinated to our existing and future senior debt including the senior secured notes. As of March 31, 2003, the aggregate amount of Reliant Resources' outstanding debt was approximately \$5.1 billion and Reliant Resources had approximately \$651 million of commitments that would have been available for future borrowings as senior debt. As of March 31, 2003, the aggregate amount of indebtedness and other liabilities of our subsidiaries was approximately \$6.5 billion (excluding \$1.8 billion related to our European energy operations) and our subsidiaries had approximately \$39 million (excluding \$189 million related to our European energy operations) of commitments that would have been available for future borrowings as senior debt. We will not be restricted under the indenture from incurring senior debt or other additional indebtedness. See "Description of Notes -- Subordination".

Global Note; Book-entry System..... The notes were issued only in fully registered form without interest coupons and in minimum denominations of \$1,000 and integral multiples of \$1,000. The notes are evidenced by one or more global notes deposited with the trustee for the notes, as custodian for DTC. Beneficial interests in the global note are shown on, and transfers of those beneficial interest can only be made through, records maintained by DTC and its direct and indirect participants. See "Description of Notes -- Form, Denomination, Transfer, Exchange and Book-Entry Procedures".

Optional Redemption by Reliant Resources..... We may redeem the notes at our option at any time on or after August 20, 2008, in whole or in part, if the last reported sale price of our common stock is at least 125% of the then effective conversion price for at least 20 trading days within a period of 30

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consecutive trading days ending on the trading day before the date of the redemption notice at the redemption prices set forth below under "Description of Notes -- Optional Redemption by RRI," plus accrued and unpaid interest to, but excluding, the redemption date. We will therefore be required to make at least ten interest payments on the notes before being able to redeem the notes.

Repurchase at Option of Holders Upon a Change in

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- Control..... Upon a change in control, you will have the right to require us to repurchase all or part of your notes at 100% of the principal amount of the notes, plus accrued and unpaid interest to, but excluding, the repurchase date. The repurchase price is payable in cash, or, at our option, in shares of common stock, or other applicable securities if we are not the surviving corporation of the change in control transaction or transactions, valued at 95% of the average closing prices of our common stock or other applicable securities for the five trading days immediately preceding the second trading day prior to the repurchase date, subject to certain conditions. See "Description of Notes -- Repurchase at Option of Holders Upon a Change in Control".
- Events of Default..... The following are events of default under the indenture for the notes:
- we fail to pay principal of or any premium, if any, on any note when due, whether or not the payment is prohibited by the subordination provisions of the indenture;
 - we fail to pay any interest, including any special interest, on any note when due, which failure continues for 30 days, whether or not the payment is prohibited by the subordination provisions of the indenture;
 - we fail to comply with the notice and repurchase provisions described under "Description of the Notes -- Repurchase at Option of Holders Upon a Change of Control", which failure continues for 30 days following notice whether or not the notice or repurchase is prohibited by the subordination provisions of the indenture;
 - we fail to perform any agreement or other covenant in the notes or the indenture, which failure continues for 90 days following notice as provided in the indenture;
 - we fail to pay any indebtedness under any bond, debenture, note or other evidence of indebtedness for money borrowed by us or any of our subsidiaries other than RECE and its subsidiaries, Reliant Energy Channelview, L.P. and its subsidiaries so long as, taken together, they would not constitute a significant subsidiary, Liberty Electric PA, LLC, Liberty Electric Power, LLC and their respective subsidiaries so long as, taken together, they would not constitute a significant subsidiary and Reliant Energy Retail Holdings, LLC or any subsidiary thereof in connection with a securitization transaction in which the indebtedness incurred by such entities is

non-recourse to Reliant Resources and its other subsidiaries (or the payment of which is guaranteed by us) in a principal aggregate amount then outstanding in excess of \$100,000,000 at final maturity (either at its stated maturity or upon acceleration);

- failure by Reliant Resources or any of our subsidiaries other than RECE and its subsidiaries, Reliant Energy Channelview, L.P. and its subsidiaries so long as, taken together, they would not constitute a significant subsidiary, Liberty Electric PA, LLC, Liberty Electric Power, LLC and their respective subsidiaries so long as, taken together, they would not constitute a significant subsidiary and Reliant Energy Retail Holdings, LLC or any subsidiary thereof that has engaged in a securitization transaction to pay final and non-appealable judgments aggregating in excess of \$100,000,000, which are not covered by indemnities or third-party insurance, which judgments are not paid, discharged or stayed for a period of 60 days; and
- certain events of bankruptcy, insolvency or reorganization involving us or any of our significant subsidiaries (other than RECE and its subsidiaries).

See "Description of Notes -- Events of Default".

Trading.....	The notes sold to qualified institutional buyers are eligible for trading in the PORTAL market; however, the notes resold pursuant to this prospectus will no longer trade on the PORTAL market. We do not intend to list the notes on any national securities exchange or the Nasdaq National Market.
Listing of Common Stock.....	Our common stock is quoted on The New York Stock Exchange under the symbol "RRI".
Use of Proceeds.....	We will not receive any of the proceeds from the sale by any selling securityholder of the notes or shares of common stock offered under this prospectus.
Common Shares.....	As of July 21, 2003, there were 294,286,986 shares of our common stock issued and outstanding.

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The following tables present our summary selected consolidated financial data for 1998 through 2002 and the three months ended March 31, 2002 and March 31, 2003. The financial data for 1998, 1999 and 2000 are derived from the consolidated historical financial statements of CenterPoint. The financial data for the three months ended March 31, 2002 and March 31, 2003 are derived from our unaudited interim consolidated financial statements. The data set forth below should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the three years ended December 31, 2000, 2001 and 2002 included in our Current Report on Form 8-K filed on June 5, 2003, incorporated by reference herein, our historical consolidated financial statements and the notes to those statements included in our Current Report on Form 8-K filed on June 30, 2003, incorporated by reference herein, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the three months ended March 31, 2002 and 2003 included in our Current Report on Form 8-K filed on July 23, 2003, incorporated by reference herein, and our interim consolidated financial statements and the notes to those statements included in our Current Report on Form 8-K filed on July 23, 2003, incorporated by reference herein. The historical financial information may not be indicative of our future performance and the historical financial information for 1998, 1999 and 2000 does not reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone entity during the periods presented.

