

RELIANT ENERGY INC  
Form DEFA14A  
April 05, 2006

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

RELIANT ENERGY, INC.  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- |     |   |
|-----|---|
| (1) | Title of each class of securities to which transaction applies:   |
| (2) | Aggregate number of securities to which transaction applies:  |
| (3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): |
| (4) | Proposed maximum aggregate value of transaction:  |
| (5) | Total fee paid:   |
- Fee paid previously with preliminary materials.  
 Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- |     |   |
|-----|---|
| (1) | Amount Previously Paid:                       |
| (2) | Form, Schedule or Registration Statement No.: |
| (3) | Filing Party:                                 |
| (4) | Date Filed:                                   |
-

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---



[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---



[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---



[Link to searchable text of slide shown above](#)

---

[Link to searchable text of slide shown above](#)

---

**Searchable text section of graphics shown above**

---

[LOGO]

**Second Quarter 2006**

**Investor Meetings**

***Daniel N. Hannon***

*Senior Vice President Finance & Corporate Development*

*April 5-6, 2006*

---

[LOGO]

## Forward Looking Statements

*This presentation contains forward-looking statements. Forward-looking statements are statements that contain projections, estimates or assumptions about our revenues, income and other financial items, our plans for the future, future economic performance, transactions and dispositions and financings related thereto. Forward-looking statements relate to future events and anticipated revenues, earnings, business strategies, competitive position or other aspects of our operations or operating results. In many cases you can identify forward-looking statements by terminology such as anticipate, estimate, believe, continue, could, intend, may, plan, potential, predict, should, objective, projection, forecast, goal, guidance, outlook, effort, target and other similar words. However, the absence of these words mean that the statements are not forward-looking.*

*We have based our forward-looking statements on management's beliefs and assumptions based on information available to management at the time the statements are made. Actual results may differ materially from those expressed or implied by forward-looking statements as a result of many factors or events, including legislative and regulatory developments, the outcome of pending lawsuits, governmental proceedings and investigations, the effects of competition, financial market conditions, access to capital, the timing and extent of changes in commodity prices and interest rates, weather conditions, changes in our business plan and other factors we discuss in our filings with the Securities and Exchange Commission.*

*Each forward-looking statement speaks only as of the date of the particular statement and we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*

*This presentation contains non-GAAP measures as defined by the Securities and Exchange Commission rules. A reconciliation of these measures to the most directly comparable GAAP measures is contained in the appendix.*

**Business Overview**

**Dedicated to Competitive Markets for Electricity**

**Wholesale**

Manage commodity inputs to generate electricity

Capital intensive and cyclical

Key long-term drivers

Commodity prices

Supply/demand balance

Short-term earnings impacted by weather and commodity price volatility

**Retail**

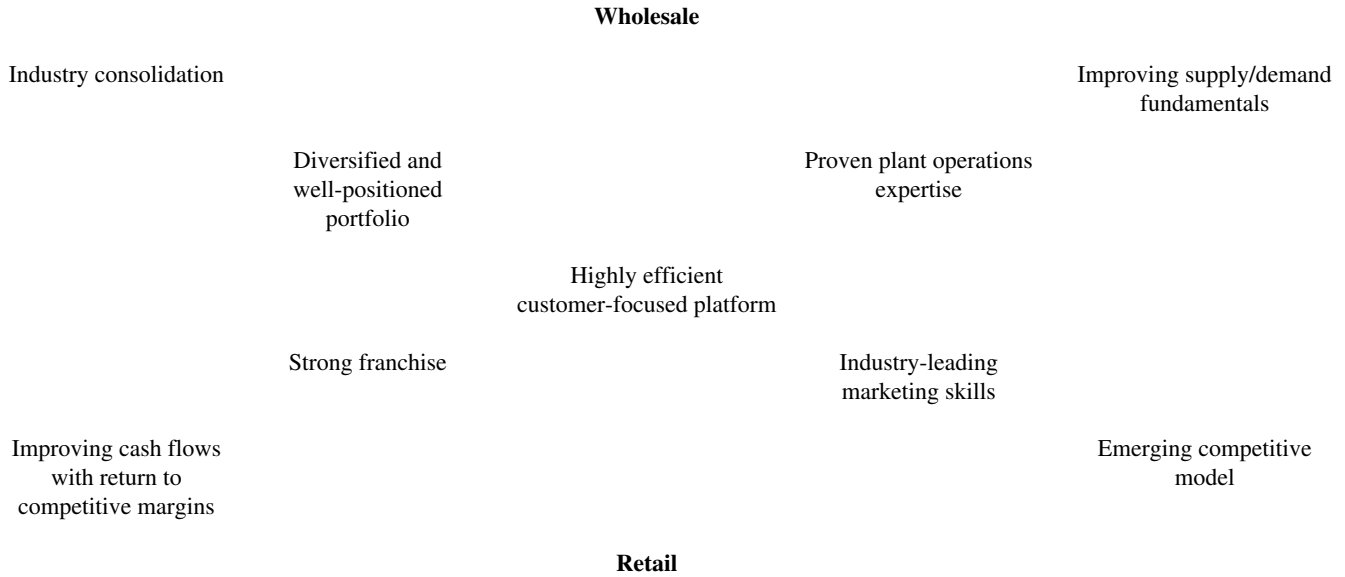
Procure and supply electricity to end users

