

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

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-31447

CENTERPOINT ENERGY, INC.  
(Exact name of registrant as specified in its charter)

TEXAS  
(State or other jurisdiction  
of incorporation or organization)

74-0694415  
(I.R.S. Employer  
Identification No.)

1111 LOUISIANA  
HOUSTON, TEXAS 77002  
(Address and zip code of  
principal executive offices)

(713) 207-1111  
(Registrant's telephone number,  
including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF  
EACH CLASS  
NAME OF  
EACH  
EXCHANGE  
ON WHICH  
REGISTERED

-----  
-----  
-----  
-----  
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- Common  
Stock,  
\$0.01 par  
value and  
associated  
New York  
Stock  
Exchange  
rights to  
purchase  
Chicago  
Stock  
Exchange  
preference  
stock New  
York Stock  
Exchange  
REI Trust  
I 7.20%  
Trust  
Originated  
Preferred  
Securities,  
Series C

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

NONE

Indicate by check mark whether the registrant: (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of

1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of each of the registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of CenterPoint Energy, Inc. (Company) was \$2,475,383,918 as of June 30, 2003, using the definition of beneficial ownership contained in Rule 13d-3 promulgated pursuant to the Securities Exchange Act of 1934 and excluding shares held by directors and executive officers. As of February 29, 2004, the Company had 306,736,880 shares of Common Stock outstanding, including 658,386 ESOP shares not deemed outstanding for financial statement purposes. Excluded from the number of shares of Common Stock outstanding are 166 shares held by the Company as treasury stock.

Portions of the definitive proxy statement relating to the 2004 Annual Meeting of Shareholders of the Company, which will be filed with the Securities and Exchange Commission within 120 days of December 31, 2003, are incorporated by reference in Item 10, Item 11, Item 12, Item 13 and Item 14 of Part III of this Form 10-K.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

From time to time we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed or implied by these statements. You can generally identify our forward-looking statements by the words "anticipate," "believe," "continue," "could," "estimate," "expect," "forecast," "goal," "intend," "may," "objective," "plan," "potential," "predict," "projection," "should," "will," or other similar words.

We have based our forward-looking statements on our management's beliefs and assumptions based on information available to our management at the time the statements are made. We caution you that assumptions, beliefs, expectations, intentions and projections about future events may and often do vary materially from actual results. Therefore, we cannot assure you that actual results will not differ materially from those expressed or implied by our forward-looking statements.

Some of the factors that could cause actual results to differ from those expressed or implied by our forward-looking statements are described under "Risk Factors" beginning on page 26 in Item 1 of this report.

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.

PART I

ITEM 1. BUSINESS

OUR BUSINESS

OVERVIEW

We are a public utility holding company whose wholly owned subsidiaries include:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which provides electric transmission and distribution services to approximately 1.8 million metered customers in a 5,000-square-mile area of the Texas Gulf Coast that has a population of approximately 4.7 million people and includes Houston, and
- CenterPoint Energy Resources Corp. (CERC Corp. and, together with its subsidiaries, CERC), which owns gas distribution systems serving approximately 3 million customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. Through wholly owned subsidiaries, CERC also owns two interstate natural gas pipelines and gas gathering systems and provides various ancillary services.

We also have an approximately 81% ownership interest in Texas Genco Holdings, Inc. (Texas Genco), which owns and operates a portfolio of generating assets with an aggregate net generating capacity of 14,153 megawatts (MW), of which 2,988 MW of gas-fired capacity was mothballed as of December 31, 2003. We distributed approximately 19% of the outstanding common stock of Texas Genco to our shareholders in January 2003.

Our reportable business segments are Electric Transmission & Distribution, Electric Generation, Natural Gas Distribution, Pipelines and Gathering, and Other Operations.

We are a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (the 1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on our activities and those of our subsidiaries other than Texas Genco. The 1935 Act, among other things, limits our ability and the ability of our regulated subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

In October 2003, the Federal Energy Regulatory Commission (FERC) granted exempt wholesale generator status to Texas Genco, LP, the wholly owned subsidiary of Texas Genco that owns and operates its electric generating plants. As a result of the FERC's actions, Texas Genco, LP is exempt from all provisions of the 1935 Act as long as it remains an exempt wholesale generator, and Texas Genco is no longer a public utility holding company within the meaning of the 1935 Act.

Our principal executive offices are located at 1111 Louisiana, Houston, Texas 77002 (telephone number: 713-207-1111).

We make available free of charge on our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the Securities and Exchange Commission (SEC). Additionally, we make available free of charge on our Internet website:

- our Code of Ethics for our Chief Executive Officer and Senior Financial Officers;
- our Ethics and Compliance Code;
- our Corporate Governance Guidelines; and
- the charters of our audit, compensation, finance and governance committees.

Any shareholder who so requests may obtain a printed copy of any of these documents from us. Changes in or waivers of our Code of Ethics for our Chief Executive Officer and Senior Financial Officers and waivers of our Ethics and Compliance Code for directors or executive officers will be posted on our Internet website within five business days and maintained for at least twelve months or reported on Item 10 of our Forms 8-K. Our web site address is [www.centerpointenergy.com](http://www.centerpointenergy.com).

#### Significant Events

The final reconciliation of the true-up components by the Public Utility Commission of Texas (the Texas Utility Commission) and the expected monetization of our remaining interest in Texas Genco are the two most significant events facing us in 2004. Pursuant to the Texas Electric Choice Plan (the Texas electric restructuring law), CenterPoint Houston is permitted to recover the true-up components to the extent established in a Texas Utility Commission proceeding. On January 23, 2004, Reliant Resources, Inc. (Reliant Resources) announced that it would not exercise its option to purchase the common stock of Texas Genco that we own. We expect to monetize our remaining 81% interest in Texas Genco and have engaged a financial advisor to assist us. We expect the proceeds from these two events will result in aggregate proceeds of over \$5 billion based on Texas Utility Commission rules. We have committed to use such proceeds to repay our indebtedness.

One of the true-up components which CenterPoint Houston is permitted to recover under the Texas electric restructuring law is an amount designed to true-up the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period. We recorded non-cash revenue for this capacity auction true-up or "ECOM revenue" of \$697 million in 2002 and \$661 million in 2003. In 2004, we will no longer be permitted under the Texas electric restructuring law to record non-cash ECOM revenue.

For more information on these and other matters currently affecting us, please see "-- Electric Transmission and Distribution -- True-Up Components and Securitization" and "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Executive Summary -- Significant Events in 2004."

#### ELECTRIC TRANSMISSION & DISTRIBUTION

##### Electric Transmission

CenterPoint Houston transports electricity from power plants to substations and from one substation to another and to retail electric customers taking power above 69 kilovolts (kV) in locations throughout the control area managed by the Electric Reliability Council of Texas, Inc. (ERCOT) on behalf of retail electric providers. CenterPoint Houston provides transmission services under tariffs approved by the Texas Utility Commission.

##### Electric Distribution

In Texas, end users purchase their electricity directly from the certificated "retail electric providers." CenterPoint Houston distributes electricity for retail electric providers in its certificated service area by carrying lower-voltage power from the substation to the retail electric customer. Its distribution network receives electricity from the transmission grid through power distribution substations and distributes electricity to end users through distribution feeders. CenterPoint Houston's operations include construction and maintenance of electric transmission and distribution facilities, metering services, outage response services and call center operations. CenterPoint Houston provides distribution services under tariffs approved by the Texas Utility Commission. Texas Utility Commission rules and market protocols govern the commercial retail operations of distribution companies and other market participants.

CenterPoint Houston is a member of ERCOT. ERCOT is a network of retail customers, investor and municipally owned electric utilities, rural electric co-operatives, river authorities, independent generators, power marketers and retail electric providers, which serves as the regional reliability coordinating council for member electric power systems in Texas. Texas Genco sells electric generation capacity, energy and ancillary services in the ERCOT market. The ERCOT market includes much of the State of Texas, other than a portion of the panhandle, a portion of the eastern part of the state bordering on Louisiana and the area in and around El Paso. The ERCOT market represents approximately 85% of the demand for power in Texas and is one of the nation's largest power markets. The ERCOT market includes an aggregate net generating capacity of approximately 78,000 MW, approximately 14,000 MW of which are owned by Texas Genco. There are only limited direct current interconnections between the ERCOT market and other power markets in the United States.

The ERCOT market operates under the reliability standards set by the North American Electric Reliability Council. The Texas Utility Commission has primary jurisdiction over the ERCOT market to ensure the adequacy and reliability of electricity supply across the state's main interconnected power transmission grid. The ERCOT independent system operator (ERCOT ISO) is responsible for maintaining reliable operations of the bulk electric power supply system in the ERCOT market. Its responsibilities include ensuring that electricity production and delivery are accurately accounted for among the generation resources and wholesale buyers and sellers. Unlike certain other regional power markets, the ERCOT market is not a centrally dispatched power pool, and the ERCOT ISO does not procure energy on behalf of its members other than to maintain the reliable operations of the transmission system. Members are responsible for contracting sales and purchases of power bilaterally. The ERCOT ISO also serves as agent for procuring ancillary services for those who elect not to provide their own ancillary services.

CenterPoint Houston's electric transmission business supports the operation of the ERCOT ISO and all ERCOT members. The transmission business has planning, design, construction, operation and maintenance responsibility for the portion of the transmission grid and for the load-serving substations it owns, primarily within its certificated area. The transmission business is participating with the ERCOT ISO and other ERCOT utilities to plan, design, obtain regulatory approval for and construct new transmission lines necessary to increase bulk power transfer capability and to remove existing constraints on the ERCOT transmission grid.

#### True-Up Components and Securitization

The Texas Electric Restructuring Law. In June 1999, the Texas legislature adopted the Texas electric restructuring law, which substantially amended the regulatory structure governing electric utilities in order to allow and encourage retail competition which began in January 2002. The Texas electric restructuring law required the separation of the generation, transmission and distribution, and retail sales functions of electric utilities into three different units. Under the law, neither the generation function nor the retail function is subject to traditional cost of service regulation, and the generation function and the retail function are each operated on a competitive basis. Through a restructuring in the third quarter of 2002 in response to this law, we became the parent of Reliant Energy, Incorporated (Reliant Energy) (now CenterPoint Houston), Texas Genco and CERC. Subsequent to the restructuring, our interest in Reliant Resources, which conducts non-utility wholesale and retail energy operations, including CenterPoint Houston's former retail sales, was divested.

The transmission and distribution function that CenterPoint Houston performs remains subject to traditional utility rate regulation. CenterPoint Houston recovers the cost of its service through an energy delivery charge approved by the Texas Utility Commission. As a result of these changes, there are no meaningful comparisons for the Electric Transmission & Distribution and Electric Generation business segments prior to January 2002, when retail sales became fully competitive.

Under the Texas electric restructuring law, transmission and distribution utilities in Texas, such as CenterPoint Houston, whose generation assets were "unbundled" may recover, following a regulatory

proceeding to be held in 2004 (the 2004 True-Up Proceeding) as further discussed below in "-- 2004 True-Up Proceeding":

- "stranded costs," which consist of the positive excess of the regulatory net book value of generation assets, as defined, over the market value of the assets;
- the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period;
- the Texas jurisdictional amount reported by the previously vertically integrated electric utilities as generation-related regulatory assets and liabilities (offset and adjusted by specified amounts) in their audited financial statements for 1998;
- final fuel over- or under-recovery; less
- "price to beat" clawback components.

The Texas electric restructuring law permits transmission and distribution utilities to recover the true-up components through transition charges on retail electric customers' bills, to the extent that such components are established in certain regulatory proceedings. These transition charges are non-bypassable, meaning that they must be paid by essentially all customers and cannot, except in limited circumstances, be avoided by switching to self-generation. The law also authorizes the Texas Utility Commission to permit those utilities to issue transition bonds based on the securitization of revenues associated with the transition charges. CenterPoint Houston recovered a portion of its regulatory assets in 2001 through the issuance of transition bonds. For a further discussion of these matters, see "-- Securitization" below.

The Texas electric restructuring law also provides specific regulatory remedies to reduce or mitigate a utility's stranded cost exposure. During a base rate freeze period from 1999 through 2001, earnings above the utility's authorized rate of return formula were required to be applied in a manner to accelerate depreciation of generation-related plant assets for regulatory purposes if the utility was expected to have stranded costs. In addition, depreciation expense for transmission and distribution-related assets could be redirected to generation assets for regulatory purposes during that period if the utility was expected to have stranded costs. We undertook both of these remedies provided in the Texas electric restructuring law, but in a rate order issued in October 2001, the Texas Utility Commission required us to reverse those actions. See "-- Mitigation" below.

2004 True-Up Proceeding. In 2004, the Texas Utility Commission will conduct true-up proceedings for investor-owned utilities. The purpose of the true-up proceeding is to quantify and reconcile the amount of the true-up components. The true-up proceeding will result in either additional charges being assessed on, or credits being issued to, retail electric customers. CenterPoint Houston expects to make the filing to initiate its true-up proceeding on March 31, 2004. The Texas electric restructuring law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility, although under its rules the Texas Utility Commission can extend the 150-day deadline for good cause. Any delay in the final order date will result in a delay in the securitization of CenterPoint Houston's true-up components and the implementation of the non-bypassable charges described above, and could delay the recovery of carrying costs on the true-up components determined by the Texas Utility Commission.

CenterPoint Houston will be required to establish and support the amounts it seeks to recover in the 2004 True-Up Proceeding. CenterPoint Houston expects these amounts to be substantial. Third parties will have the opportunity and are expected to challenge CenterPoint Houston's calculation of these amounts. To the extent recovery of a portion of these amounts is denied or if we agree to forego recovery of a portion of the request under a settlement agreement, CenterPoint Houston would be unable to recover those amounts in the future.

Following adoption of the true-up rule by the Texas Utility Commission in 2001, CenterPoint Houston appealed the provisions of the rule that permitted interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the 2004 True-Up Proceeding, instead of from January 1,



2002 as CenterPoint Houston contends is required by law. On January 30, 2004, the Texas Supreme Court granted CenterPoint Houston's petition for review of the true-up rule. Oral arguments were heard on February 18, 2004. The decision by the Court is pending. We have not accrued interest income on stranded costs in our consolidated financial statements, but estimate such interest income would be material to our consolidated financial statements.

**Stranded Cost Component.** CenterPoint Houston will be entitled to recover stranded costs through a transition charge to its customers if the regulatory net book value of generating plant assets exceeds the market value of those assets. The regulatory net book value of generating plant assets is the balance as of December 31, 2001 plus certain costs incurred for reductions in emissions of oxides of nitrogen (NOx), any above-market purchased power contracts and certain other amounts. The market value will be equal to the average daily closing price on The New York Stock Exchange for publicly held shares of Texas Genco common stock for 30 consecutive trading days chosen by the Texas Utility Commission out of the last 120 trading days immediately preceding the true-up filing, plus a control premium, up to a maximum of 10%, to the extent included in the valuation determination made by the Texas Utility Commission. If Texas Genco is sold to a third party at a lower price than the market value used by the Texas Utility Commission, CenterPoint Houston would be unable to recover the difference.

**ECOM True-Up Component.** The Texas Utility Commission used a computer model or projection, called an excess cost over market (ECOM) model, to estimate stranded costs related to generation plant assets. Accordingly, the Texas Utility Commission estimated the market power prices that would be received in the generation capacity auctions mandated by the Texas electric restructuring law during 2002 and 2003. Any difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period will be a component of the 2004 True-Up Proceeding.

In 2003, some parties sought modifications to the true-up rules. Although the Texas Utility Commission denied that request, we expect that issues could be raised in the 2004 True-Up Proceeding regarding our compliance with the Texas Utility Commission's rules regarding the ECOM true-up, including whether Texas Genco has auctioned all capacity it is required to auction in view of the fact that some capacity has failed to sell in the state-mandated auctions. We believe Texas Genco has complied with the requirements under the applicable rules, including re-offering the unsold capacity in subsequent auctions. If events were to occur during the 2004 True-Up Proceeding that made the recovery of the ECOM true-up regulatory asset no longer probable, we would write off the unrecoverable balance of that asset as a charge against earnings.

**Fuel Over/Under Recovery Component.** CenterPoint Houston and Texas Genco filed their joint application to reconcile fuel revenues and expenses with the Texas Utility Commission in July 2002. This final fuel reconciliation filing covered reconcilable fuel expense and interest of approximately \$8.5 billion incurred from August 1, 1997 through January 30, 2002. In January 2003, a settlement agreement was reached, as a result of which certain items totaling \$24 million were written off during the fourth quarter of 2002 and items totaling \$203 million were carried forward for later resolution by the Texas Utility Commission. In late 2003, a hearing was concluded on those remaining issues. On March 4, 2004, an Administrative Law Judge (ALJ) recommended that CenterPoint Houston not be allowed to recover \$87 million in fuel expenses incurred during the reconciliation period. CenterPoint Houston will contest this recommendation when the Texas Utility Commission considers the ALJ's conclusions on April 15, 2004. However, since the recovery of this portion of the regulatory asset is no longer probable, CenterPoint Houston reserved \$117 million, including interest, in the fourth quarter of 2003. The ALJ also recommended that \$46 million be recovered in the 2004 True-Up Proceeding rather than in the fuel proceeding. The results of the Texas Utility Commission's decision will be a component of the 2004 True-Up Proceeding.

**"Price to Beat" Clawback Component.** In connection with the implementation of the Texas electric restructuring law, the Texas Utility Commission has set a "price to beat" that retail electric providers affiliated or formerly affiliated with a former integrated utility must charge residential and small commercial customers within their affiliated electric utility's service area. The true-up provides for a clawback of the "price to beat"

in excess of the market price of electricity if 40% of the "price to beat" load is not served by other retail electric providers by January 1, 2004. Pursuant to the Texas electric restructuring law and a master separation agreement entered into in connection with the September 30, 2002 spin-off of our interest in Reliant Resources to our shareholders, Reliant Resources is obligated to pay CenterPoint Houston the clawback component of the true-up. Based on an order issued on February 13, 2004 by the Texas Utility Commission, the clawback will equal \$150 times the number of residential customers served by Reliant Resources in CenterPoint Houston's service territory, less the number of residential customers served by Reliant Resources outside CenterPoint Houston's service territory, on January 1, 2004. As reported in Reliant Resources' Annual Report on Form 10-K for the year ended December 31, 2003, Reliant Resources expects that the clawback payment will be \$175 million. The clawback will reduce the amount of recoverable costs to be determined in the 2004 True-Up Proceeding.

**Securitization.** The Texas electric restructuring law provides for the use of special purpose entities to issue transition bonds for the economic value of generation-related regulatory assets and stranded costs. These transition bonds will be amortized over a period not to exceed 15 years through non-bypassable transition charges. In October 2001, a special purpose subsidiary of CenterPoint Houston issued \$749 million of transition bonds to securitize certain generation-related regulatory assets. These transition bonds have a final maturity date of September 15, 2015 and are non-recourse to us and our subsidiaries other than to the special purpose issuer. Payments on the transition bonds are made out of funds from non-bypassable transition charges.

We expect that upon completion of the 2004 True-Up Proceeding, CenterPoint Houston will seek to securitize the amounts established for the true-up components. Before CenterPoint Houston can securitize these amounts, the Texas Utility Commission must conduct a proceeding and issue a financing order authorizing CenterPoint Houston to do so. Under the Texas electric restructuring law, CenterPoint Houston is entitled to recover any portion of the true-up balance not securitized by transition bonds through a non-bypassable competition transition charge.

**Mitigation.** In an order issued in October 2001, the Texas Utility Commission established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that CenterPoint Houston had over-mitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under its transition plan and the Texas electric restructuring law. In this final order, CenterPoint Houston was required to reverse the amount of redirected depreciation and accelerated depreciation taken for regulatory purposes as allowed under the transition plan and the Texas electric restructuring law. In accordance with the order, CenterPoint Houston recorded a regulatory liability to reflect the prospective refund of the accelerated depreciation, and in January 2002 CenterPoint Houston began refunding excess mitigation credits, which are to be refunded over a seven-year period. The annual refund of excess mitigation credits is approximately \$238 million. In the event that the excess mitigation credits prove to have been unnecessary and CenterPoint Houston is determined to have stranded costs, the excess mitigation credits will be included in the stranded costs to be recovered. In June 2003, CenterPoint Houston sought authority from the Texas Utility Commission to terminate these credits based on then current estimates of what that final determination would be. The Texas Utility Commission denied the request in January 2004.

#### Customers

CenterPoint Houston's customers consist of municipalities, electric cooperatives, other distribution companies and approximately 43 retail electric providers in its certificated service area. CenterPoint Houston serves nearly all of the Houston/Galveston metropolitan area. Each retail electric provider is licensed by, and must meet creditworthiness criteria established by, the Texas Utility Commission. Two of these retail electric providers are subsidiaries of Reliant Resources. Sales to subsidiaries of Reliant Resources represented approximately 83% and 78% of CenterPoint Houston's transmission and distribution revenues in 2002 and 2003, respectively. CenterPoint Houston's billed receivables balance from retail electric providers as of December 31, 2003 was \$83 million. Approximately 70% of this amount was owed by subsidiaries of Reliant Resources. CenterPoint Houston does not have long-term contracts with any of its customers. It operates on a

continuous billing cycle, with meter readings being conducted and invoices being distributed to retail electric providers each business day.

#### Competition

There are no other transmission and distribution utilities in CenterPoint Houston's service area. In order for another provider of transmission and distribution services to provide such services in CenterPoint Houston's territory, it would be required to obtain a certificate of convenience and necessity in proceedings before the Texas Utility Commission and, depending on the location of the facilities, may also be required to obtain franchises from one or more municipalities. We know of no other party intending to enter this business in CenterPoint Houston's service area at this time.

#### Properties

All of CenterPoint Houston's properties are located in Texas. CenterPoint Houston's transmission system carries electricity from power plants to substations and from one substation to another. These substations serve to connect power plants, the high voltage transmission lines and the lower voltage distribution lines. Unlike the transmission system, which carries high voltage electricity over long distances, distribution lines carry lower voltage power from the substation to the retail electric customers. The distribution system consists primarily of distribution lines, transformers, secondary distribution lines and service wires and meters. Most of CenterPoint Houston's transmission and distribution lines have been constructed over lands of others pursuant to easements or along public highways and streets as permitted by law.

All real and tangible properties of CenterPoint Houston, subject to certain exclusions, are currently subject to:

- the lien of a Mortgage and Deed of Trust (the Mortgage) dated November 1, 1944, as supplemented; and
- the lien of a General Mortgage (the General Mortgage) dated October 10, 2002, as supplemented, which is junior to the lien of the Mortgage.

As of March 1, 2004, CenterPoint Houston had outstanding approximately \$382 million aggregate principal amount of first mortgage bonds under the Mortgage, including approximately \$280 million held in trust to secure certain pollution control bonds for which CenterPoint Energy is obligated. Additionally, under the General Mortgage, CenterPoint Houston had outstanding approximately \$3.2 billion aggregate principal amount of general mortgage bonds, including approximately \$527 million held in trust to secure certain additional pollution control bonds for which CenterPoint Energy is obligated, approximately \$100 million held in trust to secure pollution control bonds for which CenterPoint Houston is obligated and approximately \$1.3 billion aggregate principal amount of general mortgage bonds to secure the borrowings under a collateralized term loan due in 2005.

Electric Lines -- Overhead. As of December 31, 2003, CenterPoint Houston owned 26,505 pole miles of overhead distribution lines and 3,606 circuit miles of overhead transmission lines, including 446 circuit miles operated at 69,000 volts, 2,083 circuit miles operated at 138,000 volts and 1,077 circuit miles operated at 345,000 volts.

Electric Lines -- Underground. As of December 31, 2003, CenterPoint Houston owned 14,917 circuit miles of underground distribution lines and 16.6 circuit miles of underground transmission lines, including 4.5 circuit miles operated at 69,000 volts and 12.1 circuit miles operated at 138,000 volts.

Substations. As of December 31, 2003, CenterPoint Houston owned 224 major substation sites having total installed rated transformer capacity of 44,964 megavolt amperes.

Service Centers. CenterPoint Houston operates 15 regional service centers located on a total of 395 acres of land. These service centers consist of office buildings, warehouses and repair facilities that are used in the business of transmitting and distributing electricity.

Franchises. CenterPoint Houston has franchise contracts with 90 of the 91 cities in its service area. The remaining city has enacted an ordinance that governs the placement of utility facilities in its streets. These franchises and this ordinance, typically having a term of 40 years, give CenterPoint Houston the right to

construct, operate and maintain its transmission and distribution system within the streets and public ways of these municipalities for the purpose of delivering electric service to the municipality, its residents and businesses in exchange for payment of a fee. The franchise for the City of Houston is scheduled to expire in 2007.

ELECTRIC GENERATION

Texas Genco owns and operates 60 generating units at 11 power generation facilities. Texas Genco also owns a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), a nuclear generating station with two 1,250 MW nuclear generating units. As of December 31, 2003, the aggregate net generating capacity of Texas Genco's portfolio of generating assets was 14,153 MW. Texas Genco sells electric generation capacity, energy and ancillary services in the ERCOT market. Collectively, Texas Genco's facilities provide over 18% of the aggregate net generating capacity serving the ERCOT market.

As of December 31, 2003, 2,988 MW of Texas Genco's gas-fired generation was mothballed. We expect that 777 MW of this amount will remain mothballed through April 2004 and the other 2,211 MW will remain mothballed through April 2005. The decision to mothball these units was based on the lack of demand for these types of units in Texas Genco's July and September 2003 capacity auctions combined with high forecasted reserve margins in the ERCOT market.

Under the Texas electric restructuring law, Texas Genco and other power generators in Texas ceased to be subject to traditional cost-based regulation. Since January 1, 2002, Texas Genco has been selling generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. Because of this change, historical financial information and operating data for periods prior to January 1, 2002, including demand and fuel data, is not indicative of how this business may be expected to perform in subsequent periods.

Facilities

Texas Genco's generation facilities as of December 31, 2003 are described in the table below.

NET GENERATING NUMBER CAPACITY OF GENERATION FACILITIES (IN MW)(1) UNITS DISPATCH TYPE FUEL - ----- ----- ----- -----	
----- W. A.	
Parish.....	3,653 9 Base-load, Intermediate, Cyclic, Peaking Coal/Gas
Limestone.....	1,602 2 Base-load Lignite South Texas Project.... 770(2) 2 Base-load Nuclear Cedar
Bayou.....	2,258 3 Intermediate Gas/Oil P. H.
Robinson.....	2,211(3) 4 Intermediate Gas San Jacinto.....
162 2 Intermediate Gas T. H.	
Wharton.....	1,254(4) 18 Intermediate, Cyclic, Peaking Gas/Oil S. R.
Bertron.....	844 6 Cyclic, Peaking Gas/Oil Greens
Bayou.....	760 7 Cyclic, Peaking Gas/Oil
Webster.....	387(4) 2 Cyclic, Peaking Gas
Deepwater.....	174(4) 1 Cyclic Gas H. O. Clarke.....
78 6 Peaking Gas ---- --	
Total.....	14,153 62 =====

(1) Net generating capacity equals gross maximum summer generating capability less the electric energy consumed at the facility.

(2) Represents our 30.8% interest in the South Texas Project.

(3) All four units at P.H. Robinson are expected to be mothballed through April 2005.

(4) Webster Unit 3 (374 MW), T.H. Wharton Unit 2 (229 MW) and Deepwater Unit 7 (174 MW) are expected to be mothballed through at least April 2004.

In early March 2004, one of the other co-owners of the South Texas Project announced it had entered into an agreement to sell its 25.2% ownership interest for approximately \$332.6 million, subject to certain closing adjustments. As a result, under the terms of the ownership arrangements for the South Texas Project, Texas Genco has the right of first refusal to purchase its proportionate share of the interest being sold on the same terms as the third party purchaser, but Texas Genco must give notice of its election within ninety days.

#### Operations and Capacity Auctions

Since January 1, 2002, Texas Genco has operated its generation business solely in the wholesale market. It is required by the Texas electric restructuring law to auction 15% of its available generation capacity (in what we refer to as state-mandated auctions) and until January 24, 2004 sold the remaining 85% of its available generation capacity (less operating reserves) in auctions mandated by an agreement with Reliant Resources (in what we refer to as contractually-mandated auctions). Texas Genco's auction products are only entitlements to capacity dispatched to specific zonal delivery points from base, intermediate, cyclic or peaking units and do not convey a right to receive power from a particular unit. By selling only entitlements, Texas Genco is able to dispatch its commitments in the most cost-effective manner. Texas Genco is, however, exposed to the risk that, depending upon the availability of its units, it could be required to supply energy from a higher cost unit such as an intermediate unit to meet an obligation for lower-cost generation, such as base-load generation, or to obtain the energy on the open market at a market price higher than its contracted price. Additionally, Texas Genco, like other power generating companies within ERCOT, is required to purchase power from certain qualifying facilities under the Public Utility Regulatory Policies Act of 1978 at avoided cost.

Revenues from capacity auctions come from two sources: capacity payments and energy payments. Capacity payments are based on the final clearing prices, in dollars per kilowatt-month, determined during the auctions. Texas Genco bills and collects for these capacity payments on a monthly basis just prior to the month of the entitlement. Energy payments consist of a variety of charges related to the fuel and ancillary services scheduled through the auctioned capacity entitlements. Energy payments for base-load products are tied to fixed prices specified in the auction products while energy payments for gas-fired products are recovered through heat rates specified for gas auction products times an index based on the Houston Ship Channel Gas price. Texas Genco invoices for these energy payments on a monthly basis in arrears.

State-Mandated Capacity Auctions. The obligation to conduct state-mandated auctions of 15% of Texas Genco's available generation capacity will continue until January 1, 2007, unless before that date the Texas Utility Commission determines that an amount equal to at least 40% of the electric power consumed before the onset of competition by residential and small commercial customers in CenterPoint Houston's service area is being served by retail electric providers not affiliated or formerly affiliated with us. Reliant Resources is deemed to be our affiliate for purposes of this test. Reliant Resources currently is not permitted under the Texas electric restructuring law to purchase capacity sold by Texas Genco in the state-mandated auctions.

Contractually-Mandated Capacity Auctions. Through 2003, Texas Genco was contractually obligated under an agreement with Reliant Resources to auction entitlements to substantially all of its capacity (less operating reserves) available after the state-mandated auctions. Texas Genco was permitted to reduce the amount of capacity sold in the contractually-mandated auctions by the amount of operating reserves required to back up its obligations under its capacity auctions. Texas Genco typically reserves 1,250 MW of its capacity, including 750 MW of base-load capacity, as operating reserves, which can be sold as interruptible power on a system-contingent basis.

Through 2003, Reliant Resources had the contractual right, but not the obligation, to purchase 50% (but not less than 50%) of each type of capacity entitlement Texas Genco auctioned in the contractually-mandated auctions at the prices established in the auctions. Upon determination of the prices for the capacity entitlements, Reliant Resources was obligated to purchase the capacity it elected to reserve from the auction

process at the prices set during the auction for that entitlement. In addition to its reservation of capacity, and whether or not it had reserved capacity in the auction, Reliant Resources was entitled to bid for entitlements in each contractually-mandated auction.

Beginning in 2004, Texas Genco can market the 85% of its capacity not subject to state-mandated auctions as it deems appropriate based upon market conditions, and sales may be conducted through auctions, bilateral contracts or a combination of both.

Auction Results. Texas Genco sold 91% of its available capacity for 2003 through state-mandated auctions and contractually-mandated auctions. In its capacity auctions held through February 2004, Texas Genco has sold 85% and 24% of its available capacity for 2004 and 2005, respectively. As a result, Texas Genco has contracted for approximately \$1 billion of total revenue with respect to its 2004 capacity and approximately \$533 million of total revenue with respect to its 2005 capacity. Texas Genco's available capacity equals its total net generating capacity less capacity withheld as operating reserves and capacity that is subject to planned outages. Of the 2,988 MW of capacity that Texas Genco has "mothballed", 2,062 MW were included in its available capacity only for the months of May through September 2003. Reliant Resources purchased 78% of Texas Genco's sold 2003 capacity and, through February 2004, had purchased 79% and 68% of Texas Genco's sold 2004 and 2005 capacity, respectively. Texas Genco will hold additional auctions to sell its remaining available capacity for 2004 as well as capacity for subsequent years.

In 2003, the market-based prices established in Texas Genco's capacity auctions continued to strengthen. Higher gas prices throughout 2003 positively influenced the prices established in its recent capacity auctions. Generally, higher gas prices increase the capacity prices for its base-load entitlements since natural gas is the marginal fuel for facilities serving the ERCOT market during most hours.

#### Fuel Supplies

Texas Genco relies primarily on natural gas, coal, lignite and uranium to fuel its generation facilities. The fuel mix of Texas Genco's generating portfolio, based on actual fuel usage during 2003, was approximately 52% coal and lignite, 21% natural gas and 27% nuclear. As of December 31, 2003, the fuel mix of its generating portfolio based on the capacity of its facilities including mothballed capacity was approximately 66% natural gas, 29% coal and lignite and 5% nuclear. Based on Texas Genco's current assumptions regarding the cost and availability of fuel, plant operation schedules, load growth, load management and the impact of environmental regulations, it does not expect the mix of fuel used by its generating portfolio will vary materially during 2004 from 2003. Texas Genco substantially collects the underlying cost of fuel through energy payments. As a result of air emissions standards imposed by federal and state law, Texas Genco anticipates having additional costs for certain environmental equipment in 2004 and subsequent years. These factors could affect the mix of its future fuel usage.

Natural Gas. Texas Genco has long-term natural gas supply contracts with several suppliers. Substantially all of its long-term natural gas supply contracts contain pricing provisions based on fluctuating spot market prices. In 2003, 50% of Texas Genco's natural gas requirements were purchased under these long-term contracts. Texas Genco purchased the remaining 50% of its natural gas requirements in 2003 on the spot market. Based on current market conditions, Texas Genco believes it will be able to replace the supplies of natural gas covered under its long-term contracts when they expire with gas purchased on the spot market or under new long-term or short-term contracts.

Texas Genco's natural gas requirements are generally more volatile than its other fuel requirements because it uses natural gas to fuel intermediate, cyclic and peaking facilities and other more economical fuels to fuel base-load facilities. Since its intermediate and peaking facilities are dispatched to meet the variations of demand for electricity, its gas requirements are highly variable, on both an hour-to-hour and day-to-day basis. Although natural gas supplies have been sufficient in recent years, available supplies are subject to potential disruption due to weather conditions, transportation constraints and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time or prices may increase rapidly in response to temporary supply constraints or other factors. Although its long-term supply contracts provide some of the flexibility needed to accommodate variations in demands for natural gas, Texas Genco relies on its 6.3 billion

cubic feet of leased gas storage facilities, of which 4.2 billion cubic feet is working capacity, to provide additional flexibility.

**Coal and Lignite.** In 2003, Texas Genco purchased approximately 80% of the fuel requirements for its four coal-fired generating units at its W.A. Parish facility under two fixed-quantity, long-term supply contracts scheduled to expire in 2010 and 2011. The price for coal under the first contract was tied to spot market prices in 2003. The price for coal under the second contract was at a level approximately three times greater than the spot market prices for coal as of December 31, 2003. The second contract does not contemplate future prices being tied to spot market prices. The terms of this contract result from the market conditions in effect during the 1970's when the contract was entered into, including shortages of natural gas supplies, increased demand for low sulfur coal as a result of new environmental regulations and uncertainty regarding the future availability of long-term sources of coal supply. Texas Genco purchases its remaining coal requirements for the W.A. Parish facility under short-term contracts. It has long-term rail transportation contracts with Burlington Northern Santa Fe Railroad and the Union Pacific Railroad Company to transport coal to the W.A. Parish facility. Despite the higher coal prices under these long-term contracts, Texas Genco's fuel costs associated with producing energy from its coal-fired facilities are, based on recent natural gas prices, significantly lower than the fuel costs associated with producing energy from its gas-fired facilities.

Texas Genco obtains the lignite used to fuel the two generating units of the Limestone facility from a surface mine adjacent to the facility. It owns the mining equipment and facilities and a portion of the lignite reserves located at the mine. Mining operations are conducted by the owner of the remaining lignite reserves. In the past, Texas Genco has obtained its lignite requirements under a long-term contract on a cost-plus basis. Since July 2002, Texas Genco has obtained its lignite requirements under an amended long-term contract with the owner/operator of the mine at a fixed price determined annually that is expected to result in a cost of generation at the Limestone facility equivalent to the cost of generating with low-sulphur Western coal. Texas Genco expects the lignite reserves will be sufficient to provide all of the lignite requirements of this facility through 2015.

Texas Genco used a blend of lignite and Wyoming coal to fuel its Limestone facility in 2003 as a component of its NOx control strategy. A fuel unloading and handling system was installed at the Limestone facility to accommodate the delivery of Wyoming coal. Texas Genco expects that it will obtain Wyoming coal through spot and long-term market-priced contracts. Texas Genco's Limestone facility is connected with the Burlington Northern Santa Fe Railroad.

**Nuclear.** The South Texas Project satisfies its fuel supply requirements by acquiring uranium concentrates, converting uranium concentrates into uranium hexafluoride, enriching uranium hexafluoride and fabricating nuclear fuel assemblies. Texas Genco is a party to a number of contracts covering a portion of the fuel requirements of the South Texas Project for uranium, conversion services, enrichment services and fuel fabrication. Other than a fuel fabrication agreement that extends for the life of the South Texas Project, these contracts have varying expiration dates, and most are short- to medium-term (less than seven years). Management believes that sufficient capacity for nuclear fuel supplies and processing exists to permit normal operations of the South Texas Project nuclear generating units.

**Fuel Pipeline.** Texas Genco owns a 90-mile fuel pipeline that can transport either fuel oil or natural gas (86 miles oil or gas and 4 miles gas only). As part of its system, it owns over six million barrels of oil storage capacity that can supply fuel oil to its Cedar Bayou, Greens Bayou, S.R. Bertron and T.H. Wharton plants. For natural gas supply, its pipeline is connected to six of its generation facilities and is interconnected with several of its suppliers. Texas Genco's pipeline provides it with added flexibility in managing the fuel supply requirements of its generation facilities.

#### Customers

Since January 1, 2002, Texas Genco has sold power to wholesale purchasers, including retail electric providers, at unregulated rates through its capacity auctions. In addition to retail electric providers, Texas Genco's customers in the ERCOT market include municipal utilities, electric co-operatives, power trading organizations and other power generating companies. Texas Genco is also a significant provider to the ancillary



services market operated by the ERCOT ISO. Sales to Reliant Resources represented approximately 71% of Texas Genco's total revenues in 2003. Texas Genco has been granted a security interest in accounts receivable and/or securitization notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to \$250 million in purchase obligations.

#### Competition

The ERCOT market is highly competitive. Texas Genco has approximately 80 competitors that include generation companies affiliated with Texas-based utilities, independent power producers, municipal or co-operative generators and wholesale power marketers. These competitors will compete with Texas Genco and each other by buying and selling wholesale power in the ERCOT market, entering into bilateral contracts and/or selling to aggregated retail customers.

At December 31, 2003, Texas Genco's facilities provided over 18% of the aggregate net generating capacity serving the ERCOT market. Texas Genco's competition is based primarily on price but it also may compete based on product flexibility. A number of Texas Genco's competitors are building efficient, combined cycle power plants that are generally not able to provide the operational flexibility, ancillary services and fuel risk mitigation that Texas Genco's large diversified portfolio of generating facilities can provide. Texas Genco believes that there may be significant excess generating capacity constructed in the ERCOT market over the next several years. This overbuilding could result in lower prices for wholesale power in the ERCOT market. There is currently a surplus of generating capacity in the ERCOT market, and we expect the market for wholesale power to be highly competitive. For more information on competition in the ERCOT market, please read "Risk Factors -- Principal Risk Factors Associated with Our Businesses -- Risk Factors Affecting Our Electric Generation Business" below.

#### NATURAL GAS DISTRIBUTION

CERC's natural gas distribution business engages in intrastate natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas through three unincorporated divisions: CenterPoint Energy Arkla (Arkla), CenterPoint Energy Entex (Entex) and CenterPoint Energy Minnegasco (Minnegasco). These operations are regulated as natural gas utility operations in the jurisdictions served by these divisions. CERC's operations also include non-rate regulated retail gas sales to and transportation services for commercial and industrial customers in the six states listed above as well as several other Midwestern states.

- Arkla provides natural gas distribution services to approximately 695,000 customers in over 245 communities in Arkansas, Louisiana, Oklahoma and Texas. The largest metropolitan areas served by Arkla are Little Rock, Arkansas and Shreveport, Louisiana. In 2003, approximately 70% of Arkla's total throughput was attributable to retail sales of natural gas and approximately 30% was attributable to transportation services.
- Entex provides natural gas distribution services to approximately 1.6 million customers in over 500 communities in Louisiana, Mississippi and Texas. The largest metropolitan area served by Entex is Houston. In 2003, approximately 94% of Entex's total throughput was attributable to retail sales of natural gas and approximately 6% was attributable to transportation services.
- Minnegasco provides natural gas distribution services to approximately 746,000 customers in over 240 communities in Minnesota. The largest metropolitan area served by Minnegasco is Minneapolis. In 2003, approximately 94% of Minnegasco's total throughput was attributable to retail sales of natural gas and approximately 6% was attributable to transportation services. Additionally, Minnegasco provides unregulated services consisting of heating, ventilating and air conditioning (HVAC) equipment and appliance sales and repair services, and home security monitoring.

The demand for natural gas sales to, and natural gas transportation for, residential, commercial and industrial customers is seasonal. In 2003, approximately 74% of the total throughput of CERC's natural gas

distribution business occurred in the first and fourth quarters. These patterns reflect the higher demand for natural gas for heating purposes during those periods.

#### Supply and Transportation

Arkla. In 2003, Arkla purchased virtually all of its natural gas supply pursuant to term contracts, with terms varying from a few months to three years. Arkla's major third party suppliers in 2003 included BP America Production Company (29%), Oneok Energy Marketing and Trading LLC (23%) CenterPoint Energy Gas Services, Inc. (CEGS) (13%) and Conoco Phillips Company (9%). Numerous other suppliers provided the remaining 26% of Arkla's natural gas supply requirements. Arkla transports substantially all of its natural gas supplies under contracts with our pipeline subsidiaries.

Entex. In 2003, Entex purchased virtually all of its natural gas supply pursuant to term contracts, with terms varying from one to five years. Entex's major third party suppliers in 2003 included American Electric Power Company, Inc. (43%), Kinder Morgan, Inc. (20%), CEGS (11%), and Entergy-Koch, LP (11%). Numerous other suppliers provided the remaining 15% of Entex's natural gas supply requirements. Entex transports its natural gas supplies through various interstate and intrastate pipelines under long-term contracts with terms varying from one to five years.

Minnegasco. In 2003, Minnegasco purchased approximately 77% of its natural gas supply pursuant to term contracts, with terms varying from a few months to two years. Minnegasco purchased the remaining 23% of its natural gas supply on the spot market. Minnegasco's major third party suppliers in 2003 included BP Canada Energy Marketing (53%), Duke Energy Trading & Marketing (8%), Tenaska Marketing Ventures (6%), Mirant Americas Energy Marketing (5%) and NG Energy Trading (5%). Minnegasco transports its natural gas supplies through various interstate pipelines under long-term contracts with terms varying from one to five years.

Generally, the regulations of the states in which CERC's natural gas distribution business operates allow it to pass through changes in the costs of natural gas to its customers under purchased gas adjustment provisions in its tariffs. There is, however, a timing difference between CERC's purchases of natural gas and the ultimate recovery of these costs. Consequently, CERC may incur carrying costs as a result of this timing difference that are not recoverable from its customers.

Arkla and Minnegasco use various leased or owned natural gas storage facilities to meet peak-day requirements and to manage the daily changes in demand due to changes in weather. Minnegasco also supplements contracted supplies and storage from time to time with stored liquefied natural gas and propane-air plant production.

Minnegasco owns and operates an underground storage facility with a capacity of 7.0 billion cubic feet (Bcf). It has a working capacity of 2.1 Bcf available for use during a normal heating season and a maximum daily withdrawal rate of 50 million cubic feet (MMcf). Minnegasco also owns nine propane-air plants with a total capacity of 204 MMcf per day and on-site storage facilities for 12 million gallons of propane (1.0 Bcf gas equivalent). Minnegasco owns a liquefied natural gas facility with a 12 million-gallon liquefied natural gas storage tank (1.0 Bcf gas equivalent) and a send-out capability of 72 MMcf per day.

On an ongoing basis, CERC enters into contracts to provide sufficient supplies and pipeline capacity to meet its firm customer requirements; however, it is possible for limited service disruptions to occur from time to time due to weather conditions, transportation constraints and other events. As a result of these factors, supplies of natural gas may become unavailable from time to time or prices may increase rapidly in response to temporary supply constraints or other factors.

#### Commercial and Industrial Sales

CERC's commercial and industrial sales business, conducted through CEGS and CenterPoint Energy Intrastate Gas Pipeline, provides comprehensive natural gas products and services to commercial and industrial customers in the Gulf Coast and Midwestern regions of the United States. Most services provided by CEGS are not subject to rate regulation. In 2003, the commercial and industrial sales business represented

over 50% of the throughput of CenterPoint Energy's Natural Gas Distribution business segment. During that period, approximately 94% of the commercial and industrial group's total throughput was attributable to natural gas sales; the remainder was attributable to transportation services provided to third parties and affiliates. For more information on CEGS's derivative instruments and hedging activities, please read "Quantitative and Qualitative Disclosures About Market Risk -- Commodity Price Risk From Non-Trading Activities" in Item 7A of this report and Note 5 to our consolidated financial statements.

#### Assets

As of December 31, 2003, CERC owned approximately 63,000 linear miles of gas distribution lines, varying in size from one-half inch to 24 inches in diameter. Generally, in each of the cities, towns and rural areas served by CERC, it owns the underground gas mains and service lines, metering and regulating equipment located on customers' premises and the district regulating equipment necessary for pressure maintenance. With a few exceptions, the measuring stations at which CERC receives gas are owned, operated and maintained by others, and its distribution facilities begin at the outlet of the measuring equipment. These facilities, including odorizing equipment, are usually located on the land owned by suppliers.

#### Competition

CERC competes primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other gas distributors and marketers also compete directly for gas sales to end users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass CERC's facilities and market and sell and/or transport natural gas directly to commercial and industrial customers.

#### PIPELINES AND GATHERING

CERC's pipelines and gathering business operates two interstate natural gas pipelines as well as gas gathering facilities and also provides pipeline services.

CERC owns and operates gas transmission lines primarily located in Arkansas, Illinois, Louisiana, Missouri, Oklahoma and Texas. CERC's pipeline operations are primarily conducted by two wholly owned interstate pipeline subsidiaries which provide gas transportation and storage services primarily to industrial customers and local distribution companies:

- CenterPoint Energy Gas Transmission Company (CEGT) is an interstate pipeline that provides natural gas transportation, natural gas storage and pipeline services to customers principally in Arkansas, Louisiana, Oklahoma and Texas.
- CenterPoint Energy -- Mississippi River Transmission Corporation (MRT) is an interstate pipeline that provides natural gas transportation, natural gas storage and pipeline services to customers principally in Arkansas and Missouri.

CERC's gathering operations are conducted by a wholly owned gas gathering subsidiary, CenterPoint Energy Field Services, Inc. (CEFS). CEFS is a natural gas gathering and processing business serving natural gas fields in the Midcontinent basin of the United States that interconnect with CEGT's and MRT's pipelines, as well as other interstate and intrastate pipelines. CEFS operates gathering pipelines, which collect natural gas from approximately 200 separate systems located in major producing fields in Arkansas, Louisiana, Oklahoma and Texas.

CERC's pipeline project management and facility operation services are provided to affiliates and third parties through a wholly owned pipeline services subsidiary, CenterPoint Energy Pipeline Services, Inc.

In 2003, approximately 25% of our total operating revenues from pipelines and gathering was attributable to services provided to Arkla, and approximately 10% was attributable to services to Laclede Gas Company (Laclede), an unaffiliated distribution company that provides natural gas utility service to the greater St. Louis metropolitan area in Illinois and Missouri. Services to Arkla and Laclede are provided under several

long-term firm storage and transportation agreements. Contracts for firm transportation in Arkla's major service areas are currently scheduled to expire in 2005. The Arkansas Public Service Commission (APSC) is currently reviewing Arkla's request to enter into a seven-year contract for firm transportation with CEGT. The agreement to provide services to Laclede expires in 2007.

Our pipelines and gathering business operations may be affected by changes in the demand for natural gas, the available supply and relative price of natural gas in the Midcontinent and Gulf Coast natural gas supply regions and general economic conditions.

#### Assets

We own and operate approximately 8,200 miles of gas transmission lines primarily located in Missouri, Illinois, Arkansas, Louisiana, Oklahoma and Texas. We also own and operate six natural gas storage fields with a combined daily deliverability of approximately 1.2 Bcf per day and a combined working gas capacity of approximately 59.0 Bcf. We also own a 10% interest in Gulf South Pipeline Company, LP's Bistineau storage facility. This facility has a total working gas capacity of 73.8 Bcf and approximately 1.1 Bcf per day of deliverability. Our storage capacity in the Bistineau facility is 8 Bcf of working gas with 100 MMcf per day of deliverability. Most of our storage operations are in north Louisiana and Oklahoma. We also own and operate approximately 4,300 miles of gathering pipelines that collect gas from approximately 200 separate systems located in major producing fields in Arkansas, Louisiana, Oklahoma and Texas.

#### Competition

Our pipelines and gathering business competes with other interstate and intrastate pipelines and gathering companies in the transportation and storage of natural gas. The principal elements of competition among pipelines are rates, terms of service, and flexibility and reliability of service. Our pipelines and gathering business competes indirectly with other forms of energy available to its customers, including electricity, coal and fuel oils. The primary competitive factor is price. Changes in the availability of energy and pipeline capacity, the level of business activity, conservation and governmental regulations, the capability to convert to alternative fuels, and other factors, including weather, affect the demand for natural gas in areas we serve and the level of competition for transportation and storage services. In addition, competition for our gathering operations is impacted by commodity pricing levels because of their influence on the level of drilling activity.

#### OTHER OPERATIONS

Our Other Operations business segment includes office buildings and other real estate used in our business operations and other corporate operations which support all of our business operations.

#### DISCONTINUED OPERATIONS

On September 30, 2002, we distributed to our shareholders on a pro-rata basis all of the shares of Reliant Resources common stock owned by us. The consolidated financial statements have been prepared to reflect the effect of this distribution. The consolidated financial statements present the Reliant Resources businesses (Wholesale Energy, European Energy, Retail Energy and related corporate costs) as discontinued operations in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). We recorded after-tax income from discontinued operations of \$475 million and \$82 million for the years ended December 31, 2001 and 2002, respectively, related to the operations of Reliant Resources. As a result of the spin-off of Reliant Resources, we recorded a non-cash loss on disposal of discontinued operations of \$4.4 billion in 2002, which represented the excess of the carrying value of our investment in Reliant Resources over the market value of Reliant Resources common stock.

In February 2003, we sold our interest in Argener, a cogeneration facility in Argentina, for \$23 million. The carrying value of this investment was approximately \$11 million as of December 31, 2002. We recorded an after-tax gain of \$7 million from the sale of Argener in the first quarter of 2003. In April 2003, we sold our final remaining investment in Argentina, a 90 percent interest in Empresa Distribuidora de Electricidad de

Santiago del Estero S.A. We recorded an after-tax loss of \$3 million in the second quarter of 2003 related to our Latin America operations. We have completed our strategy of exiting all of our international investments. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

In November 2003, we sold a component of our Other Operations business segment, CenterPoint Energy Management Services (CEMS), that provides district cooling services in the Houston, Texas central business district and related complementary energy services to district cooling customers and others. The assets and liabilities of this business have been classified in the Consolidated Balance Sheets as discontinued operations. We recorded an after-tax loss of \$1 million from the sale of CEMS in the fourth quarter of 2003. We recorded an after-tax loss in discontinued operations of \$16 million (\$25 million pre-tax) during the second quarter of 2003 to record the impairment of the CEMS long-lived assets based on the impending sale and to record one-time termination benefits. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

#### FINANCIAL INFORMATION ABOUT SEGMENTS

For financial information about our segments, see Note 16 to our consolidated financial statements, which note is incorporated herein by reference.

#### REGULATION

We are subject to regulation by various federal, state and local governmental agencies, including the regulations described below.

#### PUBLIC UTILITY HOLDING COMPANY ACT OF 1935

As a registered public utility holding company, we, along with our subsidiaries except Texas Genco, are subject to a comprehensive regulatory scheme imposed by the SEC in order to protect customers, investors and the public interest. Although the SEC does not regulate rates and charges under the 1935 Act, it does regulate the structure, financing, lines of business and internal transactions of public utility holding companies and their system companies. In order to obtain financing, acquire additional public utility assets or stock, or engage in other significant transactions, we are required to obtain approval from the SEC under the 1935 Act.

We received an order from the SEC under the 1935 Act on June 30, 2003 and supplemental orders thereafter relating to our financing activities and those of our regulated subsidiaries, as well as other matters. The orders are effective until June 30, 2005. As of December 31, 2003, the orders generally permitted us and our subsidiaries to issue securities to refinance indebtedness outstanding at June 30, 2003, and authorized us and our subsidiaries to issue certain incremental external debt securities and common and preferred stock through June 30, 2005, without prior authorization from the SEC. The orders also contain certain requirements regarding ratings of our securities, interest rates, maturities, issuance expenses and use of proceeds. The orders require that CenterPoint Houston and CERC maintain a ratio of common equity to total capitalization of at least 30%. The SEC has acknowledged that prior to the monetization of Texas Genco and the securitization of the true-up components, our common equity as a percentage of total capitalization is expected to remain less than 30%. In addition, after the securitization, our common equity as a percentage of total capitalization, including securitized debt, is expected to be less than 30%, which the SEC has permitted for other companies.

In October 2003, the FERC granted exempt wholesale generator status to Texas Genco, LP, a wholly owned subsidiary of Texas Genco that owns and operates our electric generating plants. As a result of the FERC's actions, Texas Genco, LP is exempt from all provisions of the 1935 Act as long as it remains an exempt wholesale generator and Texas Genco is no longer a public utility holding company within the meaning of the 1935 Act.

Pursuant to requirements of the orders, we formed a service company, CenterPoint Energy Service Company, LLC (Service Company), that began operation as of January 1, 2004, to provide certain corporate

and shared services to our subsidiaries. Those services are provided pursuant to service arrangements that are in a form prescribed by the SEC. Services are provided by the Service Company at cost and are subject to oversight and periodic audit from the SEC.

#### FEDERAL ENERGY REGULATORY COMMISSION

The transportation and sale or resale of natural gas in interstate commerce is subject to regulation by the FERC under the Natural Gas Act and the Natural Gas Policy Act of 1978, as amended. The FERC has jurisdiction over, among other things, the construction of pipeline and related facilities used in the transportation and storage of natural gas in interstate commerce, including the extension, expansion or abandonment of these facilities. The rates charged by interstate pipelines for interstate transportation and storage services are also regulated by the FERC.

Our natural gas pipeline subsidiaries may periodically file applications with the FERC for changes in their generally available maximum rates and charges designed to allow them to recover their costs of providing service to customers (to the extent allowed by prevailing market conditions), including a reasonable rate of return. These rates are normally allowed to become effective after a suspension period and, in some cases, are subject to refund under applicable law until such time as the FERC issues an order on the allowable level of rates.

On November 25, 2003, the FERC issued Order No. 2004, the final rule modifying the Standards of Conduct applicable to electric and natural gas transmission providers, governing the relationship between regulated transmission providers and certain of their affiliates. The rule significantly changes and expands the regulatory burdens of the Standards of Conduct and applies essentially the same standards to jurisdictional electric transmission providers and natural gas pipelines. On February 9, 2004, our natural gas pipeline subsidiaries filed Implementation Plans required under the new rule. Those subsidiaries are further required to post their Implementation Procedures on their websites by June 1, 2004, and to be in compliance with the requirements of the new rule by that date.

CenterPoint Houston is not a "public utility" under the Federal Power Act and therefore is not generally regulated by the FERC, although certain of its transactions are subject to limited FERC jurisdiction. Texas Genco makes electric sales wholly within ERCOT and, as a result, its rates are not subject to regulation as a "public utility" under the Federal Power Act.

#### STATE AND LOCAL REGULATION

**Electric Transmission and Distribution.** CenterPoint Houston conducts its operations pursuant to a certificate of convenience and necessity issued by the Texas Utility Commission that covers its present service area and facilities. In addition, CenterPoint Houston holds non-exclusive franchises, typically having a term of forty years, from the incorporated municipalities in its service territory. These franchises give CenterPoint Houston the right to construct, operate and maintain its transmission and distribution system within the streets and public ways of these municipalities for the purpose of delivering electric service to the municipality, its residents and businesses in exchange for payment of a fee. The franchise for the City of Houston is scheduled to expire in 2007.

All retail electric providers in CenterPoint Houston's service area pay the same rates and other charges for transmission and distribution services.

CenterPoint Houston's distribution rates charged to retail electric providers for residential customers are based on amounts of energy delivered whereas distribution rates for a majority of commercial and industrial customers are based on peak demand. Transmission rates charged to other distribution companies are based on amounts of energy transmitted under "postage stamp" rates that do not vary with the distance the energy is being transmitted. All distribution companies in ERCOT pay CenterPoint Houston the same rates and other charges for transmission services. The current transmission and distribution rates for CenterPoint Houston have been in effect since January 1, 2002, when electric competition began. This regulated delivery charge includes the transmission and distribution rate (which includes costs for nuclear decommissioning and

municipal franchise fees), a system benefit fund fee imposed by the Texas electric restructuring law, a transition charge associated with securitization of regulatory assets and an excess mitigation credit imposed by the Texas Utility Commission.

Natural Gas Distribution. In almost all communities in which CERC provides natural gas distribution services, it operates under franchises, certificates or licenses obtained from state and local authorities. The terms of the franchises, with various expiration dates, typically range from 10 to 30 years, though franchises in Arkansas are perpetual. None of CERC's material franchises expire in the near term. CERC expects to be able to renew expiring franchises. In most cases, franchises to provide natural gas utility services are not exclusive.

Substantially all of CERC's retail natural gas sales by its local distribution divisions are subject to traditional cost-of-service regulation at rates regulated by the relevant state public utility commissions and, in Texas, by the Railroad Commission of Texas (Railroad Commission) and municipalities CERC serves.

In August 2002, a settlement was approved by the APSC that resulted in an increase in the base rate and service charge revenues of Arkla of approximately \$27 million annually. In addition, the APSC approved a gas main replacement surcharge that provided \$2 million of additional revenue in 2003 and is expected to provide additional amounts in subsequent years. In December 2002, a settlement was approved by the Oklahoma Corporation Commission that resulted in an increase in the base rate and service charge revenues of Arkla of approximately \$6 million annually. In November 2003, Arkla filed a request with the Louisiana Public Service Commission (LPSC) for a \$16 million increase to its base rate and service charge revenues in Louisiana. The case is expected to be resolved in mid-2004.

In December 2003, a settlement was approved by the City of Houston that will result in an increase in the base rate and service charge revenues of Entex of approximately \$7 million annually. Entex has submitted these settlement rates to the 28 other cities within its Houston Division and the Railroad Commission of Texas for consideration and approval. If all regulatory approvals are received from these 29 jurisdictions, Entex's base rate and service charge revenues are expected to increase by approximately \$7 million annually in addition to the \$7 million discussed above. On February 10, 2004, a settlement was approved by the LPSC that is expected to result in an increase in Entex's base rate and service charge revenues of approximately \$2 million annually.

Our gas distribution divisions generally recover the cost of gas provided to customers through gas cost adjustment mechanisms prescribed in their tariffs that are approved by the appropriate regulatory authority. Recently, our Arkla and Entex divisions have been involved in both litigation and regulatory proceedings in which parties have challenged the gas costs that have been recovered from customers. In response to a claim by the City of Tyler, Texas that excessive costs, ranging from \$2.8 million to \$39.2 million, may have been incurred for gas purchased by Entex for resale to residential and small commercial customers, Entex and the City of Tyler have requested that the Railroad Commission determine whether Entex has properly and lawfully charged and collected for gas service to its residential and commercial customers in its Tyler distribution system for the period beginning November 1, 1992, and ending October 31, 2002. Similarly, a complaint has been filed with the LPSC by a private party alleging that certain gas costs recovered from Entex customers in Louisiana were excessive and/or were not properly authorized by the LPSC. Additionally, certain private litigants have filed suit in Louisiana state courts, alleging that inappropriate or excessive gas costs have been recovered from Arkla's customers.

#### NUCLEAR REGULATORY COMMISSION

Texas Genco is subject to regulation by the United States Nuclear Regulatory Commission (NRC) with respect to the operation of the South Texas Project. This regulation involves testing, evaluation and modification of all aspects of plant operation in light of NRC safety and environmental requirements. Continuous demonstrations to the NRC that plant operations meet applicable requirements are also required. The NRC has the ultimate authority to determine whether any nuclear powered generating unit may operate.

Texas Genco and the other owners of the South Texas Project are required by NRC regulations to estimate from time to time the amounts required to decommission that nuclear generating facility and are required to maintain funds to satisfy that obligation when the plant ultimately is decommissioned. CenterPoint Houston currently collects through its electric rates amounts calculated to provide sufficient funds at the time of decommissioning to discharge these obligations. Funds collected are deposited into nuclear decommissioning trusts. The beneficial ownership of the nuclear decommissioning trusts is held by Texas Genco, as a licensee of the facility. While current funding levels exceed NRC minimum requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and waste burial. In the event that funds from the trust are inadequate to decommission the facilities, CenterPoint Houston will be required to collect through rates or other authorized charges all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the South Texas Project.

#### DEPARTMENT OF TRANSPORTATION

In December 2002, Congress enacted the Pipeline Safety Improvement Act of 2002 (the Act). This legislation applies to our interstate pipelines as well as our intrastate pipelines and local distribution companies. The legislation imposes several requirements related to ensuring pipeline safety and integrity. It requires pipeline and distribution companies to assess the integrity of their pipeline transmission facilities in areas of high population concentration or High Consequence Areas (HCA). The legislation further requires companies to perform remediation activities, in accordance with the requirements of the legislation over a 10-year period.

In December 2003, the Department of Transportation Office of Pipeline Safety issued the final regulations to implement the Act. These regulations became effective on February 14, 2004. These regulations provided guidance on, among other things, the areas that should be classified as HCA.

Our Pipelines and Gathering business segment and our natural gas distribution companies anticipate that compliance with the new regulations will require increases in both capital and operating cost. The level of expenditures required to comply with these regulations will be dependent on several factors, including the age of the facility, the pressures at which the facility operates and the number of facilities deemed to be located in areas designated as HCA. Based on our interpretation of the rules and preliminary technical reviews, we anticipate compliance will require average annual expenditures of approximately \$15 to \$20 million during the initial 10-year period.

#### ENVIRONMENTAL MATTERS

We are subject to a number of federal, state and local laws and regulations relating to the protection of the environment and the safety and health of company personnel and the public. These requirements relate to a broad range of our activities, including:

- the discharge of pollutants into the air, water and soil;
- the identification, generation, storage, handling, transportation, disposal, record keeping, labeling and reporting of, and the emergency response in connection with, hazardous and toxic materials and wastes, including asbestos, associated with our operations;
- noise emissions from our facilities; and
- safety and health standards, practices and procedures that apply to the workplace and the operation of our facilities.



In order to comply with these requirements, we may need to spend substantial amounts and devote other resources from time to time to:

- construct or acquire new equipment;
- acquire permits and/or marketable allowance or other emission credits for facility operations;
- modify or replace existing and proposed equipment; and
- clean up or decommission waste disposal areas, fuel storage and management facilities, and other locations and facilities, including generation facilities.

If we do not comply with environmental requirements that apply to our operations, regulatory agencies could seek to impose on us civil, administrative and/or criminal liabilities as well as seek to curtail our operations. Under some statutes, private parties could also seek to impose upon us civil fines or liabilities for property damage, personal injury and possibly other costs.

Under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), owners and operators of facilities from which there has been a release or threatened release of hazardous substances, together with those who have transported or arranged for the disposal of those substances, are liable for:

- the costs of responding to that release or threatened release; and
- the restoration of natural resources damaged by any such release.

#### AIR EMISSIONS

As part of the 1990 amendments to the Federal Clean Air Act, requirements and schedules for compliance were developed for attainment of health-based standards. In furtherance of the Act's requirements, standards for NOx emissions, a product of the combustion process associated with power generation, have been finalized by the Texas Commission on Environmental Quality (TCEQ). These TCEQ standards, as well as provisions of the Texas electric restructuring law, require substantial reductions in NOx emissions from electric generating units. Texas Genco is currently installing cost-effective controls at its generating plants to comply with these requirements. As of December 31, 2003, Texas Genco has invested \$664 million for NOx emissions controls and is planning to make expenditures of \$131 million for the remainder of 2004 through 2007. Further revisions to these NOx standards may result from the TCEQ's future rules, expected by 2007, implementing more stringent federal eight-hour ozone standards.

In 1998, the United States became a signatory to the United Nations Framework Convention on Climate Change (Kyoto Protocol). The Kyoto Protocol calls for developed nations to reduce their emissions of greenhouse gases. Carbon dioxide, which is a major byproduct of the combustion of fossil fuel, is considered to be a greenhouse gas. In 2002, President Bush withdrew the United States' support for the Kyoto Protocol while endorsing voluntary greenhouse gas reduction measures. Congress has also explored a number of other alternatives for regulating domestic greenhouse gas emissions. If the country re-enters and the United States Senate ultimately ratifies the Kyoto Protocol and/or if the United States Congress adopts other measures for the control of greenhouse gases, any resulting limitations on power plant carbon dioxide emissions could have a material adverse impact on all fossil fuel-fired electric generating facilities, including those belonging to Texas Genco.

In July 2002, the White House sent to the United States Congress a Bill proposing the Clear Skies Act, which is designed to achieve long-term reductions of multiple pollutants produced from fossil fuel-fired power plants. If enacted, the Clear Skies Act would target reductions averaging 70% for sulfur dioxide (SO<sub>2</sub>), NOx and mercury emissions and would create a gradually imposed market-based compliance program that would come into effect initially in 2008 with full compliance required by 2018. Fossil fuel-fired power plants owned by companies such as Texas Genco would be affected by the adoption of this program, or other legislation currently pending in Congress addressing similar issues. To comply with such programs, we and other regulated entities could pursue a variety of strategies, including the installation of pollution controls, purchase

of emission allowances, or the curtailment of operations. To date, Congress has taken little action to enact the Clear Skies Act.

In response to Congressional inaction on the proposed Clear Skies Act, the Environmental Protection Agency (EPA) in December 2003 proposed the Interstate Air Quality Rule, which would require reductions in NO<sub>x</sub> and SO<sub>2</sub> similar to those found in the Clear Skies Act. However, in contrast to the Clear Skies Act, the Interstate Air Quality Rule affects emissions in 29 states in the eastern U.S., including Texas. As with the Clear Skies Act, emissions are reduced in two phases, and the reduction targets are similar, but are effective in 2010 and 2015 for both NO<sub>x</sub> and SO<sub>2</sub>. EPA has announced an intent to finalize these rules in late 2004 or early 2005.

In December 2003, EPA proposed two alternatives for regulating emissions of mercury from coal-fired power plants in the U.S. A final rulemaking is scheduled to be adopted in December 2004. Under the first option, the EPA would set Maximum Achievable Control Technology (MACT) standards under Section 112 of the Clean Air Act, which would require mercury reductions on a facility-by-facility basis regardless of cost. The MACT standard requires reductions to be achieved by 2008, although it is possible that this compliance date will be delayed. The second option would regulate coal-fired power plants under Section 111 of the Clean Air Act. Under this option, similar mercury reductions would be achieved on a national scale through a cap-and-trade program, allowing reductions to be made at the most economical locations, and not requiring reductions on a facility-by-facility basis. The MACT standard would require a reduction of about 30% from coal-fired facilities, which will require the installation of control equipment. The cap-and-trade rule would require deeper reductions, but may be more economical because it allows trading of emissions among facilities. The mercury cap-and-trade rule would be accomplished in two phases, in 2010 and 2015, with reduction levels set at approximately 50% and 70%, respectively. The cost of complying with the final rules is not yet known but is likely to be material.

In addition to mercury control from coal-fired boilers, the MACT rule, if adopted, would require the control of nickel emissions from oil-fired facilities. At this point, the impact of this proposal is uncertain, but is not expected to significantly affect our operations.

The EPA has also issued MACT standards for sources other than boilers used for power generation. The MACT rule for combustion turbines was issued in August 2003 and there is no impact on our existing facilities. The MACT rulemaking for engines and industrial boilers was issued in February 2004. These rules are not expected to have a significant impact on Texas Genco's operations.

#### WATER

On February 16, 2004, the EPA signed final rules under Section 316(b) of the Clean Water Act relating to the design and operation of existing cooling water intake structures. The requirements to achieve compliance with this rule are subject to various factors, including the results of anticipated litigation, but we currently do not expect any capital expenditures required for compliance to be material.

The EPA and State of Texas periodically modify water quality standards and, where necessary, initiate total maximum daily load allocations for water-bodies not meeting those standards. Such actions could cause our facilities to incur significant costs to comply with revised discharge permit limitations.