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	YEAR ENDED DECEMBER 31,					THR
	1998	1999	2000	2001	2002	(1) (
	(1) (4)	(1) (4)	(1) (4) (5)	(1) (2) (4) (5)	(1) (3) (4)	(1) (
	(IN MILLIONS, EXCEPT PER SHARE AMOUNT)					
INCOME STATEMENT DATA:						
Revenues.....	\$277	\$601	\$2,732	\$5,507	\$10,638	\$
Trading margins.....	33	88	198	378	288	
	----	----	-----	-----	-----	-
Total.....	310	689	2,930	5,885	10,926	
	----	----	-----	-----	-----	-
Expenses:						
Fuel and cost of gas sold.....	102	293	911	1,576	1,086	
Purchased power.....	13	149	926	2,498	7,421	
Accrual for payment to CenterPoint.....	--	--	--	--	128	
Operation and maintenance.....	65	128	336	464	786	
General, administrative and development.....	78	94	270	471	643	
Depreciation and amortization...	15	23	118	171	378	
	----	----	-----	-----	-----	-
Total.....	273	687	2,561	5,180	10,442	
	----	----	-----	-----	-----	-
Operating income.....	37	2	369	705	484	
	----	----	-----	-----	-----	-
Other income (expense):						
Gains (losses) from investments.....	--	14	(22)	23	(23)	
(Loss) income of equity investments of unconsolidated						

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subsidiaries.....	(1)	(1)	43	7	18
Gain on sale of development project.....	--	--	18	--	--
Other, net.....	1	1	--	2	23
Interest expense.....	(2)	--	(7)	(16)	(267)
Interest income.....	1	1	16	22	28
Interest income (expense) -- affiliated companies, net....	2	(6)	(172)	12	5
	----	----	-----	-----	-----
Total other income (expense).....	1	9	(124)	50	(216)
	----	----	-----	-----	-----
Income (loss) from continuing operations before income taxes.....	38	11	245	755	268
Income tax expense (benefit)....	17	6	102	292	121
	----	----	-----	-----	-----
Income (loss) from continuing operations.....	21	5	143	463	147
	----	----	-----	-----	-----
Income (loss) from operations of discontinued European energy operations.....	--	15	73	79	(380)
Income tax (benefit) expense....	--	(4)	(7)	(18)	93
	----	----	-----	-----	-----
Income (loss) from discontinued operations.....	--	19	80	97	(473)
	----	----	-----	-----	-----
Income (loss) before cumulative effect of accounting changes....	21	24	223	560	(326)
Cumulative effect of accounting changes, net of tax.....	--	--	--	3	(234)
	----	----	-----	-----	-----
Net income (loss).....	\$ 21	\$ 24	\$ 223	\$ 563	\$ (560)
	=====	=====	=====	=====	=====

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	YEAR ENDED DECEMBER 31,						THR
	1998	1999	2000	2001	2002		
	(1) (4)	(1) (4)	(1) (4) (5)	(1) (2) (4) (5)	(1) (3) (4)	(1) (
	-----	-----	-----	-----	-----	-----	-----
	(IN MILLIONS, EXCEPT PER SHARE AMOUNT)						
BASIC EARNINGS (LOSS) PER SHARE:							
Income (loss) from continuing operations.....				\$ 1.67	\$ 0.51		\$
Income (loss) from discontinued operations, net of tax.....				0.35	(1.63)		
				-----	-----		
Income (loss) before cumulative effect of accounting changes.....				2.02	(1.12)		
Cumulative effect of accounting changes, net of tax.....				.01	(0.81)		
				-----	-----		

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Net income (loss).....	\$ 2.03	\$ (1.93)	\$
	=====	=====	=====
DILUTED EARNINGS (LOSS) PER SHARE:			
Income (loss) from continuing operations.....	\$ 1.67	\$ 0.50	\$
Income (loss) from discontinued operations, net of tax.....	0.35	(1.62)	
	-----	-----	
Income (loss) before cumulative effect of accounting changes.....	2.02	(1.12)	
Cumulative effect of accounting changes, net of tax.....	.01	(0.80)	
	-----	-----	
Net income (loss).....	\$ 2.03	\$ (1.92)	\$
	=====	=====	=====

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	YEAR ENDED DECEMBER 31,					THREE MONTHS
	1998	1999	2000	2001	2002	MARCH 31,
	(1)	(1)	(1) (5)	(1) (2) (5)	(1) (3)	2002
	-----	-----	-----	-----	-----	-----
	(IN MILLIONS, EXCEPT OPERATING DATA AND RATIO)					
STATEMENT OF CASH FLOW DATA:						
Cash flows from operating activities.....	\$ (2)	\$ 38	\$ 335	\$ (152)	\$ 519	\$ 396
Cash flows from investing activities.....	(365)	(1,406)	(3,013)	(838)	(3,486)	(3,127)
Cash flows from financing activities.....	379	1,408	2,721	1,000	3,981	2,861
OTHER OPERATING DATA:						
Capital Expenditures.....	(31)	(293)	(918)	(819)	(641)	(177)
Trading and marketing activity(6):						
Natural gas (Bcf) (7).....	1,115	1,481	2,273	3,265	3,449	951
Power sales (thousand MWh) (7).....	61,195	128,266	125,971	222,907	306,425	69,941
Power generation activity:						
Wholesale power sales (thousand MWh) (7).....	2,973	10,204	39,300	62,825	128,812	21,503
Retail power sales (GWh)....	--	--	--	473	59,004	12,783
Net power generation capacity (MW).....	3,800	4,469	9,231	11,109	19,888	16,753
Ratio of earnings to fixed Charges (8) (9) (10).....	19.31	1.28	1.83	7.54	1.66	3.36

	DECEMBER 31,					MARCH 31,
	1998	1999	2000	2001	2002	2003
	(1)	(1)	(1) (5)	(1) (5)	(1) (5)	
	-----	-----	-----	-----	-----	-----

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(IN MILLIONS)

BALANCE SHEET DATA:

Property, plant and equipment, net...	\$ 270	\$ 643	\$ 2,439	\$ 3,108	\$ 7,294	\$ 8,738
Total assets.....	1,409	5,624	13,475	11,726	17,637	18,838
Short-term borrowings.....	--	--	--	92	669	306
Long-term debt to third parties, including current maturities.....	--	69	260	297	6,159	7,639
Accounts and notes (payable) receivable -- affiliated companies, net.....	(17)	(1,333)	(1,969)	445	--	--
Stockholders' equity.....	652	741	2,345	5,984	5,653	5,263

(1) Our results of operations include the results of the following acquisitions, all of which were accounted for using the purchase method of accounting, from their respective acquisition dates: the five generating facilities in California substantially acquired in April 1998, a generating facility in Florida acquired in October 1999, the REMA acquisition that occurred in May 2000 and the Orion Power acquisition that occurred in February 2002. See note 5 to our consolidated financial statements incorporated by reference herein for further information about the acquisitions occurring in 2000 and 2002. In October 1999, we acquired REPGb, which is part of our European energy operations. In February 2003, we signed an agreement to sell our European energy operations to Nuon. In the first quarter of 2003, we began to report the results of our European energy operations as discontinued operations in accordance with SFAS No. 144 and accordingly, reclassified prior period amounts. For further discussion of the sale, see note 23 to our consolidated financial statements incorporated by reference herein.