Low capital investment requirement with relatively stable earnings

Key long-term driver = competitive intensity

Short-term earnings impacted by weather and competitive tactics

**Value Proposition**



**Wholesale Business**

Overview

~16,000 MW generation capacity

~33.3 TWh\* produced in 2005

Open model strategy

No new forward power sales from coal assets

Exit existing hedges consistent with collateral reduction plan

Continue limited hedging in select circumstances

**Year-End 2005  
Generating Capacity**

[CHART]

**2005 Open  
Gross Margin**

[CHART]

---

\* Excludes PPAs, tolling agreements, and assets sold during 2005.



**Wholesale Earnings Model**

Number of economic hours  
X Commercial capacity factor  
= Generation volume  
X Unit margin  
= Energy margin  
+ Other margin  
= Open wholesale gross margin

## Commercial Capacity Factor

[CHART]

Committed to top  
quartile operating  
performance by 2008

- 1) Commercial capacity factor = generation volume divided by economic hours
- 2) Capacity factor = % economic x commercial capacity factor

**Wholesale Uplift at Mid-Cycle Economics(1)**

[CHART]

---

(1) The GAAP financial measures for these items are not accessible on a forward-looking basis. Actual results of operations could vary significantly from estimates. 7.5% required return on new generation

**Retail Business**

	<b><u>2005 Volume</u></b>	<b><u>2005 Gross Margin</u></b>
Overview	[CHART]	[CHART]
	~66.4 TWh* (2005)	
	~1.9 million customers (12/31/05)	

Retail earnings model

Sales volumes (MWh)

X Unit margin (\$/MWh)

= Retail gross margin

Strategy

Transition to full competition with return to competitive margins

Maintain ERCOT market leadership

---

\* Excludes 0.9 TWh of reported Retail operational volumes associated with a tolling agreement which ended in May-05.

**2006-2008 Outlook Based on Forward Commodity Prices(1), (2)**

\$ Millions

	2006E		2007E		2008E
Adjusted retail gross margin	\$ 681	\$	868	\$	877
Open wholesale gross margin	1,182		1,393		1,380
Total open gross margin	\$ 1,863	\$	2,261	\$	2,257
Total Expenses(3)	\$ 1,123	\$	1,119	\$	1,100
<b>Open EBITDA</b>	<b>\$ 740</b>	<b>\$</b>	<b>1,142</b>	<b>\$</b>	<b>1,157</b>
Impact of historical wholesale hedges(4)	\$ (422)	\$	(250)	\$	(108)
Emission allowance sales(5)	139				
Adjusted EBITDA	\$ 457	\$	892	\$	1,049

---

(1) 2006 outlook based on forward commodity prices as of 3/8/06 plus January and February actuals. 2007 and 2008 outlook based on forward commodity prices as of 12/29/05

(2) Certain factors that could affect GAAP financial measures are not accessible on a forward-looking basis, but could be material to future reported earnings

(3) Excluding interest, income taxes, and depreciation & amortization

(4) Includes remaining and closed power hedges, fuel hedges, long-term tolling purchases, and gas transportation

(5) 2006 emission allowances sales through February 28, 2006.