#### NUCLEAR WASTE

Under the U.S. Nuclear Waste Policy Act of 1982, the federal government was to create a federal repository for spent nuclear fuel produced by nuclear plants like the South Texas Project. Also pursuant to that legislation a special assessment has been imposed on those nuclear plants to pay for the facility. Consistent with the Act, owners of nuclear facilities, including Texas Genco and the other owners of the South Texas Project, entered into contracts setting out the obligations of the owners and U.S. Department of Energy (DOE). Since 1998, DOE has been in default on its obligations to begin moving spent nuclear fuel from reactors to the federal repository (which still is not completed). On January 28, 2004, Texas Genco and the

other owners of the South Texas Project, along with owners of other nuclear plants, filed a breach of contract suit against DOE in order to protect against the running of a statute of limitations.

#### LIABILITY FOR PREEXISTING CONDITIONS AND REMEDIATION

**Asbestos and Other.** As a result of their age, many of our facilities contain significant amounts of asbestos insulation, other asbestos-containing materials and lead-based paint. Existing state and federal rules require the proper management and disposal of these potentially toxic materials. We have developed a management plan that includes proper maintenance of existing non-friable asbestos installations, and removal and abatement of asbestos containing materials where necessary because of maintenance, repairs, replacement or damage to the asbestos itself. We have planned for the proper management, abatement and disposal of asbestos and lead-based paint at our facilities.

We have been named, along with numerous others, as a defendant in a number of lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been third party workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by us. We anticipate that additional claims like those received may be asserted in the future, and we intend to continue our practice of vigorously contesting claims that we do not consider to have merit.

**Hydrocarbon Contamination.** CERC Corp. and certain of its subsidiaries are among some of the defendants in lawsuits filed beginning in August 2001 in Caddo Parish and Bossier Parish, Louisiana. The suits allege that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer, which lies beneath property owned or leased by certain of the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility," which was formerly operated by a predecessor in interest of CERC Corp. This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution.

Beginning about 1985, the predecessors of certain CERC Corp. defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they owned or leased. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. The Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

**Manufactured Gas Plant Sites.** CERC and its predecessors operated manufactured gas plants (MGP) in the past. In Minnesota, remediation has been completed on two sites, other than ongoing monitoring and water treatment. There are five remaining sites in CERC's Minnesota service territory, two of which CERC believes were neither owned nor operated by CERC, and for which CERC believes it has no liability.

At December 31, 2003, CERC had accrued \$19 million for remediation of certain Minnesota sites. At December 31, 2003, the estimated range of possible remediation costs for these sites was \$8 million to \$44 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. CERC has utilized an environmental expense tracker mechanism in its rates in Minnesota to recover estimated costs in excess of insurance recovery. CERC has collected or accrued \$12.5 million as of December 31, 2003 to be used for environmental remediation.

CERC has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for other sites. CERC has been named as a defendant in lawsuits under which contribution is sought for the cost to remediate former MGP sites based on the previous ownership of such

sites by former affiliates of CERC or its divisions. We are investigating details regarding these sites and the range of environmental expenditures for potential remediation. Based on current information, we have not been able to quantify a range of environmental expenditures for such sites.

Mercury Contamination. Our pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by us at some sites in the past, and we have conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on our experience and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, we believe that the costs of any remediation of these sites will not be material to our financial condition, results of operations or cash flows.

Other Environmental. From time to time, we have received notices from regulatory authorities or others regarding our status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. Although their ultimate outcome cannot be predicted at this time, we do not believe, based on our experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

#### EMPLOYEES

As of December 31, 2003, we had 11,046 full-time employees. The following table sets forth the number of our employees by business segment:

NUMBER REPRESENTED BY UNIONS OR OTHER COLLECTIVE BUSINESS SEGMENT	NUMBER BARGAINING GROUPS	-----
-----	Electric	
Transmission & Distribution.....	3,008	
1,322 Electric		
Generation.....	1,511	
1,030 Natural Gas		
Distribution.....	4,813	
1,549 Pipelines and		
Gathering.....	651 --	
Other		
Operations.....	1,063 --	-----
Total.....	11,046	3,901 =====

As of December 31, 2003, approximately 35% of the Company's employees are subject to collective bargaining agreements. Three of these agreements, covering approximately 14% of the Company's employees, have expired or will expire in 2004.

The 1,030 bargaining unit employees of Texas Genco were covered by a collective bargaining unit agreement with the International Brotherhood of Electrical Workers Local 66 that expired in September 2003. These bargaining unit employees have continued to work without interruption and Texas Genco has not had any work interruptions since 1976. Texas Genco continues to have a good relationship with the bargaining unit and is actively negotiating to obtain a new agreement in 2004.

The Minnegasco division of our natural gas distribution business has 512 bargaining unit employees that are covered by collective bargaining unit agreements that have expired or will expire in 2004. An agreement with the International Brotherhood of Electrical Workers Local 949, which expired in December 2003, was renegotiated in February 2004 covering 267 of these employees. The remaining 245 employees are covered by a collective bargaining agreement with the Office and Professional Employees International Union Local 12, which expires in May 2004.

EXECUTIVE OFFICERS  
(AS OF MARCH 1, 2004)

NAME	AGE	TITLE	-	----	----	-----
		David M.				
McClanahan.....	54	President and Chief Executive Officer and Director	Scott E.			
Rozzell.....	54	Executive Vice President, General Counsel and Corporate Secretary	Stephen C.			
Schaeffer.....	56	Executive Vice President and Group President, Gas Distribution and Sales	Gary L.			
Whitlock.....	54	Executive Vice President and Chief Financial Officer	James S.			
Brian.....	56	Senior Vice President and Chief Accounting Officer	Byron R.			
Kelley.....	56	President and Chief Operating Officer, CenterPoint Energy Pipelines and Field Services	Thomas R.			
Standish.....	54	President and Chief Operating Officer, CenterPoint Houston	David G.			
Tees.....	59	President and Chief Executive Officer, Texas Genco				

DAVID M. MCCLANAHAN has been President and Chief Executive Officer and a director of CenterPoint Energy since September 2002. He served as Vice Chairman of Reliant Energy from October 2000 to September 2002 and as President and Chief Operating Officer of Reliant Energy's Delivery Group from April 1999 to September 2002. He also served as the President and Chief Operating Officer of Reliant Energy HL&P, the electric utility division of Reliant Energy, from 1997 to 1999. He has served in various executive capacities with CenterPoint Energy since 1986. He previously served as Chairman of the Board of Directors of ERCOT and Chairman of the Board of the University of St. Thomas. He currently serves on the boards of the Edison Electric Institute and the American Gas Association.

SCOTT E. ROZZELL has served as Executive Vice President, General Counsel and Corporate Secretary of CenterPoint Energy since September 2002. He served as Executive Vice President and General Counsel of the Delivery Group of Reliant Energy from March 2001 to September 2002. Before joining CenterPoint Energy in 2001, Mr. Rozzell was a senior partner in the law firm of Baker Botts L.L.P.

STEPHEN C. SCHAEFFER has served as Executive Vice President and Group President, Gas Distribution Sales and Service, since December 2002. From September 2002 to December 2002, he served as Executive Vice President-Government and Regulatory Affairs of CenterPoint Energy. Prior to this position, Mr. Schaeffer served as Senior Vice President-Regulatory of Reliant Energy beginning in 1999. From 1997 to 1998, he served as Executive Vice President-Retail Energy Regulation of Reliant Energy's Retail Energy Group. He has served in various executive capacities with CenterPoint Energy since 1989.

GARY L. WHITLOCK has served as Executive Vice President and Chief Financial Officer of CenterPoint Energy since September 2002. He served as Executive Vice President and Chief Financial Officer of the Delivery Group of Reliant Energy from July 2001 to September 2002. Mr. Whitlock served as the Vice President, Finance and Chief Financial Officer of Dow AgroSciences, a subsidiary of The Dow Chemical Company, from 1998 to 2001.

JAMES S. BRIAN has served as Senior Vice President and Chief Accounting Officer of CenterPoint Energy since August 2002. He served as Senior Vice President, Finance and Administration of the Delivery Group of Reliant Energy from 1999 to August 2002, and as Vice President and Chief Financial Officer of Reliant Energy HL&P from 1997 to 1999. Mr. Brian has served in various executive capacities with CenterPoint Energy since 1983.

BYRON R. KELLEY has served as President and Chief Operating Officer of CenterPoint Energy Pipelines and Field Services since May 2003. Prior to joining CenterPoint Energy he served as President of El Paso International, a subsidiary of El Paso Corporation, for January 2001 to August 2002 and as Executive Vice President of Development, Operations and Engineering from March 1999 through December 2000. He currently serves on the Board of Directors of the Interstate Natural Gas Association of America.

THOMAS R. STANDISH has served as President and Chief Operating Officer of CenterPoint Houston since August 2002. He served as President and Chief Operating Officer for both electricity and natural gas for Reliant Energy's Houston area from 1999 until August 2002, and as Senior Vice President of Distribution Customer Service for Reliant Energy HL&P from 1997 to 1999. Mr. Standish has served in various executive capacities with CenterPoint Energy since 1993. He currently serves on the Board of Directors of ERCOT.

DAVID G. TEES has served as President and Chief Executive Officer of Texas Genco since August 2002. He served as Senior Vice President, Generation Operations of Reliant Energy from 1998 through August 2002. He also served as Vice President of Energy Production of Reliant Energy HL&P from 1986 to 1998. Mr. Tees has also served on the executive committee of the Edison Electric Institute Energy Supply Subcommittee and currently represents CenterPoint Energy as a Research Advisory Committee Member of the Electric Power Research Institute and is a director of the South Texas Project Nuclear Operating Company.

## RISK FACTORS

### PRINCIPAL RISK FACTORS ASSOCIATED WITH OUR BUSINESSES

#### RISK FACTORS AFFECTING OUR ELECTRIC TRANSMISSION & DISTRIBUTION BUSINESS

CENTERPOINT HOUSTON MAY NOT BE SUCCESSFUL IN RECOVERING THE FULL VALUE OF ITS TRUE-UP COMPONENTS.

CenterPoint Houston expects to make a filing on March 31, 2004 in a true-up proceeding provided for by the Texas electric restructuring law. The purpose of this proceeding will be to quantify and reconcile the following costs or true-up components:

- "stranded costs," which consist of the positive excess of the regulatory net book value of generation assets, as defined, over the market value of the assets;
- the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period;
- the Texas jurisdictional amount reported by the previously vertically integrated electric utilities as generation-related regulatory assets and liabilities (offset and adjusted by specified amounts) in their audited financial statements for 1998;
- final fuel over- or under-recovery; less
- "price to beat" clawback components.

CenterPoint Houston will be required to establish and support the amounts it seeks to recover in the 2004 True-Up Proceeding. CenterPoint Houston expects these amounts to be substantial. Third parties will have the opportunity and are expected to challenge CenterPoint Houston's calculation of these amounts. To the extent recovery of a portion of these amounts is denied or if we agree to forego recovery of a portion of the request under a settlement agreement, CenterPoint Houston would be unable to recover those amounts in the future. Additionally, in October 2003, a group of intervenors filed a petition asking the Texas Utility Commission to open a rulemaking proceeding and reconsider certain aspects of its true-up rules. In November 2003, the Texas Utility Commission voted to deny the petition. Despite the denial of the petition, we expect that issues could be raised in the 2004 True-Up Proceeding regarding our compliance with the Texas Utility Commission's rules regarding ECOM recovery, including whether Texas Genco has auctioned all capacity it is required to auction in view of the fact that some capacity has failed to sell in the state-mandated auctions. We believe Texas Genco has complied with the requirements under the applicable rules, including re-offering the unsold capacity in subsequent auctions. If events were to occur during the 2004 True-Up Proceeding that made the recovery of the ECOM true-up regulatory asset no longer probable, we would write off the unrecoverable balance of such asset as a charge against earnings.

In the event CenterPoint Houston has not begun to recover the amounts established in the 2004 True-Up Proceeding prior to its \$1.3 billion term loan maturity date in November 2005, CenterPoint Houston's ability to repay or refinance this term loan may be adversely affected.

The Texas Utility Commission's ruling that the 2004 True-Up Proceeding filing will be made on March 31, 2004 means that the calculation of the market value of a share of Texas Genco common stock for purposes of the Texas Utility Commission's stranded cost determination will be based on market prices during the 120 trading days ending on March 30, 2004 plus a control premium, if any, up to a maximum of 10%. If Texas Genco is sold to a third party at a lower price than the market value used by the Texas Utility Commission, CenterPoint Houston would be unable to recover the difference.

CENTERPOINT HOUSTON'S RECEIVABLES ARE CONCENTRATED IN A SMALL NUMBER OF RETAIL ELECTRIC PROVIDERS.

CenterPoint Houston's receivables from the distribution of electricity are collected from retail electric providers that supply the electricity CenterPoint Houston distributes to their customers. Currently, CenterPoint Houston does business with approximately 43 retail electric providers. Adverse economic

conditions, structural problems in the new ERCOT market or financial difficulties of one or more retail electric providers could impair the ability of these retail providers to pay for CenterPoint Houston's services or could cause them to delay such payments. CenterPoint Houston depends on these retail electric providers to remit payments on a timely basis. Any delay or default in payment could adversely affect CenterPoint Houston's cash flows, financial condition and results of operations. Reliant Resources, through its subsidiaries, is CenterPoint Houston's largest customer. Approximately 70% of CenterPoint Houston's \$83 million in billed receivables from retail electric providers at December 31, 2003 was owed by subsidiaries of Reliant Resources. Pursuant to the Texas electric restructuring law, Reliant Resources will be obligated to make a "price to beat" clawback payment to CenterPoint Houston in 2004 which is currently estimated by Reliant Resources to be \$175 million. CenterPoint Houston's financial condition may be adversely affected if Reliant Resources is unable to meet these obligations.

RATE REGULATION OF CENTERPOINT HOUSTON'S BUSINESS MAY DELAY OR DENY CENTERPOINT HOUSTON'S FULL RECOVERY OF ITS COSTS.

CenterPoint Houston's rates are regulated by certain municipalities and the Texas Utility Commission based on an analysis of its invested capital and its expenses incurred in a test year. Thus, the rates that CenterPoint Houston is allowed to charge may not match its expenses at any given time. While rate regulation in Texas is premised on providing a reasonable opportunity to recover reasonable and necessary operating expenses and to earn a reasonable return on its invested capital, there can be no assurance that the Texas Utility Commission will judge all of CenterPoint Houston's costs to be reasonable or necessary or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of CenterPoint Houston's costs.

DISRUPTIONS AT POWER GENERATION FACILITIES OWNED BY THIRD PARTIES COULD INTERRUPT CENTERPOINT HOUSTON'S SALES OF TRANSMISSION AND DISTRIBUTION SERVICES.

CenterPoint Houston depends on power generation facilities owned by third parties to provide retail electric providers with electric power which it transmits and distributes to customers of the retail electric providers. CenterPoint Houston does not own or operate any power generation facilities. If power generation is disrupted or if power generation capacity is inadequate, CenterPoint Houston's services may be interrupted, and its results of operations, financial condition and cash flows may be adversely affected.

CENTERPOINT HOUSTON'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A portion of CenterPoint Houston's revenues is derived from rates that it collects from each retail electric provider based on the amount of electricity it distributes on behalf of such retail electric provider. Thus, CenterPoint Houston's revenues and results of operations are subject to seasonality, weather conditions and other changes in electricity usage, with revenues being higher during the warmer months.

RISK FACTORS AFFECTING OUR ELECTRIC GENERATION BUSINESS

TEXAS GENCO'S REVENUES AND RESULTS OF OPERATIONS ARE IMPACTED BY MARKET RISKS THAT ARE BEYOND ITS CONTROL.

Texas Genco sells electric generation capacity, energy and ancillary services in the ERCOT market. The ERCOT market consists of the majority of the population centers in Texas and represents approximately 85% of the demand for power in the state. Under the Texas electric restructuring law, Texas Genco and other power generators in Texas are not subject to traditional cost-based regulation and, therefore, may sell electric generation capacity, energy and ancillary services to wholesale purchasers at prices determined by the market. As a result, Texas Genco is not guaranteed any rate of return on its capital investments through mandated rates, and its revenues and results of operations depend, in large part, upon prevailing market prices for electricity in the ERCOT market. Market prices for electricity, generation capacity, energy and ancillary services may fluctuate substantially. Texas Genco's gross margins are primarily derived from the sale of capacity entitlements associated with its large, solid fuel base-load generating units, including its coal and



lignite fueled generating stations and its interest in the South Texas Project nuclear generating station. The gross margins generated from payments associated with the capacity of these units are directly impacted by natural gas prices. Since the fuel costs for Texas Genco's base-load units are largely fixed under long-term contracts, they are generally not subject to significant daily and monthly fluctuations. However, the market price for power in the ERCOT market is directly affected by the price of natural gas. Because natural gas is the marginal fuel for facilities serving the ERCOT market during most hours, its price has a significant influence on the price of electric power. As a result, the price customers are willing to pay for entitlements to Texas Genco's solid fuel-fired base-load capacity generally rises and falls with natural gas prices.

Market prices in the ERCOT market may also fluctuate substantially due to other factors. Such fluctuations may occur over relatively short periods of time. Volatility in market prices may result from:

- oversupply or undersupply of generation capacity,
- power transmission or fuel transportation constraints or inefficiencies,
- weather conditions,
- seasonality,
- availability and market prices for natural gas, crude oil and refined products, coal, enriched uranium and uranium fuels,
- changes in electricity usage,
- additional supplies of electricity from existing competitors or new market entrants as a result of the development of new generation facilities or additional transmission capacity,
- illiquidity in the ERCOT market,
- availability of competitively priced alternative energy sources,
- natural disasters, wars, embargoes, terrorist attacks and other catastrophic events, and
- federal and state energy and environmental regulation and legislation.

THERE IS CURRENTLY A SURPLUS OF GENERATING CAPACITY IN THE ERCOT MARKET AND WE EXPECT THE MARKET FOR WHOLESALE POWER TO BE HIGHLY COMPETITIVE.

The amount by which power generating capacity exceeds peak demand (reserve margin) in the ERCOT market has exceeded 30% since 2001, and the Texas Utility Commission and the ERCOT Independent System Operator (ISO) have forecasted the reserve margin for 2004 to continue to exceed 30%. The commencement of commercial operation of new power generation facilities in the ERCOT market has increased and will continue to increase the competitiveness of the wholesale power market, which could have a material adverse effect on Texas Genco's results of operations, financial condition, cash flows and the market value of Texas Genco's assets.

Texas Genco's competitors include generation companies affiliated with Texas-based utilities, independent power producers, municipal and co-operative generators and wholesale power marketers. The unbundling of vertically integrated utilities into separate generation, transmission and distribution, and retail businesses pursuant to the Texas electric restructuring law could result in a significant number of additional competitors participating in the ERCOT market. Some of Texas Genco's competitors may have greater financial resources, lower cost structures, more effective risk management policies and procedures, greater ability to incur losses, greater potential for profitability from ancillary services, and greater flexibility in the timing of their sale of generating capacity and ancillary services than Texas Genco does.

TEXAS GENCO IS SUBJECT TO OPERATIONAL AND MARKET RISKS ASSOCIATED WITH ITS CAPACITY AUCTIONS.

Texas Genco has sold entitlements to a significant portion of its available 2004 and 2005 generating capacity in its capacity auctions held to date. Although Texas Genco's obligation to conduct contractually-

mandated auctions terminated in January 2004, it currently remains obligated to sell 15% of its installed generation capacity and related ancillary services pursuant to state-mandated auctions and it expects to conduct future capacity auctions with respect to all or part of its remaining capacity from time to time. In these auctions, Texas Genco sold firm entitlements on a forward basis to capacity and ancillary services dispatched within specified operational constraints. Although Texas Genco has reserved a portion of its aggregate net generation capacity from its capacity auctions for planned or forced outages at its facilities, unanticipated plant outages or other problems with its generation facilities could result in its firm capacity and ancillary services commitments exceeding its available generation capacity. As a result, an unexpected outage at one of Texas Genco's lower-cost facilities could require it to run one of its higher-cost plants or obtain replacement power from third parties in the open market in order to satisfy its obligations even though the energy payments for the dispatched power are based on the cost of its lower-cost facilities.

THE OPERATION OF TEXAS GENCO'S POWER GENERATION FACILITIES INVOLVES RISKS THAT COULD ADVERSELY AFFECT ITS REVENUES, COSTS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

Texas Genco is subject to various risks associated with operating its power generation facilities, any of which could adversely affect its revenues, costs, results of operations, financial condition and cash flows. These risks include:

- operating performance below expected levels of output or efficiency,
- breakdown or failure of equipment or processes,
- disruptions in the transmission of electricity,
- shortages of equipment, material or labor,
- labor disputes,
- fuel supply interruptions,
- limitations that may be imposed by regulatory requirements, including, among others, environmental standards,
- limitations imposed by the ERCOT ISO,
- violations of permit limitations,
- operator error, and
- catastrophic events such as fires, hurricanes, explosions, floods, terrorist attacks or other similar occurrences.

A significant portion of Texas Genco's facilities were constructed many years ago. Older generation equipment, even if maintained in accordance with good engineering practices, may require significant capital expenditures to keep it operating at high efficiency and to meet regulatory requirements. This equipment is also likely to require periodic upgrading and improvement. Any unexpected failure to produce power, including failure caused by breakdown or forced outage, could result in increased costs of operations and reduced earnings.

In December 2003, one of the three auxiliary standby diesel generators for Unit 2 at the South Texas Project failed during a routine test. The NRC allowed continued operation of Unit 2 while repairs to the generator were made. Repairs are expected to be completed before the end of a scheduled refueling outage on the unit in the spring of 2004. Should Unit 2 experience an unplanned shutdown prior to its scheduled outage, there is a risk that the NRC would not permit restarting the unit until the diesel generator was fully repaired. Texas Genco's share of the ultimate cost of repairs to the diesel generator is estimated to be approximately \$5 million and is expected to be substantially covered by insurance.

TEXAS GENCO RELIES ON POWER TRANSMISSION FACILITIES THAT IT DOES NOT OWN OR CONTROL AND THAT ARE SUBJECT TO TRANSMISSION CONSTRAINTS WITHIN THE ERCOT MARKET. IF THESE FACILITIES FAIL TO PROVIDE TEXAS GENCO WITH ADEQUATE TRANSMISSION CAPACITY, IT MAY NOT BE ABLE TO DELIVER WHOLESALE ELECTRIC POWER TO ITS CUSTOMERS AND IT MAY INCUR ADDITIONAL COSTS.

Texas Genco depends on transmission and distribution facilities owned and operated by CenterPoint Houston and by others to deliver the wholesale electric power it sells from its power generation facilities to its customers, who in turn deliver power to the end users. If transmission is disrupted, or if transmission capacity infrastructure is inadequate, Texas Genco's ability to sell and deliver wholesale electric energy may be adversely impacted.

The single control area of the ERCOT market for 2004 is organized into five congestion zones. Transmission congestion between the zones could impair Texas Genco's ability to schedule power for transmission across zonal boundaries, which are defined by the ERCOT ISO, thereby inhibiting Texas Genco's efforts to match its facility scheduled outputs with its customer scheduled requirements. In addition, power generators participating in the ERCOT market could be liable for congestion costs associated with transferring power between zones.

TEXAS GENCO'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS COULD BE ADVERSELY IMPACTED BY A DISRUPTION OF ITS FUEL SUPPLIES.

Texas Genco relies primarily on natural gas, coal, lignite and uranium to fuel its generation facilities. Texas Genco purchases its fuel from a number of different suppliers under long-term contracts and on the spot market. Texas Genco sells firm entitlements to capacity and ancillary services. Therefore, any disruption in the delivery of fuel could prevent Texas Genco from operating its facilities, or force Texas Genco to enter into alternative arrangements at higher than prevailing market prices, to meet its auction commitments, which could adversely affect its results of operations, financial condition and cash flows.

TO DATE, TEXAS GENCO HAS SOLD A SUBSTANTIAL PORTION OF ITS CAPACITY ENTITLEMENTS TO SUBSIDIARIES OF RELIANT RESOURCES. ACCORDINGLY, TEXAS GENCO'S RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS COULD BE ADVERSELY AFFECTED IF RELIANT RESOURCES CEASES TO BE A MAJOR CUSTOMER OR FAILS TO MEET ITS OBLIGATIONS.

By participating in Texas Genco's contractually-mandated auctions, subsidiaries of Reliant Resources have purchased entitlements to 79% of Texas Genco's sold 2004 capacity and 68% of Texas Genco's sold 2005 capacity. Reliant Resources has made these purchases either through the exercise of its contractual rights to purchase 50% of the entitlements Texas Genco auctioned in its prior contractually-mandated auctions or through the submission of bids. In the event Reliant Resources ceases to be a major customer or fails to meet its obligations to Texas Genco, Texas Genco's results of operations, financial condition and cash flows could be adversely affected. As of December 31, 2003, Reliant Resources' securities ratings are below investment grade. Texas Genco has been granted a security interest in accounts receivable and/or securitization notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to \$250 million in purchase obligations.

TEXAS GENCO MAY INCUR SUBSTANTIAL COSTS AND LIABILITIES AS A RESULT OF ITS OWNERSHIP OF NUCLEAR FACILITIES.

Texas Genco owns a 30.8% interest in the South Texas Project, a nuclear powered generation facility. As a result, Texas Genco is subject to risks associated with the ownership and operation of nuclear facilities. These risks include:

- liability associated with the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials,
- limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations, and

- uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines, shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. Any revised safety requirements promulgated by the NRC could necessitate substantial capital expenditures at nuclear plants. In addition, although we have no reason to anticipate a serious nuclear incident at the South Texas Project, if an incident were to occur, it could have a material adverse effect on Texas Genco's results of operations, financial condition and cash flows.

TEXAS GENCO'S OPERATIONS ARE SUBJECT TO EXTENSIVE REGULATION, INCLUDING ENVIRONMENTAL REGULATION. IF TEXAS GENCO FAILS TO COMPLY WITH APPLICABLE REGULATIONS OR TO OBTAIN OR MAINTAIN ANY NECESSARY GOVERNMENTAL PERMIT OR APPROVAL, IT MAY BE SUBJECT TO CIVIL, ADMINISTRATIVE AND/OR CRIMINAL PENALTIES THAT COULD ADVERSELY IMPACT ITS RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

Texas Genco's operations are subject to complex and stringent energy, environmental and other governmental laws and regulations. The acquisition, ownership and operation of power generation facilities require numerous permits, approvals and certificates from federal, state and local governmental agencies. These facilities are subject to regulation by the Texas Utility Commission regarding non-rate matters. Existing regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to Texas Genco or any of its generation facilities or future changes in laws and regulations may have a detrimental effect on its business.

Operation of the South Texas Project is subject to regulation by the NRC. This regulation involves testing, evaluation and modification of all aspects of plant operation in light of NRC safety and environmental requirements. Continuous demonstrations to the NRC that plant operations meet applicable requirements are also required. The NRC has the ultimate authority to determine whether any nuclear powered generating unit may operate.

Water for certain of Texas Genco's facilities is obtained from public water authorities. New or revised interpretations of existing agreements by those authorities or changes in price or availability of water may have a detrimental effect on Texas Genco's business.

Texas Genco's business is subject to extensive environmental regulation by federal, state and local authorities. Texas Genco is required to comply with numerous environmental laws and regulations and to obtain numerous governmental permits in operating its facilities. Texas Genco may incur significant additional costs to comply with these requirements. If Texas Genco fails to comply with these requirements or with any other regulatory requirements that apply to its operations, it could be subject to administrative, civil and/or criminal liability and fines, and regulatory agencies could take other actions seeking to curtail its operations. These liabilities or actions could adversely impact its results of operations, financial condition and cash flows.

Existing environmental regulations could be revised or reinterpreted, new laws and regulations could be adopted or become applicable to Texas Genco or its facilities, and future changes in environmental laws and regulations could occur, including potential regulatory and enforcement developments related to air emissions. If any of these events were to occur, Texas Genco's business, results of operations, financial condition and cash flows could be adversely affected.

Texas Genco may not be able to obtain or maintain from time to time all required environmental regulatory approvals. If there is a delay in obtaining any required environmental regulatory approvals or if Texas Genco fails to obtain and comply with them, it may not be able to operate its facilities or it may be required to incur additional costs. Texas Genco is generally responsible for all on-site liabilities associated with the environmental condition of its power generation facilities, regardless of when the liabilities arose and whether the liabilities are known or unknown. These liabilities may be substantial.

TEXAS GENCO'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

The demand for power in the ERCOT market is seasonal, with higher demand occurring during the warmer months. Accordingly, Texas Genco's customers are generally willing to pay higher prices for entitlements to Texas Genco's capacity during warmer months. As a result, Texas Genco's revenues and results of operations are subject to seasonality, with revenues being higher during the warmer months.

RISK FACTORS AFFECTING OUR NATURAL GAS DISTRIBUTION AND PIPELINES AND GATHERING BUSINESSES

RATE REGULATION OF CERC'S BUSINESS MAY DELAY OR DENY CERC'S FULL RECOVERY OF ITS COSTS.

CERC's rates for natural gas distribution are regulated by certain municipalities and state commissions based on an analysis of its invested capital and its expenses incurred in a test year. Thus, the rates that CERC is allowed to charge may not match its expenses at any given time. While rate regulation is, generally, premised on providing a reasonable opportunity to recover reasonable and necessary operating expenses and to earn a reasonable return on invested capital, there can be no assurance that the municipalities and state commissions will judge all of CERC's costs to be reasonable or necessary or that the regulatory process in which rates are determined will always result in rates that will produce full recovery of CERC's costs.

CERC'S BUSINESSES MUST COMPETE WITH ALTERNATIVE ENERGY SOURCES, AND ITS PIPELINES AND GATHERING BUSINESSES MUST COMPETE DIRECTLY WITH OTHERS IN THE TRANSPORTATION AND STORAGE OF NATURAL GAS.

CERC competes primarily with alternate energy sources such as electricity and other fuel sources. In some areas, intrastate pipelines, other natural gas distributors and marketers also compete directly with CERC for natural gas sales to end-users. In addition, as a result of federal regulatory changes affecting interstate pipelines, natural gas marketers operating on these pipelines may be able to bypass CERC's facilities and market, sell and/or transport natural gas directly to commercial and industrial customers. Any reduction in the amount of natural gas marketed, sold or transported by CERC as a result of competition may have an adverse impact on CERC's results of operations, financial condition and cash flows.

CERC's two interstate pipelines and its gathering systems compete with other interstate and intrastate pipelines and gathering systems in the transportation and storage of natural gas. The principal elements of competition are rates, terms of service, and flexibility and reliability of service. They also compete indirectly with other forms of energy, including electricity, coal and fuel oils. The primary competitive factor is price. The actions of CERC's competitors could lead to lower prices, which may have an adverse impact on CERC's results of operations, financial condition and cash flows.

CERC'S NATURAL GAS DISTRIBUTION BUSINESS IS SUBJECT TO FLUCTUATIONS IN NATURAL GAS PRICING LEVELS.

CERC is subject to risk associated with price movements of natural gas. Movements in natural gas prices might affect CERC's ability to collect balances due from its customers and could create the potential for uncollectible accounts expense to exceed the recoverable levels built into CERC's tariff rates. In addition, a sustained period of high natural gas prices could apply downward demand pressure on natural gas consumption in CERC's service territory. Additionally, increasing gas prices could create the need for CERC to provide collateral in order to purchase gas.

CERC MAY INCUR CARRYING COSTS ASSOCIATED WITH PASSING THROUGH CHANGES IN THE COSTS OF NATURAL GAS.

Generally, the regulations of the states in which CERC operates allow it to pass through changes in the costs of natural gas to its customers through purchased gas adjustment provisions in the applicable tariffs. There is, however, a timing difference between its purchases of natural gas and the ultimate recovery of these costs. Consequently, CERC may incur carrying costs as a result of this timing difference that are not recoverable from its customers. The failure to recover those additional carrying costs may have an adverse effect on CERC's results of operations, financial condition and cash flows.

IF CERC WERE TO FAIL TO EXTEND CONTRACTS WITH TWO OF ITS SIGNIFICANT PIPELINE CUSTOMERS, THERE COULD BE AN ADVERSE IMPACT ON ITS OPERATIONS.

Contracts with two of our significant pipeline customers, CenterPoint Energy Arkla and Laclede Gas Company, are currently scheduled to expire in 2005 and 2007, respectively. To the extent the pipelines are unable to extend these contracts or the contracts are renegotiated at rates substantially different than the rates provided in the current contracts, there could be an adverse effect on CERC's results of operations, financial condition and cash flows.

CERC'S INTERSTATE PIPELINES' REVENUES AND RESULTS OF OPERATIONS ARE SUBJECT TO FLUCTUATIONS IN THE SUPPLY OF GAS.

CERC's interstate pipelines largely rely on gas sourced in the various supply basins located in the Midcontinent region of the United States. To the extent the availability of this supply is substantially reduced, it could have an adverse effect on CERC's results of operations, financial condition and cash flows.

CERC'S REVENUES AND RESULTS OF OPERATIONS ARE SEASONAL.

A substantial portion of CERC's revenues are derived from natural gas sales and transportation. Thus, CERC's revenues and results of operations are subject to seasonality, weather conditions and other changes in natural gas usage, with revenues being higher during the winter months.

RISK FACTORS ASSOCIATED WITH OUR CONSOLIDATED FINANCIAL CONDITION

IF WE ARE UNABLE TO ARRANGE FUTURE FINANCINGS ON ACCEPTABLE TERMS, OUR ABILITY TO FUND FUTURE CAPITAL EXPENDITURES AND REFINANCE EXISTING INDEBTEDNESS COULD BE LIMITED.

As of December 31, 2003, we had \$11.0 billion of outstanding indebtedness on a consolidated basis. Approximately \$3.5 billion principal amount of this debt must be paid through 2006, excluding principal repayments of approximately \$142 million on transition bonds. In addition, the capital constraints and other factors currently impacting our businesses may require our future indebtedness to include terms that are more restrictive or burdensome than those of our current indebtedness. These terms may negatively impact our ability to operate our business, adversely affect our financial condition and results of operations or severely restrict or prohibit distributions from our subsidiaries. The success of our future financing efforts may depend, at least in part, on:

- our ability to recover the true-up components and to monetize our investment in Texas Genco;
- general economic and capital market conditions;
- credit availability from financial institutions and other lenders;
- investor confidence in us and the market in which we operate;
- maintenance of acceptable credit ratings;
- market expectations regarding our future earnings and probable cash flows;
- market perceptions of our ability to access capital markets on reasonable terms;
- our exposure to Reliant Resources in connection with its indemnification obligations arising in connection with its separation from us;
- provisions of relevant tax and securities laws; and
- our ability to obtain approval of specific financing transactions under the 1935 Act.

Our capital structure and liquidity will be significantly impacted in the 2004/2005 period by our ability to recover the true-up components through the regulatory process beginning in March 2004. To the extent our recovery is denied or materially reduced, our liquidity and financial condition will be materially adversely affected.

As of March 1, 2004, our CenterPoint Houston subsidiary has \$3.2 billion principal amount of general mortgage bonds outstanding and \$382 million of first mortgage bonds outstanding. It may issue additional general mortgage bonds on the basis of retired bonds, 70% of property additions or cash deposited with the trustee. Although approximately \$400 million of additional first mortgage bonds and general mortgage bonds could be issued on the basis of retired bonds and 70% of property additions as of December 31, 2003, CenterPoint Houston has agreed under the \$1.3 billion collateralized term loan maturing in 2005 to not issue, subject to certain exceptions, more than \$200 million of incremental secured or unsecured debt. In addition, CenterPoint Houston is contractually prohibited, subject to certain exceptions, from issuing additional first mortgage bonds.

Our current credit ratings are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Impact on Liquidity of a Downgrade in Credit Ratings" in Item 7 of Part II of this report. We cannot assure you that these credit ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to access capital on acceptable terms.

AS A HOLDING COMPANY WITH NO OPERATIONS OF OUR OWN, WE WILL DEPEND ON DISTRIBUTIONS FROM OUR SUBSIDIARIES TO MEET OUR PAYMENT OBLIGATIONS, AND PROVISIONS OF APPLICABLE LAW OR CONTRACTUAL RESTRICTIONS COULD LIMIT THE AMOUNT OF THOSE DISTRIBUTIONS.

We derive substantially all our operating income from, and hold substantially all our assets through, our subsidiaries. As a result, we will depend on distributions from our subsidiaries in order to meet our payment obligations. In general, these subsidiaries are separate and distinct legal entities and have no obligation to provide us with funds for our payment obligations, whether by dividends, distributions, loans or otherwise. In addition, provisions of applicable law, such as those limiting the legal sources of dividends and those under the 1935 Act, limit their ability to make payments or other distributions to us, and they could agree to contractual restrictions on their ability to make distributions.

Our right to receive any assets of any subsidiary, and therefore the right of our creditors to participate in those assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if we were a creditor of any subsidiary, our rights as a creditor would be subordinated to any security interest in the assets of that subsidiary and any indebtedness of the subsidiary senior to that held by us.

AN INCREASE IN SHORT-TERM INTEREST RATES COULD ADVERSELY AFFECT OUR CASH FLOWS.

As of December 31, 2003, we had \$2.8 billion of outstanding floating-rate debt owed to third parties. The interest rate spreads on such debt are substantially above our historical interest rate spreads. In addition, any floating-rate debt issued by us in the future could be at interest rates substantially above our historical borrowing rates. While we may seek to use interest rate swaps in order to hedge portions of our floating-rate debt, we may not be successful in obtaining hedges on acceptable terms. An increase in short-term interest rates could result in higher interest costs and could adversely affect our results of operations, financial condition and cash flows.

## OTHER RISKS

WE AND CENTERPOINT HOUSTON COULD INCUR LIABILITIES ASSOCIATED WITH BUSINESSES AND ASSETS THAT WE HAVE TRANSFERRED TO OTHERS.

Under some circumstances, we and CenterPoint Houston could incur liabilities associated with assets and businesses we and CenterPoint Houston no longer own. These assets and businesses were previously owned by Reliant Energy directly or through subsidiaries and include:

- those transferred to Reliant Resources or its subsidiaries in connection with the organization and capitalization of Reliant Resources prior to its initial public offering in 2001,
- those transferred to Texas Genco in connection with its organization and capitalization, and
- those transferred to us and CenterPoint Houston in connection with the August 2002 restructuring of Reliant Energy.

In connection with the organization and capitalization of Reliant Resources, Reliant Resources and its subsidiaries assumed liabilities associated with various assets and businesses Reliant Energy transferred to them. Reliant Resources also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, us and our subsidiaries, including CenterPoint Houston, with respect to liabilities associated with the transferred assets and businesses. The indemnity provisions were intended to place sole financial responsibility on Reliant Resources and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Reliant Resources, regardless of the time those liabilities arose. If Reliant Resources is unable to satisfy a liability that has been so assumed in circumstances in which Reliant Energy has not been released from the liability in connection with the transfer, we or CenterPoint Houston could be responsible for satisfying the liability.

Reliant Resources reported in its Annual Report on Form 10-K for the year ended December 31, 2003 that as of December 31, 2003 it had \$6.1 billion of total debt and its unsecured debt ratings are currently below investment grade. If Reliant Resources were unable to meet its obligations, it would need to consider, among various options, restructuring under the bankruptcy laws, in which event Reliant Resources might not honor its indemnification obligations and claims by Reliant Resources' creditors might be made against us as its former owner.

Reliant Energy and Reliant Resources are named as defendants in a number of lawsuits arising out of power sales in California and other West Coast markets and financial reporting matters. Although these matters relate to the business and operations of Reliant Resources, claims against Reliant Energy have been made on grounds that include the effect of Reliant Resources' financial results on Reliant Energy's historical financial statements and liability of Reliant Energy as a controlling shareholder of Reliant Resources. We or CenterPoint Houston could incur liability if claims in one or more of these lawsuits were successfully asserted against us or CenterPoint Houston and indemnification from Reliant Resources were determined to be unavailable or if Reliant Resources were unable to satisfy indemnification obligations owed with respect to those claims.

In connection with the organization and capitalization of Texas Genco, Texas Genco assumed liabilities associated with the electric generation assets Reliant Energy transferred to it. Texas Genco also agreed to indemnify, and cause the applicable transferee subsidiaries to indemnify, us and our subsidiaries, including CenterPoint Houston, with respect to liabilities associated with the transferred assets and businesses. In many cases the liabilities assumed were held by CenterPoint Houston and CenterPoint Houston was not released by third parties from these liabilities. The indemnity provisions were intended generally to place sole financial responsibility on Texas Genco and its subsidiaries for all liabilities associated with the current and historical businesses and operations of Texas Genco, regardless of the time those liabilities arose. If Texas Genco were unable to satisfy a liability that had been so assumed or indemnified against, and provided Reliant Energy had not been released from the liability in connection with the transfer, CenterPoint Houston could be responsible for satisfying the liability.



WE MAY NOT BE ABLE TO MONETIZE TEXAS GENCO ON TERMS WE FIND ACCEPTABLE.

On January 23, 2004, Reliant Resources announced that it would not exercise its option to purchase the common stock of Texas Genco that we own. We will continue to operate Texas Genco's facilities and are pursuing an alternative strategy to monetize Texas Genco, and we have engaged a financial advisor to assist us in that pursuit. We may not be able to monetize our interest in Texas Genco under any alternative strategy on terms we find acceptable. In addition, delays in monetization may increase the risk that the value of the ownership interest used in the stranded cost determination, which is to be based on market prices for Texas Genco common stock during the 120 trading days ending on March 30, 2004, will be higher than the proceeds received in the monetization process.

WE, TOGETHER WITH OUR SUBSIDIARIES, EXCLUDING TEXAS GENCO, ARE SUBJECT TO REGULATION UNDER THE 1935 ACT. THE 1935 ACT AND RELATED RULES AND REGULATIONS IMPOSE A NUMBER OF RESTRICTIONS ON OUR ACTIVITIES.

We and our subsidiaries, excluding Texas Genco, are subject to regulation by the SEC under the 1935 Act. The 1935 Act, among other things, limits the ability of a holding company and its regulated subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

We received an order from the SEC under the 1935 Act on June 30, 2003 relating to our financing activities, which is effective until June 30, 2005. We must seek a new order before the expiration date. Although authorized levels of financing, together with current levels of liquidity, are believed to be adequate during the period the order is effective, unforeseen events could result in capital needs in excess of authorized amounts, necessitating further authorization from the SEC. Approval of filings under the 1935 Act can take extended periods.

If as a result of the 2004 True-Up Proceeding or any other event we are required to take a charge against our net income, our current earnings could be reduced below the level which would enable us to pay the quarterly dividend on our common stock under our current SEC financing order. We expect to file an application with the SEC under the 1935 Act requesting an order authorizing us, in the event that we are required to take such a charge against our net income, to pay quarterly dividends out of capital or unearned surplus.

In addition, we would be required under the 1935 Act to obtain approval from the SEC to issue and sell securities for purposes of funding Texas Genco's operations or to guarantee a security of Texas Genco, except in emergency situations (in which we could provide funding pursuant to applicable SEC rules). Our failure to obtain approvals under the 1935 Act in a timely manner could adversely affect our and our subsidiaries' results of operations, financial condition and cash flows.

The United States Congress is currently considering legislation that has a provision that would repeal the 1935 Act. We cannot predict at this time whether this legislation or any variation thereof will be adopted or, if adopted, the effect of any such law on our business.

OUR INSURANCE COVERAGE MAY NOT BE SUFFICIENT. INSUFFICIENT INSURANCE COVERAGE AND INCREASED INSURANCE COSTS COULD ADVERSELY IMPACT OUR RESULTS OF OPERATIONS, FINANCIAL CONDITION AND CASH FLOWS.

We currently have general liability and property insurance in place to cover certain of our facilities in amounts that we consider appropriate. Such policies are subject to certain limits and deductibles and do not include business interruption coverage. We cannot assure you that insurance coverage will be available in the future at current costs or on commercially reasonable terms or that the insurance proceeds received for any loss of or any damage to any of our facilities will be sufficient to restore the loss or damage without negative impact on our results of operations, financial condition and cash flows.

Texas Genco and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain \$2.75 billion in property

damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses. Under the federal Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was \$10.6 billion as of December 31, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan. In addition, the security procedures at this facility have recently been enhanced to provide additional protection against terrorist attacks. All potential losses or liabilities associated with the South Texas Project may not be insurable, and the amount of insurance may not be sufficient to cover them.

In common with other companies in its line of business that serve coastal regions, CenterPoint Houston does not have insurance covering its transmission and distribution system because CenterPoint Houston believes it to be cost prohibitive. If CenterPoint Houston were to sustain any loss of or damage to its transmission and distribution properties, it would be entitled to seek to recover such loss or damage through a change in its regulated rates, although there is no assurance that CenterPoint Houston ultimately would obtain any such rate recovery or that any such rate recovery would be timely granted. Therefore, we cannot assure you that CenterPoint Houston will be able to restore any loss of or damage to any of its transmission and distribution properties without negative impact on its results of operations, financial condition and cash flows.

## ITEM 2. PROPERTIES

### CHARACTER OF OWNERSHIP

We own or lease our principal properties in fee, including our corporate office space and various real property and facilities relating to our generation assets and development activities. Most of our electric lines and gas mains are located, pursuant to easements and other rights, on public roads or on land owned by others.

### ELECTRIC TRANSMISSION & DISTRIBUTION

For information regarding the properties of our Electric Transmission & Distribution business segment, please read "Our Business -- Electric Transmission & Distribution" in Item 1 of this report, which information is incorporated herein by reference.

### ELECTRIC GENERATION

For information regarding the properties of our Electric Generation business segment, please read "Our Business -- Electric Generation" in Item 1 of this report, which information is incorporated herein by reference.

### NATURAL GAS DISTRIBUTION

For information regarding the properties of our Natural Gas Distribution business segment, please read "Our Business -- Natural Gas Distribution" in Item 1 of this report, which information is incorporated herein by reference.

### PIPELINES AND GATHERING

For information regarding the properties of our Pipelines and Gathering business segment, please read "Our Business -- Pipelines and Gathering" in Item 1 of this report, which information is incorporated herein by reference.

### OTHER OPERATIONS

For information regarding the properties of our Other Operations business segment, please read "Our Business -- Other Operations" in Item 1 of this report, which information is incorporated herein by reference.

### ITEM 3. LEGAL PROCEEDINGS

For a brief description of certain legal and regulatory proceedings affecting us, please read "Regulation" and "Environmental Matters" in Item 1 of this report and Notes 4 and 12 to our consolidated financial statements, which information is incorporated herein by reference.

In addition to the matters incorporated herein by reference, the following matters that we previously reported have been resolved:

In August and October 2003, class action lawsuits were filed against CenterPoint Houston and Reliant Energy Services in federal court in New York on behalf of purchasers of natural gas futures contracts on the New York Mercantile Exchange. A third, similar class action was filed in the same court in November 2003. The complaints alleged that the defendants manipulated the price of natural gas through their gas trading activities and price reporting practices in violation of the Commodity Exchange Act during the period January 1, 2000 through December 31, 2002. The plaintiffs sought damages based on the effect of such alleged manipulation on the value of the gas futures contracts they bought or sold. In January 2004, the plaintiffs voluntarily dismissed CenterPoint Houston from these lawsuits.

During 2003, we and Texas Genco were engaged in a dispute with Northwestern Resources Co. (NWR), the supplier of fuel to the Limestone electric generation facility, over the terms and pricing at which NWR supplies fuel to that facility under a 1999 settlement agreement between the parties and under ancillary obligations. Both sides to the dispute initiated lawsuits, but in January 2004, NWR and Texas Genco reached a settlement under which they agreed to dismiss those lawsuits and under which NWR would continue to provide certain quantities of lignite at specified prices during the period from 2004 through 2007, after which time the pricing would revert to pricing provided for under the 1999 settlement.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to the vote of our security holders during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR COMMON STOCK AND RELATED STOCKHOLDER MATTERS

As of February 29, 2004, our common stock was held of record by approximately 62,981 shareholders. Our common stock is listed on the New York and Chicago Stock Exchanges and is traded under the symbol "CNP."

The following table sets forth the high and low closing prices of the common stock of CenterPoint Energy or its predecessor on the New York Stock Exchange composite tape during the periods indicated, as reported by Bloomberg, and the cash dividends declared in these periods. Prior to August 31, 2002, information shown is for our predecessor, Reliant Energy. Cash dividends paid aggregated \$1.07 per share in 2002 and \$0.40 per share in 2003.

MARKET PRICE DIVIDEND -----	
DECLARED HIGH LOW PER SHARE -----	-----
---- 2002 First	
Quarter.....	\$0.375 January
7.....	\$26.85 February
25.....	\$20.35 Second
Quarter.....	\$0.375 April
23.....	\$25.93 May
17.....	\$14.30 Third
Quarter.....	\$ 0.16(1) July
8.....	\$17.00 July
24.....	\$ 5.40 Fourth
Quarter.....	\$ 0.16 October
3.....	9.00(2) October
22.....	5.65(2) 2003 First
Quarter.....	\$ 0.10 January
6.....	8.55 February
25.....	4.50 Second
Quarter.....	\$ 0.20(3) April
2.....	\$ 7.37 May
28.....	\$ 9.74 Third
Quarter.....	(3) July
17.....	\$ 7.71 September
29.....	9.38 Fourth
Quarter.....	\$ 0.10 November
3.....	\$10.11 December
11.....	9.15

(1) The reduction in the quarterly dividend to \$0.16 reflects the reduced size of CenterPoint Energy after its distribution of all the shares of common stock of Reliant Resources it owned.

(2) The fourth quarter 2002 stock prices reflect the distribution of our 83% ownership interest in Reliant Resources on September 30, 2002. The closing price of Reliant Resources' common stock on that date was \$1.75 per share.

(3) The \$0.20 per share dividend for the second quarter of 2003 included the third quarter dividend declared on June 18, 2003 and paid on September 10, 2003.

The closing market price of our common stock on December 31, 2003 was \$9.69 per share.

Under the terms of our \$2.3 billion bank facility, we agreed that our quarterly common stock dividend will not exceed \$0.10 per share. The 1935 Act restricts the source of our dividend payments to current and retained earnings, in the absence of approval from the SEC under the 1935 Act to pay dividends out of capital or unearned surplus.

In addition to the limitations imposed by our bank facility and the 1935 Act, the amount of future cash dividends will be subject to determination based upon our results of operations and financial condition, our future business prospects, any applicable contractual restrictions and other factors that our board of directors considers relevant and will be declared at the discretion of the board of directors.

#### Recent Sale of Unregistered Securities

The information set forth in Note 9(b) of the Notes to our Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations of CenterPoint Energy and Subsidiaries in Item 7 of Part II of this report regarding the issuance on December 17, 2003 of \$255 million aggregate principal amount of our 2.875% convertible senior notes due 2024 is incorporated by reference herein. We relied on the private placement exemption under Section 4(2) of the Securities Act of 1933 for the sale to the initial purchasers.

In addition, we have been advised by Citigroup Global Markets Inc. and Deutsche Bank Securities Inc., the representatives of the initial purchasers of the notes, that the notes were issued only to "qualified institutional buyers" in reliance on Rule 144A under the Securities Act of 1933 and outside the United States in accordance with Regulation S under the Securities Act of 1933. The notes were issued at 100% of the principal amount thereof. The initial purchasers purchased the notes from us at 97.75% of the principal amount thereof, plus accrued interest.

The notes are convertible into shares of our common stock at a conversion rate of 78.064 shares per \$1,000 principal amount of notes (which is equal to a conversion price of \$12.81 per share), subject to adjustment, but only in certain specified circumstances. The notes also have a contingent interest feature requiring contingent interest to be paid to holders of the notes in certain specified circumstances.

In October 2003, we awarded Milton Carroll 10,000 shares of our common stock pursuant to an agreement under which he serves as Chairman of our Board of Directors. We relied on the private placement exemption under Section 4(2) of the Securities Act of 1933.

#### Repurchases of Equity Securities

During the year ended December 31, 2003, none of our equity securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 was purchased by or on behalf of us or any of our "affiliated purchasers," as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial data with respect to our consolidated financial condition and consolidated results of operations and should be read in conjunction with our consolidated financial statements and the related notes in Item 8 of this report.

YEAR ENDED DECEMBER 31,	1999(1)	2000	2001(2)	2002
2003(3)(4)				
- (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Revenues.....	\$ 7,511	\$10,283	\$ 7,898	\$ 9,760
Income from continuing operations before extraordinary item and cumulative effect of accounting change.....	499	369	420	Discontinued
Operations.....	34	202	422	
Extraordinary item, net of tax.....	(4,289)	(16)	(183)	-- -- --
Cumulative effect of accounting change, net of tax.....	59	80		
Net income (loss) attributable to common shareholders.....	\$ 1,482	\$ 447	\$ 980	\$(3,920)
Basic earnings (loss) per common share: Income from continuing operations before extraordinary item and cumulative effect of accounting change.....	5.72	\$ 0.86	\$ 1.72	\$ 1.24
Operations.....	0.12	0.71		Discontinued
Extraordinary item, net of tax.....	1.46	(14.40)	(0.05)	(0.64)
Cumulative effect of accounting change, net of tax.....	0.20	0.26		
Basic earnings (loss) per common share.....	\$ 5.20	\$ 1.57	\$ 3.38	\$(13.16)
Diluted earnings (loss) per common share: Income from continuing operations before extraordinary item and cumulative effect of accounting change.....	1.59	\$ 1.71	\$ 1.23	\$ 1.37
Operations.....	0.12	0.71		Discontinued
Extraordinary item, net of tax.....	1.44	(14.31)	(0.05)	(0.64)
Cumulative effect of accounting change, net of tax.....	0.20	0.26		
Diluted earnings (loss) per common share.....	\$ 5.18	\$ 1.56	\$ 3.35	\$(13.08)
Cash dividends paid per common share.....	1.50	\$ 1.50	\$ 1.50	\$ 1.07
Dividend payout ratio from continuing operations.....	26%	174%	87%	86%
Return from continuing operations on average common equity.....	30.1%	4.6%	9.1%	9.0%
Ratio of earnings from continuing operations to fixed charges.....	5.38	1.80	2.18	1.70
At year-end: Book value per common share.....	\$ 22.77	\$ 4.74	\$ 5.77	\$ 26.52
Market price per common share.....	\$ 22.88	\$ 43.31	\$ 26.52	
Market price as a percent of book value.....	122%	227%	116%	169%
Assets of discontinued operations.....	\$ 6,095	\$ 14,323	\$ 12,392	\$ 63
Total assets.....	\$ 29,308	\$ 35,908	\$ 31,971	\$ 20,457
Short-term borrowings.....	\$ 4,886	\$ 3,529	\$ 347	\$ 63
Long-term debt obligations, including current maturities.....	\$ 8,883	\$ 5,756	\$ 5,552	\$ 10,005
Trust preferred securities(5).....	\$ 705	\$ 706	\$ 706	--
Cumulative preferred stock.....	\$ 10	\$ 10	--	--
Capitalization: Common stock equity.....	36%	46%	52%	12%
Trust preferred securities.....	14%	5%	6%	5%
Long-term debt, including current maturities.....	59%	48%	43%	82%
Capital expenditures, excluding discontinued operations.....	\$ 865	\$ 905	\$ 1,211	\$ 846
	\$ 648			

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(1) 1999 net income includes an aggregate non-cash, unrealized gain on our indexed debt securities and our Time Warner Inc. (Time Warner) investment, of \$1.2 billion (after-tax), or \$4.09 earnings per basic

share and \$4.08 earnings per diluted share. For additional information on the indexed debt securities and Time Warner investment, please read Note 7 to our consolidated financial statements. The extraordinary item in 1999 is a loss related to an accounting impairment of certain generation-related regulatory assets of our Electric Generation business segment.

- (2) 2001 net income includes the cumulative effect of an accounting change resulting from the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (\$59 million after-tax gain, or \$0.20 earnings per basic and diluted share). For additional information related to the cumulative effect of accounting change, please read Note 5 to our consolidated financial statements.
- (3) 2003 net income includes the cumulative effect of an accounting change resulting from the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" (\$80 million after-tax gain, or \$0.26 earnings per basic and diluted share). For additional information related to the cumulative effect of accounting change, please read Note 2(n) to our consolidated financial statements.
- (4) Resolution of the 2004 True-Up Proceeding and monetization of our remaining interest in Texas Genco could materially impact our results of operations, financial condition and cash flows. Additionally, we are no longer permitted under the Texas electric restructuring law to record non-cash ECOM revenue in 2004. For more information on these and other matters currently affecting us, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Executive Summary -- Significant Events in 2004."
- (5) The subsidiary trusts that issued trust preferred securities have been deconsolidated as a result of the adoption of FIN 46 "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46) and the subordinated debentures issued to those trusts are now reported as long-term debt as of December 31, 2003. For additional information related to the adoption of FIN 46, please read Note 2(n) to our consolidated financial statements.

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in combination with our consolidated financial statements included in Item 8 herein.

##### OVERVIEW

##### BACKGROUND

We are a public utility holding company, created on August 31, 2002 as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy) in compliance with requirements of the Texas electric restructuring law. We are the successor to Reliant Energy for financial reporting purposes under the Securities Exchange Act of 1934. Our operating subsidiaries own and operate electric generation plants, electric transmission and distribution facilities, natural gas distribution facilities and natural gas pipelines. We are a registered holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). For information about the 1935 Act, please read " -- Liquidity and Capital Resources -- Future Sources and Uses of Cash -- Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock." Our indirect wholly owned subsidiaries include:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which owns and operates our electric transmission and distribution business in the Texas Gulf Coast area; and
- CenterPoint Energy Resources Corp. (CERC Corp., and together with its subsidiaries, CERC), which owns and operates our local gas distribution companies, gas gathering systems and interstate pipelines.

We also have an approximately 81% ownership interest in Texas Genco Holdings, Inc. (Texas Genco), which owns and operates the Texas generating plants formerly belonging to the integrated electric utility that was a part of Reliant Energy. We distributed the remaining 19% of the outstanding common stock of Texas Genco to our shareholders in January 2003.



At the time of Reliant Energy's corporate restructuring, it owned an 83% interest in Reliant Resources, Inc. (Reliant Resources). On September 30, 2002, we distributed that interest to our shareholders (the Reliant Resources Distribution).

## BUSINESS SEGMENTS

In this section, we discuss our results from continuing operations on a consolidated basis and individually for each of our business segments. We also discuss our liquidity, capital resources and critical accounting policies. CenterPoint Energy is first and foremost an energy delivery company and it is our intention to remain focused on this segment of the energy business. The results of our business operations are significantly impacted by weather, customer growth, cost management and rate proceedings before regulatory agencies. Effective with the full deregulation of sales of electric energy to retail customers in Texas beginning in January 2002, power generators and retail electric providers in Texas ceased to be subject to traditional cost-based regulation. Since that date, we have sold generation capacity, energy and ancillary services related to power generation at prices determined by the market. The Texas generation operations are reported in the Electric Generation business segment. Our transmission and distribution services remain subject to rate regulation and are reported in the Electric Transmission & Distribution business segment as are impacts of generation-related stranded costs recoverable by the regulated utility. Although our former retail sales business is no longer conducted by us, retail customers remained regulated customers of our former integrated electric utility, Reliant Energy HL&P, through the date of their first meter reading in 2002. Sales of electricity to retail customers in 2002 prior to this meter reading are reflected in the Electric Transmission & Distribution business segment. Our reportable business segments include:

### Electric Transmission and Distribution

Our electric transmission and distribution operations provide electric transmission and distribution services to approximately 1.8 million metered customers in a 5,000-square-mile area of the Texas Gulf coast that has a population of approximately 4.7 million people and includes Houston.

CenterPoint Houston transports electricity from power plants to substations and from one substation to another and to retail electric customers in locations throughout the control area managed by the Electric Reliability Council of Texas, Inc. (ERCOT) on behalf of retail electric providers. ERCOT is an intrastate network which serves as the regional reliability coordinating council for member electric power systems in Texas. The ERCOT market represents approximately 85% of the demand for power in Texas and is one of the nation's largest power markets. Transmission services are provided under tariffs approved by the Public Utility Commission of Texas (the Texas Utility Commission).

Operations include construction and maintenance of electric transmission and distribution facilities, metering services, outage response services and other call center operations. Distribution services are provided under tariffs approved by the Texas Utility Commission.

### Electric Generation

Texas Genco owns and operates 60 generating units at 11 power generation facilities. Texas Genco also owns a 30.8% interest in the South Texas Project Electric Generating Station (South Texas Project), a nuclear generating station with two 1,250 megawatt (MW) nuclear generating units. As of December 31, 2003, the aggregate net generating capacity of Texas Genco's portfolio of generating assets was 14,153 MW, of which 2,988 MW of gas-fired capacity are currently mothballed. Texas Genco sells electric generation capacity, energy and ancillary services in the ERCOT market. Collectively, Texas Genco's facilities provide over 18% of the aggregate net generating capacity serving the ERCOT market.

### Natural Gas Distribution

CERC owns and operates our natural gas distribution business, which engages in intrastate natural gas sales to, and natural gas transportation for, approximately 3 million residential, commercial and industrial customers in Arkansas, Louisiana, Minnesota, Mississippi, Oklahoma and Texas. These operations are

regulated as natural gas utility operations. Its operations also include non-rate regulated retail gas sales to and transportation services for commercial and industrial customers in the six states listed above as well as several other Midwestern states.

#### Pipelines and Gathering

CERC's pipelines and gathering business operates two interstate natural gas pipelines as well as gas gathering facilities and also provides pipeline services. CERC's pipeline operations provides natural gas transportation, natural gas storage and pipeline services to customers principally in Arkansas, Louisiana, Missouri and Oklahoma. CERC's gathering operations are conducted principally in Arkansas, Louisiana, Oklahoma and Texas.

#### Other Operations

Our Other Operations business segment includes office buildings and other real estate used in our business operations and other corporate operations which support all of our business operations.

### EXECUTIVE SUMMARY

#### 2003 HIGHLIGHTS

Our operating performance and cash flow for 2003 compared to 2002 were affected by:

- a \$355 million increase in operating income at Texas Genco due to higher capacity auction prices;
- continued customer growth with the addition of nearly 85,000 metered electric and gas customers since December 2002, or an annualized 2% growth;
- an increase of \$33 million in revenues in the natural gas distribution operations from rate increases;
- an increase of \$170 million in interest expense;
- an increase of \$69 million in operation and maintenance expense related to CenterPoint Houston's final fuel reconciliation;
- an increase of \$58 million in pension, employee benefit and insurance costs; and
- a reduction of \$198 million in capital expenditures.

Net income for 2003 includes an \$80 million after-tax non-cash gain (\$0.26 per diluted share) from the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) as further discussed below under "-- Consolidated Results of Operations". Excluded from the \$80 million after-tax cumulative effect of accounting change recorded during the three months ended March 31, 2003, is minority interest of \$19 million related to the Texas Genco stock not owned by CenterPoint Energy.

In 2003, we accessed the capital markets to raise approximately \$4 billion. We used these proceeds to repay maturing debt, refinance higher coupon debt, pay down our short-term credit facilities and enhance our liquidity.

CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to its shareholders on January 6, 2003 (Texas Genco Distribution). As a result of the Texas Genco Distribution, CenterPoint Energy recorded an impairment charge of \$399 million, which is reflected as a regulatory asset representing stranded costs on our consolidated balance sheet as of December 31, 2003. This impairment charge represents the excess of the carrying value of CenterPoint Energy's net investment in Texas Genco over the market value of the Texas Genco common stock that was distributed. The financial impact of this impairment was offset by recording a \$399 million regulatory asset reflecting CenterPoint Energy's expectation of stranded cost recovery of such impairment. Since this amount is expected to be recovered in the 2004 True-Up Proceeding, CenterPoint Houston has recorded a regulatory asset, reflecting its

right to recover this amount, and an associated payable to us. Any additional impairment or loss that CenterPoint Energy incurs on its Texas Genco investment that CenterPoint Houston expects to recover as stranded investment will be recorded in the same manner.

#### SIGNIFICANT EVENTS IN 2004

During 2004, we expect to complete additional steps in a process that began when Texas adopted legislation designed to deregulate and restructure the electric utility industry in the state. That legislation (Texas electric restructuring law) required integrated electric utilities to separate their generating, transmission and distribution and retail sales functions pursuant to plans approved by the Texas Utility Commission.

The Texas electric restructuring law contains provisions that allow our transmission and distribution utility, CenterPoint Houston, to recover the amount by which the market value of our generating assets, as determined by the Texas Utility Commission under a formula prescribed in the law, is below the regulatory net book value for those assets as of the end of 2001. It also allows CenterPoint Houston to recover certain other transition costs, such as a final fuel reconciliation balance, regulatory assets and the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and actual market prices for generation as determined in the state-mandated capacity auctions during that period (called the ECOM true-up). Those amounts, and certain other adjustments, are to be determined by the Texas Utility Commission in a proceeding that will begin on March 31, 2004 (2004 True-Up Proceeding). The law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility, although, under its rules the Texas Utility Commission can extend the 150 day deadline for good cause. After the Texas Utility Commission determines the amount of the true-up components (the true-up balance) that the utility may recover, the utility will recover those amounts through a transition charge added to its transmission and distribution rates. Assuming receipt of a timely final order from the Texas Utility Commission, we expect to begin earning a non-cash rate of return on the true-up balance in the third quarter of 2004. We intend to seek authority from the Texas Utility Commission to securitize all or a portion of the true-up balance as early as the fourth quarter of 2004 through the issuance of transition bonds and to be in a position to issue those bonds by early 2005. Transition bonds would be issued through a special purpose entity that would be a subsidiary of CenterPoint Houston, but they would be non-recourse to CenterPoint Houston. Any portion of the true-up balance not securitized by transition bonds will be recovered through a non-bypassable competition transition charge. CenterPoint Houston will distribute recovery of the true-up components not used to repay indebtedness to us through either the payment of dividends or the settlement of intercompany payables. We can then move funds back to CenterPoint Houston, either through equity or intercompany debt, in order to maintain CenterPoint Houston's capital structure at the appropriate levels.

As discussed above, in accordance with the Texas electric restructuring law, we expect to seek recovery of substantial amounts for the true-up components. Determination of the amounts actually recovered will be made by the Texas Utility Commission in a proceeding in which we expect that various parties will challenge our claims, potentially resulting in an award of less than the full amount to which we believe CenterPoint Houston is entitled. An ultimate determination or a settlement at an amount less than that recorded in our financial statements could lead to a charge that would materially adversely affect our results of operations, financial condition and cash flows.

For some time, we have expected to monetize our remaining 81% interest in Texas Genco in 2004. In January 2004, Reliant Resources did not exercise its option to purchase our 81% interest in Texas Genco. We have engaged a financial advisor to assist us in exploring the sale of our 81% interest in Texas Genco. Any proceeds from the monetization of Texas Genco are expected to be used to repay indebtedness.

The alternatives for monetization of our remaining interest in Texas Genco may not be completed in 2004 and may result in receipt of proceeds in an amount different from the market valuation placed on Texas Genco in the 2004 True-Up Proceeding. To the extent that the Texas Utility Commission uses a market value higher than the amount ultimately realized from the sale of Texas Genco, a loss would be recognized. The

completion of the 2004 True-Up Proceeding and recovery of stranded costs is not dependent on the sale of Texas Genco.

Resolution of the 2004 True-Up Proceeding and the monetization of our remaining interest in Texas Genco are the two most significant events facing the company in 2004. These events are expected to result in aggregate proceeds of over \$5 billion based on the Texas Utility Commission rules. We have committed to use these proceeds to repay our indebtedness. Either or both events could, however, lead to charges against earnings. If those charges occur early in the year or are of sufficient magnitude, they could reduce our earnings below the level required for us to continue paying our current quarterly dividends out of current earnings as required under our Securities and Exchange Commission (SEC) financing order. We expect to file an application with the SEC under the 1935 Act requesting an order authorizing us, in the event we are required to take such a charge against earnings, to pay quarterly dividends out of capital or unearned surplus.

The Texas Utility Commission issued a final order in October 2001 (October 2001 Order) that established the transmission and distribution utility rates that became effective in January 2002. In this Order, the Texas Utility Commission found that CenterPoint Houston had over-mitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under the transition plan and Texas electric restructuring law. As a result of the October 2001 Order, CenterPoint Houston was required to refund \$1.1 billion through excess mitigation credits to certain retail electric customers during a seven-year period which began in January 2002, and which amount to approximately \$238 million per year. Amounts refunded will be considered in the 2004 True-Up Proceeding, and we expect that such refunds will be discontinued as a result of the 2004 True-Up Proceeding.

In connection with the implementation of the Texas electric restructuring law, the Texas Utility Commission has set a "price to beat" that retail electric providers affiliated or formerly affiliated with a former integrated utility must charge residential and small commercial customers within their affiliated electric utility's service area. The 2004 True-Up Proceeding provides for a clawback of the "price to beat" in excess of the market price of electricity if 40% of the "price to beat" load is not served by a non-affiliated retail electric provider by January 1, 2004. Pursuant to the Texas electric restructuring law and the master separation agreement entered into in connection with the September 30, 2002 spin-off of our interest in Reliant Resources to our shareholders, Reliant Resources is obligated to pay CenterPoint Houston for the clawback component of the 2004 True-Up Proceeding. Based on an order issued on February 13, 2004 by the Texas Utility Commission, the clawback will equal 150 times the number of residential customers served by Reliant Resources in CenterPoint Houston's service territory, less the number of residential customers served by Reliant Resources outside CenterPoint Houston's service territory, on January 1, 2004. As reported in Reliant Resources' Annual Report on Form 10-K for the year ended December 31, 2003, Reliant Resources expects that the clawback payment will be \$175 million. We expect that before, or upon, issuance of a final order in the 2004 True-Up Proceeding we will receive the clawback payment from Reliant Resources, which will reduce the amount of recoverable costs to be determined in the 2004 True-Up Proceeding.