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- (2) Effective January 1, 2001, we adopted SFAS No. 133 which established accounting and reporting standards for derivative instruments. See note 7 to our consolidated financial statements incorporated by reference herein for further information regarding the impact of the adoption of SFAS No. 133.
- (3) During the third quarter of 2002, we completed the transitional impairment test for the adoption of SFAS No. 142 on our consolidated financial statements, including the review of goodwill for impairment as of January 1, 2002. Based on this impairment test, we recorded an impairment of our European energy segment's goodwill of \$234 million, net of tax, as a cumulative effect of accounting change. See note 6 to our consolidated financial statements incorporated by reference herein for further discussion.
- (4) Beginning with the quarter ended September 30, 2002, we now report all energy trading and marketing activities on a net basis in the statements of consolidated operations. Comparative financial statements for prior periods have been reclassified to conform to this presentation. See note 2(t) to our consolidated financial statements incorporated by reference herein for further discussion.
- (5) As described in note 1 to our consolidated financial statements incorporated by reference herein, our consolidated financial statements for 2000 and 2001 and for the three months ended March 31, 2002 have been restated from amounts previously reported. The restatement had no impact on

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previously reported consolidated cash flows.

- (6) Excludes financial transactions.
- (7) Includes physical contracts not delivered.
- (8) For purposes of calculating the ratio of earnings to fixed charges, earnings consist of income (loss) from continuing operations before income taxes less (a) (1) income of equity investments of unconsolidated subsidiaries and (2) capitalized interest plus (b) (1) loss of equity investments of unconsolidated subsidiaries, (2) fixed charges, (3) amortization of capitalized interest and (4) distributed income of equity investees. Fixed charges consist of (a) interest expense, (b) interest expense -- affiliated companies, net, (c) capitalized interest and (d) interest within rent expense.
- (9) For the three months ended March 31, 2003, our earnings were insufficient to cover our fixed charges by \$80 million as fixed charges were \$130 million and earnings were \$50 million.
- (10) The pro forma ratios of earnings to fixed charges for the year ended December 31, 2002 and for the three months ended March 31, 2003 for the issuance of the notes and the senior secured notes did not change from the historical ratios by more than 10% since the specific debt that was repaid with the issuance of the senior secured notes has only been outstanding since March 31, 2003. However, had we assumed the notes and the senior secured notes had been issued and outstanding as of January 1, 2002, and had repaid debt, with the amount of the net proceeds from the senior secured notes, that was in place prior to our March 31, 2003 refinancing, our fixed charges would have increased by \$96 million and \$19 million for the year ended December 31, 2002 and the three months ended March 31, 2003, respectively. In addition, our ratio of earnings to fixed charges would have been 1.30 for the year ended December 31, 2002 and our earnings would have been insufficient to cover our fixed charges by \$99 million for the three months ended March 31, 2003.

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RISK FACTORS

Prospective investors should carefully consider the following information in conjunction with the other information in this prospectus and the documents incorporated by reference.

RISKS RELATED TO OUR RETAIL ENERGY OPERATIONS

WE MAY LOSE A SIGNIFICANT NUMBER OF OUR RETAIL RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS IN THE HOUSTON METROPOLITAN AREA.

In June 1999, the Texas legislature adopted the Texas electric restructuring law, which substantially amended the regulatory structure governing electric utilities in Texas in order to allow full retail competition. Beginning in 2002, all classes of Texas customers of most investor-owned electric utilities, and those of any municipal utility and electric cooperative that opted to participate in the competitive marketplace, were able to choose their retail electric provider. In January 2002, we began to provide retail electric services to all customers of CenterPoint who did not take action to select another retail electric provider. As an affiliated retail electric provider, we are initially required to sell electricity to these Houston area residential and small commercial customers at a specified price, or price to beat, whereas other retail electric providers will be allowed to sell

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electricity to these customers at any price. We are not permitted to offer electricity to these customers at a price other than the price to beat until January 2005, unless before that date the PUCT determines that 40% or more of the amount of electric power that was consumed in 2000 by the relevant class of customers in the Houston metropolitan area is committed to be served by retail electric providers other than us. Because we are not able to compete for residential and small commercial customers on the basis of price in the Houston area, we may lose a significant number of these customers to other providers.

WE MAY LOSE A SIGNIFICANT PORTION OF OUR MARKET SHARE OF LARGE COMMERCIAL, INDUSTRIAL AND INSTITUTIONAL CUSTOMERS IN TEXAS.

We are providing commodity services to the large commercial, industrial and institutional customers previously served by CenterPoint who did not take action to contract with another retail electric provider. In addition, we have signed contracts to provide electricity and energy efficiency services to large commercial, industrial and institutional customers, both in the Houston area, as well as in other parts of the ERCOT Region. We or any other retail electric provider can provide services to these customers at any negotiated price. The market for these customers is very competitive, and any of these customers that selects us to be their provider may subsequently decide to switch to another provider at the conclusion of the term of their contract with us.

THE RESULTS OF OUR RETAIL ELECTRIC OPERATIONS IN TEXAS ARE LARGELY DEPENDENT UPON THE AMOUNT OF HEADROOM AVAILABLE IN OUR PRICE TO BEAT. FUTURE ADJUSTMENTS TO THE PRICE TO BEAT MAY BE INADEQUATE TO COVER OUR COSTS TO PURCHASE POWER TO SERVE OUR RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS.

The results of our residential and small commercial retail electric operations in Texas are largely dependent upon the amount of headroom available in our price to beat. Headroom may be a positive or negative number. Our current price is based on a wholesale energy supply cost component, or "fuel factor", based on the ten trading-day average forward 12-month natural gas price of \$4.956 per MMBtu. The PUCT's current regulations allow us to request an adjustment of our fuel factor based on the percentage change in the forward price of natural gas or as a result of changes in the price of purchased energy up to twice a year. As part of a request to change the fuel factor for changes in purchased energy prices, we would have to show that the fuel factor must be adjusted to restore the amount of headroom that existed at the time the initial price to beat fuel factor was set by the PUCT. We cannot estimate with any certainty the magnitude and frequency of the adjustments required, if any, and the eventual impact of such adjustments on the amount of headroom available in our price to beat. If this adjustment and any future adjustments to our price to beat are inadequate to cover future increases in our costs to purchase

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power to serve our price to beat customers or are delayed by the PUCT, our business, results of operations, financial condition and cash flows could be materially adversely affected.