**Gross Margin Sensitivities**

\$ Millions

	<b>Wholesale</b>		
<b>Commodity</b>	<b>Market</b>	<b>Plant</b>	<b>Retail</b>
[CHART]	[CHART]	[CHART]	[CHART]

---

\*Offsetting impact to depreciation and amortization expense = SO<sub>2</sub> price change x difference between expected emissions and inventory

**Capital Committed to Collateral**

	<u>Collateral Roll-off</u>		<u>Net Natural Gas Exposure*</u>
\$ Millions		Net BCFe	
	[CHART]		[CHART]

Reduce committed capital by at least \$1 billion

Migrate to open model in wholesale business

Credit-enhanced structure for retail supply

---

\* Exposure to increasing collateral requirements.

[LOGO]

Appendix

*April 5-6, 2006*

---



**Forward Market Data Used in Outlook\***

	2006	2007	2008
NYMEX Gas (\$/MMBtu)	7.70	10.15	9.26
Coal (\$/MMBtu)	1.87	1.98	1.96
SO2 (\$/ton)	966	1,512	1,454
NOX (\$/ton)	1,989	2,475	2,475
Avg Plant to Hub Basis (\$/MWh) (5x16)**	-5.20	-9.42	-7.73
PJM WHUB (\$/MWh) (5x16)	66.64	85.06	76.35
CIN HUB (\$/MWh) (5x16)	53.91	68.50	62.25

---

\* 2006 outlook based on forward commodity prices as of 3/8/06 plus January and February actuals. 2007 and 2008 outlook based on forward commodity prices as of 12/29/05.

\*\* Forward plant to hub basis estimated by Reliant Energy utilizing forward market data and historical commodity relationships

**Open Wholesale Key Earnings Drivers**

Economic Generation (TWh)

[CHART]

Open Unit Margin (\$/MWh)

[CHART]

Commercial Capacity Factor

[CHART]

Open Gross Margin (\$MM)

[CHART]

## Wholesale Generation Detail

Economic Generation (MWh in the money)	2006		2007		2008	
	MWh	% Economic	MWh	% Economic	MWh	% Economic
PJM Coal	23,849,823	81.8%	22,597,003	77.5%	21,941,158	75.1%
MISO Coal	7,923,112	71.5%	6,234,060	56.2%	5,777,666	52.0%
Total Coal	31,772,935	79.0%	28,831,062	71.7%	27,718,823	68.7%
PJM/MISO Gas	454,852	1.5%	306,206	1.0%	226,788	0.7%
West*	4,981,479	19.0%	5,259,150	20.1%	8,361,451	31.8%
Other	6,204,367	87.6%	6,024,740	92.8%	5,281,385	81.1%
Total Gas/Oil	11,640,698	18.2%	11,590,096	18.3%	13,869,624	21.8%
Total	43,413,633	41.7%	40,421,158	39.0%	41,588,448	40.0%

Commercial Capacity Factor	2006	2007	2008
PJM Coal	81.0%	81.9%	86.3%
MISO Coal	79.7%	67.3%	87.5%
Total Coal	80.7%	78.7%	86.5%
PJM/MISO Gas	86.2%	85.8%	88.0%
West*	94.2%	91.9%	92.4%
Other	86.5%	84.1%	84.3%
Total Gas/Oil	89.8%	87.7%	89.2%
Total	83.1%	81.3%	87.4%

Generation Volume	2006	2007	2008
PJM Coal	19,310,167	18,504,591	18,925,734
MISO Coal	6,315,059	4,197,513	5,057,498
Total Coal	25,625,225	22,702,104	23,983,232
PJM/MISO Gas	392,296	262,600	199,467
West*	4,690,595	4,831,971	7,721,923
Other	5,369,228	5,069,503	4,450,242
Total Gas/Oil	10,452,119	10,164,073	12,371,632
Total	36,077,344	32,866,177	36,354,864

\* Excludes PPAs and tolling agreements.