The 2004 True-Up Proceeding will include the balance from the final fuel reconciliation proceeding for the fuel component of electric rates. Prior to the beginning of competition, fuel costs were a component of electric rates and those costs were reviewed and reconciled periodically by the Texas Utility Commission. Although the final fuel reconciliation is a separate proceeding that is currently underway, the final fuel over- or under- recovery balance will be included in the 2004 True-Up Proceeding, either as a reduction to or increase in the amount to be recovered.

Following adoption of the true-up rule by the Texas Utility Commission in 2001, CenterPoint Houston appealed the provisions of the rule that permitted interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the 2004 True-Up Proceeding, instead of from January 1, 2002 as CenterPoint Houston contends is required by law. On January 30, 2004, the Texas Supreme Court granted our petition for review of the true-up rule. Oral arguments were heard on February 18, 2004. The decision by the Court is pending. We have not accrued interest income on stranded costs in our consolidated financial statements, but estimate such interest income would be material to our consolidated financial statements.

We recorded non-cash ECOM revenue of \$697 million in 2002 and \$661 million in 2003. We are no longer permitted under the Texas electric restructuring law to record non-cash ECOM revenue in 2004. The reduction in interest costs that should result from the use of proceeds of securitization and monetization to reduce debt, to the extent received in 2004, should help offset the resulting reductions in earnings, but both the amount and timing of these securitization and monetization efforts is a function of the regulatory process described above.

#### PROCESS IMPROVEMENT INITIATIVE

In late 2002, we launched a company-wide process improvement effort designed to examine key aspects of how we conduct our business, and identify, design and implement improvements to enhance service quality, improve customer satisfaction and reduce costs. In 2003, we identified our core business processes and established process teams. Progress was made in understanding existing processes and identifying opportunities for improvement. Over the next several years, we plan to design and implement processes that will improve productivity and efficiency, reduce our cost structure and enhance service to our customers.

#### CERTAIN FACTORS AFFECTING FUTURE EARNINGS

Our past earnings and results of operations are not necessarily indicative of our future earnings and results of operations. The magnitude of our future earnings and results of our operations will depend on or be affected by numerous factors including:

- the timing and outcome of the regulatory process leading to the determination and recovery of the true-up components and the securitization of these amounts;
- the timing and results of the monetization of our interest in Texas Genco;
- state and federal legislative and regulatory actions or developments, including deregulation, re-regulation and restructuring of the electric utility industry, constraints placed on our activities or business by the 1935 Act, changes in or application of laws or regulations applicable to other aspects of our business and actions with respect to:
  - allowed rates of return;
  - rate structures;
  - recovery of investments; and
  - operation and construction of facilities;
- termination of accruals of ECOM true-up after 2003;
- industrial, commercial and residential growth in our service territory and changes in market demand and demographic patterns;
- the timing and extent of changes in commodity prices, particularly natural gas;
- changes in interest rates or rates of inflation;
- weather variations and other natural phenomena;
- the timing and extent of changes in the supply of natural gas;
- commercial bank and financial market conditions, our access to capital, the cost of such capital, receipt of certain approvals under the 1935 Act, and the results of our financing and refinancing efforts, including availability of funds in the debt capital markets;
- actions by rating agencies;
- inability of various counterparties to meet their obligations to us;
- non-payment for our services due to financial distress of our customers, including Reliant Resources;

- the outcome of the pending securities lawsuits against us, Reliant Energy and Reliant Resources;
- the ability of Reliant Resources to satisfy its obligations to us, including indemnity obligations and obligations to pay the "price to beat" clawback; and
- other factors discussed in Item 1 of this report under "Risk Factors."

#### CONSOLIDATED RESULTS OF OPERATIONS

All dollar amounts in the tables that follow are in millions, except for per share amounts.

YEAR ENDED DECEMBER 31, -----	2001	2002	2003	-----
Revenues.....	\$10,559	\$ 7,898	\$ 9,760	Operating
Expenses.....	(9,235)	(9,235)	(9,235)	Operating
Income.....	1,324	1,324	1,324	
	1,333	1,604		Gain (Loss) on Time Warner
	(70)	(500)	106	Gain (Loss) on Indexed Debt Securities.....
	480	(96)		Interest Expense and Distribution on Trust Preferred Securities.....
	(607)	(764)	(934)	Other Income (Expense), net.....
	52	18	(15)	Income From Continuing Operations Before Income Taxes, Minority Interest and Cumulative Effect of Accounting Change.....
	757	567	665	Income Tax Expense.....
	(198)	(216)		Minority Interest.....
	(29)			Income From Continuing Operations Before Cumulative Effect of Accounting Change.....
	422	(4,289)	(16)	Cumulative Effect of Accounting Change, net of tax.....
	59	--	80	Net Income (Loss) Attributable to Common
Shareholders.....	\$ 980	\$(3,920)	\$ 484	===== Basic
Earnings Per Share: Income From Continuing Operations Before Cumulative Effect of Accounting Change.....	\$ 1.72	\$ 1.24	\$ 1.38	
	1.46	(14.40)	(0.05)	Cumulative Effect of Accounting Change, net of tax.....
	0.26	--	--	Net Income (Loss) Attributable to Common
Shareholders.....	\$ 3.38	\$(13.16)	\$ 1.59	===== Diluted
Earnings Per Share: Income From Continuing Operations Before Cumulative Effect of Accounting Change.....	\$ 1.71	\$ 1.23	\$ 1.37	
	1.44	(14.31)	(0.05)	Cumulative Effect of Accounting Change, net of tax.....
	0.26	--	--	Net Income (Loss) Attributable to Common
Shareholders.....	\$ 3.35	\$(13.08)	\$ 1.58	=====

#### 2003 COMPARED TO 2002

Income from Continuing Operations. We reported income from continuing operations before cumulative effect of accounting change of \$420 million (\$1.37 per diluted share) for 2003 compared to \$369 million (\$1.23 per diluted share) for 2002. The increase in income from continuing operations before the cumulative

effect of accounting change for 2003 compared to 2002 of \$51 million was primarily due to a \$355 million increase in operating income from our Electric Generation business segment primarily resulting from increased margins from higher capacity and energy revenues as a result of higher capacity auction prices driven by higher natural gas prices, partially offset by a \$170 million increase in interest expense due to higher borrowing costs and increased debt levels, a \$61 million increase in expenses related to CenterPoint Houston's final fuel reconciliation and a \$36 million reduction in non-cash ECOM revenue.

**Cumulative Effect of Accounting Change.** In connection with the adoption in 2003 of SFAS No. 143, we have identified retirement obligations for nuclear decommissioning at the South Texas Project and for lignite mine operations which supply the Limestone electric generation facility. The net difference between the amounts determined under SFAS No. 143 and the previous method of accounting for estimated mine reclamation costs was \$37 million and has been recorded as a cumulative effect of accounting change. Upon adoption of SFAS No. 143, we reversed \$115 million of previously recognized removal costs with respect to our non-rate regulated businesses as a cumulative effect of accounting change. The total cumulative effect of accounting change from adoption of SFAS No. 143 was \$152 million. Excluded from the \$80 million after-tax cumulative effect of accounting change is minority interest of \$19 million related to the Texas Genco stock not owned by CenterPoint Energy. For additional discussion of the adoption of SFAS No. 143, please read Note 2(n) to our consolidated financial statements.

#### 2002 COMPARED TO 2001

**Income from Continuing Operations.** We reported income from continuing operations before cumulative effect of accounting change of \$369 million (\$1.23 per diluted share) for 2002 compared to \$499 million (\$1.71 per diluted share) for 2001. The \$130 million decrease in income from continuing operations before the cumulative effect of accounting change for 2002 compared to 2001 was primarily due to a reduction in operating income from our Electric Transmission and Distribution and Electric Generation business segments of \$165 million as a result of the transition to a deregulated ERCOT market in 2002, which includes non-cash ECOM revenue of \$697 million in 2002, and an increase in interest expense due to higher borrowing costs (\$157 million). Offsetting the above decreases were increases in operating income of our Natural Gas Distribution and Pipelines and Gathering business segments of \$84 million, primarily resulting from rate increases at our local gas distribution companies, the absence of \$49 million in goodwill amortization expense as a result of adopting SFAS No. 142, "Goodwill and Other Intangibles" (SFAS No. 142) in 2002 and a reduction in income taxes of \$60 million.

**Cumulative Effect of Accounting Change.** The 2001 results reflect a \$59 million after-tax non-cash gain from the adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS No. 133). For additional discussion of the adoption of SFAS No. 133, please read Note 5 to our consolidated financial statements.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

The following table presents operating income (in millions) for each of our business segments for 2001, 2002 and 2003. Some amounts from the previous years have been reclassified to conform to the 2003 presentation of the financial statements. These reclassifications do not affect consolidated net income.

OPERATING INCOME (LOSS) BY BUSINESS SEGMENT

YEAR ENDED DECEMBER 31, -----	2001	2002	2003 -----
(IN MILLIONS) Electric			
Transmission & Distribution.....	\$ 863		
Generation.....	\$1,096	\$1,020	
Distribution.....	(133)	222	
Gathering.....			130
Operations.....			198
Eliminations.....			(46)
Total Consolidated			\$1,324
Operating Income.....	\$1,324	\$1,333	
	\$1,604	=====	=====

ELECTRIC TRANSMISSION & DISTRIBUTION

The following tables provide summary data of our Electric Transmission & Distribution business segment, CenterPoint Houston, for 2001, 2002 and 2003 (in millions, except throughput data):

YEAR ENDED DECEMBER 31, -----	2001(1)	2002	2003 -----
Operating Revenues: Electric			
revenues.....	\$ 2,100	\$ 1,525	\$ 1,463
revenues(2).....			697
operating revenues.....	2,100	2,222	2,124
Operating Expenses: Operation and			
maintenance.....	650	642	
amortization.....	299	271	
taxes.....	288	213	198
expenses.....	1,237	1,126	
Income.....	\$ 863	\$ 1,096	\$ 1,020
Residential throughput (in Gwh).....	21,371	23,025	
Total throughput (in Gwh).....	71,325	69,585	
(3).....		70,815	

(1) Certain estimates and allocations have been used to separate historical (pre-January 2002) Electric Generation business segment data from the Electric Transmission & Distribution business segment data. As a result, there are no meaningful comparisons for these two business segments prior to 2002.

(2) In 2004, we will no longer be permitted under the Texas electric restructuring law to record non-cash ECOM revenue.

(3) Usage volumes for commercial and industrial customers are included in total throughput; however, the majority of these customers are billed on a peak demand (KW) basis and, as a result, revenues do not vary based on consumption.

2003 Compared to 2002. The Electric Transmission & Distribution business segment reported a decrease in operating income of \$76 million for 2003 compared to 2002. Increased revenues from customer



growth (\$40 million) were more than offset by transition period revenues that only occurred in 2002 (\$90 million) and decreased industrial demand, resulting in an overall decrease in electric revenues from the regulated electric transmission and distribution business of \$62 million. Additionally, non-cash ECOM revenue decreased \$36 million as a result of higher operating margins at the Electric Generation business segment based on the state-mandated capacity auctions. Operation and maintenance expenses decreased in 2003 compared to 2002 primarily due to the absence of purchased power costs that occurred in 2002 during the transition period to deregulation (\$48 million), a decrease in labor costs as a result of work force reductions in 2002 (\$13 million), non-recurring contract services expense primarily related to transition to deregulation in 2002 (\$10 million) and lower bad debt expense related to transition revenues in 2002 (\$10 million). These decreases were partially offset by an increase in expenses related to CenterPoint Houston's final fuel reconciliation (\$69 million) and an increase in benefits expense primarily due to increased pension costs (\$18 million). Taxes other than income taxes decreased \$15 million primarily due to the absence of gross receipts tax associated with transition period revenue in the first quarter of 2002 (\$9 million).

2002 Compared to 2001. The Electric Transmission & Distribution business segment, reported an increase in operating income of \$233 million for 2002 as compared to 2001, of which \$697 million related to non-cash ECOM revenue recorded pursuant to the Texas electric restructuring law. Electric revenues from the regulated electric transmission and distribution business decreased \$575 million primarily as a result of the transition to a deregulated ERCOT market in 2002. Throughput declined 2% during 2002 as compared to 2001. The decrease was primarily due to reduced energy delivery in the industrial sector resulting from self-generation by several major customers, partially offset by increased residential usage primarily due to non-weather related factors. Additionally, despite a slowing economy, total metered customers continued to grow at an annual rate of approximately 2% during the year. Operation and maintenance expenses decreased in 2002 as compared to 2001 primarily due to a decrease in factoring expense as a result of the termination of an agreement under which the Electric Transmission & Distribution business segment had sold its customer accounts receivable (\$77 million) and decreased transmission line losses in 2002 as this became a cost of retail electric providers in 2002 (\$16 million), partially offset by purchased power costs related to operation of the regulated utility during the transition period to deregulation (\$48 million), an increase in benefits expense (\$25 million) which included severance costs in connection with a reduction in work force by CenterPoint Houston in 2002 and expenses related to CenterPoint Houston's final fuel reconciliation (\$18 million). Depreciation and amortization decreased in 2002 as compared to 2001 primarily as a result of decreased amortization relating to certain regulatory assets (\$64 million) partially offset by increased amortization related to transition property associated with the transition bonds issued in November 2001 (\$35 million). Taxes other than income decreased largely as a result of lower gross receipts taxes (\$64 million), which became the responsibility of the retail electric providers upon deregulation.

ELECTRIC GENERATION

The following tables provide summary data of our Electric Generation business segment, Texas Genco, for 2001, 2002 and 2003 (in millions, except power sales data):

YEAR ENDED DECEMBER 31, -----	2001(1)	2002	2003	-----
- Operating				
Revenues.....	\$3,411	\$ 1,541	\$ 2,002	-----
Operating Expenses: Fuel and purchased power.....	1,083	1,171	2,527	-----
maintenance.....	402	391	411	-----
amortization.....	154	157		-----
taxes.....	63	43	39	-----
- Total operating expenses.....				
	1,674	1,780	3,146	-----
Operating Income				
(Loss).....	\$ (133)	\$ 222	=====	=====
Power sales (in GWh).....				
		51,463	47,374	---

(1) Certain estimates and allocations have been used to separate historical (pre-January 2002) Electric Generation business segment data from the Electric Transmission & Distribution business segment data. As a result, there are no meaningful comparisons for these two business segments prior to 2002.

2003 Compared to 2002. Our Electric Generation business segment's operating income increased \$355 million in 2003 compared to 2002 primarily due to increased operating margins (\$357 million) from higher capacity and energy revenues as a result of higher capacity auction prices driven by higher natural gas prices, partially offset by increased fuel costs due to higher natural gas prices and lower sales volumes. Our Electric Generation business segment was able to partially mitigate the higher cost of natural gas by switching to fuel oil on some of its flexible natural gas units, as well as benefiting from reductions in coal and lignite costs on its base-load units resulting from renegotiated supply agreements and increased utilization of spot purchases. Additionally, the sale of surplus air emission allowances, which is expected to recur in 2004, contributed to the increase in operating margins (\$16 million). Partially offsetting the increase in operating margins was a higher level of operation and maintenance expense primarily related to planned and unplanned outages (\$11 million) and higher pension and insurance expenses (\$21 million). These increases in operation and maintenance expense were partially offset by expenses incurred in 2002, which did not recur in 2003, the most significant of which were in connection with an early retirement program and business separation costs (\$28 million).

2002 Compared to 2001. Our Electric Generation business segment's operating income decreased \$398 million in 2002 compared to 2001 primarily due to decreased revenues resulting from the change from a regulated environment in 2001 to the deregulated ERCOT market (\$1.9 billion). The Electric Generation business segment's 2001 revenue was derived based on actual recoverable operating expenses plus an allowed regulatory rate of return based on the rate base while its 2002 revenue was derived from open market sales of capacity and energy at auction and spot market prices. Additionally, fuel and purchased power expenses decreased primarily due to lower natural gas prices and a reduction in overall demand for output from Texas Genco's facilities (\$1.4 billion). Operation and maintenance expense decreased primarily due to an absence of major maintenance outages at certain of Texas Genco's plants (\$36 million in 2001), which was partially offset by costs related to an early retirement program implemented in 2002 (\$12 million), business separation expenses (\$7 million) and computer systems necessary for operation in the deregulated market (\$6 million). Taxes other than income taxes decreased primarily due to lower tax valuations of generation assets (\$20 million).

NATURAL GAS DISTRIBUTION

The following table provides summary data of our Natural Gas Distribution business segment for 2001, 2002 and 2003 (in millions, except throughput data):

YEAR ENDED DECEMBER 31,	----- 2001		
2002 2003	-----	-----	----- Operating
Revenues.....			\$4,742
\$3,960 \$5,435	-----	-----	Operating Expenses:
	Natural		
gas.....			3,814
	2,995 4,428 Operation and		
maintenance.....			541 539 560
	Depreciation and		
amortization.....			147 126 136
	Taxes other than income		
taxes.....			110 102 109
	----- ---		
	----- Total operating		
expenses.....			4,612 3,762 5,233
	----- Operating		
Income.....			\$ 130
\$ 198 \$ 202	=====	=====	===== Throughput (in billion
	cubic feet (Bcf)): Residential and		
commercial.....			310 324 324
Industrial.....			50 47 49
Transportation.....			49 57 50 Non-rate regulated commercial and
industrial.....			445 471 511
	-----		
Total Throughput.....			854 899 934
	=====		

2003 Compared to 2002. Our Natural Gas Distribution business segment's operating income increased \$4 million in 2003 compared to 2002 primarily due to higher revenues from rate increases implemented late in 2002 (\$33 million), improved margins from our unregulated commercial and industrial sales (\$6 million) and continued customer growth with the addition of over 38,000 customers since December 2002 (\$6 million). These increases were partially offset by decreased revenues as a result of a decrease in the estimate of margins earned on unbilled revenues (\$11 million). Additionally, operating income was negatively impacted by higher employee benefit expenses primarily due to increased pension costs (\$13 million), certain costs being included in operating expense subsequent to the amendment of a receivables facility in November 2002 as compared to being included in interest expense in the prior year (\$7 million) and increased bad debt expense primarily due to higher gas prices (\$9 million).

2002 Compared to 2001. Our Natural Gas Distribution business segment's operating income increased \$68 million in 2002 compared to 2001 primarily as a result of improved margins from rate increases in 2002, a 5% increase in throughput and changes in estimates of unbilled revenues and deferred gas costs, which reduced operating margins in 2001 (\$37 million). Depreciation and amortization decreased primarily as a result of the discontinuance of goodwill amortization in 2002 in accordance with SFAS No. 142 as further discussed in Note 2(d) to our consolidated financial statements (\$31 million).

PIPELINES AND GATHERING

The following table provides summary data of our Pipelines and Gathering business segment for 2001, 2002 and 2003 (in millions, except throughput data):

YEAR ENDED DECEMBER 31,	----- 2001		
2002 2003	-----	-----	Operating
Revenues.....			\$ 415
\$ 374 \$ 407	-----	-----	Operating Expenses:
	Natural		
gas.....			79 32
	61 Operation and		
maintenance.....			121 130 129
	Depreciation and		
amortization.....			58 41 40 Taxes
other than income taxes.....			20
18 19	-----	-----	Total operating
expenses.....			278 221 249 -----
	----- Operating		
Income.....			\$ 137
\$ 153 \$ 158	=====	=====	===== Throughput (Bcf):
	Natural gas		
sales.....			18 14 9
Transportation.....			819 845 794
Gathering.....			300 287 292
Elimination(1).....			(9) (9) (4) -----
	----- Total		
Throughput.....			1,128
1,137 1,091	=====	=====	=====

- - - - -

(1) Elimination of volumes both transported and sold.

2003 Compared to 2002. Our Pipelines and Gathering business segment's operating income increased \$5 million in 2003 compared to 2002. The increase was primarily a result of increased margins (revenues less fuel costs) due to higher commodity prices (\$8 million), improved margins from new transportation contracts to power plants (\$7 million) and improved margins from enhanced services in our gas gathering operations (\$4 million), partially offset by higher pension, employee benefit and other miscellaneous expenses (\$14 million). Project work expenses included in operation and maintenance expense decreased and were offset by a corresponding decrease in revenues billed for these services (\$14 million).

2002 Compared to 2001. Our Pipelines and Gathering business segment's operating income increased \$16 million in 2002 compared to 2001 primarily as a result of the discontinuance of goodwill amortization in accordance with SFAS No. 142 as further discussed in Note 2(d) to our consolidated financial statements (\$17 million).

OTHER OPERATIONS

The following table provides summary data for our Other Operations business segment for 2001, 2002 and 2003 (in millions):

YEAR ENDED DECEMBER 31,	----- 2001		
2002 2003	-----	-----	Operating
Revenues.....			\$ 4 \$30 \$28 Operating
Expenses.....			50 11 26 -----
	----- Operating Income		
(Loss).....			(\$46)
\$19 \$ 2	=====	=====	=====

2003 Compared to 2002. Our Other Operations business segment's operating income in 2003 compared to 2002 decreased \$17 million primarily due to changes in unallocated corporate costs in 2002 as compared to 2003.

2002 Compared to 2001. Our Other Operations business segment's operating income increased by \$65 million in 2002 compared to 2001. The increase was primarily due to reductions in unallocated corporate costs of (\$34 million) and reductions in corporate accruals, primarily benefits (\$27 million).

#### DISCONTINUED OPERATIONS

On September 30, 2002, CenterPoint Energy distributed all of the shares of Reliant Resources common stock owned by CenterPoint Energy on a pro-rata basis to shareholders of CenterPoint Energy common stock. The consolidated financial statements have been prepared to reflect the effect of the Reliant Resources Distribution as described above on the CenterPoint Energy consolidated financial statements. The consolidated financial statements present the Reliant Resources businesses (Wholesale Energy, European Energy, Retail Energy and related corporate costs) as discontinued operations in 2001 and 2002 in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). We also recorded a \$4.4 billion non-cash loss on disposal of these discontinued operations in 2002. This loss represents the excess of the carrying value of our net investment in Reliant Resources over the market value of Reliant Resources common stock.

In February 2003, we sold our interest in Argener, a cogeneration facility in Argentina, for \$23 million. The carrying value of this investment was approximately \$11 million as of December 31, 2002. We recorded an after-tax gain of \$7 million from the sale of Argener in the first quarter of 2003. In April 2003, we sold our final remaining investment in Argentina, a 90 percent interest in Empresa Distribuidora de Electricidad de Santiago del Estero S.A. We recorded an after-tax loss of \$3 million in the second quarter of 2003 related to our Latin America operations. We have completed our strategy of exiting all of our international investments. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

In November 2003, we sold a component of our Other Operations business segment, CenterPoint Energy Management Services, Inc. (CEMS), that provides district cooling services in the Houston central business district and related complementary energy services to district cooling customers and others. We recorded an after-tax loss of \$1 million from the sale of CEMS in the fourth quarter of 2003. We recorded an after-tax loss in discontinued operations of \$16 million (\$25 million pre-tax) during the second quarter of 2003 to record the impairment of the CEMS long-lived assets based on the impending sale and to record one-time termination benefits. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

#### FLUCTUATIONS IN COMMODITY PRICES AND DERIVATIVE INSTRUMENTS

For information regarding our exposure to risk as a result of fluctuations in commodity prices and derivative instruments, please read "Quantitative and Qualitative Disclosures About Market Risk" in Item 7A of this report.

LIQUIDITY AND CAPITAL RESOURCES

HISTORICAL CASH FLOWS

The net cash provided by/used in operating, investing and financing activities for 2001, 2002 and 2003 is as follows (in millions):

YEAR ENDED DECEMBER 31, -----	2001	2002	2003	-----	-----	Cash
- 2001 2002 2003 -----						
provided by (used in): Operating						
activities.....	\$ 1,731	\$ 322	\$ 896	Investing		
activities.....	(1,196)	(766)	(667)	Financing		
activities.....	(1,045)	723	(439)			

CASH PROVIDED BY OPERATING ACTIVITIES

Net cash provided by operating activities in 2003 increased \$573 million compared to 2002 primarily due to an increase of \$355 million in Texas Genco's operating income substantially due to higher capacity and energy revenues as a result of higher capacity auction prices driven by higher natural gas prices, and higher income tax refunds received of \$170 million. These increases were partially offset by higher interest paid related to outstanding borrowings of \$130 million.

Net cash provided by operating activities in 2002 decreased \$1.4 billion compared to 2001. This decrease primarily resulted from refunds of excess mitigation credits to ratepayers in 2002 of \$224 million, lower revenues in the deregulated ERCOT market, which resulted in a \$398 million decrease in Texas Genco's operating income and a \$464 million decrease in CenterPoint Houston's operating income excluding non-cash income from ECOM, and an increase of \$48 million in interest paid related to outstanding borrowings. These decreases were partially offset by lower income taxes paid of \$154 million.

CASH USED IN INVESTING ACTIVITIES

Net cash used in investing activities decreased \$99 million during 2003 compared to 2002 due primarily to decreased environmental-related capital expenditures in our Electric Generation business segment and decreased capital expenditures in our Electric Transmission & Distribution business segment primarily resulting from process improvements that included revised construction and design standards.

Net cash used in investing activities decreased \$430 million during 2002 compared to 2001 due primarily to decreased environmental-related capital expenditures in our Electric Generation business segment and the absence in 2002 of capital expenditures incurred in 2001 in our Electric Transmission & Distribution business segment related to building infrastructure in preparation for deregulation.

CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

In 2003, debt payments exceeded net loan proceeds by \$328 million. In 2002, net loan proceeds exceeded debt payments by \$1.1 billion. Additionally, common stock dividends paid by us and Texas Genco in 2003 were \$187 million less than in 2002. Since the beginning of 2003, the terms of our credit facility have limited the common stock dividend to \$0.10 per share per quarter.

In 2002, net loan proceeds exceeded debt payments by \$1.1 billion. In 2001, debt payments exceeded net loan proceeds by \$702 million. Additionally, common stock dividends paid in 2002 were \$109 million less than in 2001.

FUTURE SOURCES AND USES OF CASH

Our liquidity and capital requirements will be affected by:

- capital expenditures;
- debt service requirements;
- various regulatory actions; and
- working capital requirements.

The 1935 Act regulates our financing ability, as more fully described in "--Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock" below.

The following table sets forth our capital expenditures for 2003, and estimates of our capital requirements for 2004 through 2008 (in millions):

2003	2004	2005	2006	2007	2008	----	----
----- Electric							
Transmission & Distribution.....	\$218						
\$282 \$245 \$258 \$274 \$257 Natural Gas							
Distribution.....	199	204					
213 211 213 214 Pipelines and							
Gathering.....	66	104	136				
88 96 50 Other							
Operations.....	14						
10 9 9 9 10							
-----							
Subtotal.....							
497 600 603 566 592 531 Electric							
Generation(1).....	139						
80 106 124 88 34 Electric Generation --							
nuclear fuel(1).....	12	14	23	25	14	28	-
-----							
Total.....							
\$648 \$694 \$732 \$715 \$694 \$593	====	====	====	====	====	====	====
	====	====	====	====	====	====	====

(1) We are currently exploring the sale of our 81% interest in Texas Genco.

The following table sets forth estimates of our contractual obligations to make future payments for 2004 through 2008 and thereafter (in millions):

2009 AND CONTRACTUAL OBLIGATIONS	TOTAL 2004	2005	2006	2007	2008	THEREAFTER
-----						
----- Long-term						
debt, including current						
portion.....						
\$10,925 \$ 156 \$1,731 \$1,657 \$ 67						
\$572 \$6,742 Capital						
leases.....	20	6				
7 4 2 -- 1 Short-term borrowing,						
including credit						
facilities.....	63	63				
-- -- -- -- Operating						
leases(1).....	186	42				
27 24 20 17 56 Non-trading						
derivative						
liabilities.....						
14 11 2 1 -- -- -- Pension						
funding requirements.....	450					
-- 75 14 220 141 -- Other						
commodity commitments(2).....						
3,625 1,354 816 600 419 186 250						
-----						
----- Total contractual						
cash						
obligations.....						
\$15,283 \$1,632 \$2,658 \$2,300 \$728						
\$916 \$7,049	=====	=====	=====	=====	=====	=====
	=====	=====	=====	=====	=====	=====

(1) For a discussion of operating leases, please read Note 12(b) to our consolidated financial statements.

(2) For a discussion of other commodity commitments, please read Note 12(a) to our consolidated financial statements.

Texas Genco has identified retirement obligations for nuclear decommissioning at the South Texas Project and the lignite mine operations which

supply its Limestone electric generation facility. Texas Genco has recorded liabilities as required by SFAS No. 143 of \$188 million for the nuclear decommissioning and \$6 million for the lignite mine as of December 31, 2003. CenterPoint Houston currently funds \$2.9 million a year to trusts established to fund Texas Genco's share of the decommissioning costs for the South Texas Project. Pursuant to the Texas electric restructuring law, costs associated with nuclear decommissioning that





Control  
Bonds  
175,000  
7.750-  
December  
2018  
8.000% and  
May 2029  
May 2003  
CenterPoint  
Energy  
Convertible  
Senior  
Notes  
575,000  
3.750% May  
2023 May  
2003  
CenterPoint  
Houston  
General  
Mortgage  
Bonds  
200,000  
5.600%  
July 2023  
May 2003  
CenterPoint  
Energy  
Senior  
Notes  
400,000  
5.875-  
June 2008  
and 6.850%  
2015 July  
2003  
CenterPoint  
Energy  
Pollution  
Control  
Bonds  
150,850  
4.000%  
August and  
October  
2015  
September  
2003  
CenterPoint  
Energy  
Senior  
Notes  
200,000  
7.250%  
September  
2010  
September  
2003  
CenterPoint  
Houston  
General  
Mortgage  
Bonds  
300,000  
5.750%  
January  
2014  
November  
2003 CERC  
Corp.  
Senior  
Notes  
160,000  
5.950%  
January  
2014  
December  
2003  
CenterPoint  
Energy  
Convertible  
Senior  
Notes  
255,000  
2.875%  
January  
2024

In 2003, we and our subsidiaries also entered into new credit facilities which increased liquidity, reduced financing costs and extended the termination dates of the facilities they replaced. As of December 31, 2003, we had the following credit facilities.

SIZE OF  
AMOUNT  
FACILITY  
AT  
OUTSTANDING  
AT  
DECEMBER  
31,  
DECEMBER  
31, TYPE  
OF DATE  
EXECUTED  
COMPANY  
2003 2003  
TERMINATION  
DATE  
FACILITY -  
-----  
-----  
-----  
-----  
-----  
-----  
-----  
-----  
-----  
-----  
(IN  
MILLIONS)  
March 25,  
2003 CERC  
Corp. \$  
200 \$ 63  
March 23,  
2004  
Revolver  
October 7,  
2003  
CenterPoint  
Energy  
1,425 537  
October 7,  
2006  
Revolver  
October 7,  
2003  
CenterPoint  
Energy 923  
923  
October 7,  
2006(1)  
Term Loan  
December  
23, 2003  
Texas  
Genco, LP  
75 --  
December  
21, 2004  
Revolver

-----  
(1) Mandatory quarterly payments through September 30, 2005 of \$2.5 million per quarter.

CERC Corp. is currently in discussions with banks seeking to arrange a replacement revolving credit facility and expects to have such a facility in place prior to the termination date of the existing facility. In the first quarter of 2004, CERC replaced its \$100 million receivables facility with a \$250 million committed one-year receivables facility. The bankruptcy remote subsidiary established in 2002 continues to buy CERC's receivables and sell them to an unrelated third party.

Additionally, in February 2004, \$56 million aggregate principal amount of collateralized 5.60% pollution control bonds due 2027 and \$44 million aggregate principal amount of 4.25% collateralized insurance-backed pollution control bonds due 2017 were issued on behalf of CenterPoint Houston. The pollution control bonds are collateralized by general mortgage bonds of CenterPoint Houston with principal amounts, interest rates and maturities that match the pollution control bonds. The proceeds were used to redeem two series of 6.7% collateralized pollution control bonds with an aggregate principal amount of \$100 million issued on our behalf. CenterPoint Houston's 6.7% first mortgage bonds which collateralized our payment obligations under the refunded pollution

control bonds were retired in connection with the March 2004 redemption of the refunded pollution control bonds. CenterPoint Houston's 6.7% notes payable to us were extinguished upon the redemption of the refunded pollution control bonds.

On December 31, 2003, we had temporary external investments of \$66 million.

At December 31, 2003, CenterPoint Energy had a shelf registration statement covering 15 million shares of common stock and CERC Corp. had a shelf registration statement covering \$50 million principal amount of debt securities.

Cash Requirements in 2004. Our liquidity and capital requirements are affected primarily by our results of operations, capital expenditures, debt service requirements, and working capital needs. Our principal cash requirements during 2004, assuming we continue to own our interest in Texas Genco for the full year, include the following:

- approximately \$694 million of capital expenditures;
- an estimated \$238 million in refunds by CenterPoint Houston of excess mitigation credits;
- dividend payments on CenterPoint Energy common stock;
- \$51 million of maturing long-term debt, including \$41 million of transition bonds; and
- maturity of any borrowings under CERC's \$200 million revolving credit agreement.

We expect that revolving credit borrowings and anticipated cash flows from operations will be sufficient to meet our cash needs for 2004. Our \$2.3 billion credit facility provides that, until such time as the credit facility has been reduced to \$750 million, all of the net cash proceeds from any securitizations relating to the recovery of the true-up components, after making any payments required under CenterPoint Houston's term loan, and the net cash proceeds of any sales of the common stock of Texas Genco that we own or of material portions of

Texas Genco's assets shall be applied to repay borrowings under our credit facility and reduce the amount available under the credit facility. Our \$2.3 billion credit facility contains no other restrictions with respect to our use of proceeds from financing activities. CenterPoint Houston's term loan requires the proceeds from the issuance of transition bonds to be used to reduce the term loan unless refused by the lenders. CenterPoint Houston's term loan, subject to certain exceptions, limits the application of proceeds from capital markets transactions by CenterPoint Houston over \$200 million to repayment of debt existing in November 2002.

CenterPoint Houston will distribute recovery of the true-up components not used to repay indebtedness to us through either the payment of dividends or the settlement of intercompany payables. We can then move funds back to CenterPoint Houston, either through equity or intercompany debt, in order to maintain CenterPoint Houston's capital structure at the appropriate levels. Under the orders described under "-- Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock," CenterPoint Houston's member's equity as a percentage of total capitalization must be at least 30%, although the SEC has permitted the percentage to be below this level for other companies taking into account non-recourse securitization debt as a component of capitalization.

Impact on Liquidity of a Downgrade in Credit Ratings. As of March 1, 2004, Moody's Investors Service, Inc. (Moody's), Standard & Poor's Ratings Services, a division of The McGraw Hill Companies (S&P), and Fitch, Inc. (Fitch) had assigned the following credit ratings to senior debt of CenterPoint Energy and certain subsidiaries:

```

MOODY'S S&P FITCH -----
-----
----- COMPANY/INSTRUMENT
RATING OUTLOOK(1) RATING
OUTLOOK(2) RATING OUTLOOK(3) - -
-----
----- CenterPoint Energy
Senior Unsecured
Debt.....
Ba2 Negative BBB- Negative BBB-
Negative CenterPoint Houston
Senior Secured Debt (First
Mortgage Bonds)..... Baa2
Negative BBB Negative BBB+
Negative CERC Corp. Senior
Debt..... Ba1 Negative
BBB Negative BBB Negative

```

- (1) A "negative" outlook from Moody's reflects concerns over the next 12 to 18 months which will either lead to a review for a potential downgrade or a return to a stable outlook.
- (2) An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate to longer term.
- (3) A "negative" outlook from Fitch encompasses a one-to-two year horizon as to the likely ratings direction.

On February 27, 2004, Moody's announced that it was downgrading our senior unsecured debt to Ba2 from Ba1. Moody's explained in its announcement that the action was to reflect the structural differences in rights and claims afforded to our senior secured bank lenders, who benefit from their priority claim on proceeds from the monetization of Texas Genco and from the up-streaming of proceeds resulting from securitization of the true-up components at CenterPoint Houston. Moody's announced that its action concluded a review for possible downgrade of us that it initiated in October 2003. Moody's retained a negative ratings outlook for us and for our subsidiaries CERC Corp. and CenterPoint Houston, but their ratings remain unchanged.

We cannot assure you that these ratings will remain in effect for any given period of time or that one or more of these ratings will not be lowered or withdrawn entirely by a rating agency. We note that these credit ratings are not recommendations to buy, sell or hold our securities and may be revised or withdrawn at any time by the rating agency. Each rating should be evaluated independently of any other rating. Any future reduction or withdrawal of one or more of our credit ratings could have a material adverse impact on our ability to obtain short- and long-term financing, the cost of such financings and the execution of our commercial strategies.

A decline in credit ratings would increase borrowing costs under CERC's \$200 million revolving credit facility. A decline in credit ratings would also increase the interest rate on long-term debt to be issued in the capital markets and would negatively impact our ability to complete capital market transactions. If we were

unable to maintain an investment-grade rating from at least one rating agency, as a registered public utility holding company we would be required to obtain further approval from the SEC for any additional capital markets transactions as more fully described in "-- Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock" below. Additionally, a decline in credit ratings could increase cash collateral requirements that could exist in connection with certain contracts relating to gas purchases, gas price hedging and gas storage activities of our Natural Gas Distribution business segment.

Our revolving credit facilities contain "material adverse change" clauses that could impact our ability to make new borrowings under these facilities. The "material adverse change" clauses in our revolving credit facilities generally relate to an event, development or circumstance that has or would reasonably be expected to have a material adverse effect on (a) the business, financial condition or operations of the borrower and its subsidiaries taken as a whole, or (b) the legality, validity or enforceability of the loan documents.

In September 1999, we issued 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of \$1.0 billion. Each ZENS note is exchangeable at the holder's option at any time for an amount of cash equal to 95% of the market value of the reference shares of Time Warner Inc. (TW Common) attributable to each ZENS note. If our creditworthiness were to drop such that ZENS note holders thought our liquidity was adversely affected or the market for the ZENS notes were to become illiquid, some ZENS noteholders might decide to exchange their ZENS notes for cash. Funds for the payment of cash upon exchange could be obtained from the sale of the shares of TW Common that we own or from other sources. We own shares of TW Common equal to 100% of the reference shares used to calculate our obligation to the holders of the ZENS notes. ZENS note exchanges result in a cash outflow because deferred tax liabilities related to the ZENS notes and TW Common shares become current tax obligations when ZENS notes are exchanged and TW Common shares are sold.

CenterPoint Energy Gas Services, Inc. (CEGS), a wholly owned subsidiary of CERC Corp., provides comprehensive natural gas sales and services to industrial and commercial customers which are primarily located within or near the territories served by our pipelines and natural gas distribution subsidiaries. In order to hedge its exposure to natural gas prices, CEGS has agreements with provisions standard for the industry that establish credit thresholds and require a party to provide additional collateral on two business days' notice when that party's rating or the rating of a credit support provider for that party (CERC Corp. in this case) falls below those levels. As of December 31, 2003, the senior unsecured debt of CERC Corp. was rated BBB by S&P and Ba1 by Moody's. We estimate that as of December 31, 2003, unsecured credit limits extended to CEGS by counterparties could aggregate \$62 million; however, utilized credit capacity is significantly lower.

Cross Defaults. Under our revolving credit facility and our term loan, a payment default on, or a non-payment default that permits acceleration of, any indebtedness exceeding \$50 million by us or any of our significant subsidiaries will cause a default. Pursuant to the indenture governing our senior notes, a payment default by us, CERC Corp. or CenterPoint Houston in respect of, or an acceleration of, borrowed money and certain other specified types of obligations, in the aggregate principal amount of \$50 million will cause a default. As of February 29, 2004, we had issued five series of senior notes aggregating \$1.4 billion in principal amount under this indenture. A default by CenterPoint Energy would not trigger a default under our subsidiaries' debt instruments.

Pension Plan. As discussed in Note 10 to the consolidated financial statements, we maintain a non-contributory pension plan covering substantially all employees. Employer contributions are based on actuarial computations that establish the minimum contribution required under the Employee Retirement Income Security Act of 1974 (ERISA) and the maximum deductible contribution for income tax purposes. No contributions were made to the plan during 2002. At December 31, 2002 and 2003, the projected benefit obligation exceeded the market value of plan assets by \$496 million and \$498 million, respectively. In September 2003, we elected to make a \$22.7 million contribution to our pension plan. As a result, we will not be required to make any contributions to our pension plan prior to 2005. Changes in interest rates and the market values of the securities held by the plan during 2004 could materially, positively or negatively, change our under-funded status and affect the level of pension expense and required contributions in 2005 and

beyond. Plan assets used to satisfy pension obligations have been adversely impacted by the decline in equity market values prior to 2003.

Under the terms of our pension plan, we reserve the right to change, modify or terminate the plan. Our funding policy is to review amounts annually and contribute an amount at least equal to the minimum contribution required under ERISA.

In accordance with SFAS No. 87, "Employers' Accounting for Pensions," changes in pension obligations and assets may not be immediately recognized as pension costs in the income statement, but generally are recognized in future years over the remaining average service period of plan participants. As such, significant portions of pension costs recorded in any period may not reflect the actual level of benefit payments provided to plan participants.

Pension costs were \$39 million, \$35 million and \$90 million for 2001, 2002 and 2003, respectively. Included in the net pension cost in 2001 was \$45 million of expense related to Reliant Resources' participants. For 2002, a pension benefit of \$4 million was recorded related to Reliant Resources' participants. Pension benefit and expense for Reliant Resources' participants are reflected in the Statement of Consolidated Operations as discontinued operations. Additionally, we maintain a non-qualified benefit restoration plan which allows participants to retain the benefits to which they would have been entitled under our non-contributory pension plan except for the federally mandated limits on these benefits or on the level of compensation on which these benefits may be calculated. The expense associated with this non-qualified plan was \$25 million, \$9 million and \$8 million in 2001, 2002 and 2003, respectively. Included in the cost in 2001 and 2002 is \$17 million and \$3 million, respectively, of expense related to Reliant Resources' participants, which is reflected in discontinued operations in the Statements of Consolidated Operations.

The calculation of pension expense and related liabilities requires the use of assumptions. Changes in these assumptions can result in different expense and liability amounts, and future actual experience can differ from the assumptions. Two of the most critical assumptions are the expected long-term rate of return on plan assets and the assumed discount rate.

As of December 31, 2003, the expected long-term rate of return on plan assets was 9.0%. We believe that our actual asset allocation on average will approximate the targeted allocation and the estimated return on net assets. We regularly review our actual asset allocation and periodically rebalance plan assets as appropriate.

As of December 31, 2003, the projected benefit obligation was calculated assuming a discount rate of 6.25%, which is a .5% decline from the 6.75% discount rate assumed in 2002. The discount rate was determined by reviewing yields on high-quality bonds that receive one of the two highest ratings given by a recognized rating agency and the expected duration of pension obligation specific to the characteristics of our plan.

Pension expense for 2004, including the benefit restoration plan, is estimated to be \$82 million based on an expected return on plan assets of 9.0% and a discount rate of 6.25% as of December 31, 2003. If the expected return assumption were lowered by .5% (from 9.0% to 8.5%), 2004 pension expense would increase by approximately \$6 million. Similarly, if the discount rate were lowered by .5% (from 6.25% to 5.75%), this assumption change would increase our projected benefit obligation, pension liabilities and 2004 pension expense by approximately \$121 million, \$111 million and \$10 million, respectively. In addition, the assumption change would result in an additional charge to comprehensive income during 2004 of \$72 million, net of tax.

Primarily due to the decline in the market value of the pension plan's assets and increased benefit obligations associated with a reduction in the discount rate, the value of the plan's assets is less than our accumulated benefit obligation. As a result, we recorded a non-cash minimum liability adjustment, which resulted in a charge to other comprehensive income during the fourth quarter of 2002 of \$414 million, net of tax. In December 2003, we recorded a minimum liability adjustment in the Consolidated Balance Sheet (\$72 million decrease in pension liability) to reflect a liability equal to the unfunded accumulated benefit obligation, with an offsetting credit of \$47 million to equity, net of a \$25 million deferred tax effect.

Future changes in plan asset returns, assumed discount rates and various other factors related to the pension plan will impact our future pension expense and liabilities. We cannot predict with certainty what these factors will be in the future.

Other Factors that Could Affect Cash Requirements. In addition to the above factors, our liquidity and capital resources could be affected by:

- cash collateral requirements that could exist in connection with certain contracts, including gas purchases, gas price hedging and gas storage activities of our Natural Gas Distribution business segment, particularly given gas price levels and volatility;
- acceleration of payment dates on certain gas supply contracts under certain circumstances, as a result of increased gas prices and concentration of suppliers;
- increased costs related to the acquisition of gas for storage;
- increases in interest expense in connection with debt refinancings;
- various regulatory actions; and
- the ability of Reliant Resources and its subsidiaries to satisfy their obligations as the principal customers of CenterPoint Houston and Texas Genco and in respect of Reliant Resources' indemnity obligations to us and our subsidiaries.

Money Pool. We have two "money pools" through which our participating subsidiaries can borrow or invest on a short-term basis. Funding needs are aggregated and external borrowing or investing is based on the net cash position. Prior to October 2003, we had only one money pool. Following Texas Genco's certification by FERC as an "exempt wholesale generator" under the 1935 Act in October 2003, it could no longer participate with our regulated subsidiaries in the same money pool. In October 2003, we established a second money pool in which Texas Genco and certain of our other unregulated subsidiaries can participate.

The net funding requirements of the money pool in which our regulated subsidiaries participate are expected to be met with loans and revolving credit facilities. Except in an emergency situation (in which case we could provide funding pursuant to applicable SEC rules), we would be required to obtain approval from the SEC to issue and sell securities for purposes of funding Texas Genco's operations via the money pool established in October 2003. The terms of both money pools are in accordance with requirements applicable to registered public utility holding companies under the 1935 Act and under an order from the SEC relating to our financing activities and those of our subsidiaries on June 30, 2003 (June 2003 Financing Order).

Certain Contractual and Regulatory Limits on Ability to Issue Securities and Pay Dividends on Our Common Stock. Factors affecting our ability to issue securities, pay dividends on our common stock or take other actions that affect our capitalization include:

- covenants and other provisions in our credit or loan facilities and the credit facilities and receivables facility of our subsidiaries and other borrowing agreements; and
- limitations imposed on us as a registered public utility holding company under the 1935 Act.

The collateralized term loan of CenterPoint Houston limits its debt, excluding transition bonds, as a percentage of its total capitalization to 68%. CERC Corp.'s bank facility and its receivables facility limit CERC's debt as a percentage of its total capitalization to 60% and contain an earnings before interest, taxes, depreciation and amortization (EBITDA) to interest covenant. CERC Corp.'s bank facility also contains a provision that could, under certain circumstances, limit the amount of dividends that could be paid by CERC Corp. Our \$2.3 billion revolving credit and term loan facility limits dividend payments as described above, contains a debt to EBITDA covenant, an EBITDA to interest covenant and restrictions on the use of proceeds from certain debt issuances and certain asset sales. These facilities include certain restrictive covenants. We and our subsidiaries are in compliance with such covenants.

We are a registered public utility holding company under the 1935 Act. The 1935 Act and related rules and regulations impose a number of restrictions on our activities and those of our subsidiaries other than Texas



Genco. The 1935 Act, among other things, limits our ability and the ability of our regulated subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

The June 2003 Financing Order is effective until June 30, 2005. Additionally, we have received several subsequent orders which provide additional financing authority. These orders establish limits on the amount of external debt and equity securities that can be issued by us and our regulated subsidiaries without additional authorization but generally permit us to refinance our existing obligations and those of our regulated subsidiaries. Each of us and our subsidiaries is in compliance with the authorized limits. Discussed below are the incremental amounts of debt and equity that we are authorized to issue after giving effect to our capital markets transactions in 2003 and the first two months of 2004. The orders also permit utilization of undrawn credit facilities at CenterPoint Energy and CERC. As of March 1, 2004:

- CenterPoint Energy is authorized to issue an additional aggregate \$250 million of preferred stock, preferred securities and equity-linked securities, \$160 million of debt and 199 million shares of common stock;
- CenterPoint Houston is authorized to issue an additional aggregate \$161 million of debt and an aggregate \$250 million of preferred stock and preferred securities; and
- CERC is authorized to issue an additional \$2 million of debt and an additional aggregate \$250 million of preferred stock and preferred securities.

The SEC has reserved jurisdiction over, and must take further action to permit, the issuance of \$478 million of additional debt at CenterPoint Energy, \$480 million of additional debt at CERC and \$250 million of additional debt at CenterPoint Houston.

The orders require that if we or any of our regulated subsidiaries issue securities that are rated by a nationally recognized statistical rating organization (NRSRO), the security to be issued must obtain an investment grade rating from at least one NRSRO and, as a condition to such issuance, all outstanding rated securities of the issuer and of CenterPoint Energy must be rated investment grade by at least one NRSRO. The orders also contain certain requirements for interest rates, maturities, issuance expenses and use of proceeds.

The 1935 Act limits the payment of dividends to payment from current and retained earnings unless specific authorization is obtained to pay dividends from other sources. The SEC has reserved jurisdiction over payment of \$500 million of dividends from CenterPoint Energy's unearned surplus or capital. Further authorization would be required to make those payments. As of December 31, 2003, we had a retained deficit on our Consolidated Balance Sheet. We expect to pay dividends out of current earnings. If as a result of the 2004 True-Up Proceeding or any other event we are required to take a charge against our net income, our current earnings could be reduced below the level which would enable us to pay the quarterly dividend on our common stock under our current SEC financing order. We expect to file an application with the SEC under the 1935 Act requesting an order authorizing us, in the event that we are required to take such a charge against our net income, to pay quarterly dividends out of capital or unearned surplus. The June 2003 Financing Order requires that CenterPoint Houston and CERC maintain a ratio of common equity to total capitalization of thirty percent (30%).

Security Interests in Receivables of Reliant Resources. Pursuant to a Master Power Purchase and Sale Agreement (as amended) with a subsidiary of Reliant Resources related to power sales in the ERCOT market, Texas Genco has been granted a security interest in accounts receivable and/or notes associated with the accounts receivable of certain subsidiaries of Reliant Resources to secure up to \$250 million in purchase obligations.

## CRITICAL ACCOUNTING POLICIES

A critical accounting policy is one that is both important to the presentation of our financial condition and results of operations and requires management to make difficult, subjective or complex accounting estimates. An accounting estimate is an approximation made by management of a financial statement element, item or account in the financial statements. Accounting estimates in our historical consolidated financial statements measure the effects of past business transactions or events, or the present status of an asset or liability. The accounting estimates described below require us to make assumptions about matters that are highly uncertain at the time the estimate is made. Additionally, different estimates that we could have used or changes in an accounting estimate that are reasonably likely to occur could have a material impact on the presentation of our financial condition or results of operations. The circumstances that make these judgments difficult, subjective and/or complex have to do with the need to make estimates about the effect of matters that are inherently uncertain. Estimates and assumptions about future events and their effects cannot be predicted with certainty. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments. These estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Our significant accounting policies are discussed in Note 2 to our consolidated financial statements. We believe the following accounting policies involve the application of critical accounting estimates. Accordingly, these accounting estimates have been reviewed and discussed with the audit committee of the board of directors.

### ACCOUNTING FOR RATE REGULATION

SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated entities account for and report assets and liabilities consistent with the recovery of those incurred costs in rates if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. Application of SFAS No. 71 to the electric generation portion of our business was discontinued as of June 30, 1999. Our Electric Transmission & Distribution business continues to apply SFAS No. 71 which results in our accounting for the regulatory effects of recovery of stranded costs and other regulatory assets resulting from the unbundling of the transmission and distribution business from our electric generation operations in our consolidated financial statements. Certain expenses and revenues subject to utility regulation or rate determination normally reflected in income are deferred on the balance sheet and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. Significant accounting estimates embedded within the application of SFAS No. 71 with respect to our Electric Transmission & Distribution business segment relate to \$2.1 billion of recoverable electric generation plant mitigation assets (stranded costs) and \$1.4 billion of ECOM true-up as of December 31, 2003. The stranded costs include \$1.1 billion of previously recorded accelerated depreciation and \$841 million of previously redirected depreciation as well as \$399 million related to the Texas Genco distribution. These stranded costs are recoverable under the provisions of the Texas electric restructuring law. The ultimate amount of stranded cost recovery is subject to a final determination, which will occur in 2004, and is contingent upon the market value of Texas Genco. Any significant changes in our accounting estimate of stranded costs as a result of current market conditions or changes in the regulatory recovery mechanism currently in place could result in a material write-down of these regulatory assets.

### IMPAIRMENT OF LONG-LIVED ASSETS AND INTANGIBLES

We review the carrying value of our long-lived assets, including goodwill and identifiable intangibles, whenever events or changes in circumstances indicate that such carrying values may not be recoverable, and annually for goodwill as required by SFAS No. 142. Unforeseen events and changes in circumstances and market condition and material differences in the value of long-lived assets and intangibles due to changes in estimates of future cash flows, regulatory matters and operating costs could negatively affect the fair value of our assets and result in an impairment charge.

Fair value is the amount at which the asset could be bought or sold in a current transaction between willing parties and may be estimated using a number of techniques, including quoted market prices or valuations by third parties, present value techniques based on estimates of cash flows, or multiples of earnings or revenue performance measures. The fair value of the asset could be different using different estimates and assumptions in these valuation techniques.

We have engaged a financial advisor to assist in exploring alternatives for monetizing our 81% interest in Texas Genco, including possible sale of our ownership interest in Texas Genco. As a result of our intention to monetize our interest in Texas Genco, we performed an impairment analysis of Texas Genco's assets as of December 31, 2003 in accordance with the provisions of SFAS No. 144. As of December 31, 2003 no impairment had been indicated. The fair value of our Texas Genco assets could be materially affected by a change in the estimated future cash flows for these assets. We estimate future cash flows for Texas Genco using a probability-weighted approach based on the fair value of its common stock, operating projections and estimates of how long we will retain these assets. Changes in any of these assumptions, including the timing of a possible sale, could result in an impairment charge.

#### UNBILLED ENERGY REVENUES

Revenues related to the sale and/or delivery of electricity or natural gas (energy) are generally recorded when energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which is performed on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled electric delivery revenue is estimated each month based on daily supply volumes, applicable rates and analyses reflecting significant historical trends and experience. Unbilled natural gas sales are estimated based on estimated purchased gas volumes, estimated lost and unaccounted for gas and tariffed rates in effect. As additional information becomes available, or actual amounts are determinable, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

#### NEW ACCOUNTING PRONOUNCEMENTS

See Note 2(n) to the consolidated financial statements for a discussion of new accounting pronouncements that affect us.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### IMPACT OF CHANGES IN INTEREST RATES AND ENERGY COMMODITY PRICES

We are exposed to various market risks. These risks arise from transactions entered into in the normal course of business and are inherent in our consolidated financial statements. Most of the revenues and income from our business activities are impacted by market risks. Categories of market risk include exposure to commodity prices through non-trading activities, interest rates and equity prices. A description of each market risk is set forth below:

- Commodity price risk results from exposures to changes in spot prices, forward prices and price volatilities of commodities, such as natural gas and other energy commodities risk.
- Interest rate risk primarily results from exposures to changes in the level of borrowings and changes in interest rates.
- Equity price risk results from exposures to changes in prices of individual equity securities.

Management has established comprehensive risk management policies to monitor and manage these market risks. We manage these risk exposures through the implementation of our risk management policies and framework. We manage our exposures through the use of derivative financial instruments and derivative commodity instrument contracts. During the normal course of business, we review our hedging strategies and determine the hedging approach we deem appropriate based upon the circumstances of each situation.

Derivative instruments such as futures, forward contracts, swaps and options derive their value from underlying assets, indices, reference rates or a combination of these factors. These derivative instruments include negotiated contracts, which are referred to as over-the-counter derivatives, and instruments that are listed and traded on an exchange.

Derivative transactions are entered into in our non-trading operations to manage and hedge certain exposures, such as exposure to changes in gas prices. We believe that the associated market risk of these instruments can best be understood relative to the underlying assets or risk being hedged.

#### INTEREST RATE RISK

We have outstanding long-term debt, bank loans, mandatory redeemable preferred securities of subsidiary trusts holding solely our junior subordinated debentures (trust preferred securities), securities held in our nuclear decommissioning trusts, some lease obligations and our obligations under our 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) that subject us to the risk of loss associated with movements in market interest rates. In 2003, we had interest rate swaps in place in order to hedge portions of our floating-rate debt.

Our floating-rate obligations aggregated \$5.5 billion and \$2.8 billion at December 31, 2002 and 2003, respectively. If the floating interest rates were to increase by 10% from December 31, 2003 rates, our combined interest expense would increase by a total of \$2.0 million each month in which such increase continued.

At December 31, 2002 and 2003, we had outstanding fixed-rate debt (excluding indexed debt securities) and trust preferred securities aggregating \$5.4 billion and \$8.1 billion, respectively, in principal amount and having a fair value of \$5.4 billion and \$8.6 billion, respectively. These instruments are fixed-rate and, therefore, do not expose us to the risk of loss in earnings due to changes in market interest rates (please read Note 9 to our consolidated financial statements). However, the fair value of these instruments would increase by approximately \$461 million if interest rates were to decline by 10% from their levels at December 31, 2003. In general, such an increase in fair value would impact earnings and cash flows only if we were to reacquire all or a portion of these instruments in the open market prior to their maturity.

CenterPoint Houston contributed \$14.8 million in 2001 to trusts established to fund Texas Genco's share of the decommissioning costs for the South Texas Project. In both 2002 and 2003, CenterPoint Houston contributed \$2.9 million to these trusts. The securities held by the trusts for decommissioning costs had an estimated fair value of \$189 million as of December 31, 2003, of which approximately 37% were fixed-rate debt securities that subject us to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 10% from their levels at December 31, 2003, the decrease in fair value of the fixed-rate debt securities would be approximately \$1 million. In addition, the risk of an economic loss is mitigated. Any unrealized gains or losses are accounted for in accordance with SFAS No. 71 as a regulatory asset/liability because we believe that CenterPoint Houston's future contributions, which are currently recovered through the ratemaking process, will be adjusted for these gains and losses. For further discussion regarding the recovery of decommissioning costs pursuant to the Texas electric restructuring law, please read Note 4(a) to our consolidated financial statements.

As discussed in Note 7 to our consolidated financial statements, upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component. The debt component of \$105 million at December 31, 2003 is a fixed-rate obligation and, therefore, does not expose us to the risk of loss in earnings due to changes in market interest rates. However, the fair value of the debt component would increase by approximately \$16 million if interest rates were to decline by 10% from levels at December 31, 2003. Changes in the fair value of the derivative component, \$321 million at December 31, 2003, are recorded in our Statements of Consolidated Operations and, therefore, we are exposed to changes in the fair value of the derivative component as a result of changes in the underlying risk-free interest rate. If the risk-free interest rate were to increase by 10% from December 31, 2003 levels, the fair value of the derivative component would increase by approximately \$5 million, which would be recorded as an unrealized loss in our Statements of Consolidated Operations.

As of December 31, 2003, we had an interest rate swap having a notional amount of \$250 million to fix the interest rate applicable to floating rate debt. At December 31, 2003, the swap could be terminated at a cost of \$1 million. The swap, which expired in January 2004, did not qualify as a cash flow hedge under SFAS No. 133, and was marked to market in our Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Operations. A decrease of 10% in the December 31, 2003 level of interest rates would have no impact.

For information regarding the accounting for interest rate swaps, please read Note 5 to our consolidated financial statements.

#### EQUITY MARKET VALUE RISK

We are exposed to equity market value risk through our ownership of 21.6 million shares of TW Common, which are held by us to facilitate our ability to meet our obligations under the ZENS. Please read Note 7 to our consolidated financial statements for a discussion of the effect of adoption of SFAS No. 133 on our ZENS obligation and our historical accounting treatment of our ZENS obligation. A decrease of 10% from the December 31, 2003 market value of TW Common would result in a net loss of approximately \$3 million, which would be recorded as a loss in our Statements of Consolidated Operations.

As discussed above under "-- Interest Rate Risk," CenterPoint Houston contributes to trusts established to fund Texas Genco's share of the decommissioning costs for the South Texas Project, which held debt and equity securities as of December 31, 2003. The equity securities expose us to losses in fair value. If the market prices of the individual equity securities were to decrease by 10% from their levels at December 31, 2003, the resulting loss in fair value of these securities would be approximately \$12 million. Currently, the risk of an economic loss is mitigated as discussed above under "-- Interest Rate Risk."

#### COMMODITY PRICE RISK FROM NON-TRADING ACTIVITIES

To reduce our commodity price risk from market fluctuations in the revenues derived from the sale of natural gas and related transportation, we enter into forward contracts, swaps and options (Non-Trading Energy Derivatives) in order to hedge some expected purchases of natural gas and sales of natural gas (a portion of which are firm commitments at the inception of the hedge). Non-Trading Energy Derivatives are also utilized to fix the price of future operational gas requirements.

We use derivative instruments as economic hedges to offset the commodity exposure inherent in our businesses. The stand-alone commodity risk created by these instruments, without regard to the offsetting effect of the underlying exposure these instruments are intended to hedge, is described below. We measure the commodity risk of our Non-Trading Energy Derivatives using a sensitivity analysis. The sensitivity analysis performed on our Non-Trading Energy Derivatives measures the potential loss in earnings based on a hypothetical 10% movement in energy prices. A decrease of 10% in the market prices of energy commodities from their December 31, 2002 levels would have decreased the fair value of our Non-Trading Energy Derivatives by \$12 million. A decrease of 10% in the market prices of energy commodities from their December 31, 2003 levels would have decreased the fair value of our Non-Trading Energy Derivatives by \$50 million.

The above analysis of the Non-Trading Energy Derivatives utilized for hedging purposes does not include the favorable impact that the same hypothetical price movement would have on our physical purchases and sales of natural gas to which the hedges relate. Furthermore, the Non-Trading Energy Derivative portfolio is managed to complement the physical transaction portfolio, reducing overall risks within limits. Therefore, the adverse impact to the fair value of the portfolio of Non-Trading Energy Derivatives held for hedging purposes

associated with the hypothetical changes in commodity prices referenced above would be offset by a favorable impact on the underlying hedged physical transactions, assuming:

- the Non-Trading Energy Derivatives are not closed out in advance of their expected term;
- the Non-Trading Energy Derivatives continue to function effectively as hedges of the underlying risk; and
- as applicable, anticipated underlying transactions settle as expected.

If any of the above-mentioned assumptions ceases to be true, a loss on the derivative instruments may occur, or the options might be worthless as determined by the prevailing market value on their termination or maturity date, whichever comes first. Non-Trading Energy Derivatives designated and effective as hedges, may still have some percentage which is not effective. The change in value of the Non-Trading Energy Derivatives that represents the ineffective component of the hedges is recorded in our results of operations.

We have established a Risk Oversight Committee, comprised of corporate and business segment officers, that oversees commodity price and credit risk activities, including trading, marketing, risk management services and hedging activities. The committee's duties are to establish commodity risk policies, allocate risk capital, approve trading of new products and commodities, monitor risk positions and ensure compliance with the risk management policies and procedures and trading limits established by our board of directors.