In March 2003, the PUCT approved a revised price to beat rule. The changes from the previous rule include an increase in the number of days used to calculate the natural gas price average from ten to 20, and an increase in the threshold of what constitutes a significant change in the market price of natural gas and purchased energy from 4% to 5%, except for filings made after November 15th of a given year that must meet a 10% threshold. The revised rule also provides that the PUCT will, after reaching a determination of stranded costs in 2004, make downward adjustments to the price to beat fuel factor if natural gas prices drop below the prices embedded in the then-current price to beat fuel factor. In addition, the revised rule also specifies that the base

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rate portion of the price to beat will be adjusted to account for changes in the non-bypassable rates that result from the utilities' final stranded cost determination in 2004. Adjustments to the price to beat will be made following the utilities' final stranded cost determination in 2004. At this time, we cannot predict the impact of the changes on our financial condition or results of operations. In March 2003, the PUCT approved our request to increase the price to beat fuel factor for residential and small commercial customers based on a 23.4% increase in the price of natural gas from our previous increase in December 2002. In June 2003 we filed our second and final request for 2003 with the PUCT to increase the price to beat fuel factor based on a 23.1% increase in the price of natural gas. Our requested increase was based on an average forward 12-month natural gas price of \$6.1000/Mmbtu during the twenty-day trading period beginning May 14, 2003 and ending June 11, 2003. The requested increase represents an increase of 9.2% in the total bill of a residential customer using, on average, 12,000 kilowatt hours per year. There can be no assurances such request will be approved.

CenterPoint has recently filed a petition with the PUCT to terminate excess mitigation credits. Excess mitigation credits serve as a credit to CenterPoint's non-bypassable charges to its customers. If excess mitigation credits are eliminated without a concurrent revision in price to beat, headroom would be adversely affected. We have until August 6, 2003 to intervene in this case; certain parties have already done so. We do not know whether the PUCT will grant CenterPoint's request or whether the price to beat will be revised if CenterPoint's request is granted.

WE FACE STRONG COMPETITION FROM AFFILIATED RETAIL ELECTRIC PROVIDERS OF INCUMBENT ELECTRIC UTILITIES AND OTHER COMPETITORS OUTSIDE OF HOUSTON.

In most retail electric markets outside the Houston area, our principal competitor is the local incumbent electric utility company's retail affiliate. These retail affiliates have the advantage of long-standing relationships with their customers. In addition to competition from the incumbent electric utilities' affiliates, we face competition from a number of other retail electric providers, including affiliates of other non-incumbent electric utilities, independent retail electric providers and, with respect to sales to large commercial, industrial and institutional customers, independent power producers and wholesale power providers acting as retail electric providers. Some of these competitors are larger and better capitalized than we are.

OUR RETAIL ENERGY OPERATIONS ARE SUBJECT TO EXTENSIVE MARKET OVERSIGHT. CHANGES TO MARKET PROTOCOLS OR NEW REGULATION COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

The ERCOT ISO, which oversees the ERCOT Region, has and may continue to modify the market structure and other market mechanisms in an attempt to improve market efficiency. Moreover, existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to our commercial activities. These actions could have a material adverse effect on our results of operations, financial condition and cash flows.

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PAYMENT DEFAULTS BY AND LITIGATION WITH OTHER RETAIL ELECTRIC PROVIDERS TO ERCOT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

In the event of a default by a retail electric provider of its payment obligations to ERCOT, the portion of the obligation that is unrecoverable by ERCOT from the defaulting retail electric provider is assumed by the remaining

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market participants in proportion to each participant's load ratio share. As a retail electric provider and market participant in ERCOT, we would pay a portion of the amount owed to ERCOT should such a default occur, and ERCOT is not successful in recovering such amounts. The default of a retail electric provider in its obligations to ERCOT could have a material adverse effect on our business, results of operations, financial condition and cash flows.

In March 2003, TCE, a retail electricity provider in the ERCOT market, filed for bankruptcy protection. The bankruptcy court approved an agreement by TCE to pay pre-petition amounts owed to ERCOT. TCE recently sought to reduce the payments that it had previously agreed to make. At a hearing on July 14, 2003, TCE and ERCOT announced an agreement, whereby TCE will continue to repay prepetition amounts owed to ERCOT on a revised schedule. ERCOT will also draw the down the remaining \$2.5 million available under the letters of credit, with the other letters of credit being previously released or drawn down by ERCOT. No assurance can be given that TCE will be able to satisfy its obligations to ERCOT. According to information provided by ERCOT, TCE has not paid such amounts according to the schedule.

On July 7, 2003, TCE filed a lawsuit against us and several other participants in the ERCOT power market in the Corpus Christi Federal District Court for the Southern District of Texas. TCE alleges that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws, including price fixing, fraud, negligent misrepresentation, breach of fiduciary duty, defamation and disparagement to its business reputation, breach of contract, and negligence, along with other claims not alleged against us. The lawsuit seeks alleged damages in excess of \$500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. The ultimate outcome of this lawsuit cannot be predicted at this time.

WE ARE HEAVILY DEPENDENT UPON THIRD PARTY PROVIDERS OF CAPACITY AND ENERGY TO SUPPLY OUR RETAIL OBLIGATIONS.

We do not own sufficient generating resources in Texas to supply our retail business. The capacity and energy to supply our retail business is purchased at market prices from a variety of suppliers under contracts with varying terms. Our retail customers are concentrated in the Houston metropolitan area, and there is limited ability to serve these customers with generation located outside the Houston metropolitan area. Texas Genco, located in the Houston congestion zone, is the largest supplier of capacity and energy for our retail business and is likely to remain our largest supplier for the foreseeable future. There is a significant risk that our business, results of operations, financial condition and cash flows could be materially adversely affected if we are not able to purchase the capacity and energy from Texas Genco or otherwise obtain sufficient capacity and energy required to serve our customers. The failure of any of our third party suppliers to perform under the terms of existing or future contracts could have a material adverse effect on our results of operations, financial condition and cash flows.

WE MAY BE REQUIRED TO MAKE A SUBSTANTIAL PAYMENT TO CENTERPOINT IN 2004.

To the extent that our price to beat for electric service to residential and small commercial customers in CenterPoint's Houston service territory during 2002 and 2003 exceeds the market price of electricity, we may be required to make a significant payment to CenterPoint in 2004. As of March 31, 2003, our estimate for the payment related to residential customers is between \$160 million and \$190 million, with a most probable estimate of \$175 million. Unless we are able to make this payment out of operating cash flows, we will be required to incur additional debt to finance the payment.

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Currently, we believe that the 40% test for small commercial customers will be met and we will not make a payment related to those customers. If the 40% test is not met related to our small commercial customers and a payment is required, we estimate this payment would be approximately \$30 million.

WE RELY ON THE INFRASTRUCTURE OF TRANSMISSION AND DISTRIBUTION UTILITIES AND THE ERCOT ISO TO TRANSMIT AND DELIVER ELECTRICITY TO OUR RETAIL CUSTOMERS AND TO OBTAIN INFORMATION ABOUT OUR RETAIL CUSTOMERS. IN ADDITION, WE RELY ON THE RELIABILITY OF OUR OWN INFRASTRUCTURE AND SYSTEMS TO PERFORM ENROLLMENT AND BILLING FUNCTIONS. ANY INFRASTRUCTURE FAILURE COULD NEGATIVELY IMPACT OUR CUSTOMERS' SATISFACTION AND COULD HAVE A MATERIAL NEGATIVE IMPACT ON OUR EARNINGS.