**Plant Margins**

<b>Unit Margin (\$/MWh)</b>	<b>2006</b>		<b>2007</b>		<b>2008</b>	
PJM Coal	\$	33.48	\$	42.90	\$	39.09
MISO Coal		26.96		38.93		35.05
Total Coal		31.87		42.17		38.24
PJM/MISO Gas		20.11		25.61		20.48
West		0.63		4.65		8.27
Other		1.82		7.38		8.69
Total Gas/Oil		1.97		6.55		8.62
Total	\$	23.21	\$	31.15	\$	28.16
<b>Energy Gross Margin (\$MM)</b>	<b>2006</b>		<b>2007</b>		<b>2008</b>	
PJM Coal	\$	647	\$	794	\$	740
MISO Coal		170		163		177
Total Coal		817		957		917
PJM/MISO Gas		8		7		4
West		3		22		64
Other		10		37		39
Total Gas/Oil		21		67		107
Total	\$	837	\$	1,024	\$	1,024
<b>Other Margin (\$MM)</b>	<b>2006</b>		<b>2007</b>		<b>2008</b>	
PJM Coal	\$	35	\$	55	\$	53
MISO Coal		3		2		2
Total Coal		38		57		55
PJM/MISO Gas		29		29		29
West		177		170		165
Other		102		113		107
Total Gas/Oil		307		312		301
Total	\$	345	\$	369	\$	356

**Historical Wholesale Hedge Detail(1)**

	2006	2007	2008
<b>Total Closed Hedges (MWh)</b>	4,620,800	1,872,000	1,664,000
Avg Sales Price	\$ 54.06	\$ 54.79	\$ 47.84
Avg Buyback Price	\$ (94.04)	\$ (76.39)	\$ (69.15)
Total Closed Value (\$MM)	\$ (185)	\$ (40)	\$ (35)
<b>Total Remaining Hedges (MWh)</b>	17,474,230	7,821,048	1,222,229
Avg Hedge Price	\$ 50.07(2)	\$ 46.24(2)	\$ 40.28(2)
Current Market Price	\$ (61.43)	\$ (79.28)	\$ (86.09)
Other (\$MM)	\$ (0.1)	\$ 0.3	\$ 0.2
Total Remaining Hedge Value (\$MM)	\$ (199)	\$ (258)	\$ (56)
<b>Total Fuel Hedges (MMBtu)</b>	214,744,005	87,020,106	17,163,672
Avg Hedged Fuel Cost(3)	\$ 1.95	\$ 1.28	\$ 1.17
Avg Market Fuel Cost	\$ 2.13	\$ 2.07	\$ 1.97
Fuel Hedge Value (\$MM)	\$ 38	\$ 69	\$ 14
Fuel Inventory Value (\$MM)	\$	\$ 2	\$ 16
Total Fuel Value (\$MM)	\$ 38	\$ 71	\$ 30
<b>Other Hedges</b>			
Tolling/gas transport (\$MM)	\$ (77)	\$ (22)	\$ (47)
<b>Total Hedge Value (\$MM)</b>	\$ (422)	\$ (250)	\$ (108)

(1) 2006 based on forward commodity prices as of 3/8/06 plus January and February actuals. 2007 and 2008 outlook based on forward commodity prices as of 12/29/05. Includes closed and remaining power hedges, fuel hedges, long-term tolling purchases, and gas transportation

(2) On-peak (5x16) hedge volumes are 50% of the total in 2006, 62% in 2007, and 38% in 2008; the balance are off-peak.

(3) Fuel hedge data excludes Seward

**SO2 Emission Allowances**

<b>Current Position (tons)</b>	<b>2006</b>	<b>2007</b>	<b>Vintage Year 2008</b>	<b>2009</b>	<b>2010-2014</b>
Allowances required for forward sales	204,648	84,557	16,018	12,039	24,077
Current allowances inventory	221,166	95,225	33,675	58,231	360,703*
Excess inventory	16,518	10,668	17,657	46,192	336,625
<b>Expected emissions</b>	<b>243,214</b>	<b>197,974</b>	<b>210,044</b>		
<b>Emission Allowance Sales Since 9/1/05**</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	
Allowances (tons)	27,200	50,000	125,500	94,444	
Average price (\$/ton)	\$ 1,020	\$ 1,073	\$ 1,064	\$ 1,079	
Total proceeds from sales activity (\$MM)	\$ 28	\$ 54	\$ 133	\$ 102	