Our policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA OF THE COMPANY

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS

YEAR ENDED DECEMBER 31,	-----	-----	-----
2001	2002	2003	-----
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
REVENUES.....			
\$10,558,991	\$ 7,898,072	\$9,760,124	-----
EXPENSES: Fuel and cost of gas			
sold.....		5,085,167	3,864,733
power.....	93,841	72,509	Operation and
maintenance.....			1,753,718
amortization.....	1,605,457	1,716,279	Depreciation and
taxes.....		663,309	614,348
Total.....	624,581	Taxes other than income	
9,235,337	6,565,120	510,578	386,741
			375,193
			-----
OPERATING			
INCOME.....			
1,323,654	1,332,952	1,604,164	-----
OTHER INCOME (EXPENSE): Gain (loss) on Time Warner investment.....			
	(70,215)	(499,704)	105,820
Gain (loss) on indexed debt securities.....			
58,033	480,027	(96,473)	Interest expense and distribution
on trust preferred			
securities.....			
	(606,896)	(764,256)	(933,820)
net.....			Other,
18,359	(14,926)		52,144
Total.....			-----
(566,934)	(765,574)	(939,399)	-----
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES, MINORITY INTEREST, CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED			
DIVIDENDS.....			
	567,378	664,765	Income Tax
Expense.....			(257,378)
	(198,540)	(216,301)	Minority
Interest.....			36 (11)
(28,753)			-----
INCOME FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE AND PREFERRED DIVIDENDS.....			
499,378	368,827	419,711	DISCONTINUED OPERATIONS: Income
from Reliant Resources, net of tax.....			475,078
82,157	--	Income (Loss) from Other Operations, net of	
tax.....	(52,453)	246	(2,674)
Loss on Disposal of			
Reliant Resources.....	--		(4,371,464)
--	--		Income (Loss) from Other Operations, net of tax.....
--	(13,442)	CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET	
OF TAX.....	58,556	--	80,072
			-----
INCOME (LOSS) BEFORE PREFERRED			
DIVIDENDS.....			
	980,559	(3,920,234)	483,667
			PREFERRED
DIVIDENDS.....			858 --
			-----
NET INCOME (LOSS)			
ATTRIBUTABLE TO COMMON SHAREHOLDERS.....			\$ 979,701
\$(3,920,234)	\$ 483,667	=====	=====
BASIC EARNINGS PER SHARE: Income from Continuing Operations			
Before Cumulative Effect of Accounting			
Change.....		\$ 1.72	\$ 1.24
1.38	Discontinued Operations: Income from Reliant		
Resources, net of tax.....	1.64	0.27	--
(loss) from Other Operations, net of tax.....			(0.18)
	(0.01)	Loss on disposal of Reliant	
Resources.....	--	(14.67)	--
		Loss on disposal	
of Other Operations, net of tax.....	--	--	(0.04)
Cumulative Effect of Accounting Change, net of tax.....			
0.20	--	0.26	-----
			Net Income
(Loss) Attributable to Common Shareholders.....			\$ 3.38
(13.16)	\$ 1.59	=====	=====
DILUTED			
EARNINGS PER SHARE: Income from Continuing Operations			
Before Cumulative Effect of Accounting			
Change.....		\$ 1.71	\$ 1.23
1.37	Discontinued Operations: Income from Reliant		
Resources, net of tax.....	1.62	0.27	--
(loss) from Other Operations, net of tax.....			(0.18)
	(0.01)	Loss on disposal of Reliant	
Resources.....	--	(14.58)	--
		Loss on disposal	
of Other Operations, net of tax.....	--	--	(0.04)
Cumulative Effect of Accounting Change, net of tax.....			
0.20	--	0.26	-----
			Net Income
(Loss) Attributable to Common Shareholders.....			\$ 3.35
(13.08)	\$ 1.58	=====	=====





CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, -----	-----	-----	-----
-----	2001	2002	2003
(IN THOUSANDS OF DOLLARS) Net income (loss) attributable to common shareholders.....	\$ 979,701		
\$(3,920,234) \$483,667 -----			
Other comprehensive income (loss), net of tax:			
Minimum pension liability adjustment (net of tax of \$6,873, \$223,060 and \$25,467).....	12,764	(414,254)	
47,296 Cumulative effect of adoption of SFAS No. 133 (net of tax of \$20,511).....			
38,092 -- -- Net deferred gain (loss) from cash flow hedges (net of tax of \$23,794, \$25,192 and \$15,405).....	(15,549)	(69,615)	21,973
Reclassification of deferred loss (gain) from cash flow hedges realized in net income (net of tax of \$18,978, \$13,539 and \$3,588).....	(59,055)		
39,705 9,015 Other comprehensive income (loss) from discontinued operations (net of tax of \$84,576, \$86,787 and \$366).....			
(157,069) 161,176 680 -----			
Other comprehensive income (loss).....	(180,817)	(282,988)	
78,964 ----- Comprehensive income (loss).....			\$
798,884 \$(4,203,222) \$562,631 =====			

See Notes to the Company's Consolidated Financial Statements  
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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2002	DECEMBER 31, 2003	2002	2003
---- (IN THOUSANDS) ASSETS CURRENT ASSETS: Cash and cash equivalents.....			
	\$ 304,281	\$	
131,480 Investment in Time Warner common stock.....	283,486	389,302	Accounts receivable, net.....
636,646 Accrued unbilled revenues.....	354,497	395,351	Inventory.....
351,816 412,926 Non-trading derivative assets.....	27,275	45,897	Taxes receivable.....
72,027 159,646 Current assets of discontinued operations.....	12,505	--	Prepaid expense and other current assets.....
71,138 101,457	----- Total current assets.....		
2,272,705	----- PROPERTY, PLANT AND EQUIPMENT, NET.....		
12,115,222	----- OTHER ASSETS:		
11,811,536	Goodwill, net.....		
1,740,510	1,740,510 Other intangibles, net.....		
65,880	79,936 Regulatory assets.....		
4,000,646	4,930,793 Non-trading derivative assets.....		
3,866	11,273 Non-current assets of discontinued operations.....		
50,272	--		
444,860	529,911 ----- Total other assets.....		
6,306,034	7,292,423 ----- TOTAL ASSETS.....		
\$20,456,609	\$21,376,664 =====		
LIABILITIES AND SHAREHOLDERS' EQUITY CURRENT LIABILITIES:			
Short-term borrowings.....			
\$ 347,000	\$ 63,000 Current portion of long-term debt.....		
810,325	162,423 Indexed debt securities derivative.....		
224,881	321,352 Accounts payable.....		
621,528	694,558 Taxes accrued.....		
192,570	193,273 Interest accrued.....		
197,274	164,669 Non-trading derivative liabilities.....		
26,387	8,036 Regulatory liabilities.....		
168,173	186,239 Accumulated deferred income taxes, net.....		
285,214	345,870 Deferred revenues.....		
48,940	88,740 Current liabilities of discontinued operations.....		
2,856	--		
286,005	290,176 ----- Total current liabilities.....		
3,211,153	2,518,336 ----- OTHER LIABILITIES:		
Accumulated deferred income taxes, net.....			
2,445,133	3,010,577 Unamortized investment tax credits.....		
230,037	211,731 Non-trading derivative liabilities.....		
873	3,330 Benefit obligations.....		
832,152	836,459 Regulatory liabilities.....		
959,421	1,358,030 Non-current liabilities of discontinued operations.....		
6,912	--		
1,448,226	715,670 ----- Total other liabilities.....		
5,922,754	6,135,797 ----- LONG-TERM DEBT.....		
9,194,320	10,783,064 ----- COMMITMENTS AND CONTINGENCIES (NOTES 1 AND 12) MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES.....		
292	178,910 ----- COMPANY OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUSTS HOLDING SOLELY JUNIOR SUBORDINATED DEBENTURES OF THE COMPANY.....		
706,140	-- ----- SHAREHOLDERS' EQUITY.....		
1,421,950	1,760,557 ----- TOTAL LIABILITIES AND		

SHAREHOLDERS' EQUITY..... \$20,456,609  
\$21,376,664 =====

See Notes to the Company's Consolidated Financial Statements  
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CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

YEAR ENDED DECEMBER 31, -----	-----	-----	-----
----- 2001 2002 2003 -----	-----	-----	-----
---- (IN THOUSANDS) CASH FLOWS FROM OPERATING			
ACTIVITIES: Net income (loss) attributable to common			
shareholders.....	\$ 979,701	\$(3,920,234)	\$ 483,667
Discontinued			
operations.....	(422,625)		
4,289,061	16,116		
Income from continuing operations and cumulative effect			
of accounting change, less preferred			
dividends.....	557,076	368,827	499,783
Adjustments to reconcile income from continuing			
operations to net cash provided by operating			
activities: Depreciation and			
amortization.....	663,309	614,348	
624,581 Fuel-related			
amortization.....	29,410		
25,113 23,385 Deferred income			
taxes.....	(88,291)		
319,615 517,442 Amortization of deferred financing			
costs.....	16,051	117,218	151,957
Investment			
tax credit.....	(18,330)		
(17,370) (18,306) Cumulative effect of accounting			
change, net.....	(58,556)	--	(80,072)
Unrealized loss (gain) on Time Warner			
investment.....	70,215	499,704	(105,820)
Unrealized			
gain (loss) on indexed debt securities.....	(58,033)		
(480,027) 96,473 Minority			
interest.....	(36)	11	
28,753 Changes in other assets and liabilities:			
Accounts receivable and unbilled revenues, net.....			
1,124,343 (252,941) (118,551)			
Inventory.....			
(15,550) 53,822 (61,110) Taxes			
receivable.....	--		
(72,027) (87,619) Accounts			
payable.....			
(1,121,037) 103,896 69,483 Fuel cost over (under)			
recovery/surcharge.....	422,672	250,191	17,831
Interest and taxes accrued.....			
269,942 (7,108) 32,926 Net regulatory assets and			
liabilities.....	(53,785)	(1,062,130)	
(773,537) Non-trading derivatives,			
net.....	14,781	(144,478)	2,913
Other current assets.....			
(16,574) (39,145) (30,319) Other current			
liabilities.....	(99,673)		
(34,007) 15,707 Other			
assets.....	79,898		
(59,498) (10,971) Other			
liabilities.....			
(49,768) 102,031 71,721 Other,			
net.....			
63,424 36,423 29,205 -----			
- Net cash provided by operating activities.....			
1,731,488 322,468 895,855 -----			
----- CASH FLOWS FROM INVESTING ACTIVITIES: Capital			
expenditures.....			
(1,210,736) (846,243) (647,750) Proceeds from sale of			
Time Warner investment.....	--	43,419	--
Other,			
net.....			
15,050 37,269 (19,131) -----			
--- Net cash used in investing			
activities.....	(1,195,686)	(765,555)	
(666,881) ----- CASH			
FLOW FROM FINANCING ACTIVITIES: Proceeds from long-			
term debt.....	1,296,779		
1,320,723 7,964,529 Increase (decrease) in short-term			
borrowings, net.....	(1,356,162)	668,386	(284,000)
Payments of long-term			
debt.....	(632,116)		
(696,218) (7,768,068) Debt issuance			
costs.....	(10,608)		
(196,830) (240,797) Payment of common stock			
dividends.....	(433,918)	(324,682)	
(122,206) Payment of common stock dividends by			
subsidiary.....	--	(15,234)	
Proceeds from			
issuance of common stock, net.....	100,430		
12,994 9,349 Redemption of preferred			
stock.....	(10,227)	--	--
Increase in restricted cash related to securitization			
financing.....			
(6,775) -- -- Redemption of indexed debt			
securities.....	--	(45,085)	--
Other,			
net.....			

7,678	(16,525)	17,079	-----
-- Net cash provided by (used in) financing			
activities.....			
(1,044,919)	722,763	(439,348)	-----
----- NET CASH PROVIDED BY DISCONTINUED			
OPERATIONS.....	443,858	6,997	37,573 -----
----- NET INCREASE (DECREASE) IN			
CASH AND CASH EQUIVALENTS..... (65,259) 286,673			
(172,801) CASH AND CASH EQUIVALENTS AT BEGINNING OF			
YEAR.....	82,867	17,608	304,281 -----
----- CASH AND CASH EQUIVALENTS AT END			
OF YEAR..... \$ 17,608 \$ 304,281 \$			
131,480 =====			
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: Cash			
Payments:			
Interest.....			
\$ 585,174	\$ 632,987	\$ 763,302	Income taxes
(refunds).....	126,231		
	(27,977)	(197,915)	

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

2001	2002	2003	-----	
AMOUNT SHARES AMOUNT SHARES AMOUNT				
-----				
SHARES				
- (IN THOUSANDS OF DOLLARS AND SHARES)				
PREFERENCE STOCK, NONE				
OUTSTANDING..... \$ -- \$ --				
\$ -- CUMULATIVE PREFERRED STOCK, \$0.01 PAR				
VALUE; AUTHORIZED 20,000,000 SHARES Balance,				
beginning of year..... 97				
9,740 -- -- -- Redemption of preferred				
stock..... (97) (9,740) -- --				
-----				
Balance, end of				
year.....				
-----				
COMMON STOCK, \$0.01 PAR VALUE;				
AUTHORIZED 1,000,000,000 SHARES Balance,				
beginning of year..... 299,914				
2,999 302,944 3,029 305,017 3,050 Issuances				
related to benefit and investment				
plans.....				
3,030 30 2,073 21 1,280 13 -----				
-----				
Balance, end of				
year..... 302,944 3,029				
305,017 3,050 306,297 3,063 -----				
-----				
ADDITIONAL PAID-IN-CAPITAL Balance, beginning				
of year..... -- 3,254,191 --				
3,894,272 -- 3,046,043 Issuances related to				
benefit and investment				
plans.....				
-- 130,630 -- 11,866 -- (31,364) Gain (loss)				
on issuance of subsidiaries'				
stock.....				
-- 509,499 -- (12,835) -- -- Distribution of				
Reliant Resources..... -- --				
(847,200) -- -- Distribution of Texas				
Genco..... -- --				
(146,263)				
Other.....				
-- (48) -- (60) -- -----				
-----				
Balance,				
end of year..... --				
3,894,272 -- 3,046,043 -- 2,868,416 -----				
-----				
TREASURY STOCK Balance, beginning of				
year..... (4,811) (120,856) --				
-- -- -- Contribution to pension				
plan..... 4,512 113,336 -- --				
-----				
Other.....				
299 7,520 -- -- -----				
-----				
Balance,				
end of year.....				
-----				
UNEARNED ESOP STOCK				
Balance, beginning of				
year..... (8,639) (161,158)				
(7,070) (131,888) (4,916) (78,049) Issuances				
related to benefit plan..... 1,569				
29,270 2,154 53,839 4,004 75,207 -----				
-----				
Balance, end of				
year..... (7,070)				
(131,888) (4,916) (78,049) (912) (2,842) -----				
-----				
RETAINED EARNINGS (DEFICIT) Balance,				
beginning of year.....				
2,520,350 3,176,533 (1,062,083) Net income				
(loss)..... 979,701				
(3,920,234) 483,667 Common stock dividends --				
\$1.125 per share in 2001, \$1.07 per share in				
2002 and \$0.40 per share in				
2003..... (323,518)				
(318,382) (121,617) -----				
-----				
Balance, end of				
year..... 3,176,533				
(1,062,083) (700,033) -----				
-----				
ACCUMULATED OTHER COMPREHENSIVE				
INCOME (LOSS) Balance, beginning of				
year..... (23,206) (204,023)				
(487,011) -----				
-----				
Other comprehensive income (loss), net of tax:				
Minimum pension liability				

adjustment.....	12,764	(414,254)	47,296
Cumulative effect of adoption of SFAS No.			
133.....			
38,092 -- --	Net deferred gain (loss) from		
	cash flow		
hedges.....			
(15,549) (69,615) 21,973	Reclassification of		
	deferred loss (gain) from cash flow hedges		
realized in net income.....	(59,055)	39,705	
9,015	Other comprehensive income (loss) from		
	discontinued operations.....		
(157,069) 161,176 680	-----		
	----- Other comprehensive income		
(loss).....	(180,817)	(282,988)	
78,964	-----		
	Balance, end of		
year.....		(204,023)	
(487,011) (408,047)	-----		
	----- Total Shareholders'		
Equity.....	\$6,737,923	\$	
1,421,950 \$ 1,760,557	=====	=====	
	=====		

See Notes to the Company's Consolidated Financial Statements

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) BACKGROUND AND BASIS OF PRESENTATION

BACKGROUND

CenterPoint Energy, Inc. (CenterPoint Energy or the Company) is a public utility holding company, created on August 31, 2002 as part of a corporate restructuring of Reliant Energy, Incorporated (Reliant Energy) that implemented certain requirements of the Texas electric restructuring law described below. In December 2000, Reliant Energy transferred a significant portion of its unregulated businesses to Reliant Resources, Inc. (Reliant Resources), which, at the time, was a wholly owned subsidiary of Reliant Energy.

On September 30, 2002, following Reliant Resources' initial public offering of approximately 20% of its common stock in May 2001, CenterPoint Energy distributed all of the shares of Reliant Resources common stock owned by CenterPoint Energy to its common shareholders on a pro-rata basis (the Reliant Resources Distribution).

CenterPoint Energy is the successor to Reliant Energy for financial reporting purposes under the Securities Exchange Act of 1934. The Company's operating subsidiaries own and operate electric transmission and distribution facilities, natural gas distribution facilities, natural gas pipelines and electric generating plants. CenterPoint Energy is a registered public utility holding company under the Public Utility Holding Company Act of 1935, as amended (1935 Act). The 1935 Act and related rules and regulations impose a number of restrictions on the activities of the Company and those of its subsidiaries other than Texas Genco Holdings, Inc. (Texas Genco). The 1935 Act, among other things, limits the ability of the Company and its regulated subsidiaries to issue debt and equity securities without prior authorization, restricts the source of dividend payments to current and retained earnings without prior authorization, regulates sales and acquisitions of certain assets and businesses and governs affiliate transactions.

As of December 31, 2003, the Company's indirect wholly owned subsidiaries included:

- CenterPoint Energy Houston Electric, LLC (CenterPoint Houston), which engages in the electric transmission and distribution business in a 5,000-square mile area of the Texas Gulf Coast that includes Houston; and
- CenterPoint Energy Resources Corp. (CERC Corp., and, together with its subsidiaries, CERC), which owns gas distribution systems. Through wholly owned subsidiaries, CERC owns two interstate natural gas pipelines and gas gathering systems and provides various ancillary services.

CenterPoint Energy also has an approximately 81% ownership interest in Texas Genco, which owns and operates a portfolio of generating assets located in Texas. CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to its shareholders on January 6, 2003 (Texas Genco Distribution). As a result of the Texas Genco Distribution, CenterPoint Energy recorded an impairment charge of \$399 million, which is reflected as a regulatory asset representing stranded costs in the Consolidated Balance Sheets as of December 31, 2003. This impairment charge represents the excess of the carrying value of CenterPoint Energy's net investment in Texas Genco over the market value of the Texas Genco common stock that was distributed. The financial impact of this impairment was offset by recording a \$399 million regulatory asset reflecting CenterPoint Energy's expectation of stranded cost recovery of such impairment. Additionally, in connection with the Texas Genco Distribution, CenterPoint Energy recorded minority interest ownership in Texas Genco of \$146 million in its Consolidated Balance Sheets in the first quarter of 2003.

BASIS OF PRESENTATION

The consolidated financial statements have been prepared to reflect the effect of the Reliant Resources Distribution on the CenterPoint Energy financial statements. The consolidated financial statements present the Reliant Resources businesses (Wholesale Energy, European Energy, Retail Energy and related corporate



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

costs) as discontinued operations, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). Accordingly, the consolidated financial statements for 2001 and 2002 reflect these operations as discontinued operations.

In 2003, the Company sold all of its remaining Latin America operations. The consolidated financial statements present these remaining Latin America operations as discontinued operations in accordance with SFAS No. 144.

In November 2003, the Company sold a component of its Other Operations business segment that provides district cooling services in the Houston central business district and related complementary energy services to district cooling customers and others. The consolidated financial statements present these operations as discontinued operations in accordance with SFAS No. 144.

The Company's reportable business segments include the following: Electric Transmission & Distribution, Electric Generation, Natural Gas Distribution, Pipelines and Gathering and Other Operations. Effective with the deregulation of the Texas electric industry beginning January 1, 2002, the basis of business segment reporting changed for the Company's electric operations. The Texas generation operations of CenterPoint Energy's former integrated electric utility (Texas Genco) became a separate reportable business segment, Electric Generation, whereas they previously had been part of the Electric Operations business segment. The remaining transmission and distribution function (CenterPoint Houston) is reported separately in the Electric Transmission & Distribution business segment. Natural Gas Distribution consists of intrastate natural gas sales to, and natural gas transportation and distribution for, residential, commercial, industrial and institutional customers and non-rate regulated retail gas marketing operations to commercial and industrial customers. Pipelines and Gathering includes the interstate natural gas pipeline operations and the natural gas gathering and pipeline services businesses. Other Operations consists primarily of other corporate operations which support all of the Company's business operations.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) RECLASSIFICATIONS AND USE OF ESTIMATES

In addition to the items discussed in Note 3, some amounts from the previous years have been reclassified to conform to the 2003 presentation of financial statements. These reclassifications do not affect net income.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (b) PRINCIPLES OF CONSOLIDATION

The accounts of CenterPoint Energy and its wholly owned and majority owned subsidiaries are included in the consolidated financial statements. All significant intercompany transactions and balances are eliminated in consolidation. The Company uses the equity method of accounting for investments in entities in which the Company has an ownership interest between 20% and 50% and exercises significant influence. Other investments, excluding marketable securities, are generally carried at cost.

### (c) REVENUES

The Company records revenue for electricity and natural gas sales and services to retail customers under the accrual method and these revenues are generally recognized upon delivery. Natural gas sales and services

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

not billed by month-end are accrued based upon estimated purchased gas volumes, estimated lost and unaccounted for gas and currently effective tariff rates. The Pipelines and Gathering business segment records revenues as transportation services are provided. Energy sales and services not billed by month-end are accrued based upon estimated energy and services delivered. The Electric Generation business segment has two primary components of revenue: (1) capacity payments, which entitles the owner to power, and (2) energy payments, which are intended to cover the costs of fuel for the actual electricity produced. Capacity payments are billed and collected one month prior to actual energy deliveries and are recorded as deferred revenue until the month of actual energy delivery. Upon delivery, both capacity and energy payment revenues are recognized.

(d) LONG-LIVED ASSETS AND INTANGIBLES

The Company records property, plant and equipment at historical cost. The Company expenses repair and maintenance costs as incurred. Property, plant and equipment includes the following:

DECEMBER 31, ESTIMATED USEFUL	-----		
LIVES (YEARS) 2002 2003	-----		
----- (IN MILLIONS) Electric transmission &			
distribution.....	5-75	\$ 5,960	\$ 6,085
Electric			
generation.....	5-60		
9,610 9,436 Natural gas			
distribution.....	5-50		
2,151 2,316 Pipelines and			
gathering.....	5-75	1,686	
1,722 Other			
property.....	3-		
40 446 446	-----		
Total.....			
19,853 20,005 Accumulated depreciation and			
amortization.....	(7,738) (8,194)	-----	-
----- Property, plant and equipment,			
net.....	\$12,115 \$11,811	=====	=====

For further information regarding removal costs previously recorded as a component of accumulated depreciation, see Note 2(n).

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), which provides that goodwill and certain intangibles with indefinite lives will not be amortized into results of operations, but instead will be reviewed periodically for impairment and written down and charged to results of operations only in the periods in which the recorded value of goodwill and certain intangibles with indefinite lives is more than its fair value. On January 1, 2002, the Company adopted the provisions of the statement that apply to goodwill and intangible assets acquired prior to June 30, 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

With the adoption of SFAS No. 142, the Company ceased amortization of goodwill as of January 1, 2002. A reconciliation of previously reported net income and earnings per share to the amounts adjusted for the exclusion of goodwill amortization follows (in millions, except per share amounts):

YEAR ENDED DECEMBER 31, 2001 -----	
----- Reported income from	
continuing operations before	
cumulative effect of accounting	
change.....	
\$ 499 Add: Goodwill amortization,	
net of tax.....	49
----- Adjusted income from	
continuing operations before	
cumulative effect of accounting	
change.....	
\$ 548 ===== Basic Earnings Per	
Share: Reported income from	
continuing operations before	
cumulative effect of accounting	
change.....	
\$1.72 Add: Goodwill amortization,	
net of tax.....	
0.17 ----- Adjusted income from	
continuing operations before	
cumulative effect of accounting	
change.....	
\$1.89 ===== Diluted Earnings Per	
Share: Reported income from	
continuing operations before	
cumulative effect of accounting	
change.....	
\$1.71 Add: Goodwill amortization,	
net of tax.....	
0.17 ----- Adjusted income from	
continuing operations before	
cumulative effect of accounting	
change.....	
\$1.88 =====	

The components of the Company's other intangible assets consist of the following:

DECEMBER 31, 2002	DECEMBER 31, 2003	-----
-----	-----	-----
CARRYING ACCUMULATED	CARRYING ACCUMULATED	
AMOUNT AMORTIZATION	AMOUNT AMORTIZATION	--
-----	-----	-----
(IN MILLIONS)	Land Use	
Rights.....	\$61	
	\$(12) \$61 \$(14)	
Other.....		
	19 (2) 38 (5) --- --- --- ---	
Total.....		
	\$80 \$(14) \$99 \$(19) === =====	

The Company recognizes specifically identifiable intangibles, including land use rights and permits, when specific rights and contracts are acquired. The Company has no intangible assets with indefinite lives recorded as of December 31, 2003. The Company amortizes other acquired intangibles on a straight-line basis over the lesser of their contractual or estimated useful lives that range from 40 to 75 years for land rights and 4 to 25 years for other intangibles.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Amortization expense for other intangibles for 2001, 2002 and 2003 was \$1 million, \$2 million and \$4 million, respectively. Estimated amortization expense for the five succeeding fiscal years is as follows (in millions):

2004.....	\$ 5
2005.....	3
2006.....	2
2007.....	2
2008.....	2
	---
Total.....	\$14
	===

Goodwill by reportable business segment is as follows (in millions):

DECEMBER 31, 2002 AND 2003 -----	Natural Gas
Distribution.....	\$1,085
	Pipelines and
Gathering.....	601
Operations.....	55
	-----
Total.....	\$1,741 =====

The Company completed its review during the second quarter of 2003 pursuant to SFAS No. 142 for its reporting units in the Natural Gas Distribution, Pipelines and Gathering and Other Operations business segments. No impairment was indicated as a result of this assessment.

The Company periodically evaluates long-lived assets, including property, plant and equipment, goodwill and specifically identifiable intangibles, when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions.

The Company has engaged a financial advisor to assist in exploring alternatives for monetizing its 81% interest in Texas Genco, including possible sale of its ownership interest in Texas Genco. As a result of the Company's intention to monetize its interest in Texas Genco, the Company performed an impairment analysis of Texas Genco's assets as of December 31, 2003 in accordance with the provisions of SFAS No. 144. As of December 31, 2003 no impairment had been indicated. The fair value of Texas Genco's assets could be materially affected by a change in the estimated future cash flows for these assets. Future cash flows for Texas Genco are estimated using a probability-weighted approach based on the fair value of its common stock, operating projections and estimates of how long these assets will be retained. Changes in any of these assumptions could result in an impairment charge.

(e) REGULATORY ASSETS AND LIABILITIES

The Company applies the accounting policies established in SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) to the accounts of the Electric Transmission & Distribution business segment and the utility operations of the Natural Gas Distribution business segment and to some of the accounts of the Pipelines and Gathering business segment.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following is a list of regulatory assets/liabilities reflected on the Company's Consolidated Balance Sheets as of December 31, 2002 and 2003:

DECEMBER 31, -----	2002	2003	-----	(IN
MILLIONS) Recoverable Electric Generation-Related				
Regulatory Assets, net: Recoverable electric generation				
plant mitigation.....	\$2,051	\$2,116	Excess mitigation	
liability.....	(969)	(778)	-----	
----- Net electric generation plant mitigation asset....				
1,082 1,338 Excess cost over market (ECOM/capacity				
auction) true-				
up.....			697	
1,357 Texas Genco				
distribution/impairment.....			-- 399	
Regulatory tax asset.....				
175 119 Final fuel under/(over) recovery				
balance.....	64	(98)	Other 2004 True-Up	
Proceeding items.....			53 119	-----
Total Recoverable Electric Generation-Related Regulatory				
Assets.....	2,071	3,234		
Securitized regulatory				
asset.....			706 682	Unamortized
loss on reacquired debt.....			58 80	
Estimated removal				
costs.....			-- (647)	Other
long-term regulatory assets/liabilities.....			38	
38 -----				
Total.....				
\$2,873 \$3,387 =====				

If events were to occur that would make the recovery of these assets and liabilities no longer probable, the Company would be required to write off or write down these regulatory assets and liabilities. In addition, the Company would be required to determine any impairment of the carrying costs of plant and inventory assets. Because estimates of the fair value of Texas Genco are required, the financial impacts of the Texas electric restructuring law with respect to the final determination of stranded costs are subject to material changes. Factors affecting such changes may include estimation risk, uncertainty of future energy and commodity prices and the economic lives of the plants. See Note 4 for additional discussion of regulatory assets.

(f) DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation is computed using the straight-line method based on economic lives or a regulatory-mandated recovery period. Other amortization expense includes amortization of regulatory assets and other intangibles. See Notes 2(e) and 4(a) for additional discussion of these items.

The following table presents depreciation, goodwill amortization and other amortization expense for 2001, 2002 and 2003.

YEAR ENDED DECEMBER 31, -----	2001	2002	2003	-----
(IN MILLIONS) Depreciation				
expense.....	\$282	\$537	\$557	Goodwill amortization
expense.....			49	--
- Other amortization				
expense.....			332	
77 68 -----				Total depreciation and
amortization expense.....	\$663	\$614		
\$625 =====				

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(g) CAPITALIZATION OF INTEREST AND ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

Allowance for funds used during construction (AFUDC) represents the approximate net composite interest cost of borrowed funds and a reasonable return on the equity funds used for construction. Although AFUDC increases both utility plant and earnings, it is realized in cash through depreciation provisions included in rates for subsidiaries that apply SFAS No. 71. Interest and AFUDC for subsidiaries that apply SFAS No. 71 are capitalized as a component of projects under construction and will be amortized over the assets' estimated useful lives. During 2001, 2002 and 2003, the Company capitalized interest and AFUDC of \$9 million, \$12 million and \$13 million, respectively.

(h) INCOME TAXES

The Company files a consolidated federal income tax return and follows a policy of comprehensive interperiod income tax allocation. The Company uses the liability method of accounting for deferred income taxes and measures deferred income taxes for all significant income tax temporary differences. Investment tax credits were deferred and are being amortized over the estimated lives of the related property. For additional information regarding income taxes, see Note 11.

(i) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable are net of an allowance for doubtful accounts of \$24 million and \$31 million at December 31, 2002 and 2003, respectively. The provision for doubtful accounts in the Company's Statements of Consolidated Operations for 2001, 2002 and 2003 was \$59 million, \$26 million and \$24 million, respectively.

In connection with CERC's November 2002 amendment and extension of its \$150 million receivables facility, CERC Corp. formed a bankruptcy remote subsidiary for the sole purpose of buying receivables created by CERC and selling those receivables to an unrelated third party. This transaction was accounted for as a sale of receivables under the provisions of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and, as a result, the related receivables are excluded from the Consolidated Balance Sheets. Effective June 25, 2003, CERC elected to reduce the purchase limit under the receivables facility from \$150 million to \$100 million. As of December 31, 2002 and 2003, CERC had utilized \$107 million and \$100 million of its receivables facility, respectively.

The bankruptcy remote subsidiary purchases receivables with cash and subordinated notes. In July 2003, the subordinated notes owned by CERC were pledged to a gas supplier to secure obligations incurred in connection with the purchase of gas by CERC.

In the first quarter of 2004, CERC replaced the receivables facility with a \$250 million committed one-year receivables facility. The bankruptcy remote subsidiary continues to buy CERC's receivables and sell them to an unrelated third party.

(j) INVENTORY

Inventory consists principally of materials and supplies, coal and lignite and natural gas. Inventories used in the production of electricity and in the retail natural gas distribution operations are primarily valued at the

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

lower of average cost or market except for coal and lignite, which are valued under the last-in, first-out method.

DECEMBER 31,	-----	2002	2003	-----	-----	(IN
	MILLIONS)					Materials and
supplies.....				\$185	\$175	
						Coal and
lignite.....				43	50	
						Natural
gas.....					119	
						182
Other.....						
		5	6	-----	-----	Total
inventory.....					\$352	
				\$413	====	====

(k) INVESTMENT IN OTHER DEBT AND EQUITY SECURITIES

In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), the Company reports "available-for-sale" securities at estimated fair value within other long-term assets in the Company's Consolidated Balance Sheets and any unrealized gain or loss, net of tax, as a separate component of shareholders' equity and accumulated other comprehensive income. In accordance with SFAS No. 115, the Company reports "trading" securities at estimated fair value in the Company's Consolidated Balance Sheets, and any unrealized holding gains and losses are recorded as other income (expense) in the Company's Statements of Consolidated Operations.

As of December 31, 2002 and 2003, the Company held debt and equity securities in its nuclear decommissioning trust, which is reported at its fair value of \$163 million and \$189 million, respectively, in the Company's Consolidated Balance Sheets in other long-term assets. Any unrealized losses or gains are accounted for as a long-term asset/liability as the Company will not benefit from any gains, and losses will be recovered through the rate-making process.

As of December 31, 2002 and 2003, the Company held an investment in Time Warner Inc. common stock, which was classified as a "trading" security. For information regarding this investment, see Note 7.

(l) ENVIRONMENTAL COSTS

The Company expenses or capitalizes environmental expenditures, as appropriate, depending on their future economic benefit. The Company expenses amounts that relate to an existing condition caused by past operations, and that do not have future economic benefit. The Company records undiscounted liabilities related to these future costs when environmental assessments and/or remediation activities are probable and the costs can be reasonably estimated.

(m) STATEMENTS OF CONSOLIDATED CASH FLOWS

For purposes of reporting cash flows, the Company considers cash equivalents to be short-term, highly liquid investments with maturities of three months or less from the date of purchase. In connection with the issuance of transition bonds in October 2001, the Company was required to establish restricted cash accounts to collateralize the bonds that were issued in this financing transaction. These restricted cash accounts are not available for withdrawal until the maturity of the bonds. Cash and Cash Equivalents does not include restricted cash. For additional information regarding the securitization financing, see Note 4(a).

(n) NEW ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2003, the Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). SFAS No. 143 requires the fair value of an asset retirement obligation to be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

recognized as a liability is incurred and capitalized as part of the cost of the related tangible long-lived assets. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Retirement obligations associated with long-lived assets included within the scope of SFAS No. 143 are those for which a legal obligation exists under enacted laws, statutes and written or oral contracts, including obligations arising under the doctrine of promissory estoppel.

The Company has identified retirement obligations for nuclear decommissioning at the South Texas Project Electric Generating Station (South Texas Project) and for lignite mine operations which supply the Limestone electric generation facility. Prior to adoption of SFAS No. 143, the Company had recorded liabilities for nuclear decommissioning and the reclamation of the lignite mine. Liabilities were recorded for estimated decommissioning obligations of \$140 million and \$40 million for reclamation of the lignite mine at December 31, 2002. Upon adoption of SFAS No. 143 on January 1, 2003, the Company reversed the \$140 million previously accrued for the nuclear decommissioning of the South Texas Project and recorded a plant asset of \$99 million offset by accumulated depreciation of \$36 million as well as a retirement obligation of \$187 million. The \$16 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 is being deferred as a liability due to regulatory requirements. The Company also reversed the \$40 million it had previously recorded for the lignite mine reclamation and recorded a plant asset of \$1 million as well as a retirement obligation of \$4 million. The \$37 million difference between amounts previously recorded and the amounts recorded upon adoption of SFAS No. 143 was recorded as a cumulative effect of accounting change. The Company has also identified other asset retirement obligations that cannot be estimated because the assets associated with the retirement obligations have an indeterminate life.

The following represents the balances of the asset retirement obligation as of January 1, 2003 and the additions and accretion of the asset retirement obligation for the year ended December 31, 2003:

BALANCE, LIABILITIES DECEMBER 31, 2003	BALANCE, LIABILITIES DECEMBER 31, 2003	JANUARY 1, LIABILITIES DECEMBER 31, 2003	CASH FLOW INCURRED SETTLED
-----			
- (IN MILLIONS) Nuclear			
decommissioning.....	\$187	-- -- \$1	-- \$188
mine.....	4	-- -- 2	-- 6
		-----	-----
		\$191	-- -- \$3
	\$194	====	==== ==
		====	

The Company's rate-regulated businesses recognize removal costs as a component of depreciation expense in accordance with regulatory treatment. As of December 31, 2002 and 2003, these removal costs of \$635 million and \$647 million, respectively, have been reclassified from accumulated depreciation to other long-term liabilities and regulatory liabilities, respectively, in the Consolidated Balance Sheets. The Company's non-rate regulated businesses have previously recognized removal costs as a component of depreciation expense. As of December 31, 2002, these removal costs of \$115 million have been reclassified from accumulated depreciation to other long-term liabilities in the Consolidated Balance Sheets. The Company reversed \$115 million during the three months ended March 31, 2003 of previously recognized removal costs with respect to these non-rate regulated businesses as a cumulative effect of accounting change. The total cumulative effect of accounting change from adoption of SFAS No. 143 was \$152 million. Excluded from the \$80 million after-tax cumulative effect of accounting change recorded for the three months ended March 31, 2003, is minority interest of \$19 million related to the Texas Genco stock not owned by CenterPoint Energy.



CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following represents the pro-forma effect on the Company's net income for the year ended December 31, 2002, as if the Company had adopted SFAS No. 143 as of January 1, 2002 (in millions, except per share amounts):

YEAR ENDED DECEMBER 31, 2002 -----	
Income from continuing operations before cumulative effect of accounting change as reported.....	\$ 369 Pro-forma income from continuing operations before cumulative effect of accounting change.....
376 Net loss as reported.....	(3,920) Pro-forma net loss.....
(3,913) DILUTED EARNINGS PER SHARE: Income from continuing operations before cumulative effect of accounting change as reported.....	\$ 1.23 Pro-forma income from continuing operations before cumulative effect of accounting change.....
1.25 Net loss as reported.....	(13.08) Pro-forma net loss.....
	(13.06)

The following represents the Company's asset retirement obligations on a pro-forma basis as if it had adopted SFAS No. 143 as of December 31, 2002:

AS REPORTED PRO-FORMA -----	-----	(IN MILLIONS)
decommissioning.....	Nuclear	\$140
mine.....	\$187 Lignite	40
Total.....		\$180 \$191 =====

In April 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS No. 145). SFAS No. 145 eliminates the current requirement that gains and losses on debt extinguishment must be classified as extraordinary items in the income statement. Instead, such gains and losses will be classified as extraordinary items only if they are deemed to be unusual and infrequent. SFAS No. 145 also requires that capital leases that are modified so that the resulting lease agreement is classified as an operating lease be accounted for as a sale-leaseback transaction. The changes related to debt extinguishment are effective for fiscal years beginning after May 15, 2002, and the changes related to lease accounting are effective for transactions occurring after May 15, 2002. The Company has applied this guidance as it relates to lease accounting and the accounting provision related to debt extinguishment. Upon adoption of SFAS No. 145, any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods is required to be reclassified. The Company has reclassified the \$26 million loss on debt extinguishment related to the fourth quarter of 2002 from an extraordinary item to interest expense.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (SFAS No. 149). SFAS No. 149 has added additional criteria, which were effective on July 1, 2003, for new, acquired, or newly modified forward contracts. The Company engages in forward contracts for the sale of power. The majority of these forward contracts are entered into either through state-mandated Public Utility Commission of Texas (Texas Utility Commission) auctions or auctions mandated by an agreement with Reliant Resources. All of the Company's contracts resulting from these auctions specify the product types, the plant or group of plants from which the auctioned products are derived,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the delivery location and specific delivery requirements, and pricing for each of the products. The Company has applied the criteria from current accounting literature, including SFAS No. 133 Implementation Issue No. C-15 -- "Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity", to both the state-mandated and the contractually-mandated auction contracts and believes they meet the definition of capacity contracts. Accordingly, the Company considers these contracts normal sales contracts rather than derivatives. The Company has evaluated its forward commodity contracts under the new requirements of SFAS No. 149. The adoption of SFAS No. 149 did not change previous accounting conclusions relating to forward power sales contracts entered into in connection with the state-mandated or contractually-mandated auctions, and did not have a material effect on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" (SFAS No. 150). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Effective July 1, 2003, upon the adoption of SFAS No. 150, the Company reclassified \$725 million of trust preferred securities as long-term debt and began to recognize the dividends paid on the trust preferred securities as interest expense. Prior to July 1, 2003, the dividends were classified as "Distribution on Trust Preferred Securities" in the Statements of Consolidated Operations. Additionally, \$19 million of debt issuance costs previously netted against the balance of the trust preferred securities was reclassified to unamortized debt issuance costs. SFAS No. 150 does not permit restatement of prior periods. The adoption of SFAS No. 150 did not impact the Company's income from continuing operations, net income or earnings per share. See discussion of FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (FIN 46) below regarding the accounting for the trust preferred securities at December 31, 2003.

In January 2003, the FASB issued FIN 46. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003, subject to the following additional releases by the FASB. On October 9, 2003, the FASB deferred the application for FIN 46 until the end of the first interim period or annual period ending after December 15, 2003 if the variable interest was created before February 1, 2003 and a public entity had not issued financial statements reporting the variable interest entity in accordance with FIN 46. On December 24, 2003, the FASB issued a revision to FIN 46 (FIN 46-R). The effective dates and impact of FIN 46 and FIN 46R are as follows: (a) for special-purpose entities (SPE's) created before February 1, 2003, the Company must apply the provisions of FIN 46 or FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003, (b) for variable interest entities created before February 1, 2003 which do not meet the definition of an SPE provided by FIN 46-R, the Company is required to adopt FIN 46-R at the end of the first interim or annual period ending after March 15, 2004 and (c) for all entities, regardless of whether an SPE, that were created subsequent to December 31, 2003, the Company is required to apply the provisions of FIN 46-R immediately. The Company has subsidiary trusts that have Mandatorily Redeemable Preferred Securities outstanding with a liquidation value of \$725 million as of December 31, 2003. These securities were issued in 1996 and 1997 and were previously reported on the Company's Consolidated Balance Sheet as Company Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Junior Subordinated Debentures of the Company (see disclosure above on SFAS No. 150). The trusts were determined to be SPE's, and therefore, the provisions of FIN 46 or FIN 46-R were applicable to the trusts for the December 31, 2003 financial statements. The trusts were determined to be variable interest entities under FIN 46-R. The Company also determined that it is not the primary beneficiary of the trusts. Therefore, the trusts and the mandatorily

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

redeemable preferred securities issued by the trusts are no longer reported on the Company's Consolidated Balance Sheet as of December 31, 2003. Instead, the Company reports its junior subordinated debentures due to the trusts as long-term debt. See Note 9. The Company has made this reclassification as of December 31, 2003 and has elected not to restate prior period information. The Company is currently evaluating the impact of adopting FIN 46-R applicable to non-SPE's created prior to February 1, 2003 but does not expect a material impact.

On December 23, 2003, the FASB issued SFAS No. 132 (Revised 2003), "Employer's Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132(R)) which increases the existing disclosure requirements by requiring more details about pension plan assets, benefit obligations, cash flows, benefit costs and related information. Companies will be required to segregate plan assets by category, such as debt, equity and real estate, and to provide certain expected rates of return and other informational disclosures. SFAS No. 132(R) also requires companies to disclose various elements of pension and postretirement benefit costs in interim-period financial statements for quarters beginning after December 15, 2003. The Company has adopted the disclosure requirements of SFAS No. 132(R) in Note 10 to these consolidated financial statements.

In December 2003, Congress passed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) which will become effective in 2006. The Act contains incentives for the Company, if it continues to provide prescription drug benefits for its retirees, through the provision of a non-taxable reimbursement to the Company of specified costs. The Company has many different alternatives available under the Act, and, until clarifying regulations are issued with respect to the Act, the Company is unable to determine the financial impact. On January 12, 2004, the FASB issued FASB Staff Position (FSP) FAS 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FAS 106-1)." In accordance with FSP FAS 106-1, the Company's postretirement benefits obligations and net periodic postretirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the legislation. Specific authoritative guidance on the accounting for the legislation is pending and that guidance, when issued, may require the Company to change previously reported information.

### (3) DISCONTINUED OPERATIONS

Reliant Resources. On September 30, 2002, CenterPoint Energy distributed to its shareholders its 83% ownership interest in Reliant Resources by means of a tax-free spin-off in the form of a dividend. Holders of CenterPoint Energy common stock on the record date received 0.788603 shares of Reliant Resources common stock for each share of CenterPoint Energy stock that they owned on the record date. The Reliant Resources Distribution was recorded in the third quarter of 2002.

As a result of the Reliant Resources Distribution, CenterPoint Energy recorded a non-cash loss on disposal of discontinued operations of \$4.4 billion in 2002. This loss represents the excess of the carrying value of CenterPoint Energy's net investment in Reliant Resources over the market value of Reliant Resources' common stock. CenterPoint Energy's financial statements reflect the reclassifications necessary to present Reliant Resources as discontinued operations for all periods shown.

Reliant Resources' revenues included in discontinued operations for the year ended December 31, 2001 and nine months ended September 30, 2002 were \$6.5 billion and \$9.5 billion, respectively, as reported in Reliant Resources' Annual Report on Form 10-K/A, Amendment No. 1, filed with the Securities and Exchange Commission (SEC) on May 1, 2003. These amounts have been restated to reflect Reliant Resources' adoption of Emerging Issues Task Force (EITF) Issue No. 02-3, "Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities." Income from these discontinued operations for the year ended December 31, 2001 and nine months ended September 30, 2002 is reported net of income tax expense of \$274 million and \$284 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Latin America. In February 2003, the Company sold its interest in Argener, a cogeneration facility in Argentina, for \$23 million. The carrying value of this investment was approximately \$11 million as of December 31, 2002. The Company recorded an after-tax gain of \$7 million from the sale of Argener in the first quarter of 2003. In April 2003, the Company sold its final remaining investment in Argentina, a 90 percent interest in Empresa Distribuidora de Electricidad de Santiago del Estero S.A. The Company recorded an after-tax loss of \$3 million in the second quarter of 2003 related to its Latin America operations. The consolidated financial statements present these Latin America operations as discontinued operations in accordance with SFAS No. 144. Accordingly, the consolidated financial statements include the necessary reclassifications to reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2003.

Revenues related to the Company's Latin America operations included in discontinued operations for the years ended December 31, 2001, 2002 and 2003 were \$92 million, \$15 million and \$2 million, respectively. Income from these discontinued operations for the year ended December 31, 2001 is reported net of income tax benefit of \$28 million. Income from these discontinued operations for each of the years ended December 31, 2002 and 2003 is reported net of income tax expense of \$2 million.

Summarized balance sheet information related to discontinued operations of Latin America is as follows as of December 31, 2002:

DECEMBER 31, 2002	-----	(IN MILLIONS)	CURRENT
		ASSETS:	
Cash.....			
	\$ 6	Accounts receivable, principally	
trade.....	3	Other current	
assets.....	1	---	Total
current assets.....	10		
		OTHER NON-CURRENT	
ASSETS.....	5	---	TOTAL
ASSETS.....	15		
TOTAL LIABILITIES.....	-		
	-	---	NET ASSETS OF DISCONTINUED
OPERATIONS.....	\$15	===	

CenterPoint Energy Management Services, Inc. As discussed in Note 1, in November 2003, the Company completed the sale of a component of its Other Operations business segment, CenterPoint Energy Management Services, Inc. (CEMS), that provides district cooling services in the Houston central business district and related complementary energy services to district cooling customers and others. The Company recorded an after-tax loss of \$1 million from the sale of CEMS in the fourth quarter of 2003. The Company recorded an after-tax loss in discontinued operations of \$16 million (\$25 million pre-tax) during the second quarter of 2003 to record the impairment of the long-lived asset based on the impending sale and to record one-time employee termination benefits. The consolidated financial statements present these CEMS operations as discontinued operations in accordance with SFAS No. 144. Accordingly, the consolidated financial statements include the necessary reclassifications to reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2003.

Revenues related to CEMS included in discontinued operations for the years ended December 31, 2001, 2002 and 2003 were \$5 million, \$9 million and \$10 million, respectively. Income from these discontinued operations for the years ended December 31, 2001, 2002 and 2003 is reported net of income tax benefit of \$2 million, \$1 million and \$2 million, respectively.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Summarized balance sheet information related to discontinued operations of CEMS is as follows as of December 31, 2002:

DECEMBER 31, 2002 ----- (IN MILLIONS) CURRENT	
ASSETS:	
Cash.....	1
\$ 1 Accounts receivable, principally	
trade.....	1
Other current	
assets.....	1
--- Total	3
current assets.....	3
OTHER	
NON-CURRENT ASSETS.....	45
--- TOTAL	48
ASSETS.....	48
--- CURRENT LIABILITIES: Accounts payable, principally	
trade.....	2
Other current	
liabilities.....	1
--- Total	3
current liabilities.....	3
OTHER	
LONG-TERM LIABILITIES.....	7
--- TOTAL	10
LIABILITIES.....	10
--- NET ASSETS OF DISCONTINUED	
OPERATIONS.....	\$38
===	

(4) REGULATORY MATTERS

(a) TRUE-UP COMPONENTS AND SECURITIZATION

The Texas Electric Restructuring Law. In June 1999, the Texas legislature adopted the Texas Electric Choice Plan (the Texas electric restructuring law), which substantially amended the regulatory structure governing electric utilities in order to allow and encourage retail competition which began in January 2002. The Texas electric restructuring law required the separation of the generation, transmission and distribution, and retail sales functions of electric utilities into three different units. Under the law, neither the generation function nor the retail function is subject to traditional cost of service regulation, and the generation and the retail function are each operated on a competitive basis.

The transmission and distribution function that CenterPoint Houston performs remains subject to traditional utility rate regulation. CenterPoint Houston recovers the cost of its service through an energy delivery charge approved by the Texas Utility Commission. As a result of these changes, there are no meaningful comparisons for the Electric Transmission & Distribution and Electric Generation business segments prior to 2002 when retail sales became fully competitive.

Under the Texas electric restructuring law, transmission and distribution utilities in Texas, such as CenterPoint Houston, whose generation assets were "unbundled" may recover, following a regulatory proceeding to be held in 2004 (2004 True-Up Proceeding) as further discussed below in "-- 2004 True-Up Proceeding":

- "stranded costs," which consist of the positive excess of the regulatory net book value of generation assets, as defined, over the market value of the assets, taking specified factors into account;
- the difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period;

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- the Texas jurisdictional amount reported by the previously vertically integrated electric utilities as generation-related regulatory assets and liabilities (offset and adjusted by specified amounts) in their audited financial statements for 1998;
- final fuel over- or under-recovery; less
- "price to beat" clawback components.

The Texas electric restructuring law permits transmission and distribution utilities to recover the true-up components through transition charges on retail electric customers' bills, to the extent that such components are established in certain regulatory proceedings. These transition charges are non-bypassable, meaning that they must be paid by essentially all customers and cannot, except in limited circumstances, be avoided by switching to self-generation. The law also authorizes the Texas Utility Commission to permit those utilities to issue transition bonds based on the securitization of revenues associated with the transition charges. CenterPoint Houston recovered a portion of its regulatory assets in 2001 through the issuance of transition bonds. For a further discussion of these matters, see "-- Securitization" below.

The Texas electric restructuring law also provides specific regulatory remedies to reduce or mitigate a utility's stranded cost exposure. During a base rate freeze period from 1999 through 2001, earnings above the utility's authorized rate of return formula were required to be applied in a manner to accelerate depreciation of generation-related plant assets for regulatory purposes if the utility was expected to have stranded costs. In addition, depreciation expense for transmission and distribution-related assets could be redirected to generation assets for regulatory purposes during that period if the utility was expected to have stranded costs. CenterPoint Houston undertook both of these remedies provided in the Texas electric restructuring law, but in a rate order issued in October 2001, the Texas Utility Commission required CenterPoint Houston to reverse those actions. For a further discussion of these matters, see "-- Mitigation" below.

**2004 True-Up Proceeding.** In 2004, the Texas Utility Commission will conduct true-up proceedings for investor-owned utilities. The purpose of the true-up proceeding is to quantify and reconcile the amount of the true-up components. The true-up proceeding will result in either additional charges being assessed on, or credits being issued to, retail electric customers. CenterPoint Houston expects to make the filing to initiate its final true-up proceeding on March 31, 2004. The Texas electric restructuring law requires a final order to be issued by the Texas Utility Commission not more than 150 days after a proper filing is made by the regulated utility, although under its rules the Texas Utility Commission can extend the 150-day deadline for good cause. Any delay in the final order date will result in a delay in the securitization of CenterPoint Houston's true-up components and the implementation of the non-bypassable charges described above, and could delay the recovery of carrying costs on the true-up components determined by the Texas Utility Commission.

CenterPoint Houston will be required to establish and support the amounts it seeks to recover in the 2004 True-Up Proceeding. CenterPoint Houston expects these amounts to be substantial. Third parties will have the opportunity and are expected to challenge CenterPoint Houston's calculation of these amounts. To the extent recovery of a portion of these amounts is denied or if CenterPoint Houston agrees to forego recovery of a portion of the request under a settlement agreement, CenterPoint Houston would be unable to recover those amounts in the future.

Following adoption of the true-up rule by the Texas Utility Commission in 2001, CenterPoint Houston appealed the provisions of the rule that permitted interest to be recovered on stranded costs only from the date of the Texas Utility Commission's final order in the 2004 True-Up Proceeding, instead of from January 1, 2002 as CenterPoint Houston contends is required by law. On January 30, 2004, the Texas Supreme Court granted CenterPoint Houston's petition for review of the true-up rule. Oral arguments were heard on February 18, 2004. The decision by the Court is pending. The Company has not accrued interest income on stranded costs in its consolidated financial statements, but estimates such interest income would be material to the Company's consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

**Stranded Cost Component.** CenterPoint Houston will be entitled to recover stranded costs through a transition charge to its customers if the regulatory net book value of generating plant assets exceeds the market value of those assets. The regulatory net book value of generating plant assets is the balance as of December 31, 2001 plus certain costs incurred for reductions in emissions of oxides of nitrogen (NOx), any above-market purchased power contracts and certain other amounts. The market value will be equal to the average daily closing price on The New York Stock Exchange for publicly held shares of Texas Genco common stock for 30 consecutive trading days chosen by the Texas Utility Commission out of the last 120 trading days immediately preceding the true-up filing, plus a control premium, up to a maximum of 10%, to the extent included in the valuation determination made by the Texas Utility Commission. If Texas Genco is sold to a third party at a lower price than the market value used by the Texas Utility Commission, CenterPoint Houston would be unable to recover the difference.

**ECOM True-Up Component.** The Texas Utility Commission used a computer model or projection, called an excess cost over market (ECOM) model, to estimate stranded costs related to generation plant assets. Accordingly, the Texas Utility Commission estimated the market power prices that would be received in the generation capacity auctions mandated by the Texas electric restructuring law during 2002 and 2003. Any difference between the Texas Utility Commission's projected market prices for generation during 2002 and 2003 and the actual market prices for generation as determined in the state-mandated capacity auctions during that period will be a component of the 2004 True-Up Proceeding. In accordance with the Texas Utility Commission's rules regarding the ECOM True-Up, for the years ended December 31, 2002 and 2003, CenterPoint Energy recorded approximately \$697 million and \$661 million, respectively, in non-cash ECOM True-Up revenue. ECOM True-Up revenue is recorded as a regulatory asset and totaled \$1.4 billion as of December 31, 2003.

In 2003, some parties sought modifications to the true-up rules. Although the Texas Utility Commission denied that request, the Company expects that issues could be raised in the 2004 True-Up Proceeding regarding its compliance with the Texas Utility Commission's rules regarding the ECOM true-up, including whether Texas Genco has auctioned all capacity it is required to auction in view of the fact that some capacity has failed to sell in the state-mandated auctions. The Company believes Texas Genco has complied with the requirements under the applicable rules, including re-offering the unsold capacity in subsequent auctions. If events were to occur during the 2004 True-Up Proceeding that made the recovery of the ECOM true-up regulatory asset no longer probable, the Company would write off the unrecoverable balance of that asset as a charge against earnings.

**Fuel Over/Under Recovery Component.** CenterPoint Houston and Texas Genco filed their joint application to reconcile fuel revenues and expenses with the Texas Utility Commission in July 2002. This final fuel reconciliation filing covered reconcilable fuel expense and interest of approximately \$8.5 billion incurred from August 1, 1997 through January 30, 2002. In January 2003, a settlement agreement was reached, as a result of which certain items totaling \$24 million were written off during the fourth quarter of 2002 and items totaling \$203 million were carried forward for later resolution by the Texas Utility Commission. In late 2003, a hearing was concluded on those remaining issues. On March 4, 2004, an Administrative Law Judge (ALJ) recommended that CenterPoint Houston not be allowed to recover \$87 million in fuel expenses incurred during the reconciliation period. CenterPoint Houston will contest this recommendation when the Texas Utility Commission considers the ALJ's conclusions on April 15, 2004. However, since the recovery of this portion of the regulatory asset is no longer probable, CenterPoint Houston reserved \$117 million, including interest, in the fourth quarter of 2003. The ALJ also recommended that \$46 million be recovered in the 2004 True-Up Proceeding rather than in the fuel proceeding. The results of the Texas Utility Commission's decision will be a component of the 2004 True-Up Proceeding.

**"Price to Beat" Clawback Component.** In connection with the implementation of the Texas electric restructuring law, the Texas Utility Commission has set a "price to beat" that retail electric providers affiliated or formerly affiliated with a former integrated utility must charge residential and small commercial customers

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

within their affiliated electric utility's service area. The true-up provides for a clawback of the "price to beat" in excess of the market price of electricity if 40% of the "price to beat" load is not served by other retail electric providers by January 1, 2004. Pursuant to the Texas electric restructuring law and a master separation agreement entered into in connection with the September 30, 2002 spin-off of the Company's interest in Reliant Resources to the Company's shareholders, Reliant Resources is obligated to pay CenterPoint Houston the clawback component of the true-up. Based on an order issued on February 13, 2004 by the Texas Utility Commission, the clawback will equal \$150 times the number of residential customers served by Reliant Resources in CenterPoint Houston's service territory, less the number of residential customers served by Reliant Resources outside CenterPoint Houston's service territory, on January 1, 2004. As reported in Reliant Resources' Annual Report on Form 10-K for the year ended December 31, 2003, Reliant Resources expects that the clawback payment will be \$175 million. The clawback will reduce the amount of recoverable costs to be determined in the 2004 True-Up Proceeding.

**Securitization.** The Texas electric restructuring law provides for the use of special purpose entities to issue transition bonds for the economic value of generation-related regulatory assets and stranded costs. These transition bonds will be amortized over a period not to exceed 15 years through non-bypassable transition charges. In October 2001, a special purpose subsidiary of CenterPoint Houston issued \$749 million of transition bonds to securitize certain generation-related regulatory assets. These transition bonds have a final maturity date of September 15, 2015 and are non-recourse to the Company and its subsidiaries other than to the special purpose issuer. Payments on the transition bonds are made out of funds from non-bypassable transition charges.

The Company expects that upon completion of the 2004 True-Up Proceeding, CenterPoint Houston will seek to securitize the amounts established for the true-up components. Before CenterPoint Houston can securitize these amounts, the Texas Utility Commission must conduct a proceeding and issue a financing order authorizing CenterPoint Houston to do so. Under the Texas electric restructuring law, CenterPoint Houston is entitled to recover any portion of the true-up balance not securitized by transition bonds through a non-bypassable competition transition charge.

**Mitigation.** In an order issued in October 2001, the Texas Utility Commission established the transmission and distribution rates that became effective in January 2002. The Texas Utility Commission determined that CenterPoint Houston had over-mitigated its stranded costs by redirecting transmission and distribution depreciation and by accelerating depreciation of generation assets as provided under its transition plan and the Texas electric restructuring law. In this final order, CenterPoint Houston was required to reverse the amount of redirected depreciation (\$841 million) and accelerated depreciation (\$1.1 billion) taken for regulatory purposes as allowed under the transition plan and the Texas electric restructuring law. In accordance with the order, CenterPoint Houston recorded a regulatory liability of \$1.1 billion to reflect the prospective refund of the accelerated depreciation, and in January 2002 CenterPoint Houston began refunding excess mitigation credits, which are to be refunded over a seven-year period. The annual refund of excess mitigation credits is approximately \$238 million. As of December 31, 2002 and 2003, the Company had recorded net electric plant mitigation regulatory assets of \$1.1 billion and \$1.3 billion, respectively, based on the Company's expectation that these amounts will be recovered in the 2004 True-Up Proceeding as stranded costs. In the event that the excess mitigation credits prove to have been unnecessary and CenterPoint Houston is determined to have stranded costs, the excess mitigation credits will be included in the stranded costs to be recovered. In June 2003, CenterPoint Houston sought authority from the Texas Utility Commission to terminate these credits based on then current estimates of what that final determination would be. The Texas Utility Commission denied the request in January 2004.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

## (b) RATE CASES

In August 2002, a settlement was approved by the Arkansas Public Service Commission (APSC) that resulted in an increase in the base rate and service charge revenues of CenterPoint Energy Arkla (Arkla) of approximately \$27 million annually. In addition, the APSC approved a gas main replacement surcharge that provided \$2 million of additional revenue in 2003 and is expected to provide additional amounts in subsequent years.

In December 2002, a settlement was approved by the Oklahoma Corporation Commission that resulted in an increase in the base rate and service charge revenues of Arkla of approximately \$6 million annually.

In November 2003, Arkla filed a request with the Louisiana Public Service Commission (LPSC) for a \$16 million increase to its base rate and service charge revenues in Louisiana. The case is expected to be resolved in mid-2004.

In December 2003, a settlement was approved by the City of Houston that will result in an increase in the base rate and service charge revenues of CenterPoint Energy Entex (Entex) of approximately \$7 million annually. Entex has submitted these settlement rates to the 28 other cities within its Houston Division and the Railroad Commission of Texas for consideration and approval. If all regulatory approvals are received from these 29 jurisdictions, Entex's base rate and service charge revenues are expected to increase by approximately \$7 million annually in addition to the \$7 million increase discussed above.

On February 10, 2004, a settlement was approved by the LPSC that is expected to result in an increase in Entex's base rate and service charge revenues of approximately \$2 million annually.

## (c) NUCLEAR DECOMMISSIONING TRUST

Texas Genco is the beneficiary of decommissioning trusts that have been established to provide funding for decontamination and decommissioning of a nuclear electric generation station in which Texas Genco owns a 30.8% interest (see Notes 6 and 12(e)). CenterPoint Houston collects through rates or other authorized charges to its electric utility customers amounts designated for funding the decommissioning trusts, and deposits these amounts into the decommissioning trusts. Upon decommissioning of the facility, in the event funds from the trusts are inadequate, CenterPoint Houston or its successor will be required to collect through rates or other authorized charges to customers as contemplated by the Texas Utilities Code all additional amounts required to fund Texas Genco's obligations relating to the decommissioning of the facility. Following the completion of the decommissioning, if surplus funds remain in the decommissioning trust, the excess will be refunded to the ratepayers of CenterPoint Houston or its successor.

## (d) OTHER REGULATORY PROCEEDINGS

City of Tyler, Texas Dispute. In July 2002, the City of Tyler, Texas, asserted that Entex had overcharged residential and small commercial customers in that city for excessive gas costs under supply agreements in effect since 1992. That dispute has been referred to the Texas Railroad Commission by agreement of the parties for a determination of whether Entex has properly and lawfully charged and collected for gas service to its residential and commercial customers in its Tyler distribution system for the period beginning November 1, 1992, and ending October 31, 2002. The Company believes that all costs for Entex's Tyler distribution system have been properly included and recovered from customers pursuant to Entex's filed tariffs.

FERC Contract Inquiry. On September 15, 2003, the FERC issued a Show Cause Order to CenterPoint Energy Gas Transmission Company (CEGT), one of CERC's natural gas pipeline subsidiaries. In its Show Cause Order, the FERC contends that CEGT has failed to file with the FERC and post on the internet certain information relating to negotiated rate contracts that CEGT had entered into pursuant to 1996

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

FERC orders. Those orders authorized CEGT to enter into negotiated rate contracts that deviate from the rates prescribed under its filed FERC tariffs. The FERC also alleges that certain of the contracts contain provisions that CEGT was not authorized to negotiate under the terms of the 1996 orders.

Following issuance of the Show Cause Order, CEGT made certain compliance filings, met with members of the FERC's staff and provided additional information relating to the FERC's Show Cause Order. On March 4, 2004, the FERC issued orders accepting CEGT's compliance filings and approving a Stipulation and Consent Agreement with CEGT that resolved the issues raised by the Show Cause Order. The resolution of these issues did not have a material impact on our results of operations, financial condition and cash flows.

(5) DERIVATIVE INSTRUMENTS

Effective January 1, 2001, the Company adopted SFAS No. 133, which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. This statement requires that derivatives be recognized at fair value in the balance sheet and that changes in fair value be recognized either currently in earnings or deferred as a component of other comprehensive income, depending on the intended use of the derivative instrument as hedging (a) the exposure to changes in the fair value of an asset or liability (Fair Value Hedge) or (b) the exposure to variability in expected future cash flows (Cash Flow Hedge) or (c) the foreign currency exposure of a net investment in a foreign operation. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period it occurs.

Adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax increase in net income of \$59 million and a cumulative after-tax increase in accumulated other comprehensive income of \$38 million.

The Company is exposed to various market risks. These risks arise from transactions entered into in the normal course of business. The Company utilizes derivative financial instruments such as physical forward contracts, swaps and options (Energy Derivatives) to mitigate the impact of changes and cash flows of its natural gas businesses on its operating results and cash flows.

(a) NON-TRADING ACTIVITIES

Cash Flow Hedges. To reduce the risk from market fluctuations associated with purchased gas costs, the Company enters into energy derivatives in order to hedge certain expected purchases and sales of natural gas (non-trading energy derivatives). The Company applies hedge accounting for its non-trading energy derivatives utilized in non-trading activities only if there is a high correlation between price movements in the derivative and the item designated as being hedged. The Company analyzes its physical transaction portfolio to determine its net exposure by delivery location and delivery period. Because the Company's physical transactions with similar delivery locations and periods are highly correlated and share similar risk exposures, the Company facilitates hedging for customers by aggregating physical transactions and subsequently entering into non-trading energy derivatives to mitigate exposures created by the physical positions.

During 2003, no hedge ineffectiveness was recognized in earnings from derivatives that are designated and qualify as Cash Flow Hedges. No component of the derivative instruments' gain or loss was excluded from the assessment of effectiveness. If it becomes probable that an anticipated transaction will not occur, the Company realizes in net income the deferred gains and losses recognized in accumulated other comprehensive loss. Once the anticipated transaction occurs, the accumulated deferred gain or loss recognized in accumulated other comprehensive loss is reclassified and included in the Company's Statements of Consolidated Operations under the caption "Fuel and Cost of Gas Sold." Cash flows resulting from these transactions in non-trading energy derivatives are included in the Statements of Consolidated Cash Flows in the same category as the item being hedged. As of December 31, 2003, the Company expects \$38 million in accumulated other comprehensive loss to be reclassified into net income during the next twelve months.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The maximum length of time the Company is hedging its exposure to the variability in future cash flows for forecasted transactions on existing financial instruments is primarily two years with a limited amount of exposure up to five years. The Company's policy is not to exceed five years in hedging its exposure.

Interest Rate Swaps. As of December 31, 2003, the Company had an outstanding interest rate swap with a notional amount of \$250 million to fix the interest rate applicable to floating rate short-term debt. This swap, which expired in January 2004, did not qualify as a cash flow hedge under SFAS No. 133, and was marked to market in the Company's Consolidated Balance Sheets with changes reflected in interest expense in the Statements of Consolidated Operations.

During the year ended December 31, 2002, the Company settled its forward-starting interest rate swaps having an aggregate notional amount of \$1.5 billion at a cost of \$156 million, which was recorded in other comprehensive income and reclassified \$36 million and \$12 million to interest expense in 2002 and 2003, respectively. The remaining \$108 million in other comprehensive income is being amortized into interest expense in the same period during which the interest payments are made for the designated fixed-rate debt.

Embedded Derivative. The Company's \$575 million of convertible senior notes, issued May 19, 2003 and \$255 million of convertible senior notes, issued December 17, 2003 (see Note 9), contain contingent interest provisions. The contingent interest component is an embedded derivative as defined by SFAS No. 133, and accordingly, must be split from the host instrument and recorded at fair value on the balance sheet. The value of the contingent interest components was not material at issuance or at December 31, 2003.

(b) CREDIT RISKS

In addition to the risk associated with price movements, credit risk is also inherent in the Company's non-trading derivative activities. Credit risk relates to the risk of loss resulting from non-performance of contractual obligations by a counterparty. The following table shows the composition of the non-trading derivative assets of the Company as of December 31, 2002 and 2003 (in millions):

DECEMBER 31, 2002	DECEMBER 31, 2003	-----
INVESTMENT GRADE(1)(2)	INVESTMENT GRADE(1)(2)	TOTAL
GRADE(1)(2)	TOTAL(3)	-----
----- Energy		
marketers.....		\$ 7
	\$22 \$24 \$35	Financial
institutions.....		9 9 21
	21	
Other.....		
	-- -- 1	-----
Total.....		
	\$16 \$31 \$45 \$57	=== === ===

- (1) "Investment grade" is primarily determined using publicly available credit ratings along with the consideration of credit support (such as parent company guarantees) and collateral, which encompass cash and standby letters of credit.
- (2) For unrated counterparties, the Company performs financial statement analysis, considering contractual rights and restrictions and collateral, to create a synthetic credit rating.
- (3) The \$35 million non-trading derivative asset includes an \$11 million asset due to trades with Reliant Energy Services, Inc. (Reliant Energy Services), an affiliate until the date of the Reliant Resources Distribution. As of December 31, 2003, Reliant Energy Services did not have an investment grade rating.

(c) GENERAL POLICY

The Company has established a Risk Oversight Committee composed of corporate and business segment officers that oversees all commodity price and credit risk activities, including the Company's trading,

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

marketing, risk management services and hedging activities. The committee's duties are to establish the Company's commodity risk policies, allocate risk capital within limits established by the Company's board of directors, approve trading of new products and commodities, monitor risk positions and ensure compliance with the Company's risk management policies and procedures and trading limits established by the Company's board of directors.

The Company's policies prohibit the use of leveraged financial instruments. A leveraged financial instrument, for this purpose, is a transaction involving a derivative whose financial impact will be based on an amount other than the notional amount or volume of the instrument.

## (6) JOINTLY OWNED ELECTRIC UTILITY PLANT

Texas Genco owns a 30.8% interest in the South Texas Project, which consists of two 1,250 MW nuclear generating units and bears a corresponding 30.8% share of capital and operating costs associated with the project. The South Texas Project is owned as a tenancy in common among Texas Genco and three other co-owners, with each owner retaining its undivided ownership interest in the two generating units and the electrical output from those units. Texas Genco is severally liable, but not jointly liable, for the expenses and liabilities of the South Texas Project. Texas Genco and the three other co-owners organized the STP Nuclear Operating company (STPNOC) to operate and maintain the South Texas Project. STPNOC is managed by a board of directors comprised of one director appointed by each of the four co-owners, along with the chief executive officer of STPNOC. Texas Genco's share of direct expenses of the South Texas Project is included in the corresponding operating expense categories in the accompanying consolidated financial statements. As of December 31, 2002 and 2003, Texas Genco's total utility plant for the South Texas Project was \$385 million and \$431 million, respectively (net of \$2.2 billion accumulated depreciation which includes an impairment loss recorded in 1999 of \$745 million). As of December 31, 2002 and 2003, Texas Genco's investment in nuclear fuel was \$42 million (net of \$302 million amortization) and \$40 million (net of \$316 million amortization), respectively.

## (7) INDEXED DEBT SECURITIES (ZENS) AND TIME WARNER SECURITIES

## (a) ORIGINAL INVESTMENT IN TIME WARNER SECURITIES

In 1995, the Company sold a cable television subsidiary to Time Warner Inc. (TW) and received TW convertible preferred stock (TW Preferred) as partial consideration. On July 6, 1999, the Company converted its 11 million shares of TW Preferred into 45.8 million shares of Time Warner common stock (TW Common). Unrealized gains and losses resulting from changes in the market value of the TW Common are recorded in the Company's Statements of Consolidated Operations.

## (b) ZENS

In September 1999, the Company issued its 2.0% Zero-Premium Exchangeable Subordinated Notes due 2029 (ZENS) having an original principal amount of \$1.0 billion. ZENS are exchangeable for cash equal to the market value of a specified number of shares of TW common. The Company pays interest on the ZENS at an annual rate of 2% plus the amount of any quarterly cash dividends paid in respect of the shares of TW Common attributable to the ZENS. The principal amount of ZENS is subject to being increased to the extent that the annual yield from interest and cash dividends on the reference shares of TW Common is less than 2.309%. At December 31, 2003, ZENS having an original principal amount of \$840 million and a contingent principal amount of \$848 million were outstanding and were exchangeable, at the option of the holders, for cash equal to 95% of the market value of 21.6 million shares of TW Common deemed to be attributable to the ZENS. At December 31, 2003, the market value of such shares was approximately \$389 million, which would provide an exchange amount of \$440 for each \$1,000 original principal amount of ZENS. At maturity, the holders of the ZENS will receive in cash the higher of the original principal amount of the ZENS (subject to

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

adjustment as discussed above) or an amount based on the then-current market value of TW Common, or other securities distributed with respect to TW Common.

Through December 31, 2003, holders of approximately 16% of the 17.2 million ZENS originally issued had exercised their right to exchange their ZENS for cash, resulting in aggregate cash payments by CenterPoint Energy of approximately \$45 million.

A subsidiary of the Company owns shares of TW Common and elected to liquidate a portion of such holdings to facilitate the Company's making the cash payments for the ZENS exchanged in 2002. In connection with the exchanges in 2002, the Company received net proceeds of approximately \$43 million from the liquidation of approximately 4.1 million shares of TW Common at an average price of \$10.56 per share. The Company now holds 21.6 million shares of TW Common which are classified as trading securities under SFAS No. 115 and are expected to be held to facilitate the Company's ability to meet its obligation under the ZENS.