We are dependent on transmission and distribution utilities for maintenance of the infrastructure through which we deliver electricity to our retail customers. Any infrastructure failure that interrupts or impairs delivery of electricity to our customers could negatively impact the satisfaction of our customers with our service and could have a material adverse effect on our results of operations, financial condition and cash flow. Additionally, we are dependent on the transmission and distribution utilities for performing service initiations and changes, and for reading our customers' energy meters. We are required to rely on the transmission and distribution utility or, in some cases, the ERCOT ISO, to provide us with our customers' information regarding energy usage, and we may be limited in our ability to confirm the accuracy of the information. The provision of inaccurate information or delayed provision of such information by the transmission and distribution utilities or the ERCOT ISO could have a material adverse effect on our business, results of operations, financial condition and cash flow. In addition, any operational problems with our new systems and processes could similarly have a material adverse effect on our business, results of operations, financial condition and cash flow. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Retail Energy" for the three years ended December 31, 2000, 2001 and 2002 and for the three months ended March 31, 2002 and 2003, incorporated by reference herein.

THE ERCOT ISO HAS EXPERIENCED A NUMBER OF PROBLEMS WITH ITS INFORMATION SYSTEMS SINCE THE ADVENT OF COMPETITION IN THE TEXAS MARKET THAT HAVE RESULTED IN DELAYS IN SWITCHING CUSTOMERS AND RECEIVING FINAL SETTLEMENT INFORMATION FOR CUSTOMER ACCOUNTS. OUR OPERATING RESULTS MAY BE ADVERSELY AFFECTED IF THESE PROBLEMS ARE NOT ALLEVIATED.

The ERCOT ISO is the independent system operator responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT Region and for acting as a central agent for the registration of customers with their chosen retail electric supplier. Its responsibilities include ensuring that information relating to a customer's choice of retail electric provider, including data needed for ongoing servicing of customer accounts, is conveyed in a timely manner to the appropriate parties. Problems in the flow of information between the ERCOT ISO, the transmission and distribution utilities and the retail electric providers have resulted in delays and other problems in enrolling and billing customers. While the flow of information has improved materially over the course of the first year of full market choice operations, remaining system and process problems are still being addressed. When customer enrollment transactions are not successfully processed by all involved parties, ownership records in the various systems supporting the market are not synchronized properly and subsequent transactions for billing and settlement are adversely affected. The impact can include us not being the electric provider-of-record for intended or agreed upon time periods, delays in receiving customer consumption data from the ERCOT ISO that is necessary for billing, as well as the incorrect application of rates or prices and imbalances in our

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electricity supply and actual sales.

The ERCOT ISO is also responsible for handling, scheduling and settlement for all electricity supply volumes in the ERCOT Region. The ERCOT ISO plays a vital role in the collection and dissemination of metering data from the transmission and distribution utilities to the retail electric providers. We and other retail electric providers schedule volumes based on forecasts, which are based, in part, on information supplied by the ERCOT ISO. To the extent that these amounts are not accurate or timely, we could have incorrectly estimated our scheduled volumes and supply costs.

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The ERCOT ISO has been submitting final volume settlements to us, primarily for the January 2002 time period. Their records indicate that our customers utilized greater volumes than what our records indicate. We have disputed the volume differences and the ERCOT ISO has denied these disputes. We are currently pursuing the ERCOT Alternate Dispute Resolution mechanism to resolve the differences,

The ERCOT ISO charges various fees to the retail electric providers based primarily on each market participant's share of the volume of electricity delivered. These fees have increased substantially during the past six months. In addition, we may be billed a disproportionate share of these total fees if the ERCOT ISO's records indicate that our volumes delivered were greater than the volumes our records indicate.

For additional information regarding settlement issues, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Retail Energy" for the three years ended December 31, 2000, 2001 and 2002 and for the three months ended March 31, 2002 and 2003, incorporated by reference herein.

RISKS RELATED TO OUR WHOLESALE ENERGY OPERATIONS

OUR RESULTS OF OPERATIONS WILL BE IMPACTED BY THE SALE OF OUR DESERT BASIN PLANT OPERATIONS AND COULD BE IMPACTED BY A POSSIBLE FUTURE GOODWILL IMPAIRMENT RELATED TO OUR WHOLESALE ENERGY SEGMENT.

On July 9, 2003, we entered into a definitive agreement to sell our 588-megawatt Desert Basin plant, located in Casa Grande, Arizona, to SRP for \$289 million. Desert Basin, a combined-cycle facility that we developed, started commercial operation in 2001 and is currently providing all of its power to SRP under a 10-year power purchase agreement, which will be terminated in connection with the sale. The Desert Basin plant is the only operation of REDB, an indirect wholly-owned subsidiary of ours. The transaction is subject to regulatory approvals, including the FERC, and certain third-party consents and approvals. The transaction is expected to close by the end of 2003. We intend to use the net proceeds of approximately \$287 million to prepay indebtedness of our senior secured debt or for the possible acquisition of direct or indirect ownership interests in assets currently owned by Texas Genco.

We will recognize a loss on the sale of our Desert Basin plant operations in the third quarter of 2003 and in connection with the anticipated sale, we will report the assets and liabilities to be sold as discontinued operations effective July 2003. We preliminarily estimate the loss on disposition to be approximately \$75 million (\$68 million after-tax), consisting of a loss of \$18 million (\$11 million after-tax) on the tangible assets and liabilities associated with our actual investment in the Desert Basin plant operations and a loss of \$57 million (pre-tax and after-tax due to the non-deductibility of goodwill for income tax purposes) relating to the allocated goodwill of our

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wholesale energy reporting unit. Determination of the actual amount of goodwill to be allocated to this business requires developing an updated estimate of the fair value of our wholesale energy reporting unit, which is expected to be completed by the end of the third quarter of 2003. When this information is available, the amount of goodwill to be allocated can be finalized and will likely vary from the preliminary estimate noted above. For example, if the estimated fair value of our wholesale energy segment increases or decreases by 10% from our most recent estimate as used in our November 1, 2002 impairment analyses, then the loss on the sale of the Desert Basin plant operations related to the goodwill allocated to it, will decrease or increase, respectively, by approximately \$5 million and \$6 million, respectively. Our November 1, 2002 goodwill impairment test indicated that the fair value of our wholesale energy reporting unit exceeded its carrying value by approximately five percent.

This anticipated sale of our Desert Basin plant operations requires us, in accordance with SFAS No. 142, to allocate a portion of the goodwill in the wholesale energy reporting unit to the Desert Basin plant operations on a relative fair value basis as of July 2003 in order to compute the gain or loss on disposal. SFAS No. 142 also requires us to test the recoverability of goodwill in our remaining wholesale energy reporting unit as of July 2003. After the allocation of goodwill to the Desert Basin plant operations, our wholesale energy segment's remaining goodwill is estimated to be approximately \$1.4 billion, which is being tested for impairment effective July 2003. The assessment of goodwill requires developing an

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updated estimate of the fair value of our wholesale energy reporting unit, which is expected to be completed by the end of the third quarter of 2003.