---

\* Total allowances are 721,405. Beginning in 2010, 2 allowances are required for 1 ton of emissions

\*\* Sales as of February 28, 2006

**Capital Expenditures**

	2005	2006	2007	2008
	(in millions)			
Maintenance capital expenditures:				
Retail energy	\$ 9	\$ 10	\$ 8	\$ 8
Wholesale energy (1)	28	71	108	59
Other operations	7	10	8	8
	\$ 44	\$ 91	\$ 124	\$ 75
Environmental	8	51-67(2)	83-117(2)	149-217(2)
Construction of new generating facilities	30			
Total capital expenditures	\$ 82	\$ 142-158	\$ 207-241	\$ 224-292

(1) Excludes \$7 million for 2006 through 2011 for pre-existing environmental conditions and remediation, which have been accrued for in our consolidated balance sheet as of December 31, 2005.

(2) The environmental range is based on current regulations, current technology, and current forward commodity prices.

**Retail Key Earnings Drivers**

Volumes\* (TWh)

[CHART]

Mass Margin (\$/MWh)

[CHART]

C&I Margin (\$/MWh)

[CHART]

Adjusted Gross Margin (\$MM)

[CHART]



## Simplified Wholesale Gross Margin Sensitivities Assumptions

	Gross margin change (\$MM)
<b>Natural gas sensitivity (\$1/mmbtu)</b>	
On-peak power price impact - assumes 8.0 market implied heat rate (MIHR) and all 5x16 hours are affected	
\$1/mmbtu nat gas change x 8.0mmbtu/MWh on-peak x 4600MW coal x 4160 hrs per year x 85% availability	130
Off-peak power price impact - assumed to be negligible (simplifying assumption)	0
Average on-peak and off-peak plant-to-hub congestion (PJM only)	
1.5 mmbtu/MWh (MIHR) congestion per \$1/mmbtu nat gas move x 3300MW coal x 8760hrs x 65% cap factor	-28
<b>Estimated net gross margin change from \$1 move in natural gas</b>	<b>102</b>
<b>Coal sensitivity (\$0.10/mmbtu)</b>	
On-peak power price impact - assumes are not affected, while costs increase	
\$0.10/mmbtu coal price move x 10.3 mmbtu/MWh unit heat rate x 4600 MW coal x 4160 hrs x 85% availability	17
Off-peak power price impact - assumes off-peak prices increase in line with coal cost (simplifying assumption)	0
<b>Estimated net gross margin change from \$0.10 move in coal</b>	<b>17</b>
<b>SO2 sensitivity (\$100/ton)</b>	
On-peak power price impact - assumes prices are not affected (simplifying assumption)	0
Off-peak power price impact - assumes off-peak prices increase in line with SO2 cost	
\$100 per ton x 1 ton per 80MWh x 4600MW coal x 4600 offpeak hrs per yr x 50% cap factor	13
<b>Estimated net gross margin change from \$100 move in SO2</b>	<b>13</b>
<b>Weather sensitivity (0.25mmbtu/MWh (MIHR))</b>	
Assumes that only on-peak power prices/heat rates are affected, \$10 nat gas, and that coal and CCGTs are in the money throughout the year and that California portfolio is in the money July-Sep	
Coal: 0.25mmbtu/MWh x \$10 nat gas x 4600 MW x 4160 hrs per year x 85% availability	41
CCGTs: 0.25mmbtu/MWh x \$10 nat gas x 1600 MW open x 4160 hrs per year x 90% availability	15
Calif: 0.25mmbtu/MWh x \$10 nat gas x 2500 MW open x 1250 hrs per summer x 85% availability	7
<b>Estimated net gross margin change from 0.25 move in market implied heat rates across year</b>	<b>62</b>

\* May differ from model simulation results because of simplifying assumptions used