Upon adoption of SFAS No. 133 effective January 1, 2001, the ZENS obligation was bifurcated into a debt component and a derivative component (the holder's option to receive the appreciated value of TW Common at maturity). The derivative component was valued at fair value and determined the initial carrying value assigned to the debt component (\$121 million) as the difference between the original principal amount of the ZENS (\$1 billion) and the fair value of the derivative component at issuance (\$879 million). Effective January 1, 2001 the debt component was recorded at its accreted amount of \$122 million and the derivative component was recorded at its fair value of \$788 million, as a current liability, resulting in a transition adjustment pre-tax gain of \$90 million (\$59 million net of tax). The transition adjustment gain was reported in the first quarter of 2001 as the effect of a change in accounting principle. Subsequently, the debt component accretes through interest charges at 17.5% annually up to the minimum amount payable upon maturity of the ZENS in 2029 (approximately \$915 million) which reflects exchanges and adjustments to maintain a 2.309% annual yield, as discussed above. Changes in the fair value of the derivative component are recorded in the Company's Statements of Consolidated Operations. During 2001, 2002 and 2003, the Company recorded a loss of \$70 million, a loss of \$500 million and a gain of \$106 million, respectively, on the Company's investment in TW Common. During 2001, 2002 and 2003, the Company recorded a gain of \$58 million, a gain of \$480 million and a loss of \$96 million, respectively, associated with the fair value of the derivative component of the ZENS obligation. Changes in the fair value of the TW Common held by the Company are expected to substantially offset changes in the fair value of the derivative component of the ZENS.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table sets forth summarized financial information regarding the Company's investment in TW securities and the Company's ZENS obligation (in millions).

DEBT DERIVATIVE TW COMPONENT COMPONENT INVESTMENT OF ZENS OF ZENS -----			
	Balance at December 31,		
2000.....	\$897	\$1,000	\$ --
Transition adjustment from adoption of SFAS No.			
133.....			
	-- (90) -- Bifurcation of ZENS		
obligation..... -- (788) 788			
Accretion of debt component of			
ZENS.....	-- 1	-- Gain on indexed	
debt securities..... -- -- (58)			
Loss on TW			
Common.....	(70)	--	
	-- ----- Balance at December 31,		
2001.....	827	123	730
Accretion of debt component of			
ZENS.....	-- 1	-- Gain on indexed	
debt securities..... -- -- (480)			
Loss on TW			
Common.....	(500)	-	
	- -- Liquidation of TW		
Common.....	(43)	--	
Liquidation of ZENS, net of			
gain.....	-- (20)	(25)	-----
	----- Balance at December 31,		
2002.....	284	104	225
Accretion of debt component of			
ZENS.....	-- 1	-- Loss on indexed	
debt securities..... -- -- 96			
Gain on TW			
Common.....	106	--	
	-- ----- Balance at December 31,		
2003.....	\$390	\$ 105	\$ 321
	====	=====	=====

(8) EQUITY

(a) CAPITAL STOCK

At December 31, 2003, CenterPoint Energy has 1,020,000,000 authorized shares of capital stock, composed of 1,000,000,000 shares of \$0.01 par value common stock and 20,000,000 shares of \$0.01 par value preferred stock.

(b) SHAREHOLDER RIGHTS PLAN

The Company has a Shareholder Rights Plan that states that each share of its common stock includes one associated preference stock purchase right (Right) which entitles the registered holder to purchase from the Company a unit consisting of one-thousandth of a share of Series A Preference Stock. The Rights, which expire on December 11, 2011, are exercisable upon some events involving the acquisition of 20% or more of the Company's outstanding common stock. Upon the occurrence of such an event, each Right entitles the holder to receive common stock with a current market price equal to two times the exercise price of the Right. At anytime prior to becoming exercisable, the Company may repurchase the Rights at a price of \$0.005 per Right. There are 700,000 shares of Series A Preference Stock reserved for issuance upon exercise of the Rights.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(9) LONG-TERM DEBT AND SHORT-TERM BORROWINGS

DECEMBER 31, 2002	DECEMBER 31, 2003	DECEMBER 31, 2004
-----		
----- LONG- LONG- TERM		
CURRENT(1)	TERM CURRENT(1)	-----
----- (IN MILLIONS) Short-term		
borrowings: Bank		
loans.....	\$ 347	
\$ -- Revolving credit		
facility.....	63	-----
Total short-term borrowings.....	347	
63	-----	----- Long-term debt: CenterPoint
Energy:		
ZENS(2).....		
\$ -- 104	\$ -- 105	Senior notes 5.875% to 7.25%
due 2008 to		
2010.....		
-- 600	--	Convertible senior notes 2.875% to
3.75% due 2023 to		
2024.....	830	-----
- Pollution control bonds 5.60% to 6.70% due		
2012 to 2027(3).....	380	
167	380	-- Pollution control bonds 4.70% to
8.00% due 2011 to		
2030(4).....	871	-----
1,046 -- Loans due		
2006(5).....	3,850	-----
1,450	10	Junior subordinated debentures payable
to affiliate 7.20% to 8.257% due 2037 to		
2048(6).....		
-- 747	--	CenterPoint Houston: First mortgage
bonds 7.50% to 9.15% due 2021 to		
2023.....	615	-----
102	--	Series 2001-1 Transition Bonds 3.84% to
5.63% due 2004 to		
2013(7).....	717	19
676 41		
Term loan, LIBOR plus 9.75%, due 2005(8).....		
1,310	--	1,310 -- General mortgage bonds 5.60%
to 6.95% due 2013 to		
2033.....		
--	--	1,262
-- CERC Corp.: Convertible subordinated		
debentures 6.00% due		
2012.....	76	
-- 74	--	Senior notes 5.95% to 8.90% due 2005
to 2014.....		
1,331	500	2,251 -- Junior subordinated
debentures payable to affiliate 6.25% due		
2026(6).....		
--	--	6 --
Other.....		
52	7	51
6 Unamortized discount and		
premium(9).....	(8)	13
(2) -- -----		
----- Total long-term		
debt.....	9,194	810
10,783		
162	-----	----- Total
borrowings..... \$9,194		
\$1,157	\$10,783	\$225
=====		

(1) Includes amounts due or exchangeable within one year of the date noted.

(2) Upon adoption of SFAS No. 133 effective January 1, 2001, the Company's ZENS obligation was bifurcated into a debt component and an embedded derivative component. For additional information regarding ZENS, see Note 7(b). As ZENS are exchangeable for cash at any time at the option of the holders, these notes are classified as a current portion of long-term debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

- (3) These series of debt are secured by first mortgage bonds of CenterPoint Houston.
- (4) \$527 million of these series of debt is secured by general mortgage bonds of CenterPoint Houston.
- (5) Classified as long-term debt because of the termination dates of the facilities under which the funds were borrowed.
- (6) The junior subordinated debentures were issued to subsidiary trusts in connection with the issuance by those trusts of preferred securities. The trust preferred securities were deconsolidated effective December 31, 2003 pursuant to the adoption of FIN 46. This resulted in the junior subordinated debentures held by the trusts being reported as long-term debt. For further discussion, see Note 2(n).
- (7) For further discussion of the securitization financing, see Note 4(a).
- (8) London inter-bank offered rate (LIBOR) has a minimum rate of 3% under the terms of this debt. This term loan is secured by general mortgage bonds of CenterPoint Houston.
- (9) Debt acquired in business acquisitions is adjusted to fair market value as of the acquisition date. Included in long-term debt is additional unamortized premium related to fair value adjustments of long-term debt of \$7 million and \$6 million at December 31, 2002 and 2003, respectively, which is being amortized over the respective remaining term of the related long-term debt.

(a) SHORT-TERM BORROWINGS

Credit Facilities. As of December 31, 2003, CERC Corp. had a revolving credit facility that provided for an aggregate of \$200 million in committed credit and Texas Genco had a revolving credit facility that provided for an aggregate of \$75 million of committed credit. As of December 31, 2003, \$63 million was borrowed under the CERC Corp. revolving credit facility and there were no borrowings under the Texas Genco facility. The CERC Corp. revolver terminates on March 23, 2004 and the Texas Genco revolver terminates on December 21, 2004.

Rates for borrowings under CERC Corp.'s facility, including the facility fee, are the London interbank offered rate (LIBOR) plus 250 basis points based on current credit ratings and the applicable pricing grid. CERC Corp.'s revolving credit facility contains various business and financial covenants. CERC Corp. is prohibited from making loans to or other investments in the Company. CERC Corp. is currently in compliance with the covenants under the credit agreement. CERC Corp. is currently in discussions with banks seeking to arrange a replacement revolving credit facility and expects to have such a facility in place on or prior to the termination date of the existing facility.

Rates for borrowings under Texas Genco's facility, including the facility fee, are LIBOR plus 150 basis points. Texas Genco's revolving credit facility contains various business and financial covenants. Texas Genco is currently in compliance with the covenants under the credit agreement.

The weighted average interest rate on short-term borrowings at December 31, 2002 and December 31, 2003 was 5.4% and 5.0%, respectively. These interest rates exclude facility fees and other fees paid in connection with the arrangement of the bank facilities. As of December 31, 2003, cash aggregating \$65.5 million was invested in a money market fund.

(b) LONG-TERM DEBT

On October 7, 2003, the Company entered into a three-year credit facility composed of a revolving credit facility of \$1.4 billion and a \$925 million term loan from institutional investors. The facility matures on October 7, 2006 and requires prepayments aggregating \$20 million. Borrowings under the revolver (\$523 million at December 31, 2003) bear interest based on LIBOR rates under a pricing grid tied to the Company's credit ratings. At the Company's current ratings, the interest rate for borrowings under the revolver is LIBOR plus 300 basis points. The interest rate for borrowings under the term loan is LIBOR plus 350 basis points.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's Texas Genco stock is pledged to the lenders under the facility and the Company has agreed to limit the dividend paid on its common stock to \$0.10 per share per quarter. The facility provides that until such time as the facility has been reduced to \$750 million, 100% of the net cash proceeds from any securitizations relating to the recovery of the true-up components, after making any payments required under CenterPoint Houston's \$1.3 billion term loan, and the net cash proceeds of any sales of the common stock of Texas Genco owned by the Company or of material portions of Texas Genco's assets shall be applied to repay loans under the facility and reduce that facility. Any money raised in other future capital markets offerings and in the sale of other significant assets is not required to be used to pay down the facility. The facility requires the Company not to fall below a minimum interest coverage ratio and not to exceed a maximum leverage ratio. The facility refinanced and replaced a prior bank facility that, as of September 30, 2003, consisted of an \$856 million term loan and a \$1.5 billion revolver. In connection with entering into the new facility, the Company paid up-front fees of approximately \$16 million and avoided a payment of \$18 million which would have been due under the prior facility on October 9, 2003. Additionally, in October 2003, the Company expensed \$21 million of unamortized loan costs associated with the prior facility.

On March 18, 2003, CenterPoint Houston issued \$762 million aggregate principal amount of general mortgage bonds composed of \$450 million principal amount of 10-year bonds with an interest rate of 5.7% and \$312 million principal amount of 30-year bonds with an interest rate of 6.95%. Proceeds were used to redeem approximately \$312 million aggregate principal amount of CenterPoint Houston's first mortgage bonds and to repay \$429 million of intercompany notes payable to CenterPoint Energy by CenterPoint Houston. Proceeds from the note repayment were ultimately used by CenterPoint Energy to repay \$150 million aggregate principal amount of medium-term notes maturing on April 21, 2003 and to repay borrowings under the Company's prior facility, including \$50 million of term loan repayments.

On March 25 and April 14, 2003, CERC issued \$650 million aggregate principal amount and \$112 million aggregate principal amount, respectively, of 7.875% senior notes due in 2013. A portion of the proceeds was used to refinance \$360 million aggregate principal amount of CERC's 6 3/8% Term Enhanced ReMarketable Securities (TERM Notes) and to pay costs associated with the refinancing. Proceeds were also used to repay approximately \$340 million of bank borrowings under CERC's \$350 million revolving credit facility prior to its expiration on March 31, 2003.

On April 9, 2003, the Company remarketed \$175 million aggregate principal amount of pollution control bonds that it had owned since the fourth quarter of 2002. Remarketed bonds maturing in 2029 have a principal amount of \$75 million and an interest rate of 8%. Remarketed bonds maturing in 2018 have a principal amount of \$100 million and an interest rate of 7.75%. Proceeds from the remarketing were used to repay bank debt. At December 31, 2002, the \$175 million of bonds owned by the Company were not reflected as outstanding debt in the Company's Consolidated Balance Sheets.

On May 19, 2003, the Company issued \$575 million aggregate principal amount of convertible senior notes due May 15, 2023 with an interest rate of 3.75%. Holders may convert each of their notes into shares of CenterPoint Energy common stock, initially at a conversion rate of 86.3558 shares of common stock per \$1,000 principal amount of notes at any time prior to maturity, under the following circumstances: (1) if the last reported sale price of CenterPoint Energy common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% or, following May 15, 2008, 110% of the conversion price per share of CenterPoint Energy common stock on such last trading day, (2) if the notes have been called for redemption, (3) during any period in which the credit ratings assigned to the notes by both Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services (S&P), a division of The McGraw-Hill Companies, are lower than Ba2 and BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors, or (4) upon the occurrence of specified corporate transactions, including the distribution to all holders of CenterPoint Energy common stock of certain rights entitling them to purchase shares of

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CenterPoint Energy common stock at less than the last reported sale price of a share of CenterPoint Energy common stock on the trading day prior to the declaration date of the distribution or the distribution to all holders of CenterPoint Energy common stock of the Company's assets, debt securities or certain rights to purchase the Company's securities, which distribution has a per share value exceeding 15% of the last reported sale price of a share of CenterPoint Energy common stock on the trading day immediately preceding the declaration date for such distribution. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after May 15, 2008, in the event that the average trading price of a note for the applicable five trading day period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month interest period. For any six-month period, contingent interest will be equal to 0.25% of the average trading price of the note for the applicable five-trading-day period. Proceeds from the issuance of the convertible senior notes were used for term loan repayments and to repay revolver borrowings under the Company's prior facility in the amount of \$557 million and \$0.75 million, respectively.

On May 23, 2003, CenterPoint Houston issued \$200 million aggregate principal amount of 20-year general mortgage bonds with an interest rate of 5.6%. Proceeds were used to redeem \$200 million aggregate principal amount of CenterPoint Houston's 7.5% first mortgage bonds due 2023 at 103.51% of their principal amount.

On May 27, 2003, the Company issued \$400 million aggregate principal amount of senior notes composed of \$200 million principal amount of 5-year notes with an interest rate of 5.875% and \$200 million principal amount of 12-year notes with an interest rate of 6.85%. Proceeds in the amount of \$397 million were used for repayments of the term loan under the Company's prior facility.

In July 2003, the Company remarketed two series of insurance-backed pollution control bonds aggregating \$151 million, reducing the interest rate from 5.8% to 4%. Of the total amount of bonds remarketed, \$92 million mature on August 1, 2015 and \$59 million mature on October 15, 2015.

On September 2, 2003, CenterPoint Houston and the lender parties thereto amended the \$1.3 billion term loan to, among other things, allow CenterPoint Houston to issue an additional \$500 million of debt secured by its general mortgage bonds without requiring that the net proceeds be applied to prepay the loans outstanding under that term loan.

On September 9, 2003, CenterPoint Houston issued \$300 million aggregate principal amount of 5.75% general mortgage bonds due January 15, 2014. This issuance utilized \$300 million of the additional debt capacity of CenterPoint Houston described in the preceding paragraph. Proceeds were used to repay approximately \$258 million of intercompany notes payable to CenterPoint Energy and to repay approximately \$40 million of money pool borrowings. Proceeds in the amount of approximately \$292 million from the note and money pool repayments were ultimately used by CenterPoint Energy to repay a portion of the term loan under the Company's prior facility.

On September 9, 2003, the Company issued \$200 million aggregate principal amount of 7.25% senior notes due September 1, 2010. Proceeds in the amount of approximately \$198 million were used to repay a portion of the term loan under the Company's prior facility.

As a result of the term loan repayments made from the proceeds of the September 9, 2003 debt issuances by CenterPoint Houston and the Company discussed above, in September 2003, the Company expensed \$12.2 million of unamortized loan costs that were associated with the term loan under the Company's prior facility.

On November 3, 2003, CERC issued \$160 million aggregate principal amount of its 5.95% senior notes due 2014. CERC accepted \$140 million aggregate principal amount of CERC's TERM Notes maturing in November 2003 and \$1.25 million as consideration for the unsecured senior notes. CERC retired the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

TERM notes received and used the remaining proceeds to finance remaining costs of issuance of the notes and for general corporate purposes.

On December 17, 2003, the Company issued \$255 million aggregate principal amount of convertible senior notes due January 15, 2024 with an interest rate of 2.875%. Holders may convert each of their notes into shares of CenterPoint Energy common stock, initially at a conversion rate of 78.064 shares of common stock per \$1,000 principal amount of notes at any time prior to maturity, under the following circumstances: (1) if the last reported sale price of CenterPoint Energy common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the conversion price per share of CenterPoint Energy common stock on such last trading day, (2) if the notes have been called for redemption, (3) during any period in which the credit ratings assigned to the notes by both Moody's and S&P are lower than Ba2 and BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors, or (4) upon the occurrence of specified corporate transactions, including the distribution to all holders of CenterPoint Energy common stock of certain rights entitling them to purchase shares of CenterPoint Energy common stock at less than the last reported sale price of a share of CenterPoint Energy common stock on the trading day prior to the declaration date of the distribution or the distribution to all holders of CenterPoint Energy common stock of the Company's assets, debt securities or certain rights to purchase the Company's securities, which distribution has a per share value exceeding 15% of the last reported sale price of a share of CenterPoint Energy common stock on the trading day immediately preceding the declaration date for such distribution. CenterPoint Energy may elect to satisfy part or all of its conversion obligation by delivering cash in lieu of shares of CenterPoint Energy common stock. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after January 15, 2007, in the event that the average trading price of a note for the applicable five-trading-day period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month interest period. For any six-month period, contingent interest will be equal to 0.25% of the average trading price of the note for the applicable five-trading-day period. Proceeds from the issuance of the convertible senior notes were used to redeem, in January 2004, \$250 million liquidation amount of the 8.125% trust preferred securities issued by HL&P Capital Trust I. Pending such use, the net proceeds were used to repay a portion of the outstanding borrowings under the Company's revolving credit facility.

In February 2004, \$56 million aggregate principal amount of collateralized 5.6% pollution control bonds due 2027 and \$44 million aggregate principal amount of 4.25% collateralized insurance-backed pollution control bonds due 2017 were issued on behalf of CenterPoint Houston. The pollution control bonds are collateralized by general mortgage bonds of CenterPoint Houston with principal amounts, interest rates and maturities that match the pollution control bonds. The proceeds were used to redeem two series of 6.7% collateralized pollution control bonds with an aggregate principal amount of \$100 million issued on behalf of CenterPoint Energy. CenterPoint Houston's 6.7% first mortgage bonds which collateralized CenterPoint Energy's payment obligations under the refunded pollution control bonds were retired in connection with the March 2004 redemption of the refunded pollution control bonds. CenterPoint Houston's 6.7% notes payable to CenterPoint Energy were also extinguished upon the redemption of the refunded pollution control bonds.

Junior Subordinated Debentures (Trust Preferred Securities). In February 1997, two Delaware statutory business trusts created by CenterPoint Energy (HL&P Capital Trust I and HL&P Capital Trust II) issued to the public (a) \$250 million aggregate amount of preferred securities and (b) \$100 million aggregate amount of capital securities, respectively. In February 1999, a Delaware statutory business trust created by CenterPoint Energy (REI Trust I) issued \$375 million aggregate amount of preferred securities to the public. Each of the trusts used the proceeds of the offerings to purchase junior subordinated debentures issued by CenterPoint Energy having interest rates and maturity dates that correspond to the distribution rates and the mandatory redemption dates for each series of preferred securities or capital securities. As discussed in



cash and 2.34 shares of CenterPoint Energy common stock for each \$50 of liquidation value. As of December 31, 2002 and 2003, \$0.4 million liquidation amount of convertible preferred securities were outstanding. The securities, and their

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

underlying convertible junior subordinated debentures, bear interest at 6.25% and mature in June 2026. Subject to some limitations, CERC Corp. has the option of deferring payments of interest on the convertible junior subordinated debentures. During any deferral or event of default, CERC Corp. may not pay dividends on its common stock to CenterPoint Energy. As of December 31, 2003, no interest payments on the convertible junior subordinated debentures had been deferred.

**Maturities.** The Company's maturities of long-term debt, capital leases and sinking fund requirements, excluding the ZENS obligation and \$250 million of securities called for redemption in 2004, are \$57 million in 2004, \$1.7 billion in 2005, \$1.7 billion in 2006, \$69 million in 2007 and \$572 million in 2008. The 2004 amount is net of sinking fund payments that can be satisfied with bonds that had been acquired and retired as of December 31, 2003.

**Liens.** As of December 31, 2003, CenterPoint Houston's assets were subject to liens securing approximately \$482 million of first mortgage bonds. Sinking or improvement fund and replacement fund requirements on the first mortgage bonds may be satisfied by certification of property additions. Sinking fund and replacement fund requirements for 2001, 2002 and 2003 have been satisfied by certification of property additions. The replacement fund requirement to be satisfied in 2004 is approximately \$142 million, and the sinking fund requirement to be satisfied in 2004 is approximately \$4 million. The Company expects CenterPoint Houston to meet these 2004 obligations by certification of property additions. At December 31, 2003, CenterPoint Houston's assets were also subject to liens securing approximately \$3.1 billion of general mortgage bonds which are junior to the liens of the first mortgage bonds. Texas Genco's \$75 million revolving credit facility is secured by a series of first mortgage bonds issued by Texas Genco LP, in an aggregate principal amount of \$75 million under a First Mortgage Indenture (the Texas Genco Mortgage) dated December 23, 2003 between JPMorgan Chase Bank, as trustee, and Texas Genco, LP. All of Texas Genco's real and tangible properties, subject to certain exclusions, are currently subject to the lien of the Texas Genco Mortgage. Under the terms of the facility, if CenterPoint Energy ceases to own, directly or indirectly, at least a 50% voting and economic interest in Texas Genco, LP, an event of default will occur and any borrowings thereunder may become immediately due and payable.

**Securitization.** For a discussion of the securitization financing completed in October 2001, see Note 4(a).

**Transportation Agreement.** A subsidiary of CERC Corp. had an agreement (ANR Agreement) with ANR Pipeline Company (ANR) that contemplated that this subsidiary would transfer to ANR an interest in some of CERC Corp.'s pipeline and related assets. In 2001, this subsidiary was transferred to Reliant Resources as a result of CenterPoint Energy's planned divestiture of certain unregulated business operations. However, CERC retained the pipelines covered by the ANR Agreement. Therefore, the subsequent divestiture of Reliant Resources by CenterPoint Energy on September 30, 2002, resulted in a conversion of CERC's obligation to ANR into an obligation to Reliant Resources. As of December 31, 2002, the Company had recorded \$5 million and \$36 million in current portion of long-term debt and long-term debt, respectively, and as of December 31, 2003, the Company had recorded \$-0- and \$36 million in current portion of long-term debt and long-term debt, respectively, in its Consolidated Balance Sheets to reflect this obligation for the use of 130 million cubic feet (Mmcf)/day of capacity in some of CERC's transportation facilities. The volume of transportation declined to 100 Mmcf/day in the year 2003 and CERC refunded \$5 million to Reliant Resources. The ANR Agreement will terminate in 2005 with a refund of \$36 million to Reliant Resources.

#### (10) STOCK-BASED INCENTIVE COMPENSATION PLANS AND EMPLOYEE BENEFIT PLANS

##### (a) INCENTIVE COMPENSATION PLANS

The Company has long-term incentive compensation plans (LICPs) that provide for the issuance of stock-based incentives, including performance-based shares, performance-based units, restricted shares, stock

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

options and stock appreciation rights to directors, officers and key employees. A maximum of approximately 37 million shares of CenterPoint Energy common stock may be issued under these plans.

Performance-based shares, performance-based units and restricted shares are granted to employees without cost to the participants. The performance shares and units vest three years after the grant date based upon the performance of the Company over a three-year cycle, except as discussed below. The restricted shares vest at various times ranging from immediately to at the end of a three-year period. Upon vesting, the shares are issued to the plan participants.

During 2001, 2002 and 2003, the Company recorded compensation expense of \$6 million, \$2 million and \$9 million, respectively, related to performance-based shares, performance-based units and restricted share grants. Included in these amounts is \$5 million in compensation expense for 2001 related to Reliant Resources' participants. In addition, compensation benefit of \$1 million was recorded in 2002 related to Reliant Resources' participants. Amounts for Reliant Resources' participants are reflected in discontinued operations in the Statements of Consolidated Operations.

The following table summarizes the Company's performance-based units, performance-based shares and restricted share grant activity for the years 2001 through 2003:

NUMBER OF UNITS	NUMBER OF SHARES	PERFORMANCE- RESTRICTED	PERFORMANCE- SHARES	NUMBER OF SHARES
-----				
----- Outstanding at				
December 31, 2000..... --				
1,067,867 458,612				
Granted.....	83,670 --	2,623		
Canceled.....	-- (17,154)	(2,778)	Released to	
participants..... --				
(424,623) (249,895) -----				
----- Outstanding at				
December 31, 2001..... 83,670				
626,090 208,562				
Granted.....	-- 451,050	--		
Canceled.....	(5,625)	(176,258)	(41,892)	
Released to				
participants..... (120)				
(447,060) (78,768) -----				
----- Outstanding at				
December 31, 2002..... 77,925				
453,822 87,902				
Granted.....	-- 840,920	583,613	Shares	
converted at Texas Genco				
Distribution.....	- 25,746	23,219		
Canceled.....	(29,515)	(43,386)	(14,240)	
Released to				
participants..... (1,441)				
(7,042) (113,056) -----				
----- Outstanding at				
December 31, 2003..... 46,969				
1,270,060 567,438 =====				
===== Weighted				
average fair value granted for				
2001.....	\$			
-- \$ 38.13	=====	=====		
Weighted average fair value				
granted for				
2002.....	\$			
12.00 \$	--	=====	=====	
Weighted average fair value				
granted for				
2003.....	\$			
5.70 \$ 5.83	=====	=====		

The maximum value associated with the performance-based units granted in 2001 was \$150 per unit.

Effective with the Reliant Resources Distribution which occurred on September 30, 2002, the Company's compensation committee authorized the conversion of outstanding CenterPoint Energy performance-based

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

shares for the performance cycle ending December 31, 2002 to a number of restricted shares of CenterPoint Energy's common stock equal to the number of performance-based shares that would have vested if the performance objectives for the performance cycle were achieved at the maximum level for substantially all shares. These restricted shares vested if the participant holding the shares remained employed with the Company or with Reliant Resources and its subsidiaries through December 31, 2002. On the date of the Reliant Resources Distribution, holders of these restricted shares received shares of Reliant Resources common stock in the same manner as other holders of CenterPoint Energy common stock, but these shares of common stock were subject to the same vesting schedule, as well as to the terms and conditions of the plan under which the original performance shares were granted. Thus, following the Reliant Resources Distribution, employees who held performance-based shares under the LICP for the performance cycle ending December 31, 2002 held restricted shares of CenterPoint Energy common stock and restricted shares of Reliant Resources common stock, which vested following continuous employment through December 31, 2002.

Effective with the Reliant Resources Distribution, the Company converted all outstanding CenterPoint Energy stock options granted prior to the Reliant Resources Offering to a combination of adjusted CenterPoint Energy stock options and Reliant Resources stock options. For the converted stock options, the sum of the intrinsic value of the CenterPoint Energy stock options immediately prior to the record date of the Reliant Resources Distribution equaled the sum of the intrinsic values of the adjusted CenterPoint Energy stock options and the Reliant Resources stock options granted immediately after the record date of the Reliant Resources Distribution. As such, Reliant Resources employees who do not work for the Company hold stock options of the Company. Both the number and the exercise price of all outstanding CenterPoint Energy stock options that were granted on or after the Reliant Resources Offering were adjusted to maintain the total intrinsic value of the grants.

During January 2003, due to the Texas Genco Distribution, the Company granted additional CenterPoint Energy shares to participants with performance-based and restricted shares that had not yet vested as of the record date of December 20, 2002. These additional shares are subject to the same vesting schedule and the terms and conditions of the plan under which the original shares were granted. Also in connection with this distribution, both the number and the exercise price of all outstanding CenterPoint Energy stock options were adjusted to maintain the total intrinsic value of the stock option grants.

Under the Company's plans, stock options generally become exercisable in one-third increments on each of the first through third anniversaries of the grant date. The exercise price is the average of the high and low sales price of the common stock on the New York Stock Exchange on the grant date. The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25), and related interpretations in accounting for its stock option plans. Accordingly, no compensation expense has been



CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

recognized for these fixed stock options. The following table summarizes stock option activity related to the Company for the years 2001 through 2003:

NUMBER OF WEIGHTED AVERAGE SHARES EXERCISE PRICE ----- Outstanding	
at December 31, 2000.....	10,042,435 \$24.13 Options
granted.....	1,887,668 46.23 Options
exercised.....	(1,812,022) 24.11 Options
canceled.....	(289,610) 27.38 ----- Outstanding at
December 31, 2001.....	9,828,471 28.34 Options
granted.....	3,115,399 7.12 Options converted at Reliant
Resources Distribution....	742,636 29.01 Options
exercised.....	(71,273) 20.59 Options
canceled.....	(1,155,351) 16.11 ----- Outstanding at
December 31, 2002.....	12,459,882 18.26 Options
granted.....	2,217,546 5.69 Options converted at Texas
Genco Distribution.....	751,867 17.21 Options
exercised.....	(80,750) 6.44 Options
canceled.....	(275,408) 16.40 ----- Outstanding at
December 31, 2003.....	15,073,137 \$15.59 ===== Options
	exercisable at December 31,
2001.....	3,646,228 \$25.38
	===== Options exercisable at
December 31, 2002.....	6,854,910
\$19.78 ===== Options exercisable	
at December 31, 2003.....	
	10,285,689 \$18.09 =====

Exercise prices for CenterPoint Energy stock options outstanding held by Company employees ranged from \$4.78 to \$32.26. The following tables provide information with respect to outstanding CenterPoint Energy stock options held by the Company's employees on December 31, 2003:

REMAINING AVERAGE OPTIONS CONTRACTUAL LIFE OUTSTANDING EXERCISE PRICE (YEARS) -----	AVERAGE
----- Ranges of Exercise Prices:	
\$4.78-\$10.00.....	4,970,404 \$ 6.11 8.3
\$10.01-\$15.00.....	3,780,686 13.99 4.4
\$15.01-\$20.00.....	3,155,294 18.05 3.4
\$20.01-\$30.00.....	718,592 22.96 5.2
\$30.01-\$32.26.....	2,448,161 31.96 6.8 -----
Total.....	15,073,137 15.59 5.9 =====

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table provides information with respect to CenterPoint Energy stock options exercisable at December 31, 2003:

OPTIONS AVERAGE EXERCISABLE EXERCISE PRICE		
----- Ranges of Exercise Prices:		
\$4.78-\$10.00	973,821	\$ 6.42
\$10.01-\$15.00	3,780,686	13.99
\$15.01-\$20.00	3,131,858	18.06
\$20.01-\$30.00	695,012	22.89
\$30.01-\$32.26	1,704,312	31.97
Total	10,285,689	18.09

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), and SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure -- an Amendment of SFAS No. 123", the Company applies the guidance contained in APB Opinion No. 25 and discloses the required pro-forma effect on net income of the fair value based method of accounting for stock compensation. The weighted average fair values at date of grant for CenterPoint Energy options granted during 2001, 2002 and 2003 were \$9.25, \$1.40 and \$1.66, respectively. The fair values were estimated using the Black-Scholes option valuation model with the following assumptions:

	2001	2002	2003	Expected life in years	Interest rate
Expected life in years	5	5	5		4.87%
Interest rate	2.83%	2.62%			
Volatility	31.91%	48.95%	52.60%	Expected common stock dividend	\$ 1.50 \$ 0.64 \$ 0.40

Pro-forma information for 2001, 2002 and 2003 is provided to take into account the amortization of stock-based compensation to expense on a straight-line basis over the vesting period. Had compensation costs been determined as prescribed by SFAS No. 123, the Company's net income and earnings per share would have been as follows:

	2001	2002	2003	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
Net income (loss) as reported	\$ 980	\$(3,920)		
\$ 484 Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(12)	(9)	(10)	
Pro-forma net income(loss)	\$ 968	\$(3,929)	\$ 474	
Basic Earnings Per Share: As reported	\$3.38	\$(13.16)	\$1.59	Pro-forma
Diluted Earnings Per Share: As reported	\$3.34	\$(13.16)	\$1.56	Pro-forma
Diluted Earnings Per Share: As reported	\$3.35	\$(13.08)	\$1.58	Pro-forma
Diluted Earnings Per Share: As reported	\$3.31	\$(13.08)	\$1.55	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(b) PENSION AND POSTRETIREMENT BENEFITS

The Company maintains a non-contributory qualified defined benefit plan covering substantially all employees, with benefits determined using a cash balance formula. Under the cash balance formula, participants accumulate a retirement benefit based upon 4% of eligible earnings and accrued interest. Prior to 1999, the pension plan accrued benefits based on years of service, final average pay and covered compensation. As a result, certain employees participating in the plan as of December 31, 1998 are eligible to receive the greater of the accrued benefit calculated under the prior plan through 2008 or the cash balance formula.

The Company provides certain healthcare and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees become eligible for these benefits if they have met certain age and service requirements at retirement, as defined in the plans. Under plan amendments, effective in early 1999, healthcare benefits for future retirees were changed to limit employer contributions for medical coverage.

Such benefit costs are accrued over the active service period of employees. The net unrecognized transition obligation, resulting from the implementation of accrual accounting, is being amortized over approximately 20 years.

On January 12, 2004, the FASB issued FSP FAS 106-1. In accordance with FSP FAS 106-1, the Company's postretirement benefits obligations and net periodic postretirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the legislation. Specific authoritative guidance on the accounting for the legislation is pending and that guidance, when issued, may require the Company to change previously reported information.

The Company's net periodic cost includes the following components relating to pension and postretirement benefits:

YEAR ENDED DECEMBER			
31,	-----		
-----	-----		
-----	-----		
2001	2002	2003	-----
-----	-----	-----	-----
-----	-----	-----	-----
--- PENSION			
POSTRETIREMENT PENSION			
POSTRETIREMENT PENSION			
POSTRETIREMENT			
BENEFITS BENEFITS			
BENEFITS BENEFITS			
BENEFITS BENEFITS ----			
-----			
-----			
- (IN MILLIONS)			
Service			
cost.....	\$ 35	\$	
5	\$ 32	\$ 5	\$ 37 \$ 4
Interest			
cost.....	99	31	
104	32	102	31 Expected
return on plan			
assets.....			
(138)	(13)	(126)	(13)
(92)	(11)	Net	
amortization.....			
(3)	14	16	13 43 13
Curtailment.....			
(23)	40	--	-- --
Benefit			
enhancement....	69	--	
9	3	--	--
Settlement.....			
--	--	(18)	-- --
-----			
-- ---- Net periodic			
cost.....	\$ 39	\$ 77	\$
35	\$ 22	\$ 90	\$ 37
=====	=====	=====	=====
=====	=====	Above	
amounts reflect the			
following net periodic			
cost (benefit) related			
to discontinued			
operations.....			
\$ 45	\$ 42	\$ (4)	\$(16)
\$ --	\$ --	=====	=====
=====	=====	=====	=====





CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table displays the change in the benefit obligation, the fair value of plan assets and the amounts included in the Company's Consolidated Balance Sheets as of December 31, 2002 and 2003 for the Company's pension and postretirement benefit plans:

DECEMBER 31, -----				
-----				
---- 2002 2003 -----				
-----				
---- PENSION POSTRETIREMENT PENSION				
POSTRETIREMENT BENEFITS BENEFITS				
BENEFITS BENEFITS -----				
-----				
--- (IN MILLIONS) CHANGE IN BENEFIT				
OBLIGATION Benefit obligation,				
beginning of				
year.....				
\$ 1,485 \$ 456 \$ 1,550 \$ 479 Service				
cost..... 32 5				
37 4 Interest				
cost..... 104				
32 102 31 Participant				
contributions..... -- 7 --				
8 Benefits				
paid..... (136)				
(26) (142) (43) Plan				
amendments..... -				
- - 4 (5) Actuarial				
loss..... 56 20				
141 44 Curtailment, benefit				
enhancement and				
settlement.....				
9 (15) -----				
-----				
Benefit obligation, end of				
year..... \$ 1,550 \$ 479 \$ 1,692 \$				
518 =====				
=====				
===== CHANGE IN				
PLAN ASSETS Plan assets, beginning				
of year..... \$ 1,376 \$ 139 \$				
1,054 \$ 131 Employer				
contributions..... -- 30				
23 34 Participant				
contributions..... -- 7 --				
8 Benefits				
paid..... (136)				
(26) (142) (43) Actual investment				
return..... (186) (19) 259				
20 -----				
-----				
----- Plan assets,				
end of year..... \$ 1,054 \$				
131 \$ 1,194 \$ 150 =====				
=====				
===== RECONCILIATION OF				
FUNDED STATUS Funded				
status..... \$				
(496) \$ (348) \$ (498) \$ (368)				
Unrecognized actuarial				
loss..... 811 27 733 63				
Unrecognized prior service				
cost..... (84) 60 (71) 49				
Unrecognized transition (asset)				
obligation.....				
-- 87 -- 79 -----				
-----				
----- Net				
amount recognized.....				
\$ 231 \$ (174) \$ 164 \$ (177)				
=====				
===== AMOUNTS				
RECOGNIZED IN BALANCE SHEETS				
Benefit				
obligations..... \$				
(392) \$ (174) \$ (395) \$ (177)				
Accumulated other comprehensive				
income.....				
623 -- 559 -----				
-----				
Prepaid (accrued) pension				
cost..... \$ 231 \$ (174) \$ 164 \$				
(177) =====				
=====				
===== ACTUARIAL				
ASSUMPTIONS Discount				
rate..... 6.75%				
6.75% 6.25% 6.25% Expected return				
on plan assets..... 9.0% 9.0%				
9.0% 8.5% Rate of increase in				
compensation				

levels.....  
4.1% -- 4.1% -- Healthcare cost  
trend rate assumed for the next  
year..... --  
11.25% -- 10.50% Rate to which the  
cost trend rate is assumed to  
decline (the ultimate trend  
rate)..... --  
5.5% -- 5.5% Year that the rate  
reaches the ultimate trend  
rate..... -- 2011 --  
2011

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

DECEMBER 31, ----  
 -----  
 -----  
 -----  
 -----  
 ----- 2002 2003 --  
 -----  
 -----  
 -----

PENSION  
 POSTRETIREMENT  
 PENSION  
 POSTRETIREMENT  
 BENEFITS BENEFITS  
 BENEFITS BENEFITS  
 -----  
 -----  
 -----

---- (IN  
 MILLIONS)  
 ADDITIONAL  
 INFORMATION  
 Accumulated  
 benefit  
 obligation.....  
 \$ 1,446 \$ 479 \$  
 1,589 \$ 518  
 Change in minimum  
 liability  
 included in other  
 comprehensive  
 income..... 623  
 -- (64) --  
 Measurement date  
 used to determine  
 plan obligations  
 and  
 assets.....  
 December 31, 2002  
 December 31, 2002  
 December 31, 2003  
 December 31, 2003

Assumed healthcare cost trend rates have a significant effect on the reported amounts for the Company's postretirement benefit plans. A 1% change in the assumed healthcare cost trend rate would have the following effects:

1% 1% INCREASE  
 DECREASE -----  
 ---- (IN MILLIONS)  
 Effect on total of  
 service and interest  
 cost..... \$  
 2 \$ 2 Effect on the  
 postretirement benefit  
 obligation.....  
 30 26

The following table displays the weighted-average asset allocations as of December 31, 2002 and 2003 for the Company's pension and postretirement benefit plans:

DECEMBER 31, -----	2002	2003	-----
----- PENSION POSTRETIREMENT PENSION			
POSTRETIREMENT BENEFITS BENEFITS BENEFITS			
BENEFITS -----			
----- Domestic equity			
securities.....	55%	35%	60%
41% International equity			
securities.....	12	8	15
securities.....	29	9	Debt
54	22	48	Real
estate.....	4	-	-
-	3	--	
Cash.....			
--	3	--	2
Total.....			
100%	100%	100%	100%
===	===	===	===

In managing the investments associated with the benefit plans, the Company's objective is to preserve and enhance the value of plan assets while



maintaining an acceptable level of volatility. These objectives are expected to be achieved through an investment strategy, that manages liquidity requirements while maintaining a long-term horizon in making investment decisions and efficient and effective management of plan assets.

As part of the investment strategy discussed above, the Company has adopted and maintains the following weighted average allocation targets for its benefit plans:

PENSION POSTRETIREMENT BENEFITS BENEFITS	-----	-----
	----- Domestic equity	
securities.....	50-60%	28-38%
	International equity	
securities.....	10-20%	5-15%
securities.....	20-	
	30% 52-62%	Real
estate.....	0-	
	5% --	
Cash.....	0-2%	0-2%

The expected rate of return assumption was developed by reviewing the targeted asset allocations and historical index performance of the applicable asset classes over a 15-year period, adjusted for investment fees and diversification effects.

Equity securities for the pension plan include CenterPoint Energy common stock in the amounts of \$38 million (4.7% of total pension plan assets) and \$44 million (3.7% of total pension plan assets) and as of December 31, 2002 and 2003, respectively.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company expects to contribute \$38 million to its postretirement benefits plan in 2004. Contributions to the pension plan are not required or expected in 2004.

In addition to the non-contributory pension plans discussed above, the Company maintains a non-qualified benefit restoration plan which allows participants to retain the benefits to which they would have been entitled under the Company's non-contributory pension plan except for the federally mandated limits on these benefits or on the level of compensation on which these benefits may be calculated. The expense associated with this non-qualified plan was \$25 million, \$9 million and \$8 million in 2001, 2002 and 2003, respectively. Included in the net benefit cost in 2001 and 2002 is \$17 million and \$3 million, respectively, of expense related to Reliant Resources' participants, which is reflected in discontinued operations in the Statements of Consolidated Operations. The accrued benefit liability for the non-qualified pension plan was \$83 million and \$75 million at December 31, 2002 and 2003, respectively. In addition, these accrued benefit liabilities include the recognition of minimum liability adjustments of \$23 million as of December 31, 2002 and \$15 million as of December 31, 2003, which are reported as a component of other comprehensive income, net of income tax effects.

The following table displays the Company's plans with accumulated benefit obligations in excess of plan assets:

DECEMBER 31, -----					
-----					
-----					
----- 2002					
2003 -----					
-----					
----- PENSION					
RESTORATION					
POSTRETIREMENT PENSION					
RESTORATION					
POSTRETIREMENT BENEFITS					
BENEFITS BENEFITS					
BENEFITS BENEFITS					
BENEFITS -----					
-----					
-----					
----- (IN MILLIONS)					
Accumulated benefit					
obligation.....					
\$1,446 \$83 \$479 \$1,589					
\$75 \$518 Projected					
benefit					
obligation.....					
1,550 86 479 1,692 77 518					
Plan					
assets.....					
1,054 -- 131 1,194 -- 150					

(c) SAVINGS PLAN

The Company has a qualified employee savings plan that includes a cash or deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended (the Code) and an Employee Stock Ownership Plan (ESOP) under Section 4975(e)(7) of the Code. Under the plan, participating employees may contribute a portion of their compensation, on a pre-tax or after-tax basis, generally up to a maximum of 16% of compensation. The Company matches 75% of the first 6% of each employee's compensation contributed. The Company may contribute an additional discretionary match of up to 50% of the first 6% of each employee's compensation contributed. These matching contributions are fully vested at all times. A substantial portion of the Company's match is initially invested in CenterPoint Energy common stock through the ESOP.

Participating employees may elect to invest all or a portion of their contributions to the plan in CenterPoint Energy common stock, to have dividends reinvested in additional shares or to receive dividend payments in cash on any investment in CenterPoint Energy common stock, and to transfer all or part of their investment in CenterPoint Energy common stock to other investment options offered by the plan.

The ESOP includes company stock which is encumbered by a loan. Upon the release from the encumbrance of the loan, the Company may use released shares to satisfy its obligation to make matching contributions under the Company's savings plan. Generally, debt service on the loan is paid using all dividends on shares currently or formerly encumbered by the loan, interest earnings on funds held in trust and cash contributions by the Company. Shares of CenterPoint Energy common stock are released from the encumbrance of the loan based on the proportion of debt service paid during the period. It is anticipated that the loan will be repaid in full in 2004 and all remaining shares of Company common stock that secure the loan will be released from the encumbrance and allocated to participant accounts under the plan in 2004.

The Company recognizes benefit expense equal to the fair value of the shares committed to be released. The Company credits to unearned shares the original purchase price of shares committed to be released to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

plan participants with the difference between the fair value of the shares and the original purchase price recorded to common stock. Dividends on allocated shares are recorded as a reduction to retained earnings. Dividends on unallocated shares are recorded as a reduction of principal or accrued interest on the loan.

Share balances currently or formerly encumbered by a loan at December 31, 2002 and 2003 were as follows:

DECEMBER 31, -----	2002	2003	-----
----- Allocated shares			
transferred/distributed from the savings			
plan.....	5,943,297	6,329,002	Allocated
shares.....	8,734,810	13,076,801	Unearned shares(1)
(2).....		4,915,577	
911,847 -----			Total ESOP shares(1)
(2).....		19,593,684	
20,317,650 =====			Fair value of
unearned ESOP shares.....			
\$41,782,405	\$ 8,832,890		=====

(1) During 2002, unearned shares and total shares were increased by 831,500 shares due to additional shares purchased with proceeds from the sale of Reliant Resources common stock, which was received in connection with the Reliant Resources Distribution.

(2) During 2003, unearned shares and total shares were increased by 723,966 shares due to additional shares purchased with proceeds from the sale of Texas Genco common stock, which was received in connection with the Texas Genco Distribution.

As a result of the ESOP, the savings plan has significant holdings of CenterPoint Energy common stock. As of December 31, 2003, an aggregate of 34,749,760 shares of CenterPoint Energy's common stock were held by the savings plan, which represented 28% of its investments. Given the concentration of the investments in CenterPoint Energy's common stock, the savings plan and its participants have market risk related to this investment.

The Company's savings plan benefit expense was \$51 million, \$47 million and \$38 million in 2001, 2002 and 2003, respectively. Included in these amounts are \$16 million and \$6 million of savings plan benefit expense for 2001 and 2002, respectively, related to Reliant Resources' participants, which is reflected as discontinued operations in the Statements of Consolidated Operations.

(d) POSTEMPLOYMENT BENEFITS

Net postemployment benefit costs for former or inactive employees, their beneficiaries and covered dependents, after employment but before retirement (primarily healthcare and life insurance benefits for participants in the long-term disability plan) were \$6 million, \$12 million and \$10 million in 2001, 2002 and 2003, respectively.

The Company's postemployment obligation is presented as a liability in the Consolidated Balance Sheets under the caption "Benefit Obligations."

(e) OTHER NON-QUALIFIED PLANS

The Company has non-qualified deferred compensation plans that provide benefits payable to directors, officers and certain key employees or their designated beneficiaries at specified future dates, upon termination, retirement or death. Benefit payments are made from the general assets of the Company. During 2001, 2002 and 2003, the Company recorded benefit expense relating to these programs of \$17 million, \$11 million and \$13 million, respectively. Included in the amounts are \$4 million and \$0.2 million of benefit expense for 2001 and 2002, related to Reliant Resources participants, which is reflected as discontinued operations in the Statements of Consolidated Operations. Included in "Benefit Obligations" in the accompanying Consolidated Balance Sheets at December 31, 2002 and 2003 was \$132 million and \$127 million, respectively, relating to deferred compensation plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(f) CHANGE OF CONTROL AGREEMENTS AND OTHER EMPLOYEE MATTERS

In December 2003, the Company entered into agreements with certain of its executive officers that generally provide, to the extent applicable, in the case of a change of control of the Company and termination of employment, severance benefits of up to three times annual base salary plus bonus and other benefits.

As of December 31, 2003, approximately 35% of the Company's employees are subject to collective bargaining agreements. Three of these agreements, covering approximately 14% of the Company's employees, have expired or will expire in 2004.

The 1,030 bargaining unit employees of Texas Genco were covered by a collective bargaining unit agreement with the International Brotherhood of Electrical Workers Local 66 that expired in September 2003. These bargaining unit employees have continued to work without interruption and have not had any work interruptions since 1976. Texas Genco continues to have a good relationship with the bargaining unit and is actively negotiating to obtain a new agreement in 2004.

The Minnegasco division of our natural gas distribution business has 512 bargaining unit employees that are covered by collective bargaining unit agreements that have expired or will expire in 2004. An agreement with the International Brotherhood of Electrical Workers Local 949, which expired in December 2003, was renegotiated in February 2004 covering 267 of these employees. The remaining 245 employees are covered by a collective bargaining agreement with the Office and Professional Employees International Union Local 12, which expires in May 2004.

(11) INCOME TAXES

The Company's current and deferred components of income tax expense (benefit) were as follows:

YEAR ENDED DECEMBER 31,	-----	2001
2002	2003	-----
(IN MILLIONS) Current:		
Federal.....		
	\$ 367	\$(113) \$(288)
State.....		
	(2) 9 5	----- Total
current.....		365
(104) (283) ----- Deferred:		
Federal.....		
	(107)	291 485
State.....		
	-- 11 14	----- Total
deferred.....		(107)
	302 499	----- Income tax
expense.....		\$ 258 \$
	198 \$ 216	=====



CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

DECEMBER 31, -----	2002	2003	-----
(IN MILLIONS) Non-current:			
Depreciation.....			
2,397	2,570	Regulatory assets,	
net.....	634	951	Deferred
gas costs.....			3 --
Other.....			
53	89	-----	-----
Total non-current deferred tax			
liabilities.....	3,087	3,610	-----
Total			
deferred tax liabilities.....			3,424
3,985	-----	-----	Accumulated deferred income taxes,
net.....	\$2,730	\$3,356	=====

CenterPoint Energy's consolidated federal income tax returns have been audited and settled through the 1996 tax year. The 1997 through 2000 consolidated federal income tax returns are currently under audit.

Tax Attribute Carryforwards. At December 31, 2003 the Company had \$45 million and \$348 million of federal and state net operating loss carryforwards, respectively. The losses are available to offset future federal and state taxable income through the year 2022. Substantially all of the state loss carryforwards will expire between 2014 and 2020. The Company also had \$333 million of capital loss carryforwards which will expire in 2007 and 2008.

In conjunction with the Reliant Resources Distribution in 2002, the Company realized a previously unrecorded capital loss attributable to the excess of the tax basis over the book carrying value in former subsidiaries sold to Reliant Resources. The tax benefit of this excess tax basis is recorded under SFAS No. 109, "Accounting for Income Taxes", when realizable under the facts, such as a loss from a previously deferred taxable disposition that is triggered by a spin-off. In 2003, the Company realized additional capital losses attributable to the disposition of the stock of foreign subsidiaries. Capital losses may be used in the three taxable years preceding the year of the loss or the five taxable years following the year of the loss. Federal tax law only allows utilization of capital losses to offset capital gains. The Company believes that some uncertainty exists with respect to the Company's ability to generate capital gains during the utilization period; therefore, a valuation allowance has been established for the carryforwards not expected to be realized.

The valuation allowance reflects a net increase of \$68 million in 2002 and a net decrease of \$10 million in 2003. These net changes resulted from a reassessment of the Company's future ability to use federal capital loss carryforwards and state tax net operating loss carryforwards.

Tax Refunds. In 2003, the Company received income tax refunds from the Internal Revenue Service of \$203 million related to the federal tax net operating loss and capital loss generated in 2002. Of this amount, \$8 million related to refunds generated from the carryback of the federal capital loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(12) COMMITMENTS AND CONTINGENCIES

(a) COMMITMENTS

Environmental Capital Commitments. CenterPoint Energy anticipates investing up to \$131 million in capital and other special project expenditures between 2004 and 2008 for environmental compliance. CenterPoint Energy anticipates expenditures to be as follows (in millions):

2004.....	\$ 42
2005.....	32
2006.....	43
2007.....	14
2008(1).....	--
	----
Total.....	\$131
	====

- - - - -

(1) NOx control estimates for 2008 have not been finalized.

Fuel and Purchased Power. Fuel commitments include several long-term coal, lignite and natural gas contracts related to Texas power generation operations and natural gas contracts related to the Company's natural gas distribution operations, which have various quantity requirements and durations that are not classified as non-trading derivatives assets and liabilities in the Company's Consolidated Balance Sheets as of December 31, 2003 as these contracts meet the SFAS No. 133 exception to be classified as "normal purchases contracts" or do not meet the definition of a derivative. Minimum payment obligations for coal and transportation agreements and lignite mining and lease agreements that extend through 2012 are approximately \$309 million in 2004, \$251 million in 2005, \$256 million in 2006, \$248 million in 2007 and \$162 million in 2008. Minimum payment obligations for natural gas supply contracts are approximately \$1 billion in 2004, \$565 million in 2005, \$344 million in 2006, \$171 million in 2007 and \$24 million in 2008. Purchase commitments related to purchased power are not material to CenterPoint Energy's operations.

(b) LEASE COMMITMENTS

The following table sets forth information concerning the Company's obligations under non-cancelable long-term operating leases at December 31, 2003, which primarily consist of rental agreements for building space, data processing equipment and vehicles, including major work equipment (in millions):

2004.....	\$ 42
2005.....	27
2006.....	24
2007.....	20
2008.....	17
2009 and beyond.....	56
	----
Total.....	\$186
	====

Total lease expense for all operating leases was \$45 million, \$47 million and \$46 million during 2001, 2002 and 2003, respectively.

(c) LEGAL, ENVIRONMENTAL AND OTHER REGULATORY MATTERS

Legal Matters

Reliant Resources Indemnified Litigation

The Company, CenterPoint Houston or their predecessor, Reliant Energy, and certain of their former subsidiaries are named as defendants in several lawsuits described below. Under a master separation agreement between Reliant Energy and Reliant Resources, the Company and its subsidiaries are entitled to be indemnified by Reliant Resources for any losses, including attorneys' fees and other costs, arising out of the lawsuits described below under Electricity and Gas Market Manipulation Cases and Other Class Action Lawsuits. Pursuant to the indemnification obligation, Reliant Resources is defending the Company and its



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

subsidiaries to the extent named in these lawsuits. The ultimate outcome of these matters cannot be predicted at this time.

**Electricity and Gas Market Manipulation Cases.** A large number of lawsuits have been filed against numerous market participants and remain pending in both federal and state courts in California and Nevada in connection with the operation of the electricity and natural gas markets in California and certain other western states in 2000-2001, a time of power shortages and significant increases in prices. These lawsuits, many of which have been filed as class actions, are based on a number of legal theories, including violation of state and federal antitrust laws, laws against unfair and unlawful business practices, the federal Racketeer Influenced Corrupt Organization Act, false claims statutes and similar theories and breaches of contracts to supply power to governmental entities. Plaintiffs in these lawsuits, which include state officials and governmental entities as well as private litigants, are seeking a variety of forms of relief, including recovery of compensatory damages (in some cases in excess of \$1 billion), a trebling of compensatory damages and punitive damages, injunctive relief, restitution, interest due, disgorgement, civil penalties and fines, costs of suit, attorneys' fees and divestiture of assets. To date, some of these complaints have been dismissed by the trial court and are on appeal, but most of the lawsuits remain in early procedural stages. Our former subsidiary, Reliant Resources, was a participant in the California markets, owning generating plants in the state and participating in both electricity and natural gas trading in that state and in western power markets generally. Reliant Resources, some of its subsidiaries and in some cases, corporate officers of some of those companies, have been named as defendants in these suits.

The Company, CenterPoint Houston or their predecessor, Reliant Energy, have also been named in approximately 25 of these lawsuits, which were instituted in 2002 and 2003 and are pending in state courts in San Diego, San Francisco and Los Angeles Counties and in federal district courts in San Francisco, San Diego, Los Angeles and Nevada. However, neither the Company nor Reliant Energy was a participant in the electricity or natural gas markets in California. The Company and Reliant Energy have been dismissed from certain of the lawsuits, either voluntarily by the plaintiffs or by order of the court and the Company believes it is not a proper defendant in the remaining cases and will continue to seek dismissal from the remaining cases.

**Other Class Action Lawsuits.** Fifteen class action lawsuits filed in May, June and July 2002 on behalf of purchasers of securities of Reliant Resources and/or Reliant Energy have been consolidated in federal district court in Houston. Reliant Resources and certain of its former and current executive officers are named as defendants. Reliant Energy is also named as a defendant in seven of the lawsuits. Two of the lawsuits also name as defendants the underwriters of the initial public offering of Reliant Resources common stock in May 2001 (Reliant Resources Offering). One lawsuit names Reliant Resources' and Reliant Energy's independent auditors as a defendant. The consolidated amended complaint seeks monetary relief purportedly on behalf of purchasers of common stock of Reliant Energy or Reliant Resources during certain time periods ranging from February 2000 to May 2002, including purchasers of common stock that can be traced to the Reliant Resources Offering. The plaintiffs allege, among other things, that the defendants misrepresented their revenues and trading volumes by engaging in round-trip trades and improperly accounted for certain structured transactions as cash-flow hedges, which resulted in earnings from these transactions being accounted for as future earnings rather than being accounted for as earnings in fiscal year 2001. In January 2004 the trial judge dismissed the plaintiffs' allegations that the defendants had engaged in fraud, but claims based on alleged misrepresentations in the registration statement issued in the Reliant Resources Offering remain.

In February 2003, a lawsuit was filed by three individuals in federal district court in Chicago against CenterPoint Energy and certain former and current officers of Reliant Resources for alleged violations of federal securities laws. The plaintiffs in this lawsuit allege that the defendants violated federal securities laws by issuing false and misleading statements to the public, and that the defendants made false and misleading statements as part of an alleged scheme to inflate artificially trading volumes and revenues. In addition, the plaintiffs assert claims of fraudulent and negligent misrepresentation and violations of Illinois consumer law.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In January 2004 the trial judge ordered dismissal of plaintiffs' claims on the ground that they did not set forth a claim, but granted the plaintiffs leave to amend their complaint.

In May 2002, three class action lawsuits were filed in federal district court in Houston on behalf of participants in various employee benefits plans sponsored by Reliant Energy. Reliant Energy and its directors are named as defendants in all of the lawsuits. Two of the lawsuits have been dismissed without prejudice. The remaining lawsuit alleges that the defendants breached their fiduciary duties to various employee benefits plans, directly or indirectly sponsored by Reliant Energy, in violation of the Employee Retirement Income Security Act. The plaintiffs allege that the defendants permitted the plans to purchase or hold securities issued by Reliant Energy when it was imprudent to do so, including after the prices for such securities became artificially inflated because of alleged securities fraud engaged in by the defendants. The complaints seek monetary damages for losses suffered on behalf of the plans and a putative class of plan participants whose accounts held Reliant Energy or Reliant Resources securities, as well as equitable relief in the form of restitution. In January 2004 the trial judge dismissed the complaints against a number of defendants, but allowed the case to proceed against members of the Reliant Energy benefits committee.

In October 2002, a derivative action was filed in the federal district court in Houston, against the directors and officers of the Company. The complaint sets forth claims for breach of fiduciary duty, waste of corporate assets, abuse of control and gross mismanagement. Specifically, the shareholder plaintiff alleges that the defendants caused the Company to overstate its revenues through so-called "round trip" transactions. The plaintiff also alleges breach of fiduciary duty in connection with the spin-off of Reliant Resources and the Reliant Resources Offering. The complaint seeks monetary damages on behalf of the Company as well as equitable relief in the form of a constructive trust on the compensation paid to the defendants. In March 2003, the court dismissed this case on the grounds that the plaintiff did not make an adequate demand on the Company before filing suit. Thereafter, the plaintiff sent another demand asserting the same claims.

The Company's board of directors investigated that demand and similar allegations made in a June 28, 2002 demand letter sent on behalf of a Company shareholder. The latter letter demanded that the Company take several actions in response to alleged round-trip trades occurring in 1999, 2000, and 2001. In June 2003, the Board determined that these proposed actions would not be in the best interests of the Company.

The Company believes that none of the lawsuits described under "Other Class Action Lawsuits" has merit because, among other reasons, the alleged misstatements and omissions were not material and did not result in any damages to any of the plaintiffs.

#### Other Legal Matters

**Texas Antitrust Action.** In July 2003, Texas Commercial Energy filed a lawsuit against Reliant Energy, Reliant Resources, Reliant Electric Solutions, LLC, several other Reliant Resources subsidiaries and several other participants in the ERCOT power market in federal court in Corpus Christi, Texas. The plaintiff, a retail electricity provider in the Texas market served by ERCOT, alleges that the defendants conspired to illegally fix and artificially increase the price of electricity in violation of state and federal antitrust laws and committed fraud and negligent misrepresentation. The lawsuit seeks damages in excess of \$500 million, exemplary damages, treble damages, interest, costs of suit and attorneys' fees. In February 2004, this complaint was amended to add the Company and CenterPoint Houston, as successors to Reliant Energy, and Texas Genco, LP as defendants. The plaintiff's principal allegations have previously been investigated by the Texas Utility Commission and found to be without merit. The Company also believes the plaintiff's allegations are without merit and will seek their dismissal.

**Municipal Franchise Fee Lawsuits.** In February 1996, the cities of Wharton, Galveston and Pasadena (Three Cities) filed suit, for themselves and a proposed class of all similarly situated cities in Reliant Energy's electric service area, against Reliant Energy and Houston Industries Finance, Inc. (formerly a wholly owned subsidiary of the Company's predecessor, Reliant Energy) alleging underpayment of municipal franchise fees. The plaintiffs claimed that they were entitled to 4% of all receipts of any kind for business conducted within these cities over the previous four decades. After a jury trial of the original claimant cities (but not the class of

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

cities), the trial court decertified the class and reduced the damages awarded by the jury to \$1.7 million, including interest, plus an award of \$13.7 million in legal fees. Despite other jury findings for the plaintiffs, the trial court's judgment was based on the jury's finding in favor of Reliant Energy on the affirmative defense of laches, a defense similar to a statute of limitations defense, due to the original claimant cities having unreasonably delayed bringing their claims during the 43 years since the alleged wrongs began. Following this ruling, 45 cities filed individual suits against Reliant Energy in the District Court of Harris County.

On February 27, 2003, a state court of appeals in Houston rendered an opinion reversing the judgment against the Company and rendering judgment that the Three Cities take nothing by their claims. The court of appeals found that the jury's finding of laches barred all of the Three Cities' claims and that the Three Cities were not entitled to recovery of any attorneys' fees. The Three Cities filed a petition for review at the Texas Supreme Court, which declined to hear the case, although the time period for the Three Cities to file a motion for rehearing has not yet expired. The extent to which issues in the Three Cities case may affect the claims of the other cities served by CenterPoint Houston cannot be assessed until judgments are final and no longer subject to appeal.

Natural Gas Measurement Lawsuits. CERC Corp. and certain of its subsidiaries are defendants in a suit filed in 1997 under the Federal False Claims Act alleging mismeasurement of natural gas produced from federal and Indian lands. The suit seeks undisclosed damages, along with statutory penalties, interest, costs, and fees. The complaint is part of a larger series of complaints filed against 77 natural gas pipelines and their subsidiaries and affiliates. An earlier single action making substantially similar allegations against the pipelines was dismissed by the federal district court for the District of Columbia on grounds of improper joinder and lack of jurisdiction. As a result, the various individual complaints were filed in numerous courts throughout the country. This case has been consolidated, together with the other similar False Claims Act cases, in the federal district court in Cheyenne, Wyoming.

In addition, CERC Corp. and certain of its subsidiaries are defendants in two mismeasurement lawsuits against approximately 245 pipeline companies and their affiliates pending in state court in Stevens County, Kansas. In one case (originally filed in May 1999 and amended four times), the plaintiffs purport to represent a class of royalty owners who allege that the defendants have engaged in systematic mismeasurement of the volume of natural gas for more than 25 years. The plaintiffs amended their petition in this suit in July 2003 in response to an order from the judge denying certification of the plaintiffs' alleged class. In the amendment the plaintiffs dismissed their claims against certain defendants (including two CERC subsidiaries), limited the scope of the class of plaintiffs they purport to represent and eliminated previously asserted claims based on mismeasurement of the Btu content of the gas. The same plaintiffs then filed a second lawsuit, again as representatives of a class of royalty owners, in which they assert their claims that the defendants have engaged in systematic mismeasurement of the Btu content of natural gas for more than 25 years. In both lawsuits, the plaintiffs seek compensatory damages, along with statutory penalties, treble damages, interest, costs and fees.

Gas Cost Recovery Litigation. In October 2002, a suit was filed in state district court in Wharton County, Texas against the Company, CERC, Entex Gas Marketing Company, and others alleging fraud, violations of the Texas Deceptive Trade Practices Act, violations of the Texas Utilities Code, civil conspiracy and violations of the Texas Free Enterprise and Antitrust Act. The plaintiffs seek class certification, but no class has been certified. The plaintiffs allege that defendants inflated the prices charged to certain consumers of natural gas. In February 2003, a similar suit was filed against CERC in state court in Caddo Parish, Louisiana purportedly on behalf of a class of residential or business customers in Louisiana who allegedly have been overcharged for gas or gas service provided by CERC. In February 2004, another suit was filed against CERC in Calcasieu Parish, Louisiana, seeking to recover alleged overcharges for gas or gas services allegedly provided by Entex without advance approval by the LPSC. The plaintiffs in these cases seek injunctive and declaratory relief, restitution for the alleged overcharges, exemplary damages or trebling of actual damages and civil penalties. In these cases, the Company, CERC and Entex Gas Marketing Company deny that they have overcharged any of their customers

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

for natural gas and believe that the amounts recovered for purchased gas have been in accordance with what is permitted by state regulatory authorities.

## Environmental Matters

**Clean Air Standards.** The Texas electric restructuring law and regulations adopted by the Texas Commission on Environmental Quality (TCEQ) in 2001 require substantial reductions in emission of oxides of nitrogen (NOx) from electric generating units. The Company is currently installing cost-effective controls at its generating plants to comply with these requirements. Through December 31, 2003, the Company has invested \$664 million for NOx emission control, and plans to make expenditures of up to approximately \$131 million during the years 2004 through 2007. Further revisions to these NOx standards may result from the TCEQ's future rules, expected by 2007, implementing more stringent federal eight-hour ozone standards. The Texas electric restructuring law provides for stranded cost recovery for expenditures incurred before May 1, 2003 to achieve the NOx reduction requirements. Incurred costs include costs for which contractual obligations have been made. The Texas Utility Commission has determined that the Company's emission control plan is the most cost-effective option for achieving compliance with applicable air quality standards for the Company's generating facilities and the final amount for recovery will be determined in the 2004 True-Up Proceeding.

**Hydrocarbon Contamination.** CERC Corp. and certain of its subsidiaries are among some of the defendants in lawsuits filed beginning in August 2001 in Caddo Parish and Bossier Parish, Louisiana. The suits allege that, at some unspecified date prior to 1985, the defendants allowed or caused hydrocarbon or chemical contamination of the Wilcox Aquifer, which lies beneath property owned or leased by certain of the defendants and which is the sole or primary drinking water aquifer in the area. The primary source of the contamination is alleged by the plaintiffs to be a gas processing facility in Haughton, Bossier Parish, Louisiana known as the "Sligo Facility," which was formerly operated by a predecessor in interest of CERC Corp. This facility was purportedly used for gathering natural gas from surrounding wells, separating gasoline and hydrocarbons from the natural gas for marketing, and transmission of natural gas for distribution.

Beginning about 1985, the predecessors of certain CERC Corp. defendants engaged in a voluntary remediation of any subsurface contamination of the groundwater below the property they owned or leased. This work has been done in conjunction with and under the direction of the Louisiana Department of Environmental Quality. The plaintiffs seek monetary damages for alleged damage to the aquifer underlying their property, unspecified alleged personal injuries, alleged fear of cancer, alleged property damage or diminution of value of their property, and, in addition, seek damages for trespass, punitive, and exemplary damages. The quantity of monetary damages sought is unspecified. The Company is unable to estimate the monetary damages, if any, that the plaintiffs may be awarded in these matters.

**Manufactured Gas Plant Sites.** CERC and its predecessors operated manufactured gas plants (MGP) in the past. In Minnesota, remediation has been completed on two sites, other than ongoing monitoring and water treatment. There are five remaining sites in CERC's Minnesota service territory, two of which CERC believes were neither owned nor operated by CERC, and for which CERC believes it has no liability.

At December 31, 2003, CERC had accrued \$19 million for remediation of certain Minnesota sites. At December 31, 2003, the estimated range of possible remediation costs for these sites was \$8 million to \$44 million based on remediation continuing for 30 to 50 years. The cost estimates are based on studies of a site or industry average costs for remediation of sites of similar size. The actual remediation costs will be dependent upon the number of sites to be remediated, the participation of other potentially responsible parties (PRP), if any, and the remediation methods used. CERC has utilized an environmental expense tracker mechanism in its rates in Minnesota to recover estimated costs in excess of insurance recovery. CERC has collected or accrued \$12.5 million as of December 31, 2003 to be used for environmental remediation.

CERC has received notices from the United States Environmental Protection Agency and others regarding its status as a PRP for other sites. CERC has been named as a defendant in lawsuits under which

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

contribution is sought for the cost to remediate former MGP sites based on the previous ownership of such sites by former affiliates of CERC or its divisions. The Company is investigating details regarding these sites and the range of environmental expenditures for potential remediation. Based on current information, the Company has not been able to quantify a range of environmental expenditures for such sites.

**Mercury Contamination.** The Company's pipeline and distribution operations have in the past employed elemental mercury in measuring and regulating equipment. It is possible that small amounts of mercury may have been spilled in the course of normal maintenance and replacement operations and that these spills may have contaminated the immediate area with elemental mercury. This type of contamination has been found by the Company at some sites in the past, and the Company has conducted remediation at these sites. It is possible that other contaminated sites may exist and that remediation costs may be incurred for these sites. Although the total amount of these costs cannot be known at this time, based on experience by the Company and that of others in the natural gas industry to date and on the current regulations regarding remediation of these sites, the Company believes that the costs of any remediation of these sites will not be material to the Company's financial condition, results of operations or cash flows.

**Other Environmental.** From time to time the Company has received notices from regulatory authorities or others regarding its status as a PRP in connection with sites found to require remediation due to the presence of environmental contaminants. In addition, the Company has been named as a defendant in litigation related to such sites and in recent years has been named, along with numerous others, as a defendant in several lawsuits filed by a large number of individuals who claim injury due to exposure to asbestos while working at sites along the Texas Gulf Coast. Most of these claimants have been workers who participated in construction of various industrial facilities, including power plants, and some of the claimants have worked at locations owned by the Company. The Company anticipates that additional claims like those received may be asserted in the future and intends to continue vigorously contesting claims which it does not consider to have merit. Although their ultimate outcome cannot be predicted at this time, the Company does not believe, based on its experience to date, that these matters, either individually or in the aggregate, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

**Other Proceedings**

The Company is involved in other legal, environmental, tax and regulatory proceedings before various courts, regulatory commissions and governmental agencies regarding matters arising in the ordinary course of business. Some of these proceedings involve substantial amounts. The Company's management regularly analyzes current information and, as necessary, provides accruals for probable liabilities on the eventual disposition of these matters. The Company's management believes that the disposition of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

**(d) NUCLEAR INSURANCE**

Texas Genco and the other owners of the South Texas Project maintain nuclear property and nuclear liability insurance coverage as required by law and periodically review available limits and coverage for additional protection. The owners of the South Texas Project currently maintain \$2.75 billion in property damage insurance coverage, which is above the legally required minimum, but is less than the total amount of insurance currently available for such losses.

Pursuant to the Price Anderson Act, the maximum liability to the public of owners of nuclear power plants was \$10.6 billion as of December 31, 2003. Owners are required under the Price Anderson Act to insure their liability for nuclear incidents and protective evacuations. Texas Genco and the other owners of the South Texas Project currently maintain the required nuclear liability insurance and participate in the industry retrospective rating plan under which the owners of the South Texas Project are subject to maximum retrospective assessments in the aggregate per incident of up to \$100.6 million per reactor. The owners are jointly and severally liable at a rate not to exceed \$10 million per incident per year. In addition, the security procedures at this facility have been enhanced to provide additional protection against terrorist attacks.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

There can be no assurance that all potential losses or liabilities will be insurable, or that the amount of insurance will be sufficient to cover them. Any substantial losses not covered by insurance would have a material effect on the Company's financial condition, results of operations and cash flows.

(e) NUCLEAR DECOMMISSIONING

CenterPoint Houston contributed \$14.8 million in 2001 to trusts established to fund Texas Genco's share of the decommissioning costs for the South Texas Project. CenterPoint Houston contributed \$2.9 million in both 2002 and 2003 to these trusts. There are various investment restrictions imposed upon Texas Genco by the Texas Utility Commission and the United States Nuclear Regulatory Commission (NRC) relating to Texas Genco's nuclear decommissioning trusts. Texas Genco and CenterPoint Energy have each appointed two members to the Nuclear Decommissioning Trust Investment Committee which establishes the investment policy of the trusts and oversees the investment of the trusts' assets. The securities held by the trusts for decommissioning costs had an estimated fair value of \$189 million as of December 31, 2003, of which approximately 37% were fixed-rate debt securities and the remaining 63% were equity securities. For a discussion of the accounting treatment for the securities held in the nuclear decommissioning trust, see Note 2(k). In July 1999, an outside consultant estimated Texas Genco's portion of decommissioning costs to be approximately \$363 million. While the funding levels currently exceed minimum NRC requirements, no assurance can be given that the amounts held in trust will be adequate to cover the actual decommissioning costs of the South Texas Project. Such costs may vary because of changes in the assumed date of decommissioning and changes in regulatory requirements, technology and costs of labor, materials and equipment. Pursuant to the Texas electric restructuring law, costs associated with nuclear decommissioning that have not been recovered as of January 1, 2002, will continue to be subject to cost-of-service rate regulation and will be included in a charge to transmission and distribution customers. For information regarding the effect of the business separation plan on funding of the nuclear decommissioning trust fund, see Note 4(c).

(13) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of cash and cash equivalents, investments in debt and equity securities classified as "available-for-sale" and "trading" in accordance with SFAS No. 115, and short-term borrowings are estimated to be approximately equivalent to carrying amounts and have been excluded from the table below. The fair values of non-trading derivative assets and liabilities are equivalent to their carrying amounts in the Consolidated Balance Sheets at December 31, 2002 and 2003 and have been determined using quoted market prices for the same or similar instruments when available or other estimation techniques (see Note 5). Therefore, these financial instruments are stated at fair value and are excluded from the table below.

DECEMBER 31, 2002	DECEMBER 31, 2003	
-----	-----	
		CARRYING
		FAIR CARRYING FAIR AMOUNT
VALUE AMOUNT	VALUE	-----
		(IN
		MILLIONS) Financial
		liabilities: Long-term debt
		(excluding capital
		leases)..... \$6,135 \$6,349
		\$10,820 \$11,325 Trust
		preferred
securities.....		
706	476	-- --

The trust preferred securities were deconsolidated effective December 31, 2003 pursuant to the adoption of FIN 46. This resulted in the junior subordinated debentures held by the trusts being reported as long-term debt. For further discussion, see Note 2(n).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(14) EARNINGS PER SHARE

The following table reconciles numerators and denominators of the Company's basic and diluted earnings per share (EPS) calculations:

FOR THE YEAR ENDED DECEMBER 31, -----	2001	2002	2003	-----
----- (IN MILLIONS, EXCEPT PER SHARE AND SHARE AMOUNTS)				
Basic EPS calculation: Income from continuing operations before cumulative effect of accounting change.....	\$ 499	\$ 369	\$ 420	
Discontinued Operations: Income from Reliant Resources, net of tax.....	475	82	--	
Income from Other Operations, net of tax.....	(53)	--	(3)	
Loss on disposal of Reliant Resources.....	--	(4,371)	--	
Loss on disposal of Other Operations, net of tax.....	--	--	--	
Cumulative effect of accounting change, net of tax.....	59	--	80	
Net income (loss) attributable to common shareholders....	\$ 980	\$ (3,920)	\$ 484	=====
Weighted average shares outstanding.....	289,776,000	297,997,000	303,867,000	
Basic EPS: Income from continuing operations before cumulative effect of accounting change.....	\$ 1.72	\$ 1.24	\$ 1.38	
Discontinued Operations: Income from Reliant Resources, net of tax.....	1.64	0.27	--	
Income from Other Operations, net of tax.....	(0.18)	--	(0.01)	
Loss on disposal of Reliant Resources.....	--	(14.67)	--	
Loss on disposal of Other Operations, net of tax.....	--	--	(0.04)	
Cumulative effect of accounting change, net of tax.....	0.20	--	0.26	
Net income (loss) attributable to common shareholders....	\$ 3.38	\$ (13.16)	\$ 1.59	=====
Diluted EPS calculation: Net income (loss) attributable to common shareholders....	\$ 980	\$ (3,920)	\$ 484	
Plus: Income impact of assumed conversions: Interest on 6 1/4% convertible trust securities.....	--	--	--	
Total earnings effect assuming dilution.....	\$ 980	\$ (3,920)	\$ 484	=====
Weighted average shares outstanding.....	289,776,000	297,997,000	303,867,000	
Plus: Incremental shares from assumed conversions(1) Stock options.....	1,650,000	846,000	851,000	
Restricted stock.....	754,000	784,000	1,484,000	
6 1/4% convertible trust preferred securities.....	13,000	17,000	18,000	-----
Weighted average shares assuming dilution.....	292,193,000	299,644,000	306,220,000	=====
Diluted EPS: Income from continuing operations before cumulative effect of accounting change.....	\$ 1.71	\$ 1.23	\$ 1.37	
Discontinued Operations: Income from Reliant Resources, net of tax.....	1.62	0.27	--	
Income from Other Operations, net of tax.....	(0.18)	--	(0.01)	
Loss on disposal of Reliant Resources.....	--	(14.58)	--	
Loss on disposal of Other Operations, net of tax.....	--	--	(0.04)	
Cumulative effect of accounting change, net of tax.....	0.20	--	0.26	
Net income (loss) attributable to common shareholders....	\$ 3.35	\$ (13.08)	\$ 1.58	=====

(1) Options to purchase 2,074,437, 9,709,272 and 10,106,673 shares were outstanding for the years ended December 31, 2001, 2002 and 2003, respectively, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares for the respective years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(15) UNAUDITED QUARTERLY INFORMATION

The consolidated financial statements have been prepared to reflect the effect of the Reliant Resources Distribution, the sale of the Company's remaining Latin America operations subsequent to December 31, 2002 and the sale of CEMS in November 2003 as described in Note 3. The consolidated financial statements present the Reliant Resources businesses and the Company's Latin America and CEMS operations as discontinued operations, in accordance with SFAS No. 144. Accordingly, the consolidated financial statements reflect these operations as discontinued operations for each of the three years in the period ended December 31, 2003.

Summarized quarterly financial data is as follows:

YEAR ENDED DECEMBER 31, 2002 -----	FIRST	SECOND	THIRD	FOURTH	
-----	QUARTER	QUARTER	QUARTER	QUARTER	-----
-----	----- (IN MILLIONS, EXCEPT PER SHARE				-----
-----	AMOUNTS)				-----
Revenues.....	\$2,077	\$1,798	\$ 1,917	\$2,106	Operating
income.....					352 290
431 260 Income (loss) from continuing					
operations.....	145 87	161	(24)	Discontinued	
operations.....	(114)	149			
(4,285) (39) Net income (loss) attributable to					common
shareholders.....					
31 236 (4,124) (63) Basic earnings (loss) per					
share:(1) Income (loss) from continuing					
operations.....	\$ 0.49	\$ 0.29	\$ 0.54	\$(0.08)	
Discontinued operations.....	(0.38)	0.50	(14.34)	(0.13)	-----
(0.38) 0.50 (14.34) (0.13) -----					-----
----- Net income (loss) attributable to common					
shareholders.....	\$				
0.11 \$ 0.79 \$(13.80) \$(0.21) =====					=====
===== Diluted (loss) earnings per share:					
(1) Income (loss) from continuing					
operations.....	\$ 0.49	\$ 0.29	\$ 0.54	\$(0.08)	
Discontinued operations.....	(0.38)	0.50	(14.31)	(0.13)	-----
(0.38) 0.50 (14.31) (0.13) -----					-----
----- Net income (loss) attributable to common					
shareholders.....	\$				
0.11 \$ 0.79 \$(13.77) \$(0.21) =====					=====
=====					=====



CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEAR ENDED DECEMBER 31, 2003	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Revenues.....	\$2,900	\$2,091	\$ 2,250	\$2,519
Operating income.....	361	346		
Income from continuing operations.....	549	348	82	83
Discontinued operations.....			183	72
(2) Cumulative effect of accounting change, net of tax.....	7	(20)	(1)	
Net income attributable to common shareholders....	169	63	182	70
Basic earnings per share:(1) Income from continuing operations.....	\$ 0.27	\$ 0.27	\$ 0.60	\$ 0.24
Discontinued operations.....	0.02	(0.06)	-	-
(0.01) Cumulative effect of accounting change, net of tax.....	0.27			
Net income attributable to common shareholders.....	\$ 0.56	\$ 0.21	\$ 0.60	\$ 0.23
==== Diluted earnings per share:(1) Income from continuing operations.....	\$ 0.27	\$ 0.27	\$ 0.60	\$ 0.23
Discontinued operations.....	0.02	(0.06)	-	-
(0.01) -- Cumulative effect of accounting change, net of tax.....	0.27			
Net income attributable to common shareholders.....	\$ 0.56	\$ 0.21	\$ 0.59	\$ 0.23
====				

(1) Quarterly earnings per common share are based on the weighted average number of shares outstanding during the quarter, and the sum of the quarters may not equal annual earnings per common share.

(16) REPORTABLE BUSINESS SEGMENTS

The Company's determination of reportable business segments considers the strategic operating units under which the Company manages sales, allocates resources and assesses performance of various products and services to wholesale or retail customers in differing regulatory environments. The accounting policies of the business segments are the same as those described in the summary of significant accounting policies except that some executive benefit costs have not been allocated to business segments. Effective with the deregulation of the Texas electric industry beginning January 1, 2002, the basis of business segment reporting changed for the Company's electric operations. The Texas generation operations of CenterPoint Energy's former integrated electric utility, Reliant Energy HL&P, are a separate reportable business segment, Electric Generation, whereas they previously had been part of the Electric Operations business segment. The remaining transmission and distribution function is reported separately in the Electric Transmission & Distribution business segment. Note that certain estimates and allocations have been used to separate historical, (pre-January 1, 2002) Electric Generation business segment data from the Electric Transmission & Distribution business segment data. Reportable business segments presented herein do not include the operations of Reliant Resources which are presented as discontinued operations within these consolidated financial statements. Additionally, the Company's Latin America operations and its energy management services business, which were previously reported in the Other Operations business segment, are presented as discontinued operations within these consolidated financial statements.

Long-lived assets include net property, plant and equipment, net goodwill and other intangibles and equity investments in unconsolidated subsidiaries. The Company accounts for intersegment sales as if the sales were to third parties, that is, at current market prices.

The Company has identified the following reportable business segments: Electric Transmission & Distribution, Electric Generation, Natural Gas Distribution, Pipelines and Gathering and Other Operations.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

For a description of the financial reporting business segments, see Note 1.  
 Financial data for business segments and products and services are as follows:

ELECTRIC NATURAL  
 PIPELINES TRANSMISSION  
 & ELECTRIC GAS AND  
 OTHER DISCONTINUED  
 DISTRIBUTION GENERATION  
 DISTRIBUTION GATHERING  
 OPERATIONS OPERATIONS -  
 -----  
 -----  
 -----

-- (IN MILLIONS) AS OF  
 AND FOR THE YEAR ENDED  
 DECEMBER 31, 2001:

Revenues from external  
 customers.....  
 2,100 3,411 4,737 307 4  
 -- Intersegment  
 revenues..... -- -- 5  
 108 -- -- Depreciation  
 and  
 amortization.....  
 299 154 147 58 5 --  
 Operating income  
 (loss)... 863 265 130  
 137 (46) -- Total  
 assets.....  
 7,910 4,438 4,083 2,379  
 1,145 12,392

Expenditures for long-  
 lived assets..... 527  
 409 209 54 12 -- AS OF  
 AND FOR THE YEAR ENDED  
 DECEMBER 31, 2002:

Revenues from external  
 customers.....  
 2,222(1) 1,488(2) 3,927  
 253 8 -- Intersegment  
 revenues..... -- 5 33  
 121 22 -- Depreciation  
 and  
 amortization.....  
 271 157 126 41 19 --  
 Operating income  
 (loss)... 1,096 (133)  
 198 153 19 -- Total  
 assets.....  
 9,321 4,508 4,428 2,500  
 1,345 63 Expenditures  
 for long-lived  
 assets..... 261 280  
 196 70 39 -- AS OF AND  
 FOR THE YEAR ENDED  
 DECEMBER 31, 2003:

Revenues from external  
 customers.....  
 2,124(1) 2,002(2) 5,378  
 241 15 -- Intersegment  
 revenues..... -- -- 57  
 166 13 -- Depreciation  
 and  
 amortization.....  
 270 159 136 40 20 --  
 Operating  
 income..... 1,020  
 222 202 158 2 -- Total  
 assets.....  
 10,326 4,640 4,661  
 2,519 1,347 --  
 Expenditures for long-  
 lived assets..... 218  
 151 199 66 14 --

RECONCILING  
 ELIMINATIONS  
 CONSOLIDATED -----  
 -- ----- (IN  
 MILLIONS) AS OF AND FOR  
 THE YEAR ENDED DECEMBER  
 31, 2001: Revenues from  
 external  
 customers.....  
 -- 10,559 Intersegment  
 revenues..... (113) --  
 Depreciation and  
 amortization.....  
 -- 663 Operating income

(loss)... (25) 1,324  
Total  
assets.....  
(376) 31,971  
Expenditures for long-  
lived assets..... --  
1,211 AS OF AND FOR THE  
YEAR ENDED DECEMBER 31,  
2002: Revenues from  
external  
customers.....  
-- 7,898 Intersegment  
revenues..... (181) --  
Depreciation and  
amortization.....  
-- 614 Operating income  
(loss)... -- 1,333  
Total  
assets.....  
(1,708) 20,457  
Expenditures for long-  
lived assets..... --  
846 AS OF AND FOR THE  
YEAR ENDED DECEMBER 31,  
2003: Revenues from  
external  
customers.....  
-- 9,760 Intersegment  
revenues..... (236) --  
Depreciation and  
amortization.....  
-- 625 Operating  
income..... --  
1,604 Total  
assets.....  
(2,116) 21,377  
Expenditures for long-  
lived assets..... --  
648

- - - - -

- (1) Sales to subsidiaries of Reliant Resources in 2002 and 2003 represented approximately \$820 million and \$948 million, respectively, of CenterPoint Houston's transmission and distribution revenues since deregulation began in 2002.
- (2) Sales to subsidiaries of Reliant Resources represented approximately 67% and 71% of Texas Genco's total revenues in 2002 and 2003, respectively. Sales to another major customer in 2002 and 2003 represented approximately 15% and 10%, respectively, of Texas Genco's total revenues.

CENTERPOINT ENERGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

YEAR ENDED DECEMBER 31,	-----	2001
2002	2003	-----
(IN MILLIONS) REVENUES		
BY PRODUCTS AND SERVICES: Retail electricity		
sales.....	\$ 5,511	\$ --
-- Wholesale electricity		
sales.....	-- 1,488	2,002
Electric delivery		
sales.....	-- 1,525	1,463
ECOM		
revenue.....	-	-
- 697 661 Retail gas		
sales.....	4,645	
3,832 5,282 Gas		
transport.....		
307 253 241 Energy products and		
services.....	96 103 111	-----
-----		
Total.....		
	\$10,559	\$7,898 \$9,760
	=====	=====

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
CenterPoint Energy, Inc. and Subsidiaries:

We have audited the accompanying consolidated balance sheets of CenterPoint Energy, Inc. and its subsidiaries (the Company) as of December 31, 2002 and 2003, and the related consolidated statements of operations, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and the financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2002 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 3 to the consolidated financial statements, the Company distributed its 83% ownership interest in Reliant Resources, Inc. on September 30, 2002. The loss on distribution and the results of operations for Reliant Resources, Inc. for periods prior to the distribution are included in discontinued operations in the accompanying consolidated financial statements.

As discussed in Note 2(d) to the consolidated financial statements, on January 1, 2002, the Company changed its method of accounting for goodwill and certain intangible assets to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

As discussed in Note 2(n) to the consolidated financial statements, on January 1, 2003, the Company recorded asset retirement obligations to conform to Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

DELOITTE & TOUCHE LLP

Houston, Texas  
March 12, 2004

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

In accordance with Exchange Act Rules 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2003 to provide assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There has been no change in our internal controls over financial reporting that occurred during the three months ended December 31, 2003 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The information called for by Item 10, to the extent not set forth in "Executive Officers" in Item 1, is or will be set forth in the definitive proxy statement relating to CenterPoint Energy's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 10 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is or will be set forth in the definitive proxy statement relating to CenterPoint Energy's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 11 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by Item 12 is or will be set forth in the definitive proxy statement relating to CenterPoint Energy's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 12 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by Item 13 is or will be set forth in the definitive proxy statement relating to CenterPoint Energy's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 13 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by Item 14 is or will be set forth in the definitive proxy statement relating to CenterPoint Energy's 2004 annual meeting of shareholders pursuant to SEC Regulation 14A. Such definitive proxy statement relates to a meeting of shareholders involving the election of directors and the portions thereof called for by Item 14 are incorporated herein by reference pursuant to Instruction G to Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Financial Statements.

Statements of Consolidated Operations for the Three Years Ended December 31, 2003.....	70
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Consolidated Balance Sheets at December 31, 2003 and 2002.....	72
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Statements of Consolidated Shareholders' Equity for the Three Years Ended December 31, 2003.....	74
Notes to Consolidated Financial Statements.....	75
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(a)(2) Financial Statement Schedules for the Three Years Ended December 31, 2003.

I -- Condensed Financial Information of CenterPoint Energy, Inc. (Parent Company) .....	134
II -- Qualifying Valuation Accounts.....	141

The following schedules are omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements:

III, IV and V.

(a)(3) Exhibits.

See Index of Exhibits on page 143, which index also includes the management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

(g) Reports on Form 8-K.

On October 21, 2003, we filed a Current Report on Form 8-K dated October 21, 2003 in which we furnished information under Item 12 of that form relating to our third quarter 2003 earnings.

On October 29, 2003, we filed a Current Report on Form 8-K dated October 28, 2003 to furnish under Item 9 of that form a slide presentation and information regarding our external debt balances expected to be presented to various members of the utility industry and the financial and investment community at the 38th Annual Edison Electric Institute Financial conference.

On November 5, 2003, we filed a Current Report on Form 8-K dated October 29, 2003 announcing the pricing and closing of \$160 million of senior notes by our subsidiary, CenterPoint Energy Resources Corp., in a private placement with institutions pursuant to Rule 144A under the Securities Act of 1933, as amended, and Regulation S. The notes bear interest at a rate of 5.95% and will be due January 15, 2014.

On November 7, 2003, we filed a Current Report on Form 8-K dated November 7, 2003 to provide information giving effect to certain reclassifications within our historical consolidated financial statements, Selected Financial Data, and Management's Discussion and Analysis of Financial Condition and Results of Operations as reported in our Current Report on Form 8-K dated May 12, 2003.

On December 9, 2003, we filed a Current Report on Form 8-K dated December 5, 2003 to report that Standard & Poor's Ratings Services affirmed its corporate credit ratings on us, CenterPoint Houston and CERC and that the outlook was revised to negative from stable.

On December 10, 2003, we filed a Current Report on Form 8-K dated December 20, 2003 to report that Fitch, Inc. affirmed its outstanding credit ratings on us, CenterPoint Houston and CERC and that the outlook was revised to negative from stable.

On December 12, 2003, we filed a Current Report on Form 8-K dated December 11, 2003 to report a failure at a diesel generator during a routine monthly surveillance test at the South Texas Project nuclear facility.

On December 19, 2003, we filed a Current Report on Form 8-K dated December 10, 2003 to announce that we had priced and closed the sale of \$225 million aggregate principal amount of our convertible senior notes due 2024 through a private offering (including \$30 million received upon exercise of the initial purchasers' option).

On January 29, 2004, we filed a Current Report on Form 8-K dated January 23, 2004 to report that Reliant Resources notified us it would not exercise its option to purchase our 81% interest in Texas Genco.

On February 12, 2004, we filed a Current Report on Form 8-K dated February 12, 2004, in which we furnished information under Item 12 of that form relating to our fourth quarter 2004 earnings.

On March 3, 2004, we filed a Current Report on Form 8-K dated March 3, 2004 to furnish under Item 9 of that form a slide presentation we expect will be presented to various members of the financial and investment community from time to time.

On March 10, 2004, we filed a Current Report on Form 8-K dated March 4, 2004 to report the administrative law judge's recommendation regarding CenterPoint Houston's final fuel reconciliation proceeding and its effect on our previously reported 2003 earnings.



CENTERPOINT ENERGY, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF  
 CENTERPOINT ENERGY, INC. (PARENT COMPANY)  
 STATEMENTS OF OPERATIONS

FOR THE PERIOD SEPTEMBER 1, 2002 THROUGH FOR THE  
 YEAR DECEMBER 31, ENDED 2002 DECEMBER 31, 2003 ---  
 ----- (IN THOUSANDS)

Equity Income (Losses) of

Subsidiaries.....	\$ (4,907)	\$
850,394 Interest Income from		
Subsidiaries.....	29,878	
63,266 Loss on Disposal of		
Subsidiary.....		
(4,371,464) -- Loss on Indexed Debt		
Securities.....	(7,964)	
(96,473) Operation and Maintenance		
Expenses.....	(5,793)	
(12,944) Depreciation and		
Amortization.....		
(5,978) (14,029) Taxes Other than		
Income.....		
(6,024) (5,091) Interest Expense to		
Subsidiaries.....	(31,198)	
(93,100) Interest		
Expense.....		
(188,027) (393,717) Income Tax		
Benefit.....		
64,916 185,361 ----- Net Income		
(Loss).....		
\$(4,526,561) \$ 483,667 =====		

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial  
 Statements in Part II, Item 8

CENTERPOINT ENERGY, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF  
 CENTERPOINT ENERGY, INC. (PARENT COMPANY)  
 BALANCE SHEETS

DECEMBER 31, 2002	DECEMBER 31, 2003		
---- (IN THOUSANDS) ASSETS CURRENT ASSETS: Cash and cash equivalents..... \$ 222,511 \$			
	21,617	Notes receivable -- affiliated companies.....	492,246 201,887
		Accounts receivable -- affiliated companies.....	130,712
	89,835	Other assets.....	
	10,197	13,675	----- Total current assets.....
			855,666 327,014
----- PROPERTY, PLANT AND EQUIPMENT, NET..... 114,240 111,533			
----- OTHER ASSETS: Investment in subsidiaries..... 8,090,581			
	8,620,685	Notes receivable -- affiliated companies.....	984,063 443,090
		Accumulated deferred tax asset.....	319,675
	213,858	Other assets.....	
	185,719	125,115	----- Total other assets.....
			9,580,038
	9,402,748		----- TOTAL ASSETS.....
\$10,549,944	\$9,841,295	=====	===== LIABILITIES AND SHAREHOLDERS' EQUITY
CURRENT LIABILITIES: Notes payable -- affiliated companies..... \$ 37,292 \$ 6,018			
		Current portion of long-term debt.....	272,422 119,564
		Indexed debt securities derivative.....	
	224,881	321,352 Accounts payable: Affiliated companies.....	50,948
			79,647
		Other.....	
	8,869	13,362 Taxes accrued.....	
	609,512	594,476 Interest accrued.....	89,206
			41,246
		Other.....	
	73,334	32,277	----- Total current liabilities.....
			1,366,464
	1,207,942		----- OTHER LIABILITIES: Benefit obligations.....
	622,284	603,845 Notes payable -- affiliated companies.....	1,679,706 1,677,720
		Other.....	
	365,646	314,366	----- Total non-current liabilities.....
			2,667,636 2,595,931
----- LONG-TERM DEBT.....			
	5,104,474	4,311,394	----- SHAREHOLDERS' EQUITY: Common stock.....
		3,063 Additional paid-in capital.....	3,046,043
		2,868,416 Retained deficit.....	
	(1,062,083)	(700,033) Unearned ESOP stock.....	(78,049)
	(2,842)	Accumulated other comprehensive loss.....	(497,591) (442,576)
			----- Total shareholders' equity.....
			1,411,370 1,726,028
----- TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY..... \$10,549,944 \$9,841,295 =====			

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial Statements in Part II, Item 8  
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CENTERPOINT ENERGY, INC.

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION OF  
 CENTERPOINT ENERGY, INC. (PARENT COMPANY)  
 STATEMENTS OF CASH FLOWS

FOR THE PERIOD SEPTEMBER 1, 2002 FOR THE YEAR THROUGH  
 ENDED DECEMBER 31, 2002 DECEMBER 31, 2003 -----  
 -- (IN THOUSANDS) OPERATING ACTIVITIES:

Net income	
(loss).....	
\$ (4,526,561) \$ 483,667	Add: Loss on disposal of subsidiary..... 4,371,464 --
	----- Adjusted income
(loss).....	(155,097)
483,667	Non-cash items included in net income (loss):
Equity losses (income) of subsidiaries.....	4,907 (850,394)
Deferred income tax expense (benefit).....	(52,117) 65,778
Depreciation and amortization.....	5,978 14,029
Amortization of debt issuance costs.....	32,649 112,046
Loss on indexed debt securities.....	7,964 96,473
Changes in working capital: Accounts receivable to affiliates, net.....	39,540 89,076
Accounts payable.....	(1,302)
4,493	Other current assets..... (6,571) (3,478)
Other current liabilities.....	(101,273) (42,631)
Common stock dividends received from subsidiaries.....	57,645 121,695
Other.....	(12,681) 72,747
	----- Net cash provided by (used in) operating activities..... (180,358)
163,501	----- INVESTING ACTIVITIES:
Investment in subsidiaries..... (181,654)	
32,832	Short-term notes receivable from affiliates..... (178,127) 290,359
	Long-term notes receivable from affiliates..... 1,067,280 540,973
Capital expenditures, net.....	(4,274) (6,596)
	----- Net cash provided by investing activities..... 703,225 857,568
	----- FINANCING ACTIVITIES: Changes in short-term borrowings..... (21,000) --
	Payments on long-term debt..... (168,558) (6,727,055)
	Proceeds from long-term debt..... -- 5,778,242
	Debt issuance costs..... (87,798) (117,641)
	Common stock dividends paid..... (48,672) (122,249)
	Short-term notes payable to affiliates..... 25,177 (31,274)
	Long-term notes payable to affiliates..... 495 (1,986)
	----- Net cash used in financing activities..... (300,356)
	(1,221,963) ----- NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS..... 222,511
	(200,894) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD..... -- 222,511
	----- CASH AND CASH EQUIVALENTS AT END OF PERIOD..... \$ 222,511 \$ 21,617 =====
	=====

See CenterPoint Energy, Inc. and Subsidiaries Notes to Consolidated Financial Statements in Part II, Item 8

## SCHEDULE I -- NOTES TO CONDENSED FINANCIAL INFORMATION (PARENT COMPANY)

(1) The condensed parent company financial statements and notes should be read in conjunction with the consolidated financial statements and notes of CenterPoint Energy, Inc. (CenterPoint Energy or the Company) appearing in the Annual Report on Form 10-K. CenterPoint Energy, Inc. is a public utility holding company that became the parent of Reliant Energy, Incorporated (Reliant Energy) and its subsidiaries on August 31, 2002 as part of a corporate restructuring of Reliant Energy (the Restructuring). CenterPoint Energy is a registered public utility holding company under the 1935 Act. Prior to the Restructuring, Reliant Energy was a public utility holding company that was exempt from registration under the 1935 Act. After the Restructuring, an exemption was no longer available for the corporate structure that the Texas Utility Commission required CenterPoint Energy to adopt under the Texas electric restructuring law. CenterPoint Energy did not conduct any activities other than those incident to its formation until September 1, 2002. Accordingly, statements of operations and cash flows would not provide meaningful information and have been omitted for periods prior to September 1, 2002.

(2) As a registered public utility holding company, CenterPoint Energy and its subsidiaries except Texas Genco Holdings, Inc. (Texas Genco) are subject to a comprehensive regulatory scheme imposed by the Securities and Exchange Commission (SEC) in order to protect customers, investors and the public interest. Although the SEC does not regulate rates and charges under the 1935 Act, it does regulate the structure, financing, lines of business and internal transactions of public utility holding companies and their system companies. In order to obtain financing, acquire additional public utility assets or stock, or engage in other significant transactions, CenterPoint Energy is required to obtain approval from the SEC under the 1935 Act.

Prior to the Restructuring, CenterPoint Energy and Reliant Energy obtained an order from the SEC that authorized the Restructuring transactions and granted those companies certain authority with respect to system financing, dividends and other matters.

CenterPoint Energy received an order from the SEC under the 1935 Act on June 30, 2003 and supplemental orders thereafter relating to its financing activities and those of its regulated subsidiaries, as well as other matters. The orders are effective until June 30, 2005. As of December 31, 2003, the orders generally permitted CenterPoint Energy and its regulated subsidiaries to issue securities to refinance indebtedness outstanding at June 30, 2003, and authorized CenterPoint Energy and its regulated subsidiaries to issue certain incremental external debt securities and common and preferred stock through June 30, 2005, without prior authorization from the SEC. Further, the SEC has reserved jurisdiction over the issuance by CenterPoint Energy and its regulated subsidiaries of certain amounts of incremental external debt securities, so that CenterPoint Energy is required to obtain SEC approval prior to issuing those incremental amounts.

The orders require that if CenterPoint or any of its regulated subsidiaries issues any security that is rated by a nationally recognized statistical rating organization (NRSRO), the security to be issued must obtain an investment grade rating from at least one NRSRO and, as a condition to such issuance, all outstanding rated securities of the issuer and of CenterPoint Energy must be rated investment grade by at least one NRSRO. The orders also contain certain requirements for interest rates, maturities, issuance expenses and use of proceeds. Under the orders, CenterPoint Energy's common equity as a percentage of total capitalization must be at least 30%. The SEC has acknowledged that prior to the monetization of Texas Genco and the securitization of the true-up components, the Company's common equity as a percentage of total capitalization is expected to remain less than 30%. In addition, after the securitization, the Company's common equity as a percentage of total capitalization, including securitized debt, is expected to be less than 30%, which the SEC has permitted for other companies.

(3) On September 30, 2002, CenterPoint Energy distributed to its shareholders 240 million shares of Reliant Resources common stock, which represented CenterPoint Energy's approximately 83% ownership interest in Reliant Resources, by means of a tax-free spin-off in the form of a dividend. Holders of CenterPoint Energy common stock on the record date received 0.788603 shares of Reliant Resources common stock for

## SCHEDULE I -- NOTES TO CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

each share of CenterPoint Energy stock that they owned on the record date. The total value of the Reliant Resources Distribution, after the impairment charge discussed below, was \$847 million.

As a result of the spin-off of Reliant Resources, CenterPoint Energy recorded a non-cash loss on disposal of discontinued operations of \$4.4 billion in 2002. This loss represented the excess of the carrying value of CenterPoint Energy's net investment in Reliant Resources over the market value of Reliant Resources' common stock. CenterPoint Energy's financial statements reflect the reclassifications necessary to present Reliant Resources as discontinued operations for all periods shown. Through the date of the spin-off, Reliant Resources' assets and liabilities are shown in CenterPoint Energy's Consolidated Balance Sheets as current and non-current assets and liabilities of discontinued operations.

(4) CenterPoint Energy distributed approximately 19% of the 80 million outstanding shares of common stock of Texas Genco to its shareholders on January 6, 2003. As a result of the distribution of Texas Genco common stock, CenterPoint Energy recorded a pre-tax impairment charge of \$399 million, which was reflected as a regulatory asset in the Consolidated Balance Sheet as of December 31, 2003. This impairment charge represents the excess of the carrying value of CenterPoint Energy's net investment in Texas Genco over the market value of Texas Genco's common stock. Additionally, in connection with the distribution, CenterPoint Energy recorded minority interest ownership in Texas Genco of \$146 million in its Consolidated Balance Sheet in the first quarter of 2003.

(5) On October 7, 2003, the Company entered into a three-year credit facility composed of a revolving credit facility of \$1.4 billion and a \$925 million term loan from institutional investors. The facility matures on October 7, 2006 and requires prepayments aggregating \$20 million. Borrowings under the revolver (\$523 million at December 31, 2003) bear interest based on the London inter-bank offered rate (LIBOR) under a pricing grid tied to the Company's credit ratings. At the Company's current ratings, the interest rate for borrowings under the revolver is LIBOR plus 300 basis points. The interest rate for borrowings under the term loan is LIBOR plus 350 basis points. The Company's Texas Genco stock is pledged to the lenders under the facility and the Company has agreed to limit the dividend paid on its common stock to \$0.10 per share per quarter. The facility provides that until such time as the facility has been reduced to \$750 million, 100% of the net cash proceeds from any securitizations relating to the recovery of the true-up components, after making any payments required under CenterPoint Energy Houston Electric, LLC's \$1.3 billion term loan, and the net cash proceeds of any sales of the common stock of Texas Genco owned by the Company or of material portions of Texas Genco's assets shall be applied to repay loans under the facility and reduce that facility. Any money raised in other future capital markets offerings and in the sale of other significant assets is not required to be used to pay down the facility. The facility requires the Company not to fall below a minimum interest coverage ratio and not to exceed a maximum leverage ratio. The facility refinanced and replaced a prior bank facility that, as of September 30, 2003, consisted of an \$856 million term loan and a \$1.5 billion revolver. In connection with entering into the new facility, the Company paid up-front fees of approximately \$16 million and avoided a payment of \$18 million which would have been due under the prior facility on October 9, 2003. Additionally, in October 2003, the Company expensed \$21 million of unamortized loan costs associated with the prior facility.

On April 9, 2003, the Company remarketed \$175 million aggregate principal amount of pollution control bonds that it had owned since the fourth quarter of 2002. Remarketed bonds maturing in 2029 have a principal amount of \$75 million and an interest rate of 8%. Remarketed bonds maturing in 2018 have a principal amount of \$100 million and an interest rate of 7.75%. Proceeds from the remarketing were used to repay bank debt. At December 31, 2002, the \$175 million of bonds owned by the Company were not reflected as outstanding debt in the Company's Consolidated Balance Sheets.

On May 19, 2003, the Company issued \$575 million aggregate principal amount of convertible senior notes due May 15, 2023 with an interest rate of 3.75%. Holders may convert each of their notes into shares of CenterPoint Energy common stock, initially at a conversion rate of 86.3558 shares of common stock

## SCHEDULE I -- NOTES TO CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

per \$1,000 principal amount of notes at any time prior to maturity, under the following circumstances: (1) if the last reported sale price of CenterPoint Energy common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% or, following May 15, 2008, 110% of the conversion price per share of CenterPoint Energy common stock on such last trading day, (2) if the notes have been called for redemption, (3) during any period in which the credit ratings assigned to the notes by both Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Ratings Services (S&P), a division of The McGraw-Hill Companies, are lower than Ba2 and BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors, or (4) upon the occurrence of specified corporate transactions, including the distribution to all holders of CenterPoint Energy common stock of certain rights entitling them to purchase shares of CenterPoint Energy common stock at less than the last reported sale price of a share of CenterPoint Energy common stock on the trading day prior to the declaration date of the distribution or the distribution to all holders of CenterPoint Energy common stock of the Company's assets, debt securities or certain rights to purchase the Company's securities, which distribution has a per share value exceeding 15% of the last reported sale price of a share of CenterPoint Energy common stock on the trading day immediately preceding the declaration date for such distribution. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after May 15, 2008, in the event that the average trading price of a note for the applicable five trading day period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month interest period. For any six-month period, contingent interest will be equal to 0.25% of the average trading price of the note for the applicable five-trading-day period. Proceeds from the issuance of the convertible senior notes were used for term loan repayments and to repay revolver borrowings under the Company's prior facility in the amount of \$557 million and \$0.75 million, respectively.

On May 27, 2003, the Company issued \$400 million aggregate principal amount of senior notes composed of \$200 million principal amount of 5-year notes with an interest rate of 5.875% and \$200 million principal amount of 12-year notes with an interest rate of 6.85%. Proceeds in the amount of \$397 million were used for repayments of the term loan under the Company's prior facility.

In July 2003, the Company remarketed two series of insurance-backed pollution control bonds aggregating \$151 million, reducing the interest rate from 5.8% to 4%. Of the total amount of bonds remarketed, \$92 million mature on August 1, 2015 and \$59 million mature on October 15, 2015.

On September 9, 2003, the Company issued \$200 million aggregate principal amount of 7.25% senior notes due September 1, 2010. Proceeds in the amount of approximately \$198 million were used to repay a portion of the term loan under the Company's prior facility. As a result of the term loan repayments made from the proceeds of the September 9, 2003 debt issuance, in September 2003, the Company expensed \$12.2 million of unamortized loan costs that were associated with the term loan under the Company's prior facility.

On December 17, 2003, the Company issued \$255 million aggregate principal amount of convertible senior notes due January 15, 2024 with an interest rate of 2.875%. Holders may convert each of their notes into shares of CenterPoint Energy common stock, initially at a conversion rate of 78.064 shares of common stock per \$1,000 principal amount of notes at any time prior to maturity, under the following circumstances: (1) if the last reported sale price of CenterPoint Energy common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 120% of the conversion price per share of CenterPoint Energy common stock on such last trading day, (2) if the notes have been called for redemption, (3) during any period in which the credit ratings assigned to the notes by both Moody's and S&P are lower than Ba2 and BB, respectively, or the notes are no longer rated by at least one of these ratings services or their successors, or (4) upon the occurrence of specified corporate transactions, including the distribution to all holders of CenterPoint Energy common stock of certain rights

## SCHEDULE I -- NOTES TO CONDENSED FINANCIAL STATEMENTS -- (CONTINUED)

entitling them to purchase shares of CenterPoint Energy common stock at less than the last reported sale price of a share of CenterPoint Energy common stock on the trading day prior to the declaration date of the distribution or the distribution to all holders of CenterPoint Energy common stock of the Company's assets, debt securities or certain rights to purchase the Company's securities, which distribution has a per share value exceeding 15% of the last reported sale price of a share of CenterPoint Energy common stock on the trading day immediately preceding the declaration date for such distribution. CenterPoint Energy may elect to satisfy part or all of its conversion obligation by delivering cash in lieu of shares of CenterPoint Energy common stock. The convertible senior notes also have a contingent interest feature requiring contingent interest to be paid to holders of notes commencing on or after January 15, 2007, in the event that the average trading price of a note for the applicable five-trading-day period equals or exceeds 120% of the principal amount of the note as of the day immediately preceding the first day of the applicable six-month interest period. For any six-month period, contingent interest will be equal to 0.25% of the average trading price of the note for the applicable five-trading-day period. Proceeds from the issuance of the convertible senior notes were used to redeem, in January 2004, \$250 million liquidation amount of the 8.125% trust preferred securities issued by HL&P Capital Trust I. Pending such use, the net proceeds were used to repay a portion of the outstanding borrowings under the Company's revolving credit facility.

CENTERPOINT ENERGY, INC.

SCHEDULE II -- QUALIFYING VALUATION ACCOUNTS  
FOR THE THREE YEARS ENDED DECEMBER 31, 2003

COLUMN A COLUMN B  
COLUMN C COLUMN D  
COLUMN E - ----- --  
-----  
-----  
ADDITIONS BALANCE AT -  
----- DEDUCTIONS  
BALANCE AT BEGINNING  
CHARGED FROM END OF  
DESCRIPTION OF PERIOD  
TO INCOME RESERVES(1)  
PERIOD - ----- -  
-----

(IN THOUSANDS) Year  
Ended December 31,  
2003: Accumulated  
provisions:  
Uncollectible accounts  
receivable.....  
\$24,294 \$24,312  
\$17,531 \$31,075  
Deferred tax asset  
valuation  
allowance.....  
82,929 (9,681) --  
73,248 Year Ended  
December 31, 2002:  
Accumulated  
provisions:  
Uncollectible accounts  
receivable.....  
\$46,047 \$25,883  
\$47,636 \$24,294  
Deferred tax asset  
valuation  
allowance.....  
15,439 67,490 --  
82,929 Year Ended  
December 31, 2001:  
Accumulated  
provisions:  
Uncollectible accounts  
receivable.....  
\$37,521 \$58,745  
\$50,219 \$46,047  
Deferred tax asset  
valuation  
allowance.....  
47,677 (32,238) --  
15,439

(1) Deductions from reserves represent losses or expenses for which the respective reserves were created. In the case of the uncollectible accounts reserve, such deductions are net of recoveries of amounts previously written off.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, the State of Texas, on the 12th day of March, 2004.

CENTERPOINT ENERGY, INC.  
(Registrant)

By: /s/ DAVID M. MCCLANAHAN

-----  
David M. McClanahan,  
President and Chief Executive  
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 12, 2004.

SIGNATURE  
TITLE ----

-----  
- /s/  
DAVID M.  
MCCLANAHAN  
President,  
Chief  
Executive  
Officer  
and  
Director -

-----  
-----  
-----  
-----  
-----  
(Principal  
Executive  
Officer  
and  
Director)  
David M.  
McClanahan  
/s/ GARY  
L.  
WHITLOCK  
Executive  
Vice  
President  
and Chief  
Financial  
Officer --

-----  
-----  
-----  
-----  
(Principal  
Financial  
Officer)  
Gary L.  
Whitlock  
/s/ JAMES  
S. BRIAN  
Senior  
Vice  
President  
and -----

-----  
-----  
-----  
-----  
-- Chief  
Accounting  
Officer  
James S.  
Brian  
(Principal  
Accounting  
Officer)  
/s/ MILTON  
CARROLL  
Chairman  
of the  
Board of  
Directors  
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Milton  
Carroll  
/s/ JOHN  
T. CATER  
Director -  
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-----

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-----  
John T.  
Cater /s/  
DERRILL  
CODY  
Director -  
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Derrill  
Cody /s/  
O.  
HOLCOMBE  
CROSSWELL  
Director -  
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----- O.  
Holcombe  
Crosswell  
/s/ THOMAS  
F. MADISON  
Director -  
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Thomas F.  
Madison  
/s/  
MICHAEL E.  
SHANNON  
Director -  
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Michael E.  
Shannon

CENTERPOINT ENERGY, INC.

EXHIBITS TO THE ANNUAL REPORT ON FORM 10-K  
FOR FISCAL YEAR ENDED DECEMBER 31, 2003

INDEX OF EXHIBITS

Exhibits not incorporated by reference to a prior filing are designated by a cross (+); all exhibits not so designated are incorporated herein by reference to a prior filing as indicated. Exhibits designated by an asterisk (\*) are management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K by Item 601(b)(10)(iii) of Regulation S-K.

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and Plan of  
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December 18,  
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CenterPoint  
Energy and  
the Northern  
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Company,  
trustee  
under the  
Reliant  
Energy,  
Incorporated  
Master  
Retirement  
Trust



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4(d)(1) --  
Mortgage  
and Deed of  
Trust,  
HL&P's Form  
S-7 filed  
on August  
2-59748  
2(b) dated  
November 1,  
1944 25,  
1977  
between  
Houston  
Lighting  
and Power  
Company  
("HL&P")  
and Chase  
Bank of  
Texas,  
National  
Association  
(formerly,  
South Texas  
Commercial  
National  
Bank of  
Houston),  
as Trustee,  
as amended  
and  
supplemented  
by 20  
Supplemental  
Indentures  
thereto

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First  
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(2)  
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31, 1989  
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4(d)(3) --  
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30, 1991  
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March 25,  
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(4) --  
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Second

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and HL&P's  
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(6) --  
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(8) --  
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(9) --  
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Fourth and  
Sixty-Fifth  
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(9)  
Supplemental  
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to ended  
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31, 1995  
Exhibit  
4(a)(1)  
each dated  
as of July  
1, 1995  
4(e)(1) --  
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Mortgage  
Indenture,  
CenterPoint  
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ended  
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between  
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30, 2002  
Energy  
Houston  
Electric,  
LLC and  
JPMorgan  
Chase Bank,  
as Trustee  
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First  
Supplemental  
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Houston's  
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(2) to  
Exhibit  
4(e)(1),  
dated as  
for the  
quarter  
ended  
September  
of October  
10, 2002  
30, 2002



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4(e)(3) --  
Second  
Supplemental  
CenterPoint  
Houston's  
Form 10-Q  
1-3187 4(j)  
(3)

Indenture  
to Exhibit  
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quarter  
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September  
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dated as of  
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2002 10,  
2002 4(e)  
(4) --

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Supplemental  
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(4) to

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dated as  
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of October  
10, 2002  
30, 2002  
4(e)(5) --

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(5)

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ended  
September  
4(e)(1),  
dated as of  
October 30,  
2002 10,  
2002 4(e)  
(6) --

Fifth  
Supplemental  
Indenture  
CenterPoint  
Houston's  
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(6) to

Exhibit  
4(e)(1),  
dated as  
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quarter  
ended

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30, 2002  
4(e)(7) --  
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Indenture  
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dated as  
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ended  
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10, 2002  
30, 2002  
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Seventh  
Supplemental  
Inden-  
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Houston's  
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(8) ture to  
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quarter  
ended  
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(9) --  
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Supplemental  
CenterPoint  
Houston's  
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(9)  
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quarter  
ended  
September  
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dated as of  
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2002 10,  
2002 +4(e)  
(10) --  
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dated  
October 10,  
2002  
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forth the  
form, terms  
and  
provisions  
of the  
First  
through  
Eighth  
Series of  
General  
Mortgage  
Bonds 4(e)  
(11) --  
Ninth  
Supplemental  
Indenture  
CenterPoint  
Energy's  
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Exhibit  
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for the

year ended  
December  
31, of  
November  
12, 2002  
2002 +4(e)  
(12) --  
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Certificate's  
dated  
November  
12, 2002  
setting  
forth the  
form, terms  
and  
provisions  
of the  
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Series of  
General  
Mortgage  
Bonds 4(e)  
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CenterPoint  
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dated March  
13, 2003 of  
March 18,  
2003 4(e)  
(14) --  
Officer's  
Certificate  
dated  
CenterPoint  
Energy's  
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March 18,  
2003  
setting  
forth dated  
March 13,  
2003 the  
form, terms  
and  
provisions  
of the  
Tenth  
Series and  
Eleventh  
Series of  
General  
Mortgage  
Bonds 4(e)  
(15) --  
Eleventh  
Supplemental  
Inden-  
CenterPoint  
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31447 4.1  
ture to  
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4(e)(1),  
dated May  
16, 2003  
dated as of  
May 23,  
2003

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4(e)(16) --  
Officer's  
Certificate  
dated  
CenterPoint  
Energy's  
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May 23,  
2003  
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May 16,  
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form, terms  
and  
provisions  
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Twelfth  
Series of  
General  
Mortgage  
Bonds 4(e)  
(17) --  
Twelfth

Supplemental  
CenterPoint  
Energy's  
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Indenture  
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September  
9, 2003  
4(e)(1),  
dated as of  
September,  
9, 2003

4(e)(18) --  
Officer's  
Certificate  
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CenterPoint  
Energy's  
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9, 2003  
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dated  
September  
9, 2003  
forth the  
form, terms  
and  
provisions  
of the  
Thirteenth  
Series of  
General  
Mortgage  
Bonds 4(f)  
(1) --  
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dated as of  
RERC  
Corp.'s  
Form 8-K  
dated 1-  
13265 4.1  
February 1,

1998,  
between  
February 5,  
1998  
Reliant  
Energy  
Resources  
Corp.  
("RERC  
Corp.") and  
Chase Bank  
of Texas,  
National  
Association,  
as Trustee  
4(f)(2) --  
Supplemental  
Indenture  
No. 1 RERC  
Corp.'s  
Form 8-K  
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13265 4.2  
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4(f)(1),  
dated as  
November 9,  
1998 of  
February 1,  
1998,  
providing  
for the  
issuance of  
RERC  
Corp.'s 6  
1/2%  
Debentures  
due  
February 1,  
2008 4(f)  
(3) --  
Supplemental  
Indenture  
No. 2 RERC  
Corp.'s  
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13265 4.1  
to Exhibit  
4(f)(1),  
dated as  
November 9,  
1998 of  
November 1,  
1998,  
providing  
for the  
issuance of  
RERC  
Corp.'s 6  
3/8% Term  
Enhanced  
ReMarketable  
Securities  
4(f)(4) --  
Supplemental  
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No. 3 RERC  
Corp.'s  
Registration  
333-49162  
4.2 to  
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dated as  
Statement  
on Form S-4  
of July 1,  
2000,  
providing  
for the  
issuance of  
RERC  
Corp.'s  
8.125%  
Notes due  
2005 4(f)  
(5) --  
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No. 4 RERC  
Corp.'s  
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February  
21, 2001 of  
February  
15, 2001,  
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RERC  
Corp.'s  
7.75% Notes  
due 2011  
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March 25,  
2003,  
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CenterPoint  
Energy  
Resources  
Corp.'s  
("CERC  
Corp.'s")  
7.875%  
Senior  
Notes due  
2013

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dated April  
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CERC  
Corp.'s  
7.875%  
Senior  
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dated  
October 29,  
2003 of  
November 3,  
2003,  
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CERC  
Corp.'s  
5.95%  
Senior  
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CenterPoint  
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dated  
October 29,  
2003  
November 3,  
2003, among  
CERC Corp.  
and the  
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purchasers  
named  
therein  
relating to  
CERC  
Corp.'s

5.95%  
Senior  
Notes due  
2014 4(g)  
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CenterPoint  
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between  
dated May  
19, 2003  
CenterPoint  
Energy and  
JPMorgan  
Chase Bank,  
as Trustee  
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May 19,  
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3.75%  
Convertible  
Senior  
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dated May  
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May 27,  
2003,  
providing  
for the  
issuance of  
CenterPoint  
Energy's  
5.875%  
Senior  
Notes due  
2008 and  
6.85%  
Senior  
Notes due  
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dated  
September  
9, 2003 of  
September  
9, 2003,  
providing  
for the  
issuance of



CenterPoint  
Energy's  
7.25%  
Senior  
Notes due  
2010

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----- 4(g)

(5) --

Supplemental  
Indenture No. 4  
CenterPoint  
Energy's Form  
8-K 1-31447 4.2  
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(1), dated as  
dated December  
10, 2003 of  
December 17,  
2003, providing

for the  
issuance of  
CenterPoint  
Energy's 2.875%  
Convertible  
Senior Notes  
due 2024 4(g)

(6) --

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Rights  
CenterPoint  
Energy's Form  
8-K 1-31447 4.3  
Agreement,  
dated as of  
dated December  
10, 2003

December 17,  
2003, among  
CenterPoint  
Energy and the  
representatives  
of the initial  
purchasers  
named therein  
relating to  
CenterPoint  
Energy's 2.875%  
Convertible  
Senior Notes  
due 2024 4(h) -  
- Supplemental

Indenture No. 2  
CenterPoint  
Energy's Form  
8-K12B 1-31447  
4(e) dated as  
of August 31,  
2002, dated  
August 31, 2002  
among

CenterPoint  
Energy, Reliant  
Energy,  
Incorporated  
("REI") and  
JPMorgan Chase  
Bank

(supplementing  
the Sub-  
ordinated  
Indenture dated  
as of September  
1, 1999 under  
which REI's 2%  
Zero-Premium  
Exchangeable  
Subordinated  
Notes Due 2029  
were issued)

4(i) --

Supplemental  
Indenture No. 2

CenterPoint  
Energy's Form  
8-K12B 1-31447  
4(f) dated as  
of August 31,  
2002, dated  
August 31, 2002  
among  
CenterPoint  
Energy, REI and  
The Bank of New  
York  
(supplementing  
the Junior  
Subordinated  
Indenture dated  
as of February  
15, 1999 under  
which REI's  
Junior  
Subordinated  
Debentures  
related to REI  
Trust I's 7.20%  
trust  
originated  
preferred  
securities were  
issued) 4(j) --  
Supplemental  
Indenture No. 3  
CenterPoint  
Energy's Form  
8-K12B 1-31447  
4(g) dated as  
of August 31,  
2002 dated  
August 31, 2002  
among  
CenterPoint  
Energy, REI and  
The Bank of New  
York  
(supplementing  
the Junior  
Subordinated  
Indenture dated  
as of February  
1, 1997 under  
which REI's  
Junior Subordi-  
nated  
Debentures  
related to  
8.125% trust  
preferred  
securities  
issued by HL&P  
Capital Trust I  
and 8.257%  
capital  
securities  
issued by HL&P  
Capital Trust  
II were issued)

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----- 4(k)  
-- Third  
Supplemental  
Indenture  
CenterPoint  
Energy's Form  
8-K12B 1-  
31447 4(h)  
dated as of  
August 31,  
2002 dated  
August 31,  
2002 among  
CenterPoint  
Energy, REI,  
RERC and The  
Bank of New  
York

(supplementing  
the Indenture  
dated as of  
June 15, 1996  
under which  
RERC's 6.25%  
Convertible  
Junior  
Subordinated  
Debentures  
were issued)

4(l) --  
Second  
Supplemental  
CenterPoint  
Energy's Form  
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31447 4(i)  
Indenture  
dated as of  
August dated  
August 31,  
2002 31, 2002  
among  
CenterPoint  
Energy, REI,  
RERC and  
JPMorgan  
Chase Bank

(supplementing  
the Indenture  
dated as of  
March 1, 1987  
under which  
RERC's 6%  
Convertible  
Subordinated  
De- bentures  
due 2012 were  
issued) 4(m)

-- Assignment  
and  
Assumption  
CenterPoint  
Energy's Form  
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31447 4(j)  
Agreement for  
the Guarantee  
dated August  
31, 2002  
Agreements  
dated as of  
Au- gust 31,  
2002 between  
CenterPoint

Energy and REI (relating to (i) the Guarantee Agreement dated as of February 4, 1997 between REI and The Bank of New York providing for the guaranty of certain amounts relating to the 8.125% trust preferred securities issued by HL&P Capital Trust I and (ii) the Guarantee Agreement dated as of February 4, 1997 between REI and The Bank of New York providing for the guaranty of certain amounts relating to the 8.257% capital securities issued by HL&P Capital Trust II)

SEC FILE OR  
EXHIBIT  
REGISTRATION  
EXHIBIT  
NUMBER  
DESCRIPTION  
REPORT OR  
REGISTRATION  
STATEMENT  
NUMBER  
REFERENCE -

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4(n) --  
Assignment  
and  
Assumption  
CenterPoint  
Energy's  
Form 8-K12B  
1-311447  
4(k)  
Agreement  
for the  
Guarantee  
dated  
August 31,  
2002  
Agreement  
dated as of  
August 31,  
2002  
between  
CenterPoint  
Energy and  
REI  
(relating  
to the  
Guarantee  
Agreement  
dated as of  
February  
26, 1999  
between REI  
and The  
Bank of New  
York  
providing  
for the  
guaranty of  
certain  
amounts  
relating to  
the 7.20%  
Trust  
Originated  
Preferred  
Securities  
issued by  
REI Trust  
I) 4(o) --  
Assignment  
and  
Assumption  
CenterPoint  
Energy's  
Form 8-K12B  
1-31447  
4(l)  
Agreement  
for the  
Expense  
dated  
August 31,  
2002 and  
Liability  
Agreements  
and the  
Trust  
Agreements  
dated as of  
August 31,  
2002  
between  
CenterPoint

Energy and REI (relating to the (i) Agreement as to Expenses and Liabilities dated as of June 4, 1997 between REI and HL&P Capital Trust I, (ii) Agreement as to Expenses and Liabilities dated as of February 4, 1997 between REI and HL&P Capital Trust II, (iii) HL&P Capital Trust I's Amended and Restated Trust Agreement dated February 4, 1997 and (iv) HL&P Capital Trust II's Amended and Restated Trust Agreement dated February 4, 1997

Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, CenterPoint Energy has not filed as exhibits to this Form 10-K certain long-term debt instruments, including indentures, under which the total amount of securities authorized does not exceed 10% of the total assets of CenterPoint Energy and its subsidiaries on a consolidated basis. CenterPoint Energy hereby agrees to furnish a copy of any such instrument to the SEC upon request.

SEC FILE OR EXHIBIT REGISTRATION EXHIBIT NUMBER	DESCRIPTION REPORT OR REGISTRATION STATEMENT NUMBER	REFERENCE -
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\*10(a)(1) -  
- Executive  
Benefit  
Plan of  
HI's Form  
10-Q for  
the 1-7629  
10(a)(1),  
Houston  
Industries  
quarter  
ended March  
31, 10(a)  
(2),  
Incorporated  
("HI") and  
1987 and  
First and  
Second  
10(a)(3)  
Amendments  
thereto  
effective  
as of June  
1, 1982,  
July 1,  
1984, and  
May 7,  
1986,  
respectively  
\*10(a)(2) -  
- Third  
Amendment  
dated Sep-  
Reliant  
Energy's  
Form 10-K  
1-3187  
10(a)(2)  
tember 17,  
1999 to Ex-  
for the  
year ended  
Decem-  
hibit 10(a)  
(1) ber 31,  
2000 \*10(a)  
(3) --  
CenterPoint  
Energy  
CenterPoint  
Energy's  
Form 1-  
31447 10.4  
Executive  
Benefits  
Plan, 10-Q  
for the  
quarter  
ended as  
amended and  
restated  
September  
30, 2003  
effective  
June 18,  
2003 \*10(b)  
(1) --  
Executive  
Incentive  
HI's Form  
10-K for  
the 1-7629  
10(b)  
Compensation  
Plan of HI  
year ended  
December  
31,  
effective  
as of  
January 1,  
1991 1982  
\*10(b)(2) -  
- First  
Amendment  
to Ex- HI's  
Form 10-Q  
for the 1  
-7629 10(a)



hibit 10(b)  
(1)  
effective  
quarter  
ended March  
31, as of  
March 30,  
1992 1992  
\*10(b)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-K  
for the 1-  
7629 10(b)

hibit 10(b)  
(1)  
effective  
year ended  
December  
31, as of  
November 4,  
1992 1992  
\*10(b)(4) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-K  
for the 1-  
7629 10(b)  
(4) hibat  
10(b)(1)  
effective  
year ended  
December  
31, as of  
September  
7, 1994  
1994 \*10(b)

(5) --  
Fourth  
Amendment  
to Ex- HI's  
Form 10-K  
for the 1-  
3187 10(b)  
(5) hibat  
10(b)(1)  
effective  
year ended  
December  
31, as of  
August 6,  
1997 1997

\*10(c)(1) -  
- Executive  
Incentive  
HI's Form  
10-Q for  
the 1-7629  
10(b)(1)  
Compensation  
Plan of HI  
quarter  
ended March  
31,  
effective  
as of  
January 1,  
1987 1985

\*10(c)(2) -  
- First  
Amendment  
to Ex- HI's  
Form 10-K  
for the 1-  
7629 10(b)  
(3) hibat  
10(c)(1)  
effective  
year ended  
December  
31, as of  
January 1,  
1985 1988

\*10(c)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-K  
for the 1-  
7629 10(c)  
(3) hibat

10(c)(1)  
effective  
year ended  
December  
31, as of  
January 1,  
1985 1991  
\*10(c)(4) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-Q  
for the 1-  
7629 10(b)  
hibit 10(c)  
(1)  
effective  
quarter  
ended March  
31, as of  
March 30,  
1992 1992  
\*10(c)(5) -  
- Fourth  
Amendment  
to Ex- HI's  
Form 10-K  
for the 1-  
7629 10(c)  
(5) hibit  
10(c)(1)  
effective  
year ended  
December  
31, as of  
November 4,  
1992 1992  
\*10(c)(6) -  
- Fifth  
Amendment  
to Ex- HI's  
Form 10-K  
for the 1-  
7629 10(c)  
(6) hibit  
10(c)(1)  
effective  
year ended  
December  
31, as of  
September  
7, 1994  
1994 \*10(c)  
(7) --  
Sixth  
Amendment  
to Ex- HI's  
Form 10-K  
for the 1-  
3187 10(c)  
(7) hibit  
10(c)(1)  
effective  
year ended  
December  
31, as of  
August 6,  
1997 1997

SEC FILE OR  
EXHIBIT  
REGISTRATION  
EXHIBIT  
NUMBER  
DESCRIPTION  
REPORT OR  
REGISTRATION  
STATEMENT  
NUMBER  
REFERENCE -

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\*10(d) --  
Executive  
Incentive  
HI's Form  
10-Q for  
the quarter  
1-7629  
10(b)(2)  
Compensation  
Plan of  
HL&P ended  
March 31,  
1987  
effective  
as of  
January 1,  
1985 \*10(e)  
(1) --  
Executive  
Incentive  
HI's Form  
10-Q for  
the quarter  
1-7629  
10(b)  
Compensation  
Plan of HI  
as ended  
June 30,  
1989  
amended and  
restated on  
January 1,  
1989 \*10(e)  
(2) --  
First  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(e)(2)  
hibit 10(e)  
(1)  
effective  
ended  
December  
31, 1991 as  
of January  
1, 1989  
\*10(e)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(c)  
hibit 10(e)  
(1)  
effective  
ended March  
31, 1992 as  
of March  
30, 1992  
\*10(e)(4) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629

10(c)(4)  
hibit 10(e)  
(1)  
effective  
ended  
December  
31, 1992 as  
of November  
4, 1992  
\*10(e)(5) -  
- Fourth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1  
-7629 10(e)  
(5) hibit  
10(e)(1)  
effective  
ended  
December  
31, 1994 as  
of  
September  
7, 1994  
\*10(f)(1) -  
- Executive  
Incentive  
HI's Form  
10-K for  
the year 1-  
7629 10(b)  
Compensation  
Plan of HI  
as ended  
December  
31, 1990  
amended and  
restated on  
January 1,  
1991 \*10(f)  
(2) --  
First  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(f)(2)  
hibit 10(f)  
(1)  
effective  
ended  
December  
31, 1991 as  
of January  
1, 1991  
\*10(f)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(d)  
hibit 10(f)  
(1)  
effective  
ended March  
31, 1992 as  
of March  
30, 1992  
\*10(f)(4) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(f)(4)  
hibit 10(f)  
(1)  
effective  
ended  
December  
31, 1992 as  
of November  
4, 1992  
\*10(f)(5) -  
- Fourth  
Amendment  
to Ex- HI's

Form 10-K  
for the  
year 1-7629  
10(f)(5)  
hibit 10(f)  
(1)  
effective  
ended  
December  
31, 1992 as  
of January  
1, 1993  
\*10(f)(6) -  
- Fifth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(f)(6)  
hibit 10(f)  
(1)  
effective  
ended  
December  
31, 1994 in  
part,  
January 1,  
1995, and  
in part,  
September  
7, 1994  
\*10(f)(7) -  
- Sixth  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(a)  
hibit 10(f)  
(1)  
effective  
ended June  
30, 1995 as  
of August  
1, 1995  
\*10(f)(8) -  
- Seventh  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(a)  
hibit 10(f)  
(1)  
effective  
ended June  
30, 1996 as  
of January  
1, 1996  
\*10(f)(9) -  
- Eighth  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(a)  
hibit 10(f)  
(1)  
effective  
ended June  
30, 1997 as  
of January  
1, 1997

SEC FILE OR  
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NUMBER  
DESCRIPTION  
REPORT OR  
REGISTRATION  
STATEMENT  
NUMBER  
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\*10(f)(10)  
-- Ninth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(f)(10)  
hibit 10(f)  
(1)  
effective  
ended  
December  
31, 1997 in  
part,  
January 1,  
1997, and  
in part,  
January 1,  
1998 \*10(g)  
-- Benefit  
Restoration  
Plan HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(c)  
of HI  
effective  
as of June  
ended March  
31, 1987 1,  
1985 \*10(h)  
-- Benefit  
Restoration  
Plan HI's  
Form 10-K  
for the  
year 1-7629  
10(g)(2) of  
HI as  
amended and  
ended  
ended  
December  
31, 1991  
restated  
effective  
as of  
January 1,  
1988 \*10(i)  
(1) --  
Benefit  
Restoration  
Plan HI's  
Form 10-K  
for the  
year 1-7629  
10(g)(3) of  
HI, as  
amended and  
ended  
ended  
December  
31, 1991  
restated  
effective  
as of July  
1, 1991  
\*10(i)(2) -  
- First  
Amendment  
to Ex- HI's  
Form 10-K

for the  
year 1-3187  
10(i)(2)  
hibit 10(i)  
(1)  
effective  
ended  
December  
31, 1997 in  
part,  
August 6,  
1997, in  
part,  
September  
3, 1997,  
and in  
part,  
October 1,  
1997 \*10(j)  
(1) --  
Deferred  
Compensation  
Plan HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(d)  
of HI  
effective  
as of ended  
March 31,  
1987  
September  
1, 1985  
\*10(j)(2) -  
- First  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(d)(2)  
hibit 10(j)  
(1)  
effective  
ended  
December  
31, 1990 as  
of  
September  
1, 1985  
\*10(j)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(e)  
hibit 10(j)  
(1)  
effective  
ended March  
31, 1992 as  
of March  
30, 1992  
\*10(j)(4) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(h)(4)  
hibit 10(j)  
(1)  
effective  
ended  
December  
31, 1993 as  
of June 2,  
1993 \*10(j)  
(5) --  
Fourth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(h)(5)  
hibit 10(j)  
(1)  
effective

ended  
December  
31, 1994 as  
of  
September  
7, 1994  
\*10(j)(6) -  
- Fifth  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(d)  
hibit 10(j)  
(1)  
effective  
ended June  
30, 1995 as  
of August  
1, 1995  
\*10(j)(7) -  
- Sixth  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(b)  
hibit 10(j)  
(1)  
effective  
ended June  
30, 1995 as  
of December  
1, 1995  
\*10(j)(8) -  
- Seventh  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(b)  
hibit 10(j)  
(1)  
effective  
ended June  
30, 1997 as  
of January  
1, 1997  
\*10(j)(9) -  
- Eighth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(j)(9)  
hibit 10(j)  
(1)  
effective  
ended  
December  
31, 1997 as  
of October  
1, 1997  
\*10(j)(10)  
-- Ninth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(j)(10)  
hibit 10(j)  
(1)  
effective  
ended  
December  
31, 1997 as  
of  
September  
3, 1997



SEC FILE OR  
EXHIBIT  
REGISTRATION  
EXHIBIT  
NUMBER  
DESCRIPTION  
REPORT OR  
REGISTRATION  
STATEMENT  
NUMBER  
REFERENCE -

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\*10(j)(11)  
-- Tenth  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(j)(11)  
hibit 10(j)  
(1)  
effective  
for the  
year ended  
December  
31, as of  
January 1,  
2001 2002

\*10(j)(12)  
-- Eleventh  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(j)(12)  
hibit 10(j)  
(1)  
effective  
for the  
year ended  
December  
31, as of  
August 31,  
2002 2002

\*10(j)(13)  
--  
CenterPoint  
Energy 1985  
CenterPoint  
Energy's  
Form 10-Q  
1-31447  
10.1  
Deferred  
Compensation  
for the  
quarter  
ended  
September  
Plan, as  
amended and  
30, 2003  
restated  
effective  
January 1,  
2003 \*10(k)

(1) --  
Deferred  
Compensation  
Plan HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(a)  
of HI  
effective  
as of ended  
June 30,  
1989  
January 1,

1989 \*10(k)  
(2) --  
First  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(e)(3)  
hibit 10(k)  
(1)  
effective  
ended  
December  
31, 1989 as  
of January  
1, 1989  
\*10(k)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(f)  
hibit 10(k)  
(1)  
effective  
ended March  
31, 1992 as  
of March  
30, 1992  
\*10(k)(4) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(i)(4)  
hibit 10(k)  
(1)  
effective  
ended  
December  
31, 1993 as  
of June 2,  
1993 \*10(k)  
(5) --  
Fourth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(i)(5)  
hibit 10(k)  
(1)  
effective  
ended  
December  
31, 1994 as  
of  
September  
7, 1994  
\*10(k)(6) -  
- Fifth  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(c)  
hibit 10(k)  
(1)  
effective  
ended June  
30, 1995 as  
of August  
1, 1995  
\*10(k)(7) -  
- Sixth  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(c)  
hibit 10(k)  
(1)  
effective  
ended June  
30, 1995

December 1,  
1995 \*10(k)  
(8) --  
Seventh  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(c)  
hibit 10(k)  
(1)  
effective  
ended June  
30, 1997 as  
of January  
1, 1997  
\*10(k)(9) -  
- Eighth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(k)(9)  
hibit 10(k)  
(1)  
effective  
ended  
December  
31, 1997 in  
part  
October 1,  
1997 and in  
part  
January 1,  
1998 \*10(k)  
(10) --  
Ninth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(k)(10)  
hibit 10(k)  
(1)  
effective  
ended  
December  
31, 1997 as  
of  
September  
3, 1997  
\*10(k)(11)  
-- Tenth  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(k)(11)  
hibit 10(k)  
(1)  
effective  
for the  
year ended  
December  
31, as of  
January 1,  
2001 2002  
\*10(k)(12)  
-- Eleventh  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(k)(12)  
hibit 10(k)  
(1)  
effective  
for the  
year ended  
December  
31, as of  
August 31,  
2002 2002  
\*10(l)(1) -  
- Deferred  
Compensation

Plan HI's  
Form 10-K  
for the  
year 1-7629  
10(d)(3) of  
HI  
effective  
as of ended  
December  
31, 1990  
January 1,  
1991

SEC FILE OR  
EXHIBIT  
REGISTRATION  
EXHIBIT  
NUMBER  
DESCRIPTION  
REPORT OR  
REGISTRATION  
STATEMENT  
NUMBER  
REFERENCE -

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\*10(1)(2) -  
- First  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(j)(2)  
hibit 10(1)  
(1)  
effective  
ended  
December  
31, 1991 as  
of January  
1, 1991

\*10(1)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(g)  
hibit 10(1)  
(1)  
effective  
ended March  
31, 1992 as  
of March  
30, 1992

\*10(1)(4) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(j)(4)  
hibit 10(1)  
(1)  
effective  
ended  
December  
31, 1993 as  
of June 2,  
1993 \*10(1)  
(5) --

Fourth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(j)(5)  
hibit 10(1)  
(1)  
effective  
ended  
December  
31, 1993 as  
of December  
1, 1993

\*10(1)(6) -  
- Fifth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(j)(6)  
hibit 10(1)

(1)  
effective  
ended  
December  
31, 1994 as  
of  
September  
7, 1994  
\*10(1)(7) -  
- Sixth  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(b)  
hibit 10(1)

(1)  
effective  
ended June  
30, 1995 as  
of August  
1, 1995  
\*10(1)(8) -  
- Seventh  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(d)  
hibit 10(1)

(1)  
effective  
ended June  
30, 1996 as  
of December  
1, 1995  
\*10(1)(9) -  
- Eighth  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(d)  
hibit 10(1)

(1)  
effective  
ended June  
30, 1997 as  
of January  
1, 1997  
\*10(1)(10)  
-- Ninth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(1)(10)  
hibit 10(1)

(1)  
effective  
ended  
December  
31, 1997 in  
part August  
6, 1997, in  
part  
October 1,  
1997, and  
in part  
January 1,  
1998 \*10(1)  
(11) --  
Tenth  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(i)(11)  
hibit 10(1)

(1)  
effective  
ended  
December  
31, 1997 as  
of  
September  
3, 1997  
\*10(1)(12)

-- Eleventh  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(1)(12)  
hibit 10(1)  
(1)  
effective  
for the  
year ended  
December  
31, as of  
January 1,  
2001 2002  
\*10(1)(13)  
-- Twelfth  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(1)(13)  
hibit 10(1)  
(1)  
effective  
for the  
year ended  
December  
31, as of  
August 31,  
2002 2002  
\*10(m)(1) -  
- Long-Term  
Incentive  
Com- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(c)  
pensation  
Plan of HI  
ended June  
30, 1989  
effective  
as of  
January 1,  
1989 \*10(m)  
(2) --  
First  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(f)(2)  
hibit 10(m)  
(1)  
effective  
ended  
December  
31, 1989 as  
of January  
1, 1990  
\*10(m)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629  
10(k)(3)  
hibit 10(m)  
(1)  
effective  
ended  
December  
31, 1992 as  
of December  
22, 1992

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REGISTRATION  
STATEMENT  
NUMBER  
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\*10(m)(4) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(m)(4)  
hibit 10(m)  
(1)  
effective  
ended  
December  
31, 1997 as  
of August  
6, 1997

\*10(m)(5) -  
- Fourth  
Amendment  
to Ex-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.4 hibit  
10(m)(1)  
effective  
the quarter  
ended June  
30, 2002 as  
of January  
1, 2001

\*10(n) --  
Form of  
stock  
option HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(h)  
agreement  
for ended  
March 31,  
1992 non-  
qualified  
stock  
options  
granted  
under Ex-  
hibit 10(m)  
(1) \*10(o)

-- Forms of  
restricted  
stock HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(i)  
agreement  
for  
restricted  
ended March  
31, 1992  
stock  
granted  
under Ex-  
hibit 10(m)  
(1) \*10(p)  
(1) -- 1994  
Long-Term  
Incentive  
HI's Form



10-K for  
the year 1-  
7629 10(n)  
(1)  
Compensation  
Plan of HI  
ended  
December  
31, 1993  
effective  
as of  
January 1,  
1994 \*10(p)  
(2) -- Form  
of stock  
option HI's  
Form 10-K  
for the  
year 1-7629  
10(n)(2)  
agreement  
for ended  
December  
31, 1993  
non-  
qualified  
stock  
options  
granted  
under Ex-  
hibit 10(p)  
(1) \*10(p)  
(3) --  
First  
Amendment  
to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10(e)  
hibit 10(p)  
(1)  
effective  
ended June  
30, 1997 as  
of May 9,  
1997 \*10(p)  
(4) --  
Second  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(p)(4)  
hibit 10(p)  
(1)  
effective  
ended  
December  
31, 1997 as  
of August  
6, 1997  
\*10(p)(5) -  
- Third  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(p)(5)  
hibit 10(p)  
(1)  
effective  
ended  
December  
31, 1998 as  
of January  
1, 1998  
\*10(p)(6) -  
- Reliant  
Energy 1994  
Long-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.6 Term  
Incentive  
the quarter  
ended June  
30, 2002  
Compensation

Plan, as amended and restated effective January 1, 2001 \*10(p)(7) -- First Amendment to Exhibit 10(p)(6), effective December 1, 2003 \*10(q)(1) -- Savings Restoration Plan HI's Form 10-K for the year 1-7629 10(f) of HI effective as of ended December 31, 1990 January 1, 1991 \*10(q)(2) -- First Amendment to Ex- HI's Form 10-K for the year 1-7629 10(1)(2) hibit 10(q)(1) effective ended December 31, 1991 as of January 1, 1992 \*10(q)(3) - - Second Amendment to Ex- HI's Form 10-K for the year 1-3187 10(q)(3) hibit 10(q)(1) effective ended December 31, 1997 in part, August 6, 1997, and in part, October 1, 1997

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\*10(r)(1) -  
- Director  
Benefits  
Plan HI's  
Form 10-K  
for the  
year 1-7629

10(m)  
effective  
as of  
January 1,  
ended  
December  
31, 1991

1992 \*10(r)  
(2) --  
First  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-7629

10(m)(1)  
hibit 10(r)  
(1)  
effective  
ended  
December  
31, 1998 as  
of August  
6, 1997

\*10(r)(3) -  
-

CenterPoint  
Energy  
Outside  
CenterPoint  
Energy's  
Form 10-Q  
1-31447  
10.6

Director  
Benefits  
Plan, as  
for the  
quarter  
ended  
September

amended and  
restated  
30, 2003  
effective  
June 18,  
2003 \*10(s)

(1) --  
Executive  
Life  
Insurance  
HI's Form  
10-K for  
the year 1-  
7629 10(q)

Plan of HI  
effective  
as of ended  
December  
31, 1993  
January 1,  
1994 \*10(s)

(2) --  
First  
Amendment

to Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
7629 10  
hibit 10(s)  
(1)  
effective  
ended June  
30, 1995 as  
of January  
1, 1994  
\*10(s)(3) -  
- Second  
Amendment  
to Ex- HI's  
Form 10-K  
for the  
year 1-3187  
10(s)(3)  
hibit 10(s)  
(1)  
effective  
ended  
December  
31, 1997 as  
of August  
6, 1997  
\*10(s)(4) -  
-  
CenterPoint  
Energy  
CenterPoint  
Energy's  
Form 10-Q  
1-31447  
10.5  
Executive  
Life  
Insurance  
for the  
quarter  
ended  
September  
Plan, as  
amended and  
30, 2003  
restated  
effective  
June 18,  
2003 \*10(t)  
--  
Employment  
and  
Supplemen-  
HI's Form  
10-Q for  
the quarter  
1-7629  
10(f) tal  
Benefits  
Agreement  
be- ended  
March 31,  
1987 tween  
HL&P and  
Hugh Rice  
Kelly  
\*10(u)(1) -  
- Reliant  
Energy  
Savings  
Reliant  
Energy's  
Form 10-K  
for 1-3187  
10(cc)(1)  
Plan, as  
amended and  
the year  
ended  
December  
31, 1999  
restated  
effective  
April 1,  
1999 \*10(u)  
(2) --  
First  
Amendment  
to Ex-  
Reliant  
Energy's

Form 10-Q  
for 1-3187  
10.9 hibit  
10(u)(1)  
effective  
the quarter  
ended June  
30, 2002  
January 1,  
1999 \*10(u)  
(3) --  
Second  
Amendment  
to Ex-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.10 hibit  
10(u)(1)  
effective  
the quarter  
ended June  
30, 2002  
January 1,  
1997 \*10(u)  
(4) --  
Third  
Amendment  
to Ex-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.11 hibit  
10(u)(1)  
effective  
the quarter  
ended June  
30, 2002  
January 1,  
2001 \*10(u)  
(5) --  
Fourth  
Amendment  
to Ex-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.12 hibit  
10(u)(1)  
effective  
the quarter  
ended June  
30, 2002  
May 6, 2002  
\*10(u)(6) -  
- Fifth  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(6)  
hibit 10(u)  
(1)  
effective  
for the  
year ended  
December  
31, January  
1, 2002 and  
as 2002  
renamed  
effective  
October 2,  
2002

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\*10(u)(7) -  
- Reliant  
Energy  
Savings  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(7)  
Trust  
between  
Reliant for  
the year  
ended  
December  
31, Energy  
and The  
Northern  
2002 Trust  
Company, as  
Trustee, as  
amended and  
restated  
effective  
April 1,  
1999 \*10(u)  
(8) --  
First  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(8)  
hibit 10(u)  
(7)  
effective  
for the  
year ended  
December  
31,  
September  
30, 2002  
2002  
\*+10(u)(9)  
-- Second  
Amendment  
to Ex-  
hibit 10(u)  
(7)  
effective  
January 6,  
2003 10(u)  
(10) --  
Note  
Purchase  
Agreement  
HI's Form  
10-K for  
the year 1-  
7629 10(j)  
(3) between  
HI and the  
ESOP ended  
December  
31, 1990  
Trustee,  
dated as of  
Octo- ber  
5, 1990  
\*10(u)(11)

-- Reliant  
Energy  
Retirement  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(10)  
Plan  
between  
Reliant for  
the year  
ended  
December  
31, Energy  
and The  
Northern  
2002 Trust  
Company, as  
Trustee, as  
amended and  
restated  
effective  
January 1,  
1999 \*10(u)  
(12) --  
First  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(11)  
hibit 10(u)  
(11)  
effective  
for the  
year ended  
December  
31, as of  
January 1,  
1995 2002  
\*10(u)(13)  
-- Second  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(12)  
hibit 10(u)  
(11)  
effective  
for the  
year ended  
December  
31, as of  
January 1,  
1995 2002  
\*10(u)(14)  
-- Third  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(13)  
hibit 10(u)  
(11)  
effective  
for the  
year ended  
December  
31, as of  
January 1,  
2001 2002  
\*10(u)(15)  
-- Fourth  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(14)  
hibit 10(u)  
(11)  
effective  
for the  
year ended

December  
31, as of  
January 1,  
2001 2002  
\*10(u)(16)  
-- Fifth  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(15)  
hibit 10(u)  
(11)  
effective  
for the  
year ended  
December  
31, as of  
November  
15, 2002,  
2002 and as  
renamed  
effective  
October 2,  
2002 \*10(u)  
(17) --  
Sixth  
Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(u)(16)  
hibit 10(u)  
(11)  
effective  
for the  
year ended  
December  
31, as of  
January 1,  
2002 2002  
\*+10(u)(18)  
-- Seventh  
Amendment  
to Ex-  
hibit 10(u)  
(11)  
effective  
December 1,  
2003





dated  
November  
ended  
December 31,  
1996 18,  
1996 \*10(w)  
(1) --  
Houston  
Industries  
HI's Form  
10-K for the  
year 1-7629  
10(7)  
Incorporated  
Executive  
ended  
December 31,  
1995  
Deferred  
Compensation  
Trust  
effective as  
of December  
19, 1995  
\*10(w)(2) --  
First  
Amendment to  
Ex- HI's  
Form 10-Q  
for the  
quarter 1-  
3187 10  
hibit 10(w)  
(1)  
effective  
ended June  
30, 1998 as  
of August 6,  
1997 \*10(x)  
--  
Supplemental  
compensation  
CenterPoint  
Energy's  
Form 10-K 1-  
31447 10(x)  
agreement,  
dated Novem-  
ber for the year  
ended  
December 31,  
ber 27,  
2002,  
between 2002  
CenterPoint  
Energy and  
Milton  
Carroll  
\*10(y)(1) --  
Reliant  
Energy,  
Reliant  
Energy's  
Form 10-K  
for 1-3187  
10(y)  
Incorporated  
and the year  
ended  
December 31,  
2000  
Subsidiaries  
Common Stock  
Participation  
Plan for  
Designated  
New  
Employees  
and Non-  
Officer  
Employees  
effective as  
of March 4,  
1998 \*10(y)  
(2) --  
Reliant  
Energy,  
CenterPoint  
Energy's  
Form 10-K 1-  
31447 10(y)  
(2)  
Incorporated

and for the  
year ended  
December 31,  
Subsidiaries  
Common Stock  
2002  
Participation  
Plan for  
Designated  
New  
Employees  
and Non-  
Officer  
Employees,  
as amended  
and restated  
effective  
January 1,  
2001

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\*10(z) --  
Reliant  
Energy,  
Reliant  
Energy's  
Definitive  
1-3187  
Appendix I  
Incorporated  
Annual  
Proxy  
Statement  
for 2000  
Annual  
Incentive  
Compensation  
Meeting of  
Shareholders  
Plan, as  
amended and  
restated  
effective  
January 1,  
1999

\*10(aa)(1)  
-- Long-  
Term  
Incentive  
Plan  
Reliant  
Energy's  
Registration  
333-60260  
4.6 of  
Reliant  
Energy,  
Statement  
on Form S-8  
dated May  
Incorporated  
effective  
as 4, 2001  
of January  
1, 2001

\*10(aa)(2)  
-- First  
Amendment  
to Ex-  
Reliant  
Energy's  
Registration  
333-60260  
4.7 hibit  
10(aa)(1)  
effective  
Statement  
on Form S-8  
dated May  
as of  
January 1,  
2001 4,  
2001

\*+10(aa)(3)  
-- Second  
Amendment  
to Ex-  
hibit  
10(aa)(1)  
effective  
November 5,  
2003 10(bb)  
(1) --

Master  
Separation  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.1  
Agreement  
entered  
into as the  
quarter  
ended March  
31, 2001 of  
December  
31, 2000  
between  
Reliant  
Energy,  
Incorporated  
and Reliant  
Resources,  
Inc. 10(bb)

(2) --  
Transition  
Services  
Agree-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.2 ment,  
dated as of  
Decem- the  
quarter  
ended March  
31, 2001  
ber 31,  
2000,  
between  
Reliant  
Energy,  
Incorporated  
and Reliant  
Resources,  
Inc. 10(bb)

(3) --  
Technical  
Services  
Agree-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.3 ment,  
dated as of  
Decem- the  
quarter  
ended March  
31, 2001  
ber 31,  
2000,  
between  
Reliant  
Energy,  
Incorporated  
and Reliant  
Resources,  
Inc. 10(bb)

(4) --  
Texas Genco  
Option  
Agree-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.4 ment,  
dated as of  
Decem- the  
quarter  
ended March  
31, 2001  
ber 31,  
2000,  
between  
Reliant  
Energy,  
Incorporated  
and Reliant  
Resources,  
Inc. 10(bb)

(5) --  
First

Amendment  
to Ex-  
CenterPoint  
Energy's  
Form 10-K  
1-31447  
10(bb)(5)  
hibit  
10(bb)(4)  
effective  
for the  
year ended  
December  
31, as of  
February 1,  
2003 2002  
10(bb)(6) -  
- Employee  
Matters  
Agree-  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.5 ment,  
entered  
into as of  
the quarter  
ended March  
31, 2001  
December  
31, 2000,  
between  
Reliant  
Energy,  
Incorporated  
and Reliant  
Resources,  
Inc. 10(bb)  
(7) --  
Retail  
Agreement,  
entered  
Reliant  
Energy's  
Form 10-Q  
for 1-3187  
10.6 into  
as of  
December  
31, the  
quarter  
ended March  
31, 2001  
2000,  
between  
Reliant En-  
ergy,  
Incorporated  
and Reliant  
Resources,  
Inc.



31447 10(cc)  
(2) ment,  
dated as of  
August for  
the year  
ended  
December 31,  
31, 2002,  
between 2002  
CenterPoint  
Energy and  
Texas Genco  
10(cc)(3) --  
Tax  
Allocation  
Agreement,  
CenterPoint  
Energy's  
Form 10-K 1-  
31447 10(cc)  
(3) dated as  
of August  
31, for the  
year ended  
December 31,  
2002,  
between  
CenterPoint  
2002 Energy  
and Texas  
Genco 10(cc)  
(4) --  
Assignment  
and  
Assumption  
Texas  
Genco's  
Registration  
1-31449  
10.11  
Agreement  
for the  
Statement on  
Form 10  
Technical  
Services  
Agreement  
entered into  
as of August  
31, 2002, by  
and between  
CenterPoint  
En- ergy and  
Texas Genco,  
LP \*10(dd) -  
- Retention  
Agreement  
effec-  
Reliant  
Energy's  
Form 10-K  
for 1-3187  
10(jj) tive  
October 15,  
2001 be- the  
year ended  
December 31,  
2001 tween  
Reliant  
Energy,  
Incorporated  
and David G.  
Tees \*10(ee)  
-- Retention  
Agreement  
effec-  
Reliant  
Energy's  
Form 10-K  
for 1-3187  
10(kk) tive  
October 15,  
2001 be- the  
year ended  
December 31,  
2001 tween  
Reliant  
Energy,  
Incorporated  
and Michael  
A. Reed  
\*10(ff)(1) -  
- Non-



Qualified  
Executive  
CenterPoint  
Energy's  
Form 10-K 1-  
31447 10(ff)  
(1)

Disability  
Income Plan  
of for the  
year ended  
December 31,  
Arkla, Inc.  
effective as  
2002 of  
August 1,  
1983 \*10(ff)  
(2) --

Executive  
Disability  
CenterPoint  
Energy's  
Form 10-K 1-  
31447 10(ff)  
(2) Income  
Agreement  
effective  
for the year  
ended  
December 31,  
July 1, 1984  
between 2002  
Arkla, Inc.  
and T.  
Milton Honea

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\*10(gg) --  
Non-Qualified  
Unfunded Ex-  
CenterPoint  
Energy's Form  
10-K 1-31447  
10(gg)  
Executive  
Supplemental  
for the year  
ended  
December 31,  
Income  
Retirement  
Plan of 2002  
Arkla, Inc.  
effective as  
of August 1,  
1983 \*10(hh)  
(1) --  
Deferred  
Compensation  
Plan  
CenterPoint  
Energy's Form  
10-K 1-31447  
10(hh)(1) for  
Directors of  
Arkla, for  
the year  
ended  
December 31,  
Inc.  
effective as  
of 2002  
November 10,  
1988 \*10(hh)  
(2) -- First  
Amendment to  
Ex-  
CenterPoint  
Energy's Form  
10-K 1-31447  
10(hh)(2)  
Exhibit 10(hh)  
(1) effective  
for the year  
ended  
December 31,  
as of August  
6, 1997 2002  
10(ii) --  
Pledge  
Agreement  
dated as  
CenterPoint  
Energy's Form  
10-Q 1-31447  
10.1 of May  
28, 2003 by  
Utility for  
the quarter  
ended June  
30, Holding,  
LLC in favor  
of 2003 JP  
Morgan Chase  
Bank, as  
administrative  
agent \*10(jj)  
--  
CenterPoint  
Energy

CenterPoint  
Energy's Form  
10-Q 1-31447  
10.2 Deferred  
Compensation  
for the  
quarter ended  
June 30,  
Plan, as  
amended and  
2003 restated  
effective  
January 1,  
2003 \*10(kk)  
--

CenterPoint  
Energy Short  
CenterPoint  
Energy's Form  
10-Q 1-31447  
10.3 Term  
Incentive  
Plan, as for  
the quarter  
ended June  
30, amended  
and restated  
2003  
effective  
January 1,  
2003 \*+10(ll)  
--

CenterPoint  
Energy Stock  
Plan for  
Outside  
Directors, as  
amended and  
restated  
effective May  
7, 2003  
10(mm)(1) --  
\$1,310,000,000  
Credit

CenterPoint  
Energy's Form  
10-K 1-31447  
4(g)(1)  
Agreement,  
dated as of  
for the year  
ended  
December 31,  
November 12,  
2002, among  
2002

CenterPoint  
Houston and  
the banks  
named therein  
10(mm)(2) --  
First  
Amendment to  
Ex-

CenterPoint  
Energy's Form  
10-Q 1-31447  
10.7 hibit  
10(mm)(1),  
dated as for  
the quarter  
ended  
September of  
September 30,  
2003 30, 2003  
10(mm)(3) --  
Pledge

Agreement,  
dated as  
CenterPoint  
Energy's Form  
10-K 1-31447  
4(g)(2) of  
November 12,  
2002 exe- for  
the year  
ended  
December 31,  
cuted in  
connection  
with 2002  
Exhibit  
10(mm)(1)

10(nn) --  
\$200,000,000  
Credit Agree-  
CenterPoint  
Energy's Form  
10-Q 1-31447  
4.5 ment,  
dated as of  
March for the  
quarter ended  
March 31, 25,  
2003, among  
CERC 2003  
Corp., as  
Borrower, and  
the Initial  
Lenders named  
therein, as  
Initial  
Lenders

SEC FILE OR  
EXHIBIT  
REGISTRATION  
EXHIBIT  
NUMBER  
DESCRIPTION  
REPORT OR  
REGISTRATION  
STATEMENT  
NUMBER  
REFERENCE --  
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- 10(oo)(1)  
-- Credit  
Agreement,  
dated as  
CenterPoint  
Energy's  
Form 10-Q 1-  
31447 10.8  
of October  
7, 2003  
among for  
the quarter  
ended  
September  
CenterPoint  
Energy and  
the 30, 2003  
banks named  
therein

10(oo)(2) --  
Pledge  
Agreement,  
dated as  
CenterPoint  
Energy's  
Form 10-Q 1-  
31447 10.9  
of October  
7, 2003, for  
the quarter  
ended  
September

executed in  
connection  
30, 2003  
with Exhibit  
10(oo)(1)  
+10(pp)(1) -

\$75,000,000  
revolving  
credit  
facility  
dated as of  
December 23,  
2003 among  
Texas Genco,  
LP and the  
banks named  
therein

+10(pp)(2) -  
- First  
mortgage  
indenture,  
dated as of  
December 23,  
2003 among  
Texas Genco,  
LP and  
JPMorgan  
Chase Bank,  
as trustee

+10(pp)(3) -  
- First  
supplemental  
indenture to  
Exhibit  
10(pp)(2)  
dated as of  
December 23,  
2003 +12 --  
Computation  
of Ratios of

Earnings to  
Fixed  
Charges +21  
--  
Subsidiaries  
of  
CenterPoint  
Energy +23 -  
- Consent of  
Deloitte &  
Touche LLP  
+31.1 --  
Rule 13a-  
14(a)/15d-  
14(a)  
Certification  
of David M.  
McClanahan  
+31.2 --  
Rule 13a-  
14(a)/15d-  
14(a)  
Certification  
of Gary L.  
Whitlock  
+32.1 --  
Section 1350  
Certification  
of David M.  
McClanahan  
+32.2 --  
Section 1350  
Certification  
of Gary L.  
Whitlock

## CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

## OFFICER'S CERTIFICATE

October 10, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated October 10, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture, unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

(1) The Securities of the first series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series A, due October 9, 2003" (the "Series A Bonds").

(2) The Series A Bonds shall be authenticated and delivered in the aggregate principal amount of \$850,000,000.

(3) Not applicable.

(4) The principal of all Series A Bonds shall be payable by the Company in whole or in installments on such date or dates as the Company has any obligations under the Credit Agreement, dated as of October 10, 2002 (the "Credit Agreement"), among Citibank, N.A., as syndication agent, JPMorgan Chase Bank, as administrative agent (the "Administrative Agent") and the Banks from time to time parties thereto, to repay any Loans (as defined in the Credit Agreement) to the Banks (whether upon scheduled maturity, required prepayment, acceleration, demand or otherwise), but not later than October 9, 2003. The amount of principal of the Series A Bonds payable by the Company on any such date shall equal the aggregate principal amount of the Loans due and payable on such date pursuant to the Credit Agreement (but, in no event, shall exceed the aggregate principal amount of the Series A Bonds). The obligation of the Company to make any payment of the principal on the Series A Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that the Company has paid the principal then due and payable on the Loans made pursuant to the Credit Agreement.

(5) The Series A Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment

Date (as hereinafter defined) on the Series A Bonds to equal the amount of interest payable on such Interest Payment Date under the Credit Agreement. Such interest on the Series A Bonds shall be payable on the same dates as interest is payable from time to time pursuant to the Credit Agreement (each such date herein called an "Interest Payment Date"), until the maturity of the Series A Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series A Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time under the Credit Agreement, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Credit Agreement. Each Series A Bond shall bear interest (a) from the date of initial authentication of this Bond to but excluding the Interest Payment Date next succeeding, and (b) from each Interest Payment Date to but excluding the Interest Payment Date next succeeding. The obligation of the Company to make any payment of interest on the Series A Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that the Company has paid the interest on the Loans then due and payable pursuant to the Credit Agreement.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas shall be the place at which (i) the principal of and interest on the Series A Bonds shall be payable, (ii) registration of transfer of the Series A Bonds may be effected, (iii) exchanges of the Series A Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series A Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series A Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series A Bonds. The principal of the Series A Bonds shall be payable without the presentment or surrender thereof.

(7) Not applicable.

(8) Not applicable.

(9) The Series A Bonds are issuable only in denominations of \$850,000,000.

(10) Not applicable.

(11) Not applicable.

(12) Not applicable.

(13) See subsection (4) above.

(14) Not applicable.

(15) Not applicable.



(16) Not applicable.

(17) The Series A Bonds shall be evidenced by a single registered Series A Bond in the principal amount and denomination of Eight Hundred Fifty Million Dollars (\$850,000,000). The Series A Bonds shall be dated October 10, 2002, shall mature no later than October 9, 2003, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series A Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Series A Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series A Bond shall be identified by the number A-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Administrative Agent, on behalf of itself and the Banks, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Administrative Agent under the Credit Agreement and provided that all obligations of the Administrative Agent under the Pledge Agreement (as defined below) shall also be transferred to, and assumed by, any such successor or assign. The Series A Bonds are to be issued to the Administrative Agent as security for the payment by the Company of its Obligations (as defined in the Pledge Agreement). The single Series A Bond shall be held by the Administrative Agent subject to the terms of the Pledge Agreement, dated as of October 10, 2002, between the Company and the Administrative Agent (the "Pledge Agreement").

Series A Bonds issued upon transfer shall be numbered consecutively from A-2 upwards and issued in the same \$850,000,000 denomination but, to the extent that the Loans are repaid, the registered holder thereof shall duly note on the Series A Bonds like reduction in the amount of principal in the Schedule of Prepayments to such Series A Bond and upon any transfer of said Series A Bond, such Schedule of Prepayments shall transfer to the subsequently issued Series A Bond. See also subsection (19) below.

(18) Not applicable.

(19) The holder of the Series A Bond by acceptance of the Series A Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series A Bonds have not been registered under the Securities Act of 1933 and may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of transfer or exchange of the series A Bonds, or any Tranche thereof; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series A Bonds, "Business Day" shall mean a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

(21) Not Applicable.

(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series A Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Administrative Agent, signed by an authorized officer of the Administrative Agent and attested by the Secretary or an Assistant Secretary of the Administrative Agent within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series A Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series A Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series A Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this Officer's Certificate on this 10th day of October, 2002.

By: /s/ Marc Kilbride

-----  
Name: Marc Kilbride

Title: Vice President and Treasurer

Acknowledged and Received on  
October 10, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

-----  
Name: Ronda L. Parmen

Title: Vice President and Trust Officer

FORM OF SERIES A BOND

NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT COLLATERAL TO A SUCCESSOR OR ASSIGN OF THE ADMINISTRATIVE AGENT UNDER THE COLLATERAL AGREEMENT REFERRED TO HEREIN AMONG THE COMPANY AND THE SEVERAL PARTIES THERETO.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series A, due October 9, 2003

Original Interest Accrual Date:	October 10, 2002	Redeemable by Company:	Yes [ ] No [X]
Stated Maturity:	October 9, 2003	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Discount Security within the meaning of the within-mentioned Indenture.

-----

Principal Amount  
\$850,000,000

No. A-1

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a limited liability company duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to JPMorgan Chase Bank, as Administrative Agent (the "Administrative Agent"), or its registered assigns, on behalf of itself and the Banks (as defined below), the principal sum of EIGHT HUNDRED FIFTY MILLION DOLLARS, or such lesser principal amount as shall be equal to the aggregate principal amount of Loans (as defined in the Credit Agreement defined below) outstanding from time to time under the Credit Agreement (as defined below), in whole or in installments on such date or dates as the Company has any obligations under the Credit Agreement to repay any Loans to the Banks (whether upon scheduled maturity, required prepayment, acceleration, demand or otherwise), but not later than the Stated Maturity specified above. The amount of principal of this Bond payable by the Company on any such date shall equal the aggregate principal amount of the Loans due and payable on such date pursuant to the Credit Agreement (but, in no event, shall exceed the principal amount of this Bond). The obligation of the Company to make any payment of the principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that the Company has paid the principal then due and payable on the Loans made pursuant to the Credit Agreement.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of interest payable on such Interest Payment Date under the Credit Agreement. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Loans pursuant to the Credit Agreement (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time under the Credit Agreement, the basis on which such interest is computed and the dates on which such interest is payable

are set forth in the Credit Agreement. This Bond shall bear interest (a) from the date of initial authentication of this Bond to but excluding the Interest Payment Date next succeeding, and (b) from each Interest Payment Date to but excluding the Interest Payment Date next succeeding. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that the Company has paid the interest on the Loans then due and payable pursuant to the Credit Agreement.

This Bond is issued to the Administrative Agent by the Company pursuant to the Company's obligations under the Credit Agreement, dated as of October 10, 2002 (as amended, supplemented, restated or otherwise modified from time to time, the "Credit Agreement"), among the Company, Citibank, N.A., as Syndication Agent, JPMorgan Chase Bank, as Administrative Agent, and the banks and other financial institutions from time to time parties thereto (the "Banks"). This Bond shall be held by the Administrative Agent subject to the terms of the Pledge Agreement, dated as of October 10, 2002, between the Company, the Administrative Agent and the Administrative Agent in such capacity under the Credit Agreement. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Administrative Agent shall surrender this Bond to the Trustee when all of the principal of and interest on the Loans made pursuant to the Credit Agreement shall have been duly paid and the Credit Agreement shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and

PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

This Bond has been issued by the Company to the Administrative Agent for the benefit of the holders of the Loans to (i) provide security for the payment of the Company's obligations on the Loans under the Credit Agreement and (ii) provide to the holders of such Loans the benefits of the security provided for this Bond pursuant to the Indenture.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Administrative Agent, signed by an authorized officer of the Administrative Agent and attested by the Secretary or an Assistant Secretary of the Administrative Agent within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall note the amounts of all reductions in the principal of the Loans under the Credit Agreement, and shall notify the Company and the Trustee of the name and address of the transferee and shall afford the Company and the Trustee the opportunity of verifying the notation as to such reductions. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: October 10, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory



CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

OFFICER'S CERTIFICATE

October 10, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated October 10, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

(1) The Securities of the second series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series B, due November 1, 2018" (the "Series B Bonds").

(2) The Series B Bonds shall be initially authenticated and delivered in the aggregate principal amount of \$50,000,000.

(3) Not applicable.

(4) The Series B Bonds shall mature and the principal thereof shall be due and payable together with all accrued and unpaid interest thereon on November 1, 2018. The obligation of the Company to make any payment of principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Trust Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1997 BR Bonds").

(5) The Series B Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment Date (as hereinafter defined) on the Series B Bonds to equal the amount of regularly scheduled interest payable on such Interest Payment Date

under the Trust Indenture dated as of January 1, 1997 (as amended and supplemented, the "Trust Indenture") between Brazos River Authority (the "Issuer") and Bank One Trust Company, National Association (successor to The First National Bank of Chicago), as trustee (the "Trust Indenture Trustee") in respect of the Series 1997 BR Bonds. Such interest on the Series B Bonds shall be payable on the same dates as interest is payable from time to time in respect of the Series 1997 BR Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of the Series B Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series B Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1997 BR Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Trust Indenture. Each Series B Bond shall bear interest from the later of the date of initial authentication of such Series B Bond or the most recent Interest Payment Date to which interest has been paid. The obligation of the Company to make any payment of interest on the Series B Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Trust Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1997 BR Bonds.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas, shall be the place at which (i) the principal of, premium and interest on, the Series B Bonds shall be payable, (ii) registration of transfer of the Series B Bonds may be effected, (iii) exchanges of the Series B Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series B Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series B Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series B Bonds.

(7) Not applicable.

(8) Not applicable.

(9) The Series B Bonds are issuable only in denominations of \$50,000,000.

(10) Not applicable.

(11) Not applicable.

(12) Not applicable.

(13) Not applicable.

(14) Not applicable.

(15) Not applicable.

(16) Not applicable.

(17) The Series B Bonds shall be evidenced by a single registered Series B Bond in the principal amount and denomination of Fifty Million Dollars (\$50,000,000). The Series B Bonds shall be dated October 10, 2002, shall mature no later than November 1, 2018, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series B Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series B Bond shall be identified by the number B-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Trust Indenture Trustee, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Trust Indenture Trustee under the Trust Indenture, and provided that all obligations of the Trust Indenture Trustee under the Collateral Agreement (as defined herein) shall also be transferred to, and assumed by, any such successor or assign. The Series B Bonds are to be issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of January 1, 1997, by and between the Issuer and CenterPoint (as successor). The single Series B Bond shall be held by the Trust Indenture Trustee subject to the terms of the Series B Bonds Collateral Agreement (Series B Bonds), dated as of October 10, 2002, between the Company and the Trust Indenture Trustee (the "Collateral Agreement").

Series B Bonds issued upon transfer shall be numbered consecutively from B-2 upwards and issued in the same \$50,000,000 denomination. See also subsection (19) below.

(18) Not applicable.

(19) The holder of the Series B Bond by acceptance of the Series B Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series B Bonds have not been registered under the Securities Act of 1933 and may

not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of transfer or exchange of the Series B Bonds, or any Tranche thereof; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series B Bonds, "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Houston, Texas, or the city in which the principal corporate trust office of the Indenture Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

(21) Not applicable.

(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series B Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Indenture Trustee, signed by an authorized officer of the Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series B Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series B Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series B Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this Officer's Certificate on this 10th day of October, 2002.

By: /s/ Marc Kilbride

-----  
Name: Marc Kilbride  
Title: Vice President and Treasurer

Acknowledged and Received on  
October 10, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

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Name: Ronda L. Parmen  
Title: Vice President and Trust Officer

FORM OF SERIES B BOND

NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT, AS FURTHER PROVIDED HEREIN, TO A SUCCESSOR OR ASSIGN OF THE TRUST INDENTURE TRUSTEE UNDER THE TRUST INDENTURE REFERRED TO HEREIN AMONG THE ISSUER AND THE TRUST INDENTURE TRUSTEE.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series B, due November 1, 2018

Original Interest Accrual Date:	October 10, 2002	Redeemable by Company:	Yes _ No X
Stated Maturity:	November 1, 2018	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Discount Security within the meaning of the within-mentioned Indenture.

Principal Amount  
\$50,000,000

No. B-1

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a corporation duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to Bank One Trust Company, National Association as Trustee under the Trust Indenture (as herein defined) or its registered assigns (the "Indenture Trustee"), the principal sum of FIFTY MILLION DOLLARS, in whole or in installments on such date or dates as the Issuer (as defined herein) has any obligations under the Trust Indenture (as amended and supplemented, the "Trust Indenture"), dated as of January 1, 1997, between Brazos River Authority (the "Issuer") and the Indenture Trustee (as successor) to repay any principal in respect of the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1997 BR Bonds"), excluding any payment of principal in advance of the final scheduled maturity date thereof, but not later than the Stated Maturity specified above. The obligation of the Company to make any payment of principal on this Bond, whether at maturity or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Series 1997 BR Bonds.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of regularly scheduled interest payable on such Interest Payment Date in respect of the Series 1997 BR Bonds under the Trust Indenture. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Series 1997 BR Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1997 BR Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is

payable are set forth in the Trust Indenture. This Bond shall bear interest (a) from the Interest Payment Date next preceding the date of this Bond to which interest has been paid, or (b) if the date of this Bond is an Interest Payment Date to which interest has been paid, then from such date, or (c) if no interest has been paid on this Bond, then from the date of initial authentication of this Bond. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1997 BR Bonds.

This Bond is issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of January 1, 1997, between the Brazos River Authority and CenterPoint (as successor). This Bond shall be held by the Trust Indenture Trustee subject to the terms of the Collateral Agreement (Series B Bonds), dated as of October 10, 2002, between the Company and the Indenture Trustee. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Indenture Trustee shall surrender this Bond to the Trustee when all of the principal of and interest on the Series 1997 BR Bonds shall have been duly paid, and the Trust Indenture shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions



permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Trust Indenture Trustee, signed by an authorized officer of the Trust Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Trust Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall notify the Company and the Trustee of the name and address of the transferee. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any

purpose.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

OFFICER'S CERTIFICATE

October 10, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated October 10, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

(1) The Securities of the third series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series C, due November 1, 2028" (the "Series C Bonds").

(2) The Series C Bonds shall be initially authenticated and delivered in the aggregate principal amount of \$68,000,000.

(3) Not applicable.

(4) The Series C Bonds shall mature and the principal thereof shall be due and payable together with all accrued and unpaid interest thereon on November 1, 2028. The obligation of the Company to make any payment of principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Trust Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1997 MC Bonds").

(5) The Series C Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment Date (as hereinafter defined) on the Series C Bonds to equal the amount of regularly scheduled interest payable on such Interest Payment Date under the Trust Indenture dated as of January 1, 1997 (as amended and supplemented, the "Trust Indenture") between Matagorda County Navigation District Number One (the "Issuer") and Bank One Trust Company, National Association (successor to The First National Bank of Chicago), as trustee (the "Trust Indenture Trustee") in respect of the Series 1997 MC Bonds. Such

interest on the Series C Bonds shall be payable on the same dates as interest is payable from time to time in respect of the Series 1997 PC Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of the Series C Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series C Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1997 MC Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Trust Indenture. Each Series C Bond shall bear interest from the later of the date of initial authentication of such Series C Bond or the most recent Interest Payment Date to which interest has been paid. The obligation of the Company to make any payment of interest on the Series C Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Trustee the Installment Payment in respect of the interest then due and payable on the Series 1997 MC Bonds.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas shall be the place at which (i) the principal of, premium and interest on, the Series C Bonds shall be payable, (ii) registration of transfer of the Series C Bonds may be effected, (iii) exchanges of the Series C Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series C Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series C Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series C Bonds.

(7) Not applicable.

(8) Not applicable.

(9) The Series C Bonds are issuable only in denominations of \$68,000,000.

(10) Not applicable.

(11) Not applicable.

(12) Not applicable.

(13) Not applicable.

(14) Not applicable.

(15) Not applicable.

(16) Not applicable.

(17) The Series C Bonds shall be evidenced by a single registered Series C Bond in the principal amount and denomination of Sixty-Eight Million Dollars (\$68,000,000). The Series C Bonds shall be dated October 10, 2002, shall mature no later than November 1, 2028, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series C Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series C Bond shall be identified by the number C-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Trust Indenture Trustee, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Trust Indenture Trustee under the Trust Indenture, and provided that all obligations of the Trust Indenture Trustee under the Collateral Agreement (as defined herein) shall also be transferred to, and assumed by, any such successor or assign. The Series C Bonds are to be issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of January 1, 1997, by and between the Issuer and CenterPoint (as successor). The single Series C Bond shall be held by the Trust Indenture Trustee subject to the terms of the Series C Bonds Collateral Agreement (Series B Bonds), dated as of October 10, 2002, between the Company and the Trust Indenture Trustee (the "Collateral Agreement").

Series C Bonds issued upon transfer shall be numbered consecutively from C-2 upwards and issued in the same \$68,000,000 denomination. See also subsection (19) below.

(18) Not applicable.

(19) The holder of the Series C Bond by acceptance of the Series C Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series C Bonds have not been registered under the Securities Act of 1933 and may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of transfer or exchange of the Series C Bonds, or any Tranche thereof; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series C Bonds, "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Houston, Texas, or the city in which the principal corporate trust office of the Indenture Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

(21) Not applicable.

(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series C Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Indenture

Trustee, signed by an authorized officer of the Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series C Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series C Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series C Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this  
Officer's Certificate on this 10th day of October, 2002.

By: /s/ Marc Kilbride

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Name: Marc Kilbride  
Title: Vice President and Treasurer

Acknowledged and Received on  
October 10, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

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Name: Ronda L. Parmen  
Title: Vice President and Trust Officer



FORM OF SERIES C BOND

NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT, AS FURTHER PROVIDED HEREIN, TO A SUCCESSOR OR ASSIGN OF THE TRUST INDENTURE TRUSTEE UNDER THE TRUST INDENTURE REFERRED TO HEREIN AMONG THE ISSUER AND THE TRUST INDENTURE TRUSTEE.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series C, due November 1, 2028

Original Interest Accrual Date:	October 10, 2002	Redeemable by Company:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Stated Maturity:	November 1, 2028	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Discount Security within the meaning of the within-mentioned Indenture.

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Principal Amount  
\$68,000,000

No. C-1

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a corporation duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to Bank One Trust Company, National Association as Trustee under the Trust Indenture (as herein defined) or its registered assigns (the "Indenture Trustee"), the principal sum of SIXTY EIGHT MILLION DOLLARS, in whole or in installments on such date or dates as the Issuer (as defined herein) has any obligations under the Trust Indenture (as amended and supplemented, the "Trust Indenture"), dated as of January 1, 1997, between Matagorda County Navigation District Number One (the "Issuer") and the Indenture Trustee (as successor) to repay any principal in respect of the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1997 MC Bonds"), excluding any payment of principal in advance of the final scheduled maturity date thereof, but not later than the Stated Maturity specified above. The obligation of the Company to make any payment of principal on this Bond, whether at maturity or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Series 1997 MC Bonds.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of regularly scheduled interest payable on such Interest Payment Date in respect of the Series 1997 MC Bonds under the Trust Indenture. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Series 1997 MC Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as

provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1997 MC Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Trust Indenture. This Bond shall bear interest (a) from the Interest Payment Date next preceding the date of this Bond to which interest has been paid, or (b) if the date of this Bond is an Interest Payment Date to which interest has been paid, then from such date, or (c) if no interest has been paid on this Bond, then from the date of initial authentication of this Bond. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1997 MC Bonds.

This Bond is issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of January 1, 1997, between Matagorda County Navigation District Number One and CenterPoint (as successor). This Bond shall be held by the Indenture Trustee subject to the terms of the Collateral Agreement (Series C Bonds), dated as of October 10, 2002, between the Company and the Trust Indenture Trustee. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Indenture Trustee shall surrender this Bond to the Trustee when all of the principal of and interest on the Series 1997 MC Bonds shall have been duly paid, and the Trust Indenture shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and

PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Trust Indenture Trustee, signed by an authorized officer of the Trust Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Trust Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall notify the Company and the Trustee of the name and address of the transferee. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

OFFICER'S CERTIFICATE

October 10, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated October 10, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

(1) The Securities of the fourth series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series D, due May 1, 2019" (the "Series D Bonds").

(2) The Series D Bonds shall be initially authenticated and delivered in the aggregate principal amount of \$100,000,000.

(3) Not applicable.

(4) The Series D Bonds shall mature and the principal thereof shall be due and payable together with all accrued and unpaid interest thereon on May 1, 2019. The obligation of the Company to make any payment of principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Trust Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1998A BR Bonds").

(5) The Series D Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment Date (as hereinafter defined) on the Series D Bonds to equal the amount of regularly scheduled interest payable on such Interest Payment Date under the Trust Indenture dated as of February 1, 1998 (as amended and supplemented, the "Trust Indenture") between Brazos River Authority (the "Issuer") and JPMorgan Chase Bank (successor to Chase Bank of Texas, National Association, as trustee (the "Trust Indenture Trustee") in respect of the Series 1998A BR Bonds. Such interest on the Series D Bonds shall be payable on

the same dates as interest is payable from time to time in respect of the Series 1998A BR Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of the Series D Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series D Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1998A BR Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Trust Indenture. Each Series D Bond shall bear interest from the later of the date of initial authentication of such Series D Bond or the most recent Interest Payment Date to which interest has been paid. The obligation of the Company to make any payment of interest on the Series D Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Trust Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1998A BR Bonds.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas shall be the place at which (i) the principal of, premium and interest on, the Series D Bonds shall be payable, (ii) registration of transfer of the Series D Bonds may be effected, (iii) exchanges of the Series D Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series D Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series D Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series D Bonds.

(7) Not applicable.

(8) Not applicable.

(9) The Series D Bonds are issuable only in denominations of \$100,000,000.

(10) Not applicable.

(11) Not applicable.

(12) Not applicable.

(13) Not applicable.

(14) Not applicable.

(15) Not applicable.

(16) Not applicable.



(17) The Series D Bonds shall be evidenced by a single registered Series D Bond in the principal amount and denomination of One Hundred Million Dollars (\$100,000,000). The Series D Bonds shall be dated October 10, 2002, shall mature no later than May 1, 2019, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series D Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series D Bond shall be identified by the number D-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Trust Indenture Trustee, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Trust Indenture Trustee under the Trust Indenture, and provided that all obligations of the Trust Indenture Trustee under the Collateral Agreement (as defined herein) shall also be transferred to, and assumed by, any such successor or assign. The Series D Bonds are to be issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of February 1, 1998, by and between the Issuer and CenterPoint (as successor). The single Series D Bond shall be held by the Trust Indenture Trustee subject to the terms of the Series D Bonds Collateral Agreement (Series D Bonds), dated as of October 10, 2002, between the Company and the Trust Indenture Trustee (the "Collateral Agreement").

Series D Bonds issued upon transfer shall be numbered consecutively from D-2 upwards and issued in the same \$100,000,000 denomination. See also subsection (19) below.

(18) Not applicable.

(19) The holder of the Series D Bond by acceptance of the Series D Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series D Bonds have not been registered under the Securities Act of 1933 and may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of transfer or exchange of the Series D Bonds, or any Tranche thereof; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series D Bonds, "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Houston, Texas, or the city in which the principal corporate trust office of the Indenture Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

(21) Not applicable.

(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series D Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Indenture

Trustee, signed by an authorized officer of the Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series D Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series D Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series D Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this  
Officer's Certificate on this 10th day of October, 2002.

By: /s/ Marc Kilbride

-----  
Name: Marc Kilbride  
Title: Vice President and Treasurer

Acknowledged and Received on  
October 10, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

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Name: Ronda L. Parmen  
Title: Vice President and Trust Officer



NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT, AS FURTHER PROVIDED HEREIN, TO A SUCCESSOR OR ASSIGN OF THE TRUST INDENTURE TRUSTEE UNDER THE TRUST INDENTURE REFERRED TO HEREIN AMONG THE ISSUER AND THE TRUST INDENTURE TRUSTEE.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series D, due May 1, 2019

Original Interest Accrual Date:	October 10, 2002	Redeemable by Company:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Stated Maturity:	May 1, 2019	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Discount Security within the meaning of the within-mentioned Indenture.

Principal Amount  
\$100,000,000

No. D-1

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a corporation duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to JPMorgan Chase Bank as Trustee under the Trust Indenture (as herein defined) or its registered assigns (the "Indenture Trustee"), the principal sum of ONE HUNDRED MILLION DOLLARS, in whole or in installments on such date or dates as the Issuer (as defined herein) has any obligations under the Trust Indenture (as amended and supplemented, the "Trust Indenture"), dated as of February 1, 1998, between Brazos River Authority (the "Issuer") and the Indenture Trustee (as successor) to repay any principal in respect of the 1998A Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1998A BR Bonds"), excluding any payment of principal in advance of the final scheduled maturity date thereof, but not later than the Stated Maturity specified above. The obligation of the Company to make any payment of principal on this Bond, whether at maturity or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Series 1998A BR Bonds.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of regularly scheduled interest payable on such Interest Payment Date in respect of the Series 1998A BR Bonds under the Trust Indenture. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Series 1998A BR Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1998A BR Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest

is payable are set forth in the Trust Indenture. This Bond shall bear interest (a) from the Interest Payment Date next preceding the date of this Bond to which interest has been paid, or (b) if the date of this Bond is an Interest Payment Date to which interest has been paid, then from such date, or (c) if no interest has been paid on this Bond, then from the date of initial authentication of this Bond. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Trust Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1998A BR Bonds.

This Bond is issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of February 1, 1998, between the Brazos River Authority and CenterPoint (as successor). This Bond shall be held by the Trust Indenture Trustee subject to the terms of the Collateral Agreement, (Series D Bonds) dated as of October 10, 2002, between the Company and the Indenture Trustee. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Indenture Trustee shall surrender this Bond to the Trustee when all of the principal of and interest on the Series 1998A BR Bonds shall have been duly paid, and the Trust Indenture shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions

permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Trust Indenture Trustee, signed by an authorized officer of the Trust Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Trust Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall notify the Company and the Trustee of the name and address of the transferee. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any

purpose.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

OFFICER'S CERTIFICATE

October 10, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated October 10, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

(1) The Securities of the fifth series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series E, due November 1, 2020" (the "Series E Bonds").

(2) The Series E Bonds shall be initially authenticated and delivered in the aggregate principal amount of \$90,000,000.

(3) Not applicable.

(4) The Series E Bonds shall mature and the principal thereof shall be due and payable together with all accrued and unpaid interest thereon on November 1, 2020. The obligation of the Company to make any payment of principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Trust Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1998B BR Bonds").

(5) The Series E Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment Date (as hereinafter defined) on the Series E Bonds to equal the amount of regularly scheduled interest payable on such Interest Payment Date under the Trust Indenture dated as of February 1, 1998 (as amended and supplemented, the "Trust Indenture") between Brazos River Authority (the "Issuer") and JPMorgan Chase Bank (successor to Chase Bank of Texas, National Association), as trustee (the "Trust Indenture Trustee") in respect of the Series 1998A BR Bonds. Such interest on the Series E Bonds shall be

payable on the same dates as interest is payable from time to time in respect of the Series 1998B BR Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of the Series E Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series E Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1998B BR Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Trust Indenture. Each Series E Bond shall bear interest from the later of the date of initial authentication of such Series E Bond or the most recent Interest Payment Date to which interest has been paid. The obligation of the Company to make any payment of interest on the Series E Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Trust Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1998B BR Bonds.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas shall be the place at which (i) the principal of, premium and interest on, the Series E Bonds shall be payable, (ii) registration of transfer of the Series E Bonds may be effected, (iii) exchanges of the Series E Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series E Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series E Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series E Bonds.

(7) Not applicable.

(8) Not applicable.

(9) The Series E Bonds are issuable only in denominations of \$90,000,000.

(10) Not applicable.

(11) Not applicable.

(12) Not applicable.

(13) Not applicable.

(14) Not applicable.

(15) Not applicable.

(16) Not applicable.

(17) The Series E Bonds shall be evidenced by a single registered Series E Bond in the principal amount and denomination of Ninety Million Dollars (\$90,000,000). The Series E Bonds shall be dated October 10, 2002, shall mature no later than November 1, 2020, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series E Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series E Bond shall be identified by the number E-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Trust Indenture Trustee, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Trust Indenture Trustee under the Trust Indenture, and provided that all obligations of the Trust Indenture Trustee under the Collateral Agreement (as defined herein) shall also be transferred to, and assumed by, any such successor or assign. The Series E Bonds are to be issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of February 1, 1998, by and between the Issuer and CenterPoint (as successor). The single Series E Bond shall be held by the Trust Indenture Trustee subject to the terms of the Series E Bonds Collateral Agreement (Series E Bonds), dated as of October 10, 2002, between the Company and the Trust Indenture Trustee (the "Collateral Agreement").

Series E Bonds issued upon transfer shall be numbered consecutively from E-2 upwards and issued in the same \$90,000,000 denomination. See also subsection (19) below.

(18) Not applicable.

(19) The holder of the Series E Bond by acceptance of the Series E Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series E Bonds have not been registered under the Securities Act of 1933 and may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of transfer or exchange of the Series E Bonds, or any Tranche thereof; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series E Bonds, "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Houston, Texas, or the city in which the principal corporate trust office of the Indenture Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

(21) Not applicable.

(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series E Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Indenture

Trustee, signed by an authorized officer of the Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series E Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series E Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series E Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this  
Officer's Certificate on this 10th day of October, 2002.

By: /s/ Marc Kilbride

-----  
Name: Marc Kilbride

Title: Vice President and Treasurer

Acknowledged and Received on  
October 10, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

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Name: Ronda L. Parmen

Title: Vice President and Trust Officer

FORM OF SERIES E BONDS

NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT, AS FURTHER PROVIDED HEREIN, TO A SUCCESSOR OR ASSIGN OF THE TRUST INDENTURE TRUSTEE UNDER THE TRUST INDENTURE REFERRED TO HEREIN AMONG THE ISSUER AND THE TRUST INDENTURE TRUSTEE.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series E, due November 1, 2020

Original Interest Accrual Date:	October 10, 2002	Redeemable by Company:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Stated Maturity:	November 1, 2020	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Discount Security within the meaning of the within-mentioned Indenture.

Principal Amount  
\$90,000,000

No. E-1

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a corporation duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to JPMorgan Chase Bank as Trustee under the Trust Indenture (as herein defined) or its registered assigns (the "Indenture Trustee"), the principal sum of NINETY MILLION DOLLARS, in whole or in installments on such date or dates as the Issuer (as defined herein) has any obligations under the Trust Indenture (as amended and supplemented, the "Trust Indenture"), dated as of February 1, 1998, between Brazos River Authority (the "Issuer") and the Indenture Trustee (as successor) to repay any principal in respect of the 1998B Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1998B BR Bonds"), excluding any payment of principal in advance of the final scheduled maturity date thereof, but not later than the Stated Maturity specified above. The obligation of the Company to make any payment of principal on this Bond, whether at maturity or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Series 1998B BR Bonds.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of regularly scheduled interest payable on such Interest Payment Date in respect of the Series 1998B BR Bonds under the Trust Indenture. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Series 1998B BR Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1998B BR Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest



is payable are set forth in the Trust Indenture. This Bond shall bear interest (a) from the Interest Payment Date next preceding the date of this Bond to which interest has been paid, or (b) if the date of this Bond is an Interest Payment Date to which interest has been paid, then from such date, or (c) if no interest has been paid on this Bond, then from the date of initial authentication of this Bond. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1998B BR Bonds.

This Bond is issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of February 1, 1998, between the Brazos River Authority and CenterPoint (as successor). This Bond shall be held by the Trust Indenture Trustee subject to the terms of the Collateral Agreement (Series E Bonds), dated as of October 10, 2002, between the Company and the Indenture Trustee. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Indenture Trustee shall surrender this Bond to the Trustee when all of the principal of and interest on the Series 1998B BR Bonds shall have been duly paid, and the Trust Indenture shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions

permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Trust Indenture Trustee, signed by an authorized officer of the Trust Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Trust Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall notify the Company and the Trustee of the name and address of the transferee. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any

purpose.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

OFFICER'S CERTIFICATE

October 10, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated October 10, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

(1) The Securities of the sixth series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series F, due May 1, 2019" (the "Series F Bonds").

(2) The Series F Bonds shall be initially authenticated and delivered in the aggregate principal amount of \$100,000,000.

(3) Not applicable.

(4) The Series F Bonds shall mature and the principal thereof shall be due and payable together with all accrued and unpaid interest thereon on May 1, 2019. The obligation of the Company to make any payment of principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Trust Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1998C BR Bonds").

(5) The Series F Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment Date (as hereinafter defined) on the Series F Bonds to equal the amount of regularly scheduled interest payable on such Interest Payment Date under the Trust Indenture dated as of February 1, 1998 (as amended and supplemented, the "Trust Indenture") between Brazos

River Authority (the "Issuer") and JPMorgan Chase Bank (successor to Chase Bank of Texas, National Association), as trustee (the "Trust Indenture Trustee") in respect of the Series 1998C BR Bonds. Such interest on the Series F Bonds shall be payable on the same dates as interest is payable from time to time in respect of the Series 1998C BR Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of the Series F Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series F Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1998C BR Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Trust Indenture. Each Series F Bond shall bear interest from the later of the date of initial authentication of such Series F Bond or the most recent Interest Payment Date to which interest has been paid. The obligation of the Company to make any payment of interest on the Series F Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Trust Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1998C BR Bonds.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas shall be the place at which (i) the principal of, premium and interest on, the Series F Bonds shall be payable, (ii) registration of transfer of the Series F Bonds may be effected, (iii) exchanges of the Series F Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series F Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series F Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series F Bonds.

(7) Not applicable.

(8) Not applicable.

(9) The Series F Bonds are issuable only in denominations of \$100,000,000.

- (10) Not applicable.
- (11) Not applicable.
- (12) Not applicable.
- (13) Not applicable.
- (14) Not applicable.
- (15) Not applicable.
- (16) Not applicable.

(17) The Series F Bonds shall be evidenced by a single registered Series F Bond in the principal amount and denomination of One Hundred Million Dollars (\$100,000,000). The Series F Bonds shall be dated October 10, 2002, shall mature no later than May 1, 2019, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series F Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series F Bond shall be identified by the number F-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Trust Indenture Trustee, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Trust Indenture Trustee under the Trust Indenture, and provided that all obligations of the Trust Indenture Trustee under the Collateral Agreement (as defined herein) shall also be transferred to, and assumed by any such successor or assign. The Series F Bonds are to be issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of February 1, 1998, by and between the Issuer and CenterPoint (as successor). The single Series F Bond shall be held by the Trust Indenture Trustee subject to the terms of the Series F Bonds Collateral Agreement (Series F Bonds), dated as of October 10, 2002, between the Company and the Trust Indenture Trustee (the "Collateral Agreement").

Series F Bonds issued upon transfer shall be numbered consecutively from F-2 upwards and issued in the same \$100,000,000 denomination. See also subsection (19) below.

- (18) Not applicable.

(19) The holder of the Series F Bond by acceptance of the Series F Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series F Bonds have not been registered under the Securities Act of 1933 and may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of transfer or exchange of the Series F Bonds, or any Tranche thereof; provided, however,

that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series F Bonds, "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Houston, Texas, or the city in which the principal corporate trust office of the Indenture Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

(21) Not applicable.

(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series F Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Indenture Trustee, signed by an authorized officer of the Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series F Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series F Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series F Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.



IN WITNESS WHEREOF, the undersigned has executed this  
Officer's Certificate on this 10th day of October, 2002.

By: /s/ Marc Kilbride

-----  
Name: Marc Kilbride

Title: Vice President and Treasurer

Acknowledged and Received on  
October 10, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

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Name: Ronda L. Parmen

Title: Vice President and Trust Officer

FORM OF SERIES F BOND

NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT, AS FURTHER PROVIDED HEREIN, TO A SUCCESSOR OR ASSIGN OF THE TRUST INDENTURE TRUSTEE UNDER THE TRUST INDENTURE REFERRED TO HEREIN AMONG THE ISSUER AND THE TRUST INDENTURE TRUSTEE.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series F, due May 1, 2019

Original Interest Accrual Date:	October 10, 2002	Redeemable by Company:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Stated Maturity:	May 1, 2019	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Discount Security within the meaning of the within-mentioned Indenture.

Principal Amount  
\$100,000,000

No. F-1

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a corporation duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to JPMorgan Chase Bank as Trustee under the Trust Indenture (as herein defined) or its registered assigns (the "Indenture Trustee"), the principal sum of ONE HUNDRED MILLION DOLLARS, in whole or in installments on such date or dates as the Issuer (as defined herein) has any obligations under the Trust Indenture (as amended and supplemented, the "Trust Indenture"), dated as of February 1, 1998, between Brazos River Authority (the "Issuer") and the Indenture Trustee (as successor) to repay any principal in respect of the 1998C Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1998C BR Bonds"), excluding any payment of principal in advance of the final scheduled maturity date thereof, but not later than the Stated Maturity specified above. The obligation of the Company to make any payment of principal on this Bond, whether at maturity or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Series 1998C BR Bonds.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of regularly scheduled interest payable on such Interest Payment Date in respect of the Series 1998C BR Bonds under the Trust Indenture. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Series 1998C BR Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1998C BR Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest

is payable are set forth in the Trust Indenture. This Bond shall bear interest (a) from the Interest Payment Date next preceding the date of this Bond to which interest has been paid, or (b) if the date of this Bond is an Interest Payment Date to which interest has been paid, then from such date, or (c) if no interest has been paid on this Bond, then from the date of initial authentication of this Bond. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1998C BR Bonds.

This Bond is issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of February 1, 1998, between the Brazos River Authority and CenterPoint (as successor). This Bond shall be held by the Trust Indenture Trustee subject to the terms of the Collateral Agreement (Series F Bonds), dated as of October 10, 2002, between the Company and the Indenture Trustee. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Indenture Trustee shall surrender this Bond to the Trustee when all of the principal of and interest on the Series 1998C BR Bonds shall have been duly paid, and the Trust Indenture shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions

permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Trust Indenture Trustee, signed by an authorized officer of the Trust Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Trust Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall notify the Company and the Trustee of the name and address of the transferee. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any

purpose.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

OFFICER'S CERTIFICATE

October 10, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated October 10, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

(1) The Securities of the seventh series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series G, due January 1, 2011" (the "Series G Bonds").

(2) The Series G Bonds shall be initially authenticated and delivered in the aggregate principal amount of \$19,200,000.

(3) Not applicable.

(4) The Series G Bonds shall mature and the principal thereof shall be due and payable together with all accrued and unpaid interest thereon on January 1, 2011. The obligation of the Company to make any payment of principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Trust Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1999 GC Bonds").

(5) The Series G Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment Date (as hereinafter defined) on the Series G Bonds to equal the amount of regularly scheduled interest payable on such Interest Payment Dates under the Trust Indenture dated as of April 1, 1999 (as amended and supplemented, the "Trust Indenture") between Gulf Coast Waste



Disposal Authority (the "Issuer") and JPMorgan Chase Bank (successor to Chase Bank of Texas, National Association), as trustee (the "Trust Indenture Trustee") in respect of the Series 1999 GC Bonds". Such interest on the Series G Bonds shall be payable on the same dates as interest is payable from time to time in respect of the Series 1999 GC Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of the Series G Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series G Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1999 GC Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Trust Indenture. Each Series G Bond shall bear interest from the later of the date of initial authentication of such Series G Bond or the most recent Interest Payment Date to which interest has been paid. The obligation of the Company to make any payment of interest on the Series G Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Trust Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1999 GC Bonds.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas shall be the place at which (i) the principal of, premium and interest on, the Series G Bonds shall be payable, (ii) registration of transfer of the Series G Bonds may be effected, (iii) exchanges of the Series G Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series G Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series G Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series G Bonds.

(7) Not applicable.

(8) Not applicable.

(9) The Series G Bonds are issuable only in denominations of \$19,200,000.

- (10) Not applicable.
- (11) Not applicable.
- (12) Not applicable.
- (13) Not applicable.
- (14) Not applicable.
- (15) Not applicable.
- (16) Not applicable.

(17) The Series G Bonds shall be evidenced by a single registered Series G Bond in the principal amount and denomination of Nineteen Million Two Hundred Thousand Dollars (\$19,200,000). The Series G Bonds shall be dated October 10, 2002, shall mature no later than January 1, 2011, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series G Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series G Bond shall be identified by the number G-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Trust Indenture Trustee, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Trust Indenture Trustee under the Trust Indenture, and provided that all obligations of the Trust Indenture Trustee under the Collateral Agreement (as defined herein) shall also be transferred to, and assumed by, any such successor or assign. The Series G Bonds are to be issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of April 1, 1999, by and between the Issuer and CenterPoint (as successor). The single Series G Bond shall be held by the Trust Indenture Trustee subject to the terms of the Series G Bonds Collateral Agreement (Series G Bonds), dated as of October 10, 2002, between the Company and the Trust Indenture Trustee (the "Collateral Agreement").

Series G Bonds issued upon transfer shall be numbered consecutively from G-2 upwards and issued in the same \$19,200,000 denomination. See also subsection (19) below.

- (18) Not applicable.

(19) The holder of the Series G Bond by acceptance of the Series G Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series G Bonds have not been registered under the Securities Act of 1933 and may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of transfer or exchange of the Series G Bonds, or any Tranche thereof; provided, however,

that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series G Bonds, "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Houston, Texas, or the city in which the principal corporate trust office of the Indenture Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

(21) Not applicable.

(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series G Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Indenture Trustee, signed by an authorized officer of the Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series G Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series G Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series G Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this  
Officer's Certificate on this 10th day of October, 2002.

By: /s/ Marc Kilbride

-----  
Name: Marc Kilbride

Title: Vice President and Treasurer

Acknowledged and Received on  
October 10, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

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Name: Ronda L. Parmen

Title: Vice President and Trust Officer

FORM OF SERIES G BOND

NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT, AS FURTHER PROVIDED HEREIN, TO A SUCCESSOR OR ASSIGN OF THE TRUST INDENTURE TRUSTEE UNDER THE TRUST INDENTURE REFERRED TO HEREIN AMONG THE ISSUER AND THE TRUST INDENTURE TRUSTEE.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series G, due January 1, 2011

Original Interest Accrual Date:	October 10, 2002	Redeemable by Company:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Stated Maturity:	January 1, 2011	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Discount Security within the meaning of the within-mentioned Indenture.

Principal Amount  
\$19,200,000

No. G-1

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a corporation duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to JPMorgan Chase Bank as Trustee under the Trust Indenture (as herein defined) or its registered assigns (the "Indenture Trustee"), the principal sum of NINETEEN MILLION TWO HUNDRED THOUSAND DOLLARS, in whole or in installments on such date or dates as the Issuer (as defined herein) has any obligations under the Trust Indenture (as amended and supplemented, the "Trust Indenture"), dated as of April 1, 1999, between Gulf Coast Waste Disposal Authority (the "Issuer") and the Indenture Trustee (as successor) to repay any principal in respect of the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1999 GC Bonds"), excluding any payment of principal in advance of the final scheduled maturity date thereof, but not later than the Stated Maturity specified above. The obligation of the Company to make any payment of principal on this Bond, whether at maturity or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Series 1999 GC Bonds.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of regularly scheduled interest payable on such Interest Payment Date in respect of the Series 1999 GC Bonds under the Trust Indenture. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Series 1999 GC Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1999 GC Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is

payable are set forth in the Trust Indenture. This Bond shall bear interest (a) from the Interest Payment Date next preceding the date of this Bond to which interest has been paid, or (b) if the date of this Bond is an Interest Payment Date to which interest has been paid, then from such date, or (c) if no interest has been paid on this Bond, then from the date of initial authentication of this Bond. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1999 GC Bonds.

This Bond is issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of April 1, 1999, between Gulf Coast Waste Disposal Authority and CenterPoint (as successor). This Bond shall be held by the Trust Indenture Trustee subject to the terms of the Collateral Agreement (Series G Bonds), dated as of October 10, 2002, between the Company and the Indenture Trustee. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Indenture Trustee shall surrender this Bond to the Trustee when all of the principal of and interest on the Series 1999 GC Bonds shall have been duly paid, and the Trust Indenture shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions

permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Trust Indenture Trustee, signed by an authorized officer of the Trust Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Trust Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall notify the Company and the Trustee of the name and address of the transferee. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any



purpose.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

OFFICER'S CERTIFICATE

October 10, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated October 10, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

(1) The Securities of the eighth series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series H, due June 1, 2026" (the "Series H Bonds").

(2) The Series H Bonds shall be initially authenticated and delivered in the aggregate principal amount of \$100,000,000.

(3) Not applicable.

(4) The Series H Bonds shall mature and the principal thereof shall be due and payable together with all accrued and unpaid interest thereon on June 1, 2026. The obligation of the Company to make any payment of principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Trust Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1999A MC Bonds").

(5) The Series H Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment Date (as hereinafter defined) on the Series H Bonds to equal the amount of regularly scheduled interest payable on such Interest Payment Date under the Trust Indenture dated as of April 1, 1999 (as amended and supplemented, the "Trust Indenture") between Matagorda

County Navigation District Number One (the "Issuer") and JPMorgan Chase Bank (successor to Chase Bank of Texas, National Association, as trustee (the "Trust Indenture Trustee") in respect of the Series 1999A MC Bonds. Such interest on the Series H Bonds shall be payable on the same dates as interest is payable from time to time in respect of the Series 1999A MC Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of the Series H Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series H Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1999A MC Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Trust Indenture. Each Series H Bond shall bear interest from the later of the date of initial authentication of such Series H Bond or the most recent Interest Payment Date to which interest has been paid. The obligation of the Company to make any payment of interest on the Series H Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Trust Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1999A MC Bonds.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas shall be the place at which (i) the principal of, premium and interest on, the Series H Bonds shall be payable, (ii) registration of transfer of the Series H Bonds may be effected, (iii) exchanges of the Series H Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series H Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series H Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series H Bonds.

(7) Not applicable.

(8) Not applicable.

(9) The Series H Bonds are issuable only in denominations of \$100,000,000.

(10) Not applicable.

(11) Not applicable.

(12) Not applicable.

(13) Not applicable.

(14) Not applicable.

(15) Not applicable.

(16) Not applicable.

(17) The Series H Bonds shall be evidenced by a single registered Series H Bond in the principal amount and denomination of One Hundred Million Dollars (\$100,000,000). The Series H Bonds shall be dated October 10, 2002, shall mature no later than June 1, 2026, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series H Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series H Bond shall be identified by the number H-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Trust Indenture Trustee, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Trust Indenture Trustee under the Trust Indenture, and provided that all obligations of the Trust Indenture Trustee under the Collateral Agreement (as defined herein) shall also be transferred to, and assumed by, any such successor or assign. The Series H Bonds are to be issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of April 1, 1999, by and between the Issuer and CenterPoint (as successor). The single Series H Bond shall be held by the Trust Indenture Trustee subject to the terms of the Series H Bonds Collateral Agreement (Series H Bonds), dated as of October 10, 2002, between the Company and the Trust Indenture Trustee (the "Collateral Agreement").

Series H Bonds issued upon transfer shall be numbered consecutively from H-2 upwards and issued in the same \$100,000,000 denomination. See also subsection (19) below.

(18) Not applicable.

(19) The holder of the Series H Bond by acceptance of the Series H Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series H Bonds have not been registered under the Securities Act of 1933 and may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of

transfer or exchange of the Series H Bonds, or any Tranche thereof; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series H Bonds, "Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, Houston, Texas, or the city in which the principal corporate trust office of the Indenture Trustee is located, are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

(21) Not applicable.

(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series H Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Indenture Trustee, signed by an authorized officer of the Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series H Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series H Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series H Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this  
Officer's Certificate on this 10th day of October, 2002.

By: /s/ Marc Kilbride

-----  
Name: Marc Kilbride  
Title: Vice President and Treasurer

Acknowledged and Received on  
October 10, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

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Name: Ronda L. Parmen  
Title: Vice President and Trust Officer

FORM OF SERIES H BOND



NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT, AS FURTHER PROVIDED HEREIN, TO A SUCCESSOR OR ASSIGN OF THE TRUST INDENTURE TRUSTEE UNDER THE TRUST INDENTURE REFERRED TO HEREIN AMONG THE ISSUER AND THE TRUST INDENTURE TRUSTEE.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series H, due June 1, 2026

Original Interest Accrual Date:	October 10, 2002	Redeemable by Company:	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Stated Maturity:	June 1, 2026	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Discount Security within the meaning of the within-mentioned Indenture.

Principal Amount  
\$100,000,000

No. H-1

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a corporation duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to JPMorgan Chase Bank as Trustee under the Trust Indenture (as herein defined) or its registered assigns (the "Indenture Trustee"), the principal sum of ONE HUNDRED MILLION DOLLARS, in whole or in installments on such date or dates as the Issuer (as defined herein) has any obligations under the Trust Indenture (as amended and supplemented, the "Trust Indenture"), dated as of April 1, 1999, between Matagorda County Navigation District Number One (the "Issuer") and the Indenture Trustee (as successor) to repay any principal in respect of the Bonds (as such term is defined in the Trust Indenture, and hereinafter referred to as the "Series 1999A MC Bonds"), excluding any payment of principal in advance of the final scheduled maturity date thereof, but not later than the Stated Maturity specified above. The obligation of the Company to make any payment of principal on this Bond, whether at maturity or otherwise, shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent CenterPoint Energy, Inc. ("CenterPoint") has paid to the Indenture Trustee the Installment Payment (as defined below) in respect of the principal then due and payable on the Series 1999A MC Bonds.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of regularly scheduled interest payable on such Interest Payment Date in respect of the Series 1999A MC Bonds under the Trust Indenture. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Series 1999A MC Bonds pursuant to the Trust Indenture (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time in respect of the Series 1999A MC Bonds under the Trust Indenture, the basis on which such interest is computed and the dates on which such interest

is payable are set forth in the Trust Indenture. This Bond shall bear interest (a) from the Interest Payment Date next preceding the date of this Bond to which interest has been paid, or (b) if the date of this Bond is an Interest Payment Date to which interest has been paid, then from such date, or (c) if no interest has been paid on this Bond, then from the date of initial authentication of this Bond. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that CenterPoint has paid to the Indenture Trustee the Installment Payment in respect of the interest then due and payable on the Series 1999A MC Bonds.

This Bond is issued to the Trust Indenture Trustee as security for the payment by CenterPoint of the Installment Payments, as defined in, and pursuant to the Installment Payment and Bond Amortization Agreement, dated as of April 1, 1999, between Matagorda County Navigation District Number One and CenterPoint (as successor). This Bond shall be held by the Trust Indenture Trustee subject to the terms of the Collateral Agreement (Series H Bonds), of October 10, 2002, between the Company and the Indenture Trustee. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Indenture Trustee shall surrender this Bond to the Trustee when all of the principal of and interest on the Series 1999A MC Bonds shall have been duly paid, and the Trust Indenture shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions

permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Trust Indenture Trustee, signed by an authorized officer of the Trust Indenture Trustee and attested by the Secretary or an Assistant Secretary of the Trust Indenture Trustee within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall notify the Company and the Trustee of the name and address of the transferee. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any

purpose.

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IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory

## CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

## OFFICER'S CERTIFICATE

November 12, 2002

I, the undersigned officer of CenterPoint Energy Houston Electric, LLC, a Texas limited liability company (the "Company"), do hereby certify that I am an Authorized Officer of the Company as such term is defined in the Indenture (as defined herein). I am delivering this certificate pursuant to the authority granted in the Resolutions adopted by written consent of the Manager of the Company dated November 12, 2002, and Sections 105, 201, 301, 401(1) and 402(2)(A) of the General Mortgage Indenture dated as of October 10, 2002, as heretofore supplemented to the date hereof (as heretofore supplemented, the "Indenture"), between the Company and JPMorgan Chase Bank, as Trustee (the "Trustee"). Terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Indenture, unless the context clearly requires otherwise. Based upon the foregoing, I hereby certify on behalf of the Company as follows:

1. The terms and conditions of the Securities of the series described in this Officer's Certificate are as follows (the numbered subdivisions set forth in this Paragraph 1 corresponding to the numbered subdivisions of Section 301 of the Indenture):

- (1) The Securities of the ninth series to be issued under the Indenture shall be designated "General Mortgage Bonds, Series I, due November 12, 2005" (the "Series I Bonds").
- (2) The Series I Bonds shall be authenticated and delivered in the aggregate principal amount of \$1,310,000,000.
- (3) Not applicable.
- (4) The principal of all Series I Bonds shall be payable by the Company in whole or in installments on such date or dates as the Company has any obligations under the Credit Agreement, dated as of November 12, 2002 (the "Credit Agreement"), among the Company, Credit Suisse First Boston, as administrative agent (the "Administrative Agent") and the Banks from time to time parties thereto, to repay any Loans (as defined in the Credit Agreement) to the Banks (whether upon scheduled maturity, required prepayment, acceleration, demand or otherwise, but not later than November 12, 2005). The amount of principal of the Series I Bonds payable by the Company on any such date shall equal the aggregate principal amount of the Loans due and payable on such date pursuant to the Credit Agreement (but, in no event, shall exceed the aggregate principal amount of the Series I Bonds). The obligation of the Company to make any payment of the principal on the Series I Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that the Company has paid the principal then due and payable on the Loans made pursuant to the Credit Agreement.
- (5) The Series I Bonds shall bear interest from the time hereinafter provided at such rate per annum as shall cause the amount of interest payable on each Interest Payment

Date (as hereinafter defined) on the Series I Bonds to equal the amount of interest payable on such Interest Payment Date under the Credit Agreement. Such interest on the Series I Bonds shall be payable on the same dates as interest is payable from time to time pursuant to the Credit Agreement (each such date herein called an "Interest Payment Date"), until the maturity of the Series I Bonds, or, in the case of any default by the Company in the payment of the principal due on the Series I Bonds, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time under the Credit Agreement, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Credit Agreement. Each Series I Bond shall bear interest (a) from the date of initial authentication of this Bond to but excluding the Interest Payment Date next succeeding, and (b) from each Interest Payment Date to but excluding the Interest Payment Date next succeeding. The obligation of the Company to make any payment of interest on the Series I Bonds shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that the Company has paid the interest on the Loans then due and payable pursuant to the Credit Agreement.

(6) The Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas shall be the place at which (i) the principal of and interest on the Series I Bonds shall be payable, (ii) registration of transfer of the Series I Bonds may be effected, (iii) exchanges of the Series I Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series I Bonds and the Indenture may be served; and JPMorgan Chase Bank shall be the Security Registrar for the Series I Bonds; provided, however, that the Company reserves the right to change, by one or more Officer's Certificates, any such place or the Security Registrar; and provided, further, that the Company reserves the right to designate, by one or more Officer's Certificates, its principal office in Houston, Texas as any such place or itself as the Security Registrar; provided, however, that there shall be only a single Security Registrar for the Series I Bonds. The principal of the Series I Bonds shall be payable without the presentment or surrender thereof.

(7) Not applicable.

(8) Not applicable.

(9) The Series I Bonds are issuable only in denominations of \$1,310,000,000.

(10) Not applicable.

(11) Not applicable.

(12) Not applicable.

(13) See subsection (4) above.

(14) Not applicable.

(15) Not applicable.

(16) Not applicable.

(17) The Series I Bonds shall be evidenced by a single registered Series I Bond in the principal amount and denomination of One Billion Three Hundred Ten Million Dollars (\$1,310,000,000). The Series I Bonds shall be dated November 12, 2002, shall mature no later than November 12, 2005, unless sooner paid, and shall bear interest at the rate specified in subsection (5) above. The Series I Bonds may be executed by the Company and delivered to the Trustee for authentication and delivery. The principal of and interest on the Series I Bonds shall be payable at the Corporate Trust Office of the Trustee in Houston, Texas.

The single Series I Bond shall be identified by the number I-1 and shall upon issuance be delivered by the Company to, and registered in the name of, the Administrative Agent, on behalf of itself and the Banks, and shall be transferable only as required to effect an assignment thereof to a successor or an assign of the Administrative Agent under the Credit Agreement and provided that all obligations of the Administrative Agent under the Pledge Agreement (as defined below) shall also be transferred to, and assumed by, any such successor or assign. The Series I Bonds are to be issued to the Administrative Agent as security for the payment by the Company of its Obligations (as defined in the Pledge Agreement). The single Series I Bond shall be held by the Administrative Agent subject to the terms of the Pledge Agreement, dated as of November 12, 2002, between the Company and the Administrative Agent (the "Pledge Agreement").

Series I Bonds issued upon transfer shall be numbered consecutively from I-2 upwards and issued in the same \$1,310,000,000 denomination but, to the extent that the Loans are repaid, the registered holder thereof shall duly note on the Series I Bonds like reduction in the amount of principal in the Schedule of Prepayments to such Series I Bond and upon any transfer of said Series I Bond, such Schedule of Prepayments shall transfer to the subsequently issued Series I Bond. See also subsection (19) below.

(18) Not applicable.

(19) The holder of the Series I Bond by acceptance of the Series I Bond agrees to restrictions on transfer and to waivers of certain rights of exchange as set forth herein. The Series I Bonds have not been registered under the Securities Act of 1933 and may not be offered, sold or otherwise transferred in the absence of such registration or an applicable exemption therefrom. No service charge shall be made for the registration of transfer or exchange of the Series I Bonds, or any Tranche thereof; provided, however, that the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the exchange or transfer.

(20) For purposes of the Series I Bonds, "Business Day" shall mean a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

(21) Not Applicable.



(22) The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on the Series I Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Administrative Agent, signed by an authorized officer of the Administrative Agent and attested by the Secretary or an Assistant Secretary of the Administrative Agent within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on the Series I Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

The Series I Bonds shall have such other terms and provisions as are provided in the form thereof attached hereto as Exhibit A, and shall be issued in substantially such form.

2. The undersigned has read all of the covenants and conditions contained in the Indenture, and the definitions in the Indenture relating thereto, relating to the issuance of the Series I Bonds and in respect of compliance with which this certificate is made.

3. The statements contained in this certificate are based upon the familiarity of the undersigned with the Indenture, the documents accompanying this certificate, and upon discussions by the undersigned with officers and employees of the Company familiar with the matters set forth herein.

4. In the opinion of the undersigned, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenants and conditions have been complied with.

In the opinion of the undersigned, such conditions and covenants have been complied with.

IN WITNESS WHEREOF, the undersigned has executed this Officer's Certificate on this 12th day of November, 2002.

By: /s/ Marc Kilbride

-----  
Name: Marc Kilbride  
Title: Vice President and Treasurer

Acknowledged and Received on  
November 12, 2002

JPMORGAN CHASE BANK,  
as Trustee

By: /s/ Ronda L. Parmen

-----  
Name: Ronda L. Parmen  
Title: Vice President and Treasurer

EXHIBIT A  
FORM OF BOND

NOTE: THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT AS COLLATERAL TO A SUCCESSOR OR ASSIGN OF THE ADMINISTRATIVE AGENT UNDER THE COLLATERAL AGREEMENT REFERRED TO HEREIN AMONG THE COMPANY AND THE SEVERAL PARTIES THERETO.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC  
General Mortgage Bonds, Series I, due November 12, 2005

Original Interest Accrual Date:	November 12, 2002	Redeemable by Company:	Yes _ No X
Stated Maturity:	November 12, 2005	Redemption Date:	N/A
Interest Rate:	See below	Redemption Price:	N/A
Interest Payment Dates:	See below		
Regular Record Dates:	N/A		

This Security is not an Original Issue Discount Security within the meaning of the within-mentioned Indenture.

Principal Amount  
\$1,310,000,000

No. I-1

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CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC, a limited liability company duly organized and existing under the laws of the State of Texas (herein called the "Company," which term includes any successor under the Indenture referred to below), for value received, hereby promises to pay to Credit Suisse First Boston, as Administrative Agent (the "Administrative Agent"), or its registered assigns, on behalf of itself and the Banks (as defined below), the principal sum of ONE BILLION THREE HUNDRED TEN MILLION DOLLARS, or such lesser principal amount as shall be equal to the aggregate principal amount of Loans (as defined in the Credit Agreement defined below) outstanding from time to time under the Credit Agreement (as defined below), in whole or in installments on such date or dates as the Company has any obligations under the Credit Agreement to repay any Loans to the Banks (whether upon scheduled maturity, required prepayment, acceleration, demand or otherwise), but not later than the Stated Maturity specified above. The amount of principal of this Bond payable by the Company on any such date shall equal the aggregate principal amount of the Loans due and payable on such date pursuant to the Credit Agreement (but, in no event, shall exceed the principal amount of this Bond). The obligation of the Company to make any payment of the principal on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that the Company has paid the principal then due and payable on the Loans made pursuant to the Credit Agreement.

Interest shall be payable on this Bond on each Interest Payment Date (as hereinafter defined) at such rate per annum as shall cause the amount of interest payable on such Interest Payment Date on this Bond to equal the amount of interest payable on such Interest Payment Date under the Credit Agreement. Such interest shall be payable on the same dates as interest is payable from time to time in respect of the Loans pursuant to the Credit Agreement (each such date herein called an "Interest Payment Date"), until the maturity of this Bond, or, if the Company shall default in the payment of the principal due on this Bond, until the Company's obligation with respect to the payment of such principal shall be discharged as provided in the Indenture. The amount of interest payable from time to time under

the Credit Agreement, the basis on which such interest is computed and the dates on which such interest is payable are set forth in the Credit Agreement. This Bond shall bear interest (a) from the date of initial authentication of this Bond to but excluding the Interest Payment Date next succeeding, and (b) from each Interest Payment Date to but excluding the Interest Payment Date next succeeding. The obligation of the Company to make any payment of interest on this Bond shall be fully or partially, as the case may be, deemed to have been paid or otherwise satisfied and discharged to the extent that the Company has paid the interest on the Loans then due and payable pursuant to the Credit Agreement.

This Bond is issued to the Administrative Agent by the Company pursuant to the Company's obligations under the Credit Agreement, dated as of November 12, 2002 (as amended, supplemented, restated or otherwise modified from time to time, the "Credit Agreement"), among the Company, Credit Suisse First Boston, as Administrative Agent, and the banks and other financial institutions from time to time parties thereto (the "Banks"). This Bond shall be held by the Administrative Agent subject to the terms of the Pledge Agreement, dated as of November 12, 2002, between the Company, the Administrative Agent and the Administrative Agent in such capacity under the Credit Agreement. Any capitalized terms used herein and not defined herein shall have the meanings specified in the Indenture (as defined below), unless otherwise noted.

The Administrative Agent shall surrender this Bond to the Trustee when all of the principal of and interest on the Loans made pursuant to the Credit Agreement shall have been duly paid and the Credit Agreement shall have been terminated.

Payments of the principal of and interest on this Bond shall be made at the Corporate Trust Office of JPMorgan Chase Bank, as Trustee, located at 600 Travis Street, Suite 1150, Houston, Texas 77002, or at such other office or agency as may be designated for such purpose by the Company from time to time. Payment of the principal of and interest on this Bond, as aforesaid, shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

This Bond is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and issuable in one or more series under and equally secured by a General Mortgage Indenture, dated as of October 10, 2002 (such Indenture as originally executed and delivered and as supplemented or amended from time to time thereafter, together with any constituent instruments establishing the terms of particular Securities, being herein called the "Indenture"), between the Company and JPMorgan Chase Bank, as trustee (herein called the "Trustee," which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the property mortgaged, pledged and held in trust, the nature and extent of the security and the respective rights, limitations of rights, duties and immunities of the Company, the Trustee and the Holders of the Securities thereunder and of the terms and conditions upon which the Securities are, and are to be, authenticated and delivered and secured. The acceptance of this Bond shall be deemed to constitute the consent and agreement by the Holder hereof to all of the terms and provisions of the Indenture. This Bond is one of the series designated above.

The Bonds of this series will not be entitled to the benefit of any sinking fund or voluntary redemption provisions.

If an Event of Default, as defined in the Indenture, shall occur and be continuing, the principal of this Bond may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under the Indenture, considered as one class; PROVIDED, HOWEVER, that if there shall be Securities of more than one series Outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the

Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and PROVIDED, FURTHER, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any Holders of Securities. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities then Outstanding, on behalf of the Holders of all Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Bond shall be conclusive and binding upon such Holder and upon all future Holders of this Bond and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Bond is registrable in the Security Register, upon surrender of this Bond for registration of transfer at the Corporate Trust Office of JPMorgan Chase Bank in Houston, Texas or such other office or agency as may be designated by the Company from time to time, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Bonds of this series of authorized denominations and of like tenor and aggregate principal amount, will be issued to the designated transferee or transferees.

This Bond has been issued by the Company to the Administrative Agent for the benefit of the holders of the Loans to (i) provide security for the payment of the Company's obligations on the Loans under the Credit Agreement and (ii) provide to the holders of such Loans the benefits of the security provided for this Bond pursuant to the Indenture.

The Company, the Trustee and any agent of the Company or the Trustee may deem and treat the person in whose name this Bond shall be registered upon the Security Register for the Bonds of this series as the absolute owner of such Bond for the purpose of receiving payment of or on account of the principal of and interest on this Bond and for all other purposes, whether or not this Bond be overdue, and neither the Company nor the Trustee shall be affected by any notice to the contrary; and all such payments so made to such registered owner or upon his order shall be valid and effectual to satisfy and discharge the liability upon this Bond to the extent of the sum or sums paid.

The Trustee may conclusively presume that the obligation of the Company to pay the principal of and interest on this Bond shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Administrative Agent, signed by an authorized officer of the Administrative Agent and attested by the Secretary or an Assistant Secretary of the Administrative Agent within 90 days after the applicable Interest Payment Date, stating that the payment of principal of or interest on this Bond has not been fully paid when due and specifying the amount of funds required to make such payment.

Before any transfer of this Bond by the registered holder or his or its legal representative will be recognized or given effect by the Company or the Trustee, the registered holder shall note the amounts of all reductions in the principal of the Loans under the Credit Agreement, and shall notify the Company and the Trustee of the name and address of the transferee and shall afford the Company and the Trustee the opportunity of verifying the notation as to such reductions. By acceptance hereof the holder of this Bond and each transferee shall be deemed to have agreed to indemnify and hold harmless the Company and the Trustee against all losses, claims, damages or liability arising out of any failure on part of the holder or of any such transferee to comply with the requirements of the preceding sentence.

No recourse under or upon any obligation, covenant or agreement contained in the Indenture or in any indenture supplemental thereto, or in any Bond or coupon thereby secured, or because of any indebtedness thereby secured, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that the Indenture, any indenture supplemental thereto and the obligations thereby secured, are solely corporate obligations of the Company, and that no personal liability whatsoever shall attach to, or be incurred by, such incorporators, members, managers, stockholders, officers, directors or employees, as such, of the Company or of any predecessor or successor corporation or company, or any of them, because of the creation of

the indebtedness thereby authorized, or under or by reason of any of the obligations, covenants or agreements contained in the Indenture or in any indenture supplemental thereto or in any of the Bonds or coupons thereby secured, or implied therefrom.

This Bond shall be governed by and construed in accordance with the law of the State of New York except as provided in the Indenture.

Unless the certificate of authentication hereon has been executed by the Trustee or an Authenticating Agent by manual signature, this Bond shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

By: \_\_\_\_\_  
Name:  
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: November \_\_, 2002

JPMORGAN CHASE BANK, as Trustee

By: \_\_\_\_\_  
Authorized Signatory



RELIANT ENERGY, INCORPORATED  
1994 LONG-TERM INCENTIVE COMPENSATION PLAN

(As Amended and Restated Effective January 1, 2001)  
First Amendment

Reliant Energy, Incorporated, a Texas corporation (the "Company"), having established the Reliant Energy, Incorporated 1994 Long-Term Incentive Compensation Plan, as amended and restated effective January 1, 2001 (the "Plan"), and having reserved the right under Section 11.1 thereof to amend the Plan, does hereby amend the Plan, effective as of the dates specified herein, as follows:

1. Effective as of August 31, 2002, the Plan is hereby amended to provide that all references to "Reliant Energy, Incorporated" are deleted and replaced in lieu thereof with "CenterPoint Energy, Inc." and the definition of "Company" in Section 2.1(e) of the Plan is hereby amended to read as follows:

"(e) `Company' means CenterPoint Energy, Inc., a Texas corporation, and any successor thereto."

2. Effective as of October 2, 2002, the Plan is hereby renamed the CenterPoint Energy, Inc. 1994 Long-Term Incentive Compensation Plan, with all related references in the Plan amended accordingly, and the definition of "Plan" in Section 2.1(r) of the Plan is hereby amended to read as follows:

"(r) `Plan' means the CenterPoint Energy, Inc. 1994 Long-Term Incentive Compensation Plan, as set forth herein and as from time to time amended."

3. Effective as of December 1, 2003, Section 8.1(d) of the Plan is hereby amended by changing the heading to "Transferability of Options:" and by adding the following new sentence to the end thereof:

"The foregoing notwithstanding, an Option granted under this Plan shall become transferable by the Key Employee upon or after his termination of employment with the Company, to the extent the Option is vested and exercisable at the time of such transfer, if (i) the former Key Employee assumes an office or position with a federal, state or local government or agency or instrumentality thereof (whether by employment, appointment or election, and whether legislative, executive, judicial or administrative) and (ii) following written request to the Committee identifying the office or position and the basis for the requested determination, the Committee determines, in its sole discretion, that by reason of the former Key Employee's holding of such office or position, the holding of such Option, the exercise thereof or the acquisition, holding or voting of the Common Stock issuable upon exercise thereof is, or is likely to, (x) be prohibited or restricted by law, regulation or order, or (y) give rise to or result in an actual or potential conflict of interest, disqualification or similar impediment in or to the exercise of the duties and responsibilities of such office or position."

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has caused these presents to be executed by its duly authorized officer in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 1st day of December, 2003, but effective as of the dates specified above.

CENTERPOINT ENERGY, INC.

By: /s/ David M. McClanahan

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David M. McClanahan  
President and Chief Executive Officer

ATTEST:

/s/ Richard B. Dauphin

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Assistant Secretary

SECOND AMENDMENT TO  
CENTERPOINT ENERGY, INC. SAVINGS TRUST

THIS AGREEMENT is made by and between CENTERPOINT ENERGY, INC. (the "Company"), and THE NORTHERN TRUST COMPANY, an Illinois corporation (hereinafter referred to as "Trustee");

WHEREAS, the Company and the Trustee entered into the CenterPoint Energy, Inc. Savings Trust (formerly the Reliant Energy, Incorporated Savings Trust) effective April 1, 1999 and as thereafter amended (hereinafter referred to as the "Trust"); and

WHEREAS the Company and the Trustee desire to amend the Trust pursuant to Section 10.4 of the Trust;

NOW, THEREFORE, effective as of January 6, 2003, the sections of the Trust set forth below are amended as follows, but all other sections of the Trust shall remain in full force and effect:

1. Section 1.1 of the Trust is hereby amended by adding the following new definition of "TGN Stock":

"TGN STOCK: The common stock of Texas Genco. TGN Stock shall be 'qualifying employer securities' within the meaning of Section 409(1) of the Code and Section 407(d)(5) of ERISA for so long as Texas Genco is a member of the Company's controlled group for purposes of Section 409(1) of the Code."

2. Section 1.1 of the Trust is hereby amended by adding the following new definition of "Texas Genco":

"TEXAS GENCO: Texas Genco Holdings, Inc., a Texas corporation."

3. Section 4.2 of the Trust is hereby amended by inserting the following new sentences at the end of subparagraph (b) as follows:

"Notwithstanding any provision of this Trust to the contrary, with respect to all TGN Stock received as a dividend in the unallocated portion of the ESOP Fund, the Committee may appoint an Investment Manager for purposes of liquidating such TGN Stock and for purposes of reinvesting such proceeds into Company Stock. Such Investment Manager shall acknowledge by a writing delivered to the Committee that it is a fiduciary with respect to the TGN Stock or other assets allocated thereto. The Trustee shall act with respect to such TGN Stock or other assets allocated to such Investment Manager only as directed by the Investment Manager. The Trustee shall not make any investment review of, consider the propriety of holding or selling, or vote, any TGN Stock or other assets allocated to such Investment Manager, except as directed by the Investment Manager thereof."

4. Section 4.2 of the Trust is hereby amended by inserting a new subparagraph (h) immediately after subparagraph (g) as follows:

"(h) TGN Stock Fund: The TGN Stock Fund shall be a 'frozen fund' for which no purchases of TGN Stock shall be made, except with respect to the reinvestment of dividends as described below. The Trustee shall not be required to advance funds to make any transfers or distributions from the TGN Stock Fund. Dividends, if any, received in the TGN Stock Fund shall be reinvested in the TGN Stock Fund. Any cash held by the Trustee from time to time in the TGN Stock Fund may be invested in the collective short term investment fund of the Trustee. All TGN Stock held in the TGN Stock Fund shall be voted or tendered, as applicable, by the Trustee, in its sole discretion. No provision of this paragraph (h) shall prevent the Trustee from taking any action relating to its duties under this paragraph (h) if the Trustee determines in its sole discretion that such action is necessary in order for the Trustee to fulfill its fiduciary responsibilities under ERISA."

5. Section 6.7 of the Trust is hereby amended by adding the following new paragraph to the end thereof:

"Except for the short-term investment of cash and the purchase of stock for the reinvestment of dividends, if any, into the TGN Stock Fund, the Company has limited the investment power of the Trustee in the TGN Stock Fund to the retention and sale of TGN Stock. The Trustee shall not be liable for the purchase, retention, or sale of TGN Stock in accordance with the provisions of Section 4.2 hereof, and the Company (which has the authority to do so under the laws of the state of its incorporation) agrees to indemnify The Northern Trust Company from any liability, loss and expense, including legal fees and expenses which The Northern Trust Company may sustain by reason of purchase, retention, or sale of TGN Stock in accordance with the provisions of Section 4.2 hereof; provided, however, that to the extent that such liability, loss or expense arises from the Trustee's willful misconduct, bad faith or negligence in carrying out its ministerial functions under Section 4.2. This paragraph shall survive the termination of this Trust."

IN WITNESS WHEREOF, the Company and the Trustee have caused this Amendment to be executed and attested to by their respective officers, in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, on the day and year first written above.

CENTERPOINT ENERGY, INC.

By: /s/ David M. McClanahan

-----  
David M. McClanahan  
President and Chief Executive Officer

/s/ Richard B. Dauphin

-----  
Assistant Secretary

THE NORTHERN TRUST COMPANY

By: ILLEGIBLE

Its: \_\_\_\_\_

CENTERPOINT ENERGY, INC. RETIREMENT PLAN

(As Amended and Restated Effective as of January 1, 1999)

Seventh Amendment

CenterPoint Energy, Inc., a Texas corporation (the "Company"), having reserved the right under Section 15.1 of the CenterPoint Energy, Inc. Retirement Plan, as amended and restated effective as of January 1, 1999, and as thereafter amended (the "Plan"), to amend the Plan, does hereby amend certain provisions of the Plan relating to the NorAm Energy Corp. Employees Retirement Plan (the "NorAm Plan"), which was merged with and into the Plan effective as of January 1, 1999, as in effect on such date, that continue to apply with respect to certain "Grandfathered Benefits" under the Plan for participants who had a benefit under the NorAm Plan prior to January 1, 1999, effective as of January 1, 2003, as follows:

1. The first sentence of Section 4.5 of the NorAm Plan document is hereby amended to read as follows:

"Notwithstanding any other provision of this Article, the retirement benefit payable to a Participant will not be less than the retirement benefit that the Participant had accrued as of December 31, 1991 (or, if the Participant commenced benefits before January 1, 2003 and was a Super Highly Compensated Employee for any Plan Year before 1992, as of his Benefit Protection Date as hereafter defined) under the terms of the Retirement Plan in effect on December 31, 1988 (including early retirement age and factors and other actuarial assumptions), determined as if the Participant had a Separation from Service on December 31, 1991, or his Benefit Protection Date, whichever applies."

2. Section 4.9 of the NorAm Plan document is hereby amended in its entirety to read as follows:

"4.9 Special Rule - Preservation of Prior Formula. For any Participant who commences retirement benefits on or after January 1, 2003, the retirement benefit will be the greater of (i) the retirement benefit determined under the foregoing provisions of this Article for all years of Credited Service or (ii) the retirement benefit the Participant would be entitled to receive under the Retirement Plan formula applicable to such Participant on December 31, 1991 (as if this Plan had not been adopted, including all relevant early retirement factors and actuarial assumptions) applied to the same Credited Service period as applied to (i) above.

Notwithstanding, the retirement benefit of any other Participant who (i) was not a Highly Compensated Employee (as defined in Code Section 414(q)) on December 31, 1991, and (ii) was an active Employee on December 31, 1991, or had a Separation from Service prior to such date and is later rehired under circumstances in which his prior service is taken into account under Article 2, will be the greater of (1) the benefit determined under the foregoing provisions of this Article for all years of Credited Service or (2) in lieu of such benefit, the benefit the Participant would be entitled to receive under the Retirement Plan formula applicable to such Participant on December 31, 1991 (as if this Plan had not been adopted, including all relevant early retirement factors and actuarial assumptions, except as otherwise provided in this Section), applied to the period of Credited Service ending with the close of the Plan Year (after 1991) in which the Participant first becomes a Highly Compensated Employee. For purposes of determining benefits accruing under this Section in Plan Years beginning after 1994, Section 4.5(a) of the benefit formula under Part Three of the Retirement Plan will be applied by replacing '5 years of Vesting Service' with '10 years of Vesting Service.' If a Participant is entitled to a benefit under this Section, the benefit will be payable only in the forms of payment applicable under Article 5, except to the extent that a form of payment provided under the Retirement Plan is protected under Section 5.10."

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has caused these presents to be executed by its duly authorized officer in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 5th day of November 2003, but effective as of the date specified above.

CENTERPOINT ENERGY, INC.

By: /s/ David M. McClanahan

-----  
David M. McClanahan  
President and Chief Executive Officer

ATTEST:

/s/ Richard B. Dauphin

-----  
Assistant Secretary

LONG-TERM INCENTIVE PLAN  
OF  
RELIANT ENERGY, INCORPORATED

(As Established Effective January 1, 2001)

Second Amendment

Reliant Energy, Incorporated, a Texas corporation (the "Company"), having established the Long-Term Incentive Plan of Reliant Energy, Incorporated, effective as of January 1, 2001, and as thereafter amended (the "Plan"), and having reserved the right under Section 12 thereof to amend the Plan, does hereby amend the Plan, effective as of the dates specified herein, as follows:

1. Effective as of August 31, 2002, the Plan is hereby amended to provide that all references to "Reliant Energy, Incorporated" are deleted and replaced in lieu thereof with "CenterPoint Energy, Inc." and the definition of "Company" in Section 3 of the Plan is hereby amended to read as follows:

"`COMPANY' means CenterPoint Energy, Inc., a Texas corporation."

2. Effective as of October 2, 2002, the Plan is hereby renamed the Long-Term Incentive Plan of CenterPoint Energy, Inc., with all related references in the Plan amended accordingly.

3. Effective as of December 1, 2003, Section 13 of the Plan is hereby amended by adding the following new paragraph to the end thereof:

"The foregoing notwithstanding, an Option granted under this Plan shall become transferable by the Employee upon or after his termination of employment with the Company, to the extent the Option is vested and exercisable at the time of such transfer, if (i) the former Employee assumes an office or position with a federal, state or local government or agency or instrumentality thereof (whether by employment, appointment or election, and whether legislative, executive, judicial or administrative) and (ii) following written request to the Committee identifying the office

or position and the basis for the requested determination, the Committee determines, in its sole discretion, that by reason of the former Employee's holding of such office or position, the holding of such Option, the exercise thereof or the acquisition, holding or voting of the Common Stock issuable upon exercise thereof is, or is likely to, (x) be prohibited or restricted by law, regulation or order, or (y) give rise to or result in an actual or potential conflict of interest, disqualification or similar impediment in or to the exercise of the duties and responsibilities or such office or position."

IN WITNESS WHEREOF, CenterPoint Energy, Inc. has caused these presents to be executed by its duly authorized officer in a number of copies, all of which shall constitute one and the same instrument, which may be sufficiently evidenced by any executed copy hereof, this 1st day of December 2003, but effective as of the dates specified above.

CENTERPOINT ENERGY, INC.

By /s/ David M. McClanahan

-----  
David M. McClanahan  
President and Chief Executive Officer

ATTEST:

/s/ Richard B. Dauphin

-----  
Assistant Secretary



CENTERPOINT ENERGY, INC.  
STOCK PLAN FOR OUTSIDE DIRECTORS  
(AS AMENDED AND RESTATED EFFECTIVE MAY 7, 2003)

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ARTICLE I

PURPOSE

The purpose of this CenterPoint Energy, Inc. Stock Plan for Outside Directors, as amended and restated effective May 7, 2003 (the "Plan") is to provide for a method of compensation of Outside Directors of CenterPoint Energy, Inc. and any successor thereto (the "Company") that will strengthen the alignment of their financial interests with those of the Company's shareholders through increased ownership of shares of the Company's Common Stock by such Outside Directors. The Plan is intended to (i) enhance the Company's ability to maintain a competitive position in attracting and retaining qualified Outside Directors who contribute, and are expected to contribute, materially to the success of the Company and its Subsidiaries; (ii) provide a means of compensating such Outside Directors whereby the compensation received will have a value dependent on the price of the Common Stock; and (iii) enhance the interest of such Outside Directors in the Company's continued success and progress by further aligning each Outside Director's interests with those of the Company's shareholders. Stock Awards under this Plan shall be in addition to the annual retainer fee and meeting fees earned by Outside Directors of the Company.

ARTICLE II

DEFINITIONS

For purposes of the Plan, the terms set forth below shall have the following meanings:

"ANNUAL AWARD DATE" means the first business day of the month immediately following each Annual Meeting of Shareholders, commencing with the June 2nd following the May 7, 2003 Annual Meeting of Shareholders of the Company.

"BOARD" means the Board of Directors of the Company.

A "CHANGE OF CONTROL" shall be deemed to have occurred upon the occurrence of any of the following events:

(a) 30% Ownership Change: Any Person makes an acquisition of Outstanding Voting Stock and is, immediately thereafter, the beneficial owner of 30% or more of the then Outstanding Voting Stock, unless such acquisition is made directly from the Company in a transaction approved by a majority of the Incumbent Directors; or any group is formed that is the beneficial owner of 30% or more of the Outstanding Voting Stock; or

(b) Board Majority Change: Individuals who are Incumbent Directors cease for any reason to constitute a majority of the members of the Board; or

(c) Major Mergers and Acquisitions: Consummation of a Business Combination unless, immediately following such Business Combination, (i) all or substantially all of the individuals and entities that were the beneficial owners of the Outstanding Voting Stock immediately prior to such Business Combination beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Voting Stock, (ii) if the Business Combination involves the issuance or payment by the Company of consideration to another entity or its shareholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired (in each case, determined as of the date of consummation of such Business Combination by a majority of the Incumbent Directors) does not exceed 50% of the sum of the fair market value of the Outstanding Voting Stock plus the principal amount of the Company's consolidated long-term debt (in each case, determined immediately prior to such consummation by a majority of the Incumbent Directors), (iii) no Person (other than any corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of voting stock of the parent corporation resulting from such Business Combination and (iv) a majority of the members of the board of directors of the parent corporation resulting from such Business Combination were Incumbent Directors of the Company immediately prior to consummation of such Business Combination; or

(d) Major Asset Dispositions: Consummation of a Major Asset Disposition unless, immediately following such Major Asset Disposition, (i) individuals and entities that were beneficial owners of the Outstanding Voting Stock immediately prior to such Major Asset Disposition beneficially own, directly or indirectly, more than 70% of the then outstanding shares of voting stock of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) and (ii) a majority of the members of the board of directors of the Company (if it continues to exist) and of the entity that acquires the largest portion of such assets (or the entity, if any, that owns a majority of the outstanding voting stock of such acquiring entity) were Incumbent Directors of the Company immediately prior to consummation of such Major Asset Disposition.

For purposes of the foregoing,

(1) the term "Person" means an individual, entity or group;

(2) the term "group" is used as it is defined for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act");

(3) the term "beneficial owner" is used as it is defined for purposes of Rule 13d-3 under the Exchange Act;

(4) the term "Outstanding Voting Stock" means outstanding voting securities of the Company entitled to vote generally in the election of directors; and any specified percentage or portion of the Outstanding Voting Stock (or of other voting stock) shall be determined based on the combined voting power of such securities;

(5) the term "Incumbent Director" means a director of the Company (x) who was a director of the Company on May 7, 2003 or (y) who becomes a director subsequent to such date and whose election, or nomination for election by the Company's shareholders, was approved by a vote of a majority of the Incumbent Directors at the time of such election or nomination, except that any such director shall not be deemed an Incumbent Director if his or her initial assumption of office occurs as a result of an actual or threatened election contest or other actual or threatened solicitation of proxies by or on behalf of a Person other than the Board;

(6) the term "election contest" is used as it is defined for purposes of Rule 14a-11 under the Exchange Act;

(7) the term "Business Combination" means (x) a merger or consolidation involving the Company or its stock or (y) an acquisition by the Company, directly or through one or more subsidiaries, of another entity or its stock or assets;

(8) the term "parent corporation resulting from a Business Combination" means the Company if its stock is not acquired or converted in the Business Combination and otherwise means the entity which as a result of such Business Combination owns the Company or all or substantially all the Company's assets either directly or through one or more subsidiaries; and

(9) the term "Major Asset Disposition" means the sale or other disposition in one transaction or a series of related transactions of 70% or more of the assets of the Company and its subsidiaries on a consolidated basis; and any specified percentage or portion of the assets of the Company shall be based on fair market value, as determined by a majority of the Incumbent Directors.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMMON STOCK" means, subject to the provisions of Section 7.3, the presently authorized common stock, \$0.01 par value, of the Company.

"COMPANY" means CenterPoint Energy, Inc., a Texas corporation, and any successor thereto.

"DIVIDEND EQUIVALENTS" means, with respect to shares of Common Stock issued or delivered at the end of the Restriction Period applicable to a Stock Award, an amount equal to all dividends and other distributions (or the economic value thereof) that are payable to shareholders of record during the Restriction Period on a like number of shares of Common Stock.

"OUTSIDE DIRECTOR" means a person who is a member of the Board on an Annual Award Date and who is not a current employee of the Company or a Subsidiary.

"PLAN" means the CenterPoint Energy, Inc. Stock Plan for Outside Directors, as set forth herein and as from time to time amended.

"RESTRICTION PERIOD" means the period of time beginning as of the grant date of a Stock Award and ending on the third anniversary of the grant date or such earlier time at which the Common Stock subject to such Stock Award is no longer subject to forfeiture provisions as provided in Section 5.3.

"STOCK AWARD" means an award of the right to receive shares of Common Stock granted by the Company to an Outside Director pursuant to, and subject to the terms, conditions and limitations specified in, Article V.

"SUBSIDIARY" means a subsidiary corporation of the Company as defined in Section 424(f) of the Code.

### ARTICLE III

#### SHAREHOLDER APPROVAL, RESERVATION OF SHARES AND PLAN ADMINISTRATION

3.1 Shareholder Approval: This Plan was originally effective as of May 22, 1996, and approved by the shareholders of the Company at the May 22, 1996 Annual Meeting of Shareholders ("Prior Plan"). The Plan, as amended and restated, shall become effective as of May 7, 2003, only if approved by the affirmative vote, in person or by proxy, of the holders of a majority of the shares of Common Stock present and entitled to vote at the May 7, 2003 Annual Meeting of Shareholders. This Plan, as amended and restated, shall automatically terminate should such shareholder approval not be obtained (and the Prior Plan as in effect immediately prior to May 7, 2003, shall continue in operation as then in effect).

3.2 Shares Reserved Under Plan: The aggregate number of shares of Common Stock which may be issued or delivered under this Plan shall not exceed 350,000 shares, subject to adjustment as hereinafter provided. All or any part of such 350,000 shares may be issued pursuant to Stock Awards. The shares of Common Stock which may be granted pursuant to Stock Awards may consist of either authorized but unissued shares of Common Stock or shares of Common Stock which have been issued and which shall have been heretofore or are hereafter reacquired by the Company. The number of shares of Common Stock that are subject to Stock Awards under this Plan that are forfeited or terminated shall again immediately become available for Stock Awards hereunder. The Board may from time to time adopt and observe such

procedures concerning the counting of shares against the Plan maximum as it may deem appropriate. The total number of shares authorized under this Plan shall be subject to increase or decrease in order to give effect to the adjustment provision of Section 7.3 and to give effect to any amendment adopted as provided in Section 6.1.

### 3.3 Plan Administration:

(a) This Plan shall be administered by the Board. Subject to the provisions hereof, the Board shall have full and exclusive power and authority to administer this Plan and to take all actions that are specifically contemplated hereby or are necessary or appropriate in connection with the administration hereof. The Board shall also have full and exclusive power to interpret this Plan and to adopt such rules, regulations and guidelines for carrying out this Plan as it may deem necessary or proper, all of which powers shall be exercised in the best interests of the Company and in keeping with the objectives of this Plan. The Board may correct any defect or supply any omission or reconcile any inconsistency in this Plan or in any Stock Award in the manner and to the extent the Board deems necessary or desirable. Any decision of the Board in the interpretation and administration of this Plan shall lie within its sole and absolute discretion and shall be final, conclusive and binding on all parties concerned. The Board may engage in or authorize the engagement of a third party administrator to carry out administrative functions under the Plan.

(b) No member of the Board or officer of the Company to whom the Board has delegated authority in accordance with the provisions of this Section shall be liable for anything done or omitted to be done by him or her, by any member of the Board or by any officer of the Company in connection with the performance of any duties under this Plan, except for his or her own willful misconduct or as expressly provided by statute.

## ARTICLE IV

### PARTICIPATION IN PLAN

4.1 Eligibility to Receive Stock Awards: Stock Awards under this Plan shall be granted only to persons who are Outside Directors who are eligible to receive awards under Section 5.1 and/or 5.2.

4.2 Participation Not a Guarantee of Continuing Service as a Member of the Board: Nothing in this Plan shall in any manner be construed to (a) limit in any way the right or power of the Company's stockholders to remove an Outside Director, without regard to the effect of such removal on any rights such Outside Director would otherwise have under this Plan, or (b) give any right to such an Outside Director (i) to be nominated for reelection or to be reelected as such and/or (ii) after ceasing to be an Outside Director, to receive any shares of Common Stock of the Company under this Plan to which such Outside Director is not entitled under the express provisions of this Plan.

ARTICLE V

STOCK AWARDS

5.1 Initial Awards: On or after the date an individual first becomes an Outside Director, at the discretion of the Board, such Outside Director may be granted a one-time, initial Stock Award consisting of the right to receive up to, but not to exceed, 5,000 shares of Common Stock, as determined by the Board, with such award subject to the terms, conditions and limitations set forth in this Plan; provided, however, that such Outside Director is then in office as of the grant date of such initial Stock Award. Any Stock Award under this Section 5.1 shall be in addition to, and not in lieu of, any Stock Award granted under Section 5.2.

5.2 Annual Awards: As of each Annual Award Date, at the discretion of the Board, each Outside Director then in office may be granted a Stock Award consisting of the right to receive up to, but not to exceed, 5,000 shares of Common Stock, as determined by the Board, with such awards subject to the terms, conditions and limitations set forth in this Plan.

5.3 Vesting of Stock Awards: Each Stock Award granted under this Plan shall be subject to a Restriction Period and shall vest in increments of one-third (1/3) of the total number of shares of Common Stock that are subject thereto on the first, second and third anniversaries of the grant date of the Stock Award such that all shares of Common Stock that are subject thereto shall be fully vested on the third anniversary of such grant date. Notwithstanding the foregoing, a Stock Award shall become immediately vested in full with respect to all shares of Common Stock that are subject to a Stock Award as of such date (a) if the Outside Director terminates his or her status as a member of the Board by reason of the Outside Director's death or (b) upon the date of a Change of Control. If an Outside Director's service on the Board is terminated for any reason whatsoever, other than due to death or a Change of Control, all rights to the unvested portion of his or her Stock Award(s) as of such termination date shall be immediately and completely forfeited as of such termination date. For purposes of this Plan, an Outside Director's service on the Board shall be deemed to have terminated at the close of business on the day preceding the first date on which he or she ceases to be a member of the Board, unless his or her termination of service on the Board occurs on or after attaining age 70, in which case the Outside Director's termination date shall be deemed to be the last day of the year in which such termination occurs.

5.4 Form of Award: Upon vesting in accordance with Section 5.3, the number of vested shares of Common Stock subject to the Stock Award shall be registered in the name of the Outside Director and certificates representing such Common Stock (unless the Company shall elect to use uncertificated shares) shall be delivered to the Outside Director as soon as practicable after the date upon which the Outside Director's right to such shares vested. Upon delivery of the vested shares of Common Stock pursuant to this Section, the Outside Director shall also be entitled to receive a cash payment equal to the sum of all Dividend Equivalents, if any.

## ARTICLE VI

### AMENDMENT AND TERMINATION OF PLAN

6.1 Amendment, Modification, Suspension or Termination: The Board may from time to time amend, modify, suspend or terminate the Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law except that no amendment or alteration shall be effective prior to approval by the Company's shareholders to the extent such approval is determined to be required by applicable legal requirements or the listing standards of the New York Stock Exchange.

6.2 Termination: Subject to satisfaction of the requirements of Section 3.1, this Plan shall continue indefinitely until all shares of Common Stock authorized for issuance or delivery hereunder by Section 3.2 hereof have been issued, except the Board may at any time terminate this Plan as of any date specified in a resolution adopted by the Board. No Stock Awards may be granted after this Plan has terminated. The termination of the Plan shall not affect the applicability of any provision of the Plan to Stock Awards made prior to such termination.

## ARTICLE VII

### MISCELLANEOUS PROVISIONS

7.1 Restrictions Upon Grant of Stock Awards: The listing on the New York Stock Exchange or the registration or qualification under any federal or state law of any shares of Common Stock to be granted pursuant to this Plan (whether to permit the grant of Stock Awards or the resale or other disposition of any such shares of Common Stock by or on behalf of the Outside Directors receiving such shares) may be necessary or desirable and, in any such event, if the Company so determines, issuance or delivery of such shares of Common Stock shall not be made until such listing, registration or qualification shall have been completed. In such connection, the Company agrees that it will use its best efforts to effect any such listing, registration or qualification, provided, however, that the Company shall not be required to use its best efforts to effect such registration under the Securities Act of 1933, as amended, other than on Form S-8, as presently in effect, or other such forms as may be in effect from time to time calling for information comparable to that presently required to be furnished under Form S-8.

7.2 Restrictions Upon Resale of Unregistered Stock: If the shares of Common Stock that have been transferred to an Outside Director pursuant to the terms of this Plan are not registered under the Securities Act of 1933, as amended, pursuant to an effective registration statement, such Outside Director, if the Company deems it advisable, may be required to represent and agree in writing (a) that any shares of Common Stock acquired by such Outside Director pursuant to this Plan will not be sold except pursuant to an effective registration statement under the Securities Act of 1933, as amended, or pursuant to an exemption from registration under said Act and (b) that such Outside Director is acquiring such shares of Common Stock for such Outside Director's own account and not with a view to the distribution thereof.

7.3 Adjustments: In the event of any subdivision or combination of outstanding shares of Common Stock or declaration of a dividend payable in shares of Common Stock or other stock split, then (a) the number of shares of Common Stock reserved under this Plan and (b) the number of shares delivered under Section 5.4 on any date occurring after the applicable record date or effective date shall be proportionately adjusted to reflect such transaction.

7.4 Withholding of Taxes: Unless otherwise required by applicable federal or state laws or regulations, the Company shall not withhold or otherwise pay on behalf of any Outside Director any federal, state, local or other taxes arising in connection with a Stock Award under this Plan. The payment of any such taxes shall be the sole responsibility of each Outside Director.

7.5 Governing Law: This Plan and all determinations made and actions taken pursuant hereto shall be governed by the internal laws of the State of Texas, except as federal law may apply.

7.6 Unfunded Status of Plan; Establishment of Stock Award Account: This Plan shall be an unfunded plan. The grant of shares of Common Stock pursuant to a Stock Award under this Plan shall be implemented by a credit to a bookkeeping account maintained by the Company evidencing the accrual in favor of the Outside Director of the unfunded and unsecured right to receive shares of Common Stock of the Company, which right shall be subject to the terms, conditions and restrictions set forth in the Plan. Such accounts shall be used merely as a bookkeeping convenience. The Company shall not be required to establish any special or separate fund or reserve or to make any other segregation of assets to assure the issuance of any shares of Common Stock granted under this Plan. Except as otherwise provided in this Plan, the shares of Common Stock credited to the Outside Director's bookkeeping account may not be sold, assigned, transferred, pledged or otherwise encumbered until the Outside Director has been registered as the holder of such shares of Common Stock on the records of the Company as provided in Section 5.4. Neither the Company nor the Board shall be required to give any security or bond for the performance of any obligation that may be created by this Plan.

7.7 No Assignment or Transfer: No rights to receive Stock Awards under the Plan shall be assignable or transferable by an Outside Director except by will or the laws of descent and distribution.

CENTERPOINT ENERGY, INC.



[TEXASGENCO LOGO]

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CREDIT AGREEMENT

among

TEXAS GENCO HOLDINGS, INC.,

TEXAS GENCO GP, LLC,

TEXAS GENCO LP, LLC,

TEXAS GENCO SERVICES, LP,

TEXAS GENCO, LP,

VARIOUS LENDERS,

DEUTSCHE BANK AG NEW YORK BRANCH,

as Administrative Agent and Collateral Agent

and

COMPASS BANK,

as Documentation Agent

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Dated as of December 23, 2003

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\$75,000,000

DEUTSCHE BANK SECURITIES INC.,

as LEAD ARRANGER and BOOK RUNNER

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[DEUTSCHE BANK LOGO]

[COMPASS BANK LOGO]

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CREDIT AGREEMENT, dated as of December 23, 2003, among TEXAS GENCO HOLDINGS, INC., a Texas corporation (the "Parent"), TEXAS GENCO GP, LLC, a Texas limited liability company ("Genco GP"), TEXAS GENCO LP, LLC, a Texas limited liability company ("Genco LP"), TEXAS GENCO SERVICES, LP, a Texas limited partnership ("Genco Services") TEXAS GENCO, LP, a Texas limited partnership (the "Borrower"), the Lenders from time to time party hereto, DEUTSCHE BANK AG NEW YORK BRANCH, as Administrative Agent and Collateral Agent and COMPASS BANK, as Documentation Agent. Unless otherwise defined herein, all capitalized terms used herein and defined in Section 11 are used herein as so defined.

W I T N E S S E T H:

WHEREAS, subject to the terms and conditions set forth herein, the Lenders are willing to make available to the Borrower the credit facility provided herein;

NOW, THEREFORE, IT IS AGREED:

SECTION 1. Amount and Terms of Credit.

1.01 The Commitments. Subject to and upon the terms and conditions set forth herein, each Lender severally agrees, at any time and from time to time on and after the Effective Date and prior to the Maturity Date, to make a revolving loan or revolving loans (each, a "Loan" and, collectively, the "Loans") to the Borrower, which Loans (i) shall be denominated in Dollars, (ii) shall, at the option of the Borrower, be incurred and maintained as, and/or converted into, Base Rate Loans or Eurodollar Loans, provided that except as otherwise specifically provided in Section 1.10(b), all Loans comprising the same Borrowing shall at all times be of the same Type, (iii) may be repaid and reborrowed in accordance with the provisions hereof, (iv) shall not exceed for any Lender at any time outstanding that aggregate principal amount which, when added to (I) the aggregate principal amount of all other then outstanding Loans made by such Lender and (II) the product of (x) such Lender's Percentage and (y) the aggregate amount of all Letter of Credit Outstandings (exclusive of Unpaid Drawings which are repaid with the proceeds of, and simultaneously with the incurrence of Loans) at such time, equals the Commitment of such Lender at such time and (v) shall not exceed for all Lenders at any time outstanding that aggregate principal amount which, when added to (I) the aggregate principal amount of all Loans then outstanding and (II) the aggregate amount of all Letter of Credit Outstandings (exclusive of Unpaid Drawings which are repaid with the proceeds of, and simultaneously with the incurrence of Loans) at such time, equals the Total Commitment at such time.

1.02 Minimum Amount of Each Borrowing. The aggregate principal amount of each Borrowing of Loans shall be not less than the Minimum Borrowing Amount. More than one Borrowing may occur on the same date, but at no time shall there be outstanding more than five Borrowings of Eurodollar Loans.

1.03 Notice of Borrowing. Whenever the Borrower desires to incur Loans hereunder, a Responsible Officer of the Borrower shall give the Administrative Agent at the Notice Office, written notice (or telephonic notice promptly confirmed in writing) on the date of each Borrowing of Base Rate Loans and at least three Business Days' prior written notice (or

telephonic notice promptly confirmed in writing) of each Eurodollar Loan to be made hereunder, provided that any such notice shall be deemed to have been given on a certain day only if given before 11:00 A.M. (New York City time) on such day. Each such written notice or written confirmation of telephonic notice (each a "Notice of Borrowing"), except as otherwise expressly provided in Section 1.10, shall be irrevocable and shall be given by a Responsible Officer of the Borrower in the form of Exhibit A-1, appropriately completed to specify the aggregate principal amount of the Loans to be made pursuant to such Borrowing, the date of such Borrowing (which shall be a Business Day) and whether the Loans being made pursuant to such Borrowing are to be initially maintained as Base Rate Loans or Eurodollar Loans and, if Eurodollar Loans, the initial Interest Period to be applicable thereto. The Administrative Agent shall promptly give each Lender notice of such proposed Borrowing, of such Lender's proportionate share thereof and of the other matters required by the immediately preceding sentence to be specified in the Notice of Borrowing.

(a) Without in any way limiting the obligation of the Borrower to confirm in writing any telephonic notice of any Borrowing, conversion or prepayment of Loans, the Administrative Agent may act without liability upon the basis of telephonic notice of such Borrowing, conversion or prepayment, believed by the Administrative Agent in good faith to be from a Responsible Officer of the Borrower prior to receipt of written confirmation. In each such case, the Borrower hereby waives the right to dispute the Administrative Agent's record of the terms of such telephonic notice of such Borrowing, conversion or prepayment.

1.04 Disbursement of Funds. Except as otherwise specifically provided in the immediately succeeding sentence, no later than 12:00 Noon (New York City time) on the date specified in each Notice of Borrowing, each Lender will make available its to the Administrative Agent such Lender's Percentage of each Borrowing to be made on such date. All such amounts shall be made available in Dollars and in immediately available funds at the Payment Office, and the Administrative Agent will make available to the Borrower at the Payment Office the aggregate of the amounts so made available by the Lenders. Unless the Administrative Agent shall have been notified by any Lender prior to the date of Borrowing that such Lender does not intend to make available to the Administrative Agent such Lender's portion of any Borrowing to be made on such date, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on such date of Borrowing and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Administrative Agent by such Lender, the Administrative Agent shall be entitled to recover such corresponding amount on demand from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent shall promptly notify the Borrower to immediately pay such corresponding amount to the Administrative Agent. The Administrative Agent shall also be entitled to recover on demand from such Lender or the Borrower, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Administrative Agent to the Borrower until the date such corresponding amount is recovered by the Administrative Agent, at a rate per annum equal to (i) if recovered from such Lender, the overnight Federal Funds Rate for the first three days and at the interest rate otherwise applicable to such Loans for each day thereafter and (ii) if recovered from the Borrower, the rate of interest applicable to the respective Borrowing, as determined pursuant to Section 1.08. Nothing in this Section 1.04 shall be

deemed to relieve any Lender from its obligation to make Loans hereunder or to prejudice any rights which the Borrower may have against any Lender as a result of any failure by such Lender to make Loans hereunder.

1.05 Revolving Notes. Subject to the provisions of Section 1.05(d), the Borrower's obligation to pay the principal of, and interest on, the Loans made by each Lender shall be evidenced in the Register maintained by the Administrative Agent pursuant to Section 13.16 and shall, if requested by such Lender, also be evidenced by a promissory note duly executed and delivered by the Borrower substantially in the form of Exhibit B, with blanks appropriately completed in conformity herewith (each a "Revolving Note" and, collectively, the "Revolving Notes").

(a) Each Revolving Note issued to a Lender shall (i) be executed by the Borrower, (ii) be payable to such Lender or its registered assigns and be dated the Effective Date (or if issued thereafter, the date of issuance), (iii) be in a stated principal amount equal to the Commitment of such Lender (or, if issued after the termination thereof, be in a stated principal amount equal to the outstanding Loans of such Lender at such time) and be payable in the principal amount of the Loans evidenced thereby, (iv) mature on the Maturity Date, (v) bear interest as provided in the appropriate clause of Section 1.08 in respect of the Base Rate Loans and Eurodollar Loans, as the case may be, evidenced thereby, (vi) be subject to voluntary prepayment as provided in Section 4.01 and mandatory repayment as provided in Section 4.02 and (vii) be entitled to the benefits of this Agreement and the other Credit Documents.

(b) Each Lender will note on its internal records the amount of each Loan made by it and each payment in respect thereof and will prior to any transfer of any of its Revolving Notes endorse on the reverse side thereof the outstanding principal amount of Loans evidenced thereby. Failure to make any such notation or any error in any such notation or endorsement shall not affect the Borrower's obligations in respect of such Loans.

(c) Notwithstanding anything to the contrary contained above or elsewhere in this Agreement, Revolving Notes shall only be delivered to Lenders which at any time (or from time to time) specifically request the delivery of such Revolving Notes. No failure of any Lender to request or obtain, produce or maintain a Revolving Note evidencing its Loans to the Borrower shall affect or in any manner impair the obligations of the Borrower to pay the Loans (and all related Obligations) which would otherwise be evidenced thereby in accordance with the requirements of this Agreement, and shall not in any way affect (i) the guaranties therefor provided pursuant to the Guaranty or any Credit Document or (ii) the security interests therefor granted pursuant to any Security Document or any other Credit Document. Any Lender which does not have a Revolving Note evidencing its outstanding Loans shall in no event be required to make the notations otherwise described in preceding clause (c) of this Section 1.05. At any time when any Lender requests the delivery of a Revolving Note to evidence any of its Loans, the Borrower shall promptly execute and deliver to the respective Lender the requested Revolving Note or Revolving Notes in the appropriate amount or amounts to evidence such Loans.

1.06 Conversions. The Borrower shall have the option to convert, on any Business Day, all or a portion equal to at least the Minimum Borrowing Amount of the outstanding principal amount of Loans made pursuant to one or more Borrowings of one or more Types



of Loans into a Borrowing of another Type of Loan, provided that (i) except as otherwise provided in Section 1.10(b), Eurodollar Loans may be converted into Base Rate Loans only on the last day of an Interest Period applicable thereto and no partial conversion of Eurodollar Loans shall reduce the outstanding principal amount of such Eurodollar Loans made pursuant to a single Borrowing to less than the Minimum Borrowing Amount applicable thereto, (ii) unless the Required Lenders otherwise agree, Base Rate Loans may only be converted into Eurodollar Loans if no Default or Event of Default is in existence on the date of the conversion, and (iii) no conversion pursuant to this Section 1.06 shall result in a greater number of Borrowings of Eurodollar Loans than is permitted under Section 1.02. Each such conversion shall be effected by the Borrower by giving the Administrative Agent at the Notice Office prior to 12:00 Noon (New York City time) at least three Business Days' prior notice (each a "Notice of Conversion/Continuation") in the form of Exhibit A-2, appropriately completed to specify the Loans to be so converted, the Borrowing or Borrowings pursuant to which such Loans were made and, if to be converted into Eurodollar Loans, the Interest Period to be initially applicable thereto. The Administrative Agent shall give each Lender prompt notice of any such proposed conversion.

1.07 Pro Rata Borrowings. Each Borrowing of Loans under this Agreement shall be incurred from the Lenders pro rata on the basis of their Commitments. It is understood that no Lender shall be responsible for any default by any other Lender of its obligation to make Loans hereunder and that each Lender shall be obligated to make the Loans provided to be made by it hereunder, regardless of the failure of any other Lender to make its Loans hereunder.

1.08 Interest. The Borrower agrees to pay interest in respect of the unpaid principal amount of each Base Rate Loan from the date the proceeds thereof are made available to the Borrower until the earlier of (i) the maturity (whether by acceleration or otherwise) of such Base Rate Loan or (ii) the conversion of such Base Rate Loan to a Eurodollar Loan pursuant to Section 1.06, at a rate per annum which shall be equal to the sum of the Applicable Margin plus the Base Rate in effect from time to time.

(a) The Borrower agrees to pay interest in respect of the unpaid principal amount of each Eurodollar Loan from the date the proceeds thereof are made available to the Borrower until the earlier of (i) the maturity (whether by acceleration or otherwise) of such Eurodollar Loan or (ii) the conversion of such Eurodollar Loan to a Base Rate Loan pursuant to Section 1.06, 1.09 or 1.10, as applicable, at a rate per annum which shall, during each Interest Period applicable thereto, be equal to the sum of the Applicable Margin plus the Eurodollar Rate for such Interest Period.

(b) Overdue principal and to the extent permitted by law, overdue interest and any other amounts payable hereunder or under any other Credit Document shall, in each case bear interest at a rate per annum equal to the greater of (x) the rate which is 2% in excess of the rate then borne by such Loans and (y) the rate which is 2% in excess of the rate otherwise applicable to Base Rate Loans from time to time, and all other overdue amounts payable hereunder and under any other Credit Document shall bear interest at a rate per annum equal to the rate which is 2% in excess of the rate applicable to Base Rate Loans from time to time. Interest which accrues under this Section 1.08(c) shall be payable by the Borrower on demand.

(c) Accrued (and theretofore unpaid) interest shall be payable (i) in respect of each Base Rate Loan (x) quarterly in arrears on each Quarterly Payment Date, (y) in the case of a repayment in full of all outstanding Base Rate Loans, on the date of such repayment or prepayment, and (z) at maturity (whether by acceleration or otherwise) or such earlier date upon which the Total Commitment is terminated and, after such date, on demand, and (ii) in respect of each Eurodollar Loan (x) on the last day of each Interest Period applicable thereto and, in the case of an Interest Period in excess of three months, on each date occurring at three month intervals after the first day of such Interest Period and (y) on any repayment or prepayment (on the amount repaid or prepaid), at maturity (whether by acceleration or otherwise) and, after such maturity, on demand.

(d) Upon each Interest Determination Date, the Administrative Agent shall determine the Eurodollar Rate for the respective Interest Period or Interest Periods and shall promptly notify the Borrower and the Lenders thereof. Each such determination shall, absent manifest error, be final and conclusive and binding on all parties hereto.

1.09 Interest Periods. At the time the Borrower gives any Notice of Borrowing or Notice of Conversion/Continuation in respect of the making of, or conversion into, any Eurodollar Loan (in the case of the initial Interest Period applicable thereto) or on the third Business Day prior to the expiration of an Interest Period applicable to such Eurodollar Loan (in the case of any subsequent Interest Period), the Borrower shall have the right to elect, by having a Responsible Officer of the Borrower give the Administrative Agent notice thereof (including, without limitation, in any Notice of Borrowing made in connection with a Eurodollar Loan), the interest period (each an "Interest Period") applicable to such Eurodollar Loan, which Interest Period shall, at the option of the Borrower, be a one, two, three or six-month period (or, if agreed by all Lenders, nine months), provided that:

(i) all Eurodollar Loans comprising a Borrowing shall at all times have the same Interest Period;

(ii) the initial Interest Period for any Eurodollar Loan shall commence on the date of Borrowing of such Eurodollar Loan (including the date of any conversion thereto from a Loan of a different Type) and each Interest Period occurring thereafter in respect of such Eurodollar Loan shall commence on the day on which the next preceding Interest Period applicable thereto expires;

(iii) if any Interest