During 2002 and 2003, margins on the sales of electricity in our industry have decreased substantially. In response to continued depressed prices for electric energy, capacity and ancillary services across much of the United States and our current judgments regarding the state of the wholesale electricity markets, we are in the process of evaluating our strategies and activities. During the first quarter of 2003, we decided to exit our proprietary trading activities. We anticipate internally restructuring certain commercial, operational and support groups to reduce costs. In addition, we are evaluating (a) further changes in our market strategies, (b) mothballing certain power generation facilities, (c) deferring and/or materially reducing maintenance of power generation facilities and (d) divesting of certain assets. Also, we are evaluating the method of projecting future cash flows from our wholesale energy segment operations. In connection with this effort, our future cash flow projections and plans will be revised.

If the assumptions and estimates underlying our July 2003 goodwill impairment evaluation for our wholesale energy reporting unit differ adversely from the assumptions previously used due to changes in our wholesale energy market outlook, strategies and activities, it is possible that a material amount of goodwill might be impaired and any such impairment would be reflected in the third quarter of 2003.

As noted previously, our goodwill impairment analysis estimates the fair value of our reporting units using a combination of approaches, including an income approach based on internal plans, a market approach based on transactions in the marketplace for comparable types of assets, and a comparable public company approach. The income approach used in our analysis is a discounted cash flow analysis based on our internal plans and contains numerous assumptions made by management, any number of which if changed could significantly affect the outcome of the analysis. We believe that the income approach is the most subjective of the approaches.

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Our historical impairment analyses for our wholesale energy reporting unit included numerous assumptions, including but not limited to:

- increases in demand for power that will result in the tightening of supply surpluses and additional capacity requirements over the next three to eight years, depending on the region;
- improving prices in electric energy, ancillary services and existing capacity markets as the power supply surplus is absorbed; and
- our expectation that more balanced, fair market rules will be implemented, which provide for the efficient operations of unregulated power markets, including capacity markets or mechanisms in regions where they currently do not exist.

The internal cash flow analyses used in our November 1, 2002 impairment analysis ranged over a period of ten to 15 years with an assumed terminal value for the value of our operations at the end of the analysis of an EBITDA (earnings from continuing operations before depreciation and amortization, interest expense, interest income and income taxes) multiple of primarily 6 to 7.5. For our annual impairment test as of November 1, 2002, these after-tax cash flows (excluding interest) were discounted back to the date of the analysis at an appropriate risk-adjusted discount rate of primarily 9% in order to determine the fair value of the reporting unit under the income approach. The income approach was weighted along with the other two approaches to determine the fair value of the reporting unit. Our November 1, 2002 analyses assumed that the demand for power would rise at an annual rate of approximately 2% over the next several years. This growth over time was assumed to result in decreased reserve margins in the areas where we operate. As reserve margins decrease, power generation margins were assumed to rise substantially over time to a level sufficient to attract new capacity (estimated to be in 2007 and 2008). We assumed that this level of prices would be such that companies will build new generation facilities and these new facilities will be able to cover all of their operating expenses and yield an internal rate of return on their investment of 9%.

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These assumptions are consistent with the view that long run market prices will reach levels sufficient to support an adequate rate of return on the construction of new power generation, which we believe will be required to meet increased demand for power. This view is currently being challenged in certain markets as market rules unfold that provide more favorable returns to new capacity entering the market than is provided to existing capacity.

Our current impairment analysis will reconsider these and other assumptions including: estimates of future market prices, valuation of plant and equipment, growth, competition and many other factors as of the determination date. The resulting impairment analysis is highly dependent on these underlying assumptions.

OUR RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS ARE SUBJECT TO MARKET RISKS, THE IMPACT OF WHICH WE CANNOT FULLY MITIGATE.

As part of our merchant electric generation business, we sell electric energy, capacity and ancillary services and purchase fuel under short and long-term contractual obligations and through various spot markets. We are not guaranteed any rate of return on our capital investments through cost of service rates, and our results of operations, financial condition and cash flows from these businesses are subject to market risks which can be partially mitigated by

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hedging long-term sales agreements and other management actions. However, a substantial portion of market risk remains beyond our control. These market risks include commodity price risk, counterparty risk, credit risk, transmission risk and competitor actions.

WE RELY ON MARKET LIQUIDITY AND THE ESTABLISHMENT OF VALID PRICING TO PROPERLY MANAGE OUR RISKS.

Our commercial businesses depend on sufficient market participation to establish market liquidity and valid pricing to properly manage the risks inherent in our businesses. The recent reduction in the number of market participants has significantly decreased market liquidity and may impair our ability to manage business risks. In addition, such a reduction may increase our management's reliance on internal models for decision-making. Our internal models may not accurately represent the markets in which we participate, potentially causing us to make incorrect decisions. These factors could have a material adverse effect on our results of operations, financial condition and cash flows.

WE MAY NOT BE ABLE TO SATISFY THE GUARANTEES AND INDEMNIFICATION OBLIGATIONS RELATING TO OUR COMMERCIAL ACTIVITIES IF THEY BECOME DUE AT THE SAME TIME.

In connection with our commercial businesses, we guarantee or indemnify the performance of a significant portion of the obligations of certain of our subsidiaries. For example, we routinely guarantee the obligations of Reliant Energy Services and other subsidiaries of ours under substantially all of their gas and electricity trading, marketing and origination contracts. The obligations underlying these guarantees and indemnities are recorded on our consolidated balance sheet as trading and marketing liabilities and non-trading derivative liabilities. These obligations make up a significant portion of these line items. In addition, we have, from time to time, executed guarantees of the obligations of our subsidiaries under leases of real property, financing documents and certain other miscellaneous contracts such as long-term turbine maintenance contracts. Some of these guarantees and indemnities are for fixed amounts, others have a fixed maximum amount and others do not specify a maximum amount. If we were unable to successfully negotiate lower amounts or alternative arrangements, we would not be able to satisfy all of these guarantees and indemnification obligations if they were to all come due at the same time. For additional information regarding our guarantees and indemnification obligations, see note 14(f) to our consolidated financial statements incorporated by reference herein.

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WE RELY ON POWER TRANSMISSION AND NATURAL GAS TRANSPORTATION FACILITIES THAT WE DO NOT OWN OR CONTROL. IF THESE FACILITIES FAIL TO PROVIDE US WITH ADEQUATE TRANSMISSION CAPACITY, WE MAY NOT BE ABLE TO DELIVER OUR WHOLESALE POWER TO OUR CUSTOMERS OR RECEIVE NATURAL GAS PRODUCTS AT OUR FACILITIES.

We depend on power transmission and distribution and natural gas transportation facilities owned and operated by utilities and others to deliver energy products to our customers. Our customers in turn either consume these products or deliver them to the ultimate consumer. If transmission or transportation is disrupted, or the capacity is inadequate, our ability to sell and deliver our products may be hindered.

AS A RESULT OF EVENTS IN CALIFORNIA OVER THE PAST FEW YEARS, OUR WHOLESALE POWER OPERATIONS IN OUR WEST REGION HAVE EXPERIENCED DELAYS IN THE COLLECTION OF RECEIVABLES AND ARE SUBJECT TO UNCERTAINTY, INCLUDING POTENTIALLY MATERIAL REFUND OBLIGATIONS, RELATING TO ONGOING LITIGATION AND GOVERNMENTAL PROCEEDINGS RELATING TO OUR ACTIVITIES IN THE ELECTRICITY AND GAS MARKETS.

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We are defendants in several class action lawsuits and other lawsuits filed against us and a number of other companies that either owned generation plants in California or sold electricity in California markets. These lawsuits challenge the prices for wholesale electricity in California during parts of 2000 and 2001.

In particular, in FERC Docket Nos. EL00-95-000, et al., the FERC has established a refund proceeding to reset the market clearing prices for sales into the Cal ISO and Cal PX spot markets for the period from October 2000 to mid-June 2001. Although this proceeding has not yet concluded, we are likely to have a substantial net refund obligation as a result of this proceeding, which we estimate to be between approximately \$104 million and \$230 million for energy sales in California. For information regarding reserves against receivables, the FERC refund methodology and uncertainty in the California wholesale energy market, see note 13(e) to our interim consolidated financial statements incorporated by reference herein.

We and other companies are also the subject of continuing investigations by the FERC into potential manipulation of electric and natural gas prices in the West region for the period from January 2000 to June 2001, as well as alleged economic withholding. Refunds could be ordered if the FERC finds that we have engaged in strategies that violated Cal ISO tariffs, or were otherwise unlawful under the FPA. On March 26, 2003, the FERC issued a Show Cause order proposing to revoke the market-based rate authority of Reliant Energy Services as a result of certain trades with BP Energy Company at the Palo Verde trading hub in Arizona. In the Show Cause order, the FERC established a refund effective date of June 2, 2003. The significance of the refund effective date is that sales by Reliant Energy Services subsequent to the refund date are subject to potential refund in the event Reliant Energy Services' market-based rate authority is revoked. The FERC also indicated in the Show Cause order an intention to act on the proceeding by July 31, 2003. On July 18, 2003, the FERC issued a consent order to BP Energy Company that required BP Energy Company to pay \$3 million and to pass its electricity sales through FERC review for the next six months, among other things. BP Energy Company's settlement with the FERC may increase the pressure on the FERC to act with respect to Reliant Energy Services' market-based rate authority. However, we can not assure you that the FERC will handle Reliant Energy Services' proceeding in the same manner and may conclude that, despite the BP Energy Company settlement, revocation of market-based rate authority would be appropriate. We are unable to predict with certainty whether the FERC will revoke Reliant Energy Services' market-based rate authority, or the market-based rate authority of any of Reliant Energy Services' affiliates, or the extent of potential adverse consequences to us that would result from any such revocation. There is the potential for serious harm to us if Reliant Energy Services' market-based rate authority is revoked, including potential impairment of our ability to access the debt and capital markets, loss of valuation of assets, and defaults and/or triggering of collateral posting requirements.

Although the FERC's investigation into allegations of physical withholding by owners of generating assets, including Reliant Resources, is still ongoing, the FERC has approved a settlement agreement to resolve claims related to alleged physical withholding by us on two days in June 2000. We agreed to refund \$14 million, found by the FERC staff to be the maximum amount by which the Cal ISO day-

ahead market could have been affected by our actions. That settlement agreement does not resolve any possible incidents of physical withholding.

Also, on March 26, 2003, the FERC staff issued a report on its

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investigation into electric and gas prices in the West, and concluded that we had engaged in "churning" of gas at the Topock delivery point over an eight month period. While the FERC staff found that our gas trading practices inflated the market prices for gas at that delivery point, it further found that those practices did not violate any law or regulation and imposed no refund obligation or penalty. However, the findings in the FERC staff report have formed the basis for (1) the assertion by certain parties in the FERC refund proceedings that our actions caused an increase in gas and electric prices of \$2.75 billion and (2) two class action suits to be filed against us in the Superior Court of California. At least four lawsuits have been subsequently filed by various parties, two of which are class action lawsuits.

Acting on recommendations in the March 26, 2003 report, the FERC on June 25, 2003 initiated an investigation of bids greater than \$250/MWh during the period from May 1, 2000 through October 2, 2000 to determine if any such bids were the result of improper market conduct. On July 2, 2003, the FERC staff issued a set of data requests in connection with the investigation. We are cooperating fully with the FERC staff and will respond to the data requests on July 24, 2003. Also on June 25, 2003, the FERC initiated a proceeding against us and numerous other wholesale market participants to determine whether certain trading activities identified in reports filed by the Cal ISO violated certain market protocols and are subject to disgorgement of profits earned on such activities. The actual scope of the proceeding has not been established, but we will defend against all allegations of improper activities. The FERC has noticed a Plenary Conference for July 24, 2003 to discuss procedural issues for evidentiary hearings and the possibility of settlement negotiations.

The Nevada Power Company and PacifiCorp are counterparties to certain of our long-term bilateral contracts, and have filed challenges to those contracts at the FERC based on the alleged impact of spot market dysfunctions in Western power markets in 2000 and 2001 on long-term forward markets. On June 25, 2003, the FERC voted to approve the issuance of orders denying these challenges. However, if the FERC determines on rehearing, or on remand on appeal to the United States Court of Appeals, that the rates under any of these long-term bilateral contracts should be modified as a result of the effect of such market dysfunctions, then we could be subject to refund obligations.

On June 25, 2003, the FERC voted to approve the issuance of Orders to Show Cause relating to certain alleged gaming and/or anomalous market behavior in alleged violation of the Cal ISO and Cal PX tariffs by 43 market participants during the period from January 1, 2000 through June 20, 2001, including Reliant Resources, REPG and Reliant Energy Services, in Docket No. EL03-170-000. The FERC stated that evidence relating to the Show Cause orders would be heard in a trial-type evidentiary hearing before an administrative law judge. The Reliant Resources entities named in the Show Cause order will have an opportunity to bring forth evidence in the hearing to show that they did not engage in gaming and other anomalous behavior. If the alleged violations are proved, the Reliant Resources entities could be subject to disgorgement of profits, and certain other non-monetary remedies that could include revocation of market-based rate authority and/or additional required provisions in codes of conduct. The FERC also issued an order instituting an internal FERC Investigation of Anomalous Bidding Behavior and Practices in the Western Markets in Docket No. IN03-10-000. In this investigation, the FERC will review evidence of alleged economic withholding of generation. Specifically, the FERC determined that all bids into the Cal PX and Cal ISO markets for more than \$250/MW for the time period from May 1, 2000 through October 1, 2000 should be considered prima facie excessive. The FERC may issue additional data requests to market participants. To the extent that any Reliant Resources entities are determined to have engaged in improper bidding, we may be subject to disgorgement of alleged profits, and other non-monetary actions, including possible revocation of market-based rate authority and/or additional required provisions in codes of conduct.

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In addition to the FERC investigations, several state and other federal regulatory investigations are ongoing in connection with the wholesale electricity and natural gas prices in California and neighboring

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Western states to determine the causes of the high prices and potentially to recommend remedial action. On July 9, 2003, the City of Los Angeles announced that it had filed suit against us and one of our employees in the United States District Court for the Central District of California. The lawsuit alleges that we conspired to manipulate the price for natural gas in breach of our contract to supply the Los Angeles Department of Water and Power with natural gas and acted in violation of federal and state antitrust laws, the federal Racketeer Influenced and Corrupt Organization Act and the California False Claims Act. The lawsuit seeks treble damages for the alleged overcharges for gas purchased by the Los Angeles Department of Water and Power of an estimated \$218 million, interest, costs of suit and attorneys' fees.

We may also face more stringent state regulations in the future. There have been efforts in California to repeal deregulation. Also, a new California state statute may give the CPUC authority to regulate the operations of our California generating subsidiaries, beyond the existing state regulation regarding environmental and other health and safety matters. The CPUC has recently initiated the process of establishing the methods through which these new requirements will be administered.

As these investigations proceed, additional matters could be discovered that could result in the imposition of restrictions on our businesses, fines, penalties or other adverse events. Furthermore, as events occur to other companies in the retail and wholesale energy industry that lead to investigations of such companies by regulatory authorities, we may also be investigated by such regulatory authorities if they decide to broaden their investigation to comparable companies in the industry.

OUR WHOLESALE ENERGY SEGMENT IS SUBJECT TO EXTENSIVE MARKET REGULATION. CHANGES IN THESE REGULATIONS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

The FERC, which has jurisdiction over wholesale power rates, as well as independent system operators that oversee some of these markets, has imposed and may continue to impose price limitations, bidding rules and other mechanisms in an attempt to address some of the price volatility in these markets and mitigate market price fluctuations. These actions, along with potential changes to existing mechanisms, could have a material adverse effect on our results of operations, financial condition and cash flows.

We operate in a regulatory environment that is undergoing significant changes as a result of varying restructuring initiatives at both the state and federal levels. New regulatory policies, which may have a significant impact on our industry, are now being developed and we cannot predict the future direction of these changes or the ultimate effect that this changing regulatory environment will have on our business.

Moreover, existing regulations may be revised or reinterpreted and new laws and regulations may be adopted or become applicable to our facilities or our commercial activities. Such future changes in laws and regulations may have a detrimental effect on our business. In this connection, state officials, the Cal ISO and the investor-owned utilities in California have argued to the FERC that our California generating subsidiaries should not continue to have market-based rate authority. (As discussed further above, in addition to these requests, the FERC has also recently issued a number of "Show Cause" orders against various

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market participants in the California markets, including a number of Reliant Resources entities. These "Show Cause" orders relate to alleged market manipulation and/or anomalous bidding practices, and could result in either disgorgement of alleged profits or the loss of market-based rate authority for various Reliant Resources entities. The FERC has also initiated an investigation into economic withholding allegations that could result in similar remedies.) In the event the market-based rate authority of any Reliant Resources entity is revoked, the FERC has not provided guidance on how cost-based rates might be implemented in a market regime. We cannot predict what actions the FERC may take in the future. The impact of receiving cost-based rates on our California portfolio is also not predictable given that the numerous details of any such implementation are unknown at this time.

In addition to the FERC investigations, several state and other federal regulatory investigations are ongoing in connection with wholesale electricity prices to determine the causes of the high prices and potentially to recommend remedial action. As these investigations proceed, additional matters could be

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discovered that could result in the imposition of restrictions on our business, fines, penalties or other adverse actions.

The Cal ISO has undertaken, at the FERC's direction, a market redesign process that includes an ongoing obligation to offer available capacity in Cal ISO markets, a \$250 per MWh price cap, as well as "automated" mitigation of all bids when any zonal clearing price for balancing energy exceeds \$91.87 per MWh. The automated mitigation is only applied to bids that exceed certain reference prices and that would significantly increase the market price. However, in February 2003, the Cal ISO stated that it intends to appeal in federal court the FERC's decision regarding the application of automated mitigation to local market power situations. While the FERC has adopted similar thresholds for both local and system market power, Cal ISO is seeking to have a more restrictive procedure applied to local market power. Additional features of the California market redesign to be implemented in the future include a revised market monitoring and mitigation structure, a revised congestion management mechanism and an obligation for load-serving entities in California to maintain capacity reserves. A new California state statute purports to give the CPUC new power to regulate the operations and maintenance practices of our California generating subsidiaries, beyond the existing state regulation, regarding environmental and other health and safety matters. The CPUC has recently initiated the process of establishing the methods through which these new requirements will be administered.

The NY Market is subject to significant regulatory oversight and control. The results of our operations in the NY Market are dependent on the continuance of the current regulatory structure. The rules governing the current regulatory structure are subject to change. We cannot assure you that we will be able to adapt our business in a timely manner in response to any changes in the regulatory structure, which could have a material adverse effect on our financial condition, results of operations and cash flows. The primary regulatory risk in this market is associated with the oversight activity of the New York Public Service Commission, the NYISO and the FERC. Our assets located in New York are subject to "lightened regulation" by the New York Public Service Commission, including provisions of the New York Public Service Law that relate to enforcement, investigation, safety, reliability, system improvements, construction, excavation, and the issuance of securities. Because lightened regulation was accomplished administratively, it could be revoked. The NYISO has the ability to revise wholesale prices, which could lead to delayed or disputed collection of amounts due to us for sales of electric energy and ancillary services. The NYISO may in some cases, subject to the FERC approval, also impose cost-based pricing and/or price caps. The NYISO has implemented automated

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mitigation procedures under which day-ahead energy bids will be automatically reviewed. If bids exceed certain pre-established thresholds and have a significant impact on the market-clearing price, the bids are then reduced to a pre-established market-based or negotiated reference bid. The NYISO has also adopted, at the FERC's direction, more stringent mitigation measures for all generating facilities in transmission-constrained New York City.

On June 25, 2003, the FERC announced that it was proposing new rules to prevent market abuse. The rules would prohibit certain transactions and practices under sellers' market-based rate