**Adjusted Gross Margin Reconciliations(1)**

\$ Millions

	GAAP 2006	Adjusted 2006	GAAP 2007	Adjusted 2007	GAAP 2008	Adjusted 2008
<b>Retail Energy:</b>						
Gross Margin (2)	\$ 763	\$ 763	\$ 900	\$ 900	\$ 889	\$ 889
Unrealized (gains)/losses on energy derivatives		(82)		(32)		(12)
Gross Margin (2)	763	681	900	868	889	877
Operating Expenses (excluding fuel and cost of gas sold):						
Operation and maintenance	232	232	225	225	219	219
Selling and marketing	100	100	107	107	112	112
Bad debt expense	75	75	71	71	68	68
Contribution margin - Retail Energy	356	274	497	465	490	478
<b>Wholesale Energy:</b>						
Gross Margin (2) (3)	1,312	1,312	1,388	1,388	1,367	1,367
Unrealized (gains)/losses on energy derivatives		(130)		5		13
Open gross margin (2) (3)	1,312	1,182	1,388	1,393	1,367	1,380
Historical wholesale hedges	(422)		(250)		(108)	
Gross Margin (2)	890	1,182	1,138	1,393	1,259	1,380
Operating Expenses (excluding fuel and cost of gas sold):						
Operation and maintenance	581	581	596	596	573	573
Contribution margin - Wholesale Energy	309	601	542	797	686	807
<b>Consolidated:</b>						
Gross Margin (2)	1,653	1,863	2,038	2,261	2,148	2,257
Operation and maintenance	813	813	821	821	792	792
Selling and marketing	100	100	107	107	112	112
Bad debt expense	75	75	71	71	68	68
Contribution margin - Consolidated	665	875	1,039	1,262	1,176	1,285
Other general and administrative	137	137	121	121	128	128
Gains on sales of emission allowances, net	(139)	(139)				
Depreciation and amortization	378	378	466	466	579	579
Operating income	289	499	452	675	469	578
Historical wholesale hedges		(422)		(250)		(108)
Operating income		77		425		470

(1) Certain factors that could affect GAAP financial measures are not accessible on a forward-looking basis, but could be material to future reported earnings.

(2) Revenues less purchased power, fuel and cost of gas sold.

Edgar Filing: RELIANT ENERGY INC - Form DEFA14A

(3) 2006 based on forward commodity prices as of 3/8/2006 plus January and February actuals. 2007-2008 based on forward commodity prices as of 12/29/2005

**Open EBITDA Reconciliations(1)**

\$ Millions

	2006		2007		2008
Income (loss) from continuing operations before income taxes	\$ (89)	\$	136	\$	186
Delivery of product underlying the unrealized (gains) losses on energy derivatives	(212)		(27)		1
Depreciation and amortization	378		466		579
Interest expense, net	380		317		283
Adjusted EBITDA	\$ 457	\$	892	\$	1,049
Historical wholesale hedges (2)	422		250		108
Gains on sales of emission allowances (3)	(139)				
Open EBITDA	\$ 740	\$	1,142	\$	1,157

---

(1) Certain factors that could affect GAAP financial measures are not accessible on a forward-looking basis, but could be material to future reported earnings.

(2) Historical wholesale hedges excluded from Open EBITDA are primarily related to closed and remaining power hedges, fuel hedges, long-term tolling purchases and gas transportation and are calculated using forward commodity prices as of March 8, 2006 for 2006 and as of December 29, 2005 for 2007-2008.

(3) Sales through February 28, 2006.

## **Important Information**

Reliant Energy and its directors and certain of its executive officers and other persons may be deemed to be participants in the solicitation of proxies for the 2006 Annual Meeting of Stockholders. Information concerning such participants and their interests is available in Reliant Energy's Preliminary Proxy Statement on Schedule 14A, which was filed by Reliant Energy with the Securities and Exchange Commission on April 3, 2006.

Stockholders of Reliant Energy are advised to read Reliant Energy's Preliminary Proxy Statement and Definitive Proxy Statement (when available) in connection with Reliant Energy's solicitation of proxies because they do and will contain important information.

Stockholders of Reliant Energy and other interested parties may obtain, free of charge, copies of the Preliminary Proxy Statement and the Definitive Proxy Statement (when available) and any other documents filed by Reliant Energy with the SEC, at the SEC's Internet website at [www.sec.gov](http://www.sec.gov). The Preliminary Proxy Statement and the Definitive Proxy Statement (when available) and these other documents may also be obtained free of charge by contacting the firm assisting Reliant Energy in the solicitation of proxies: Innisfree M&A Incorporated toll free at 1-877-825-8793 or collect at (212) 750-5833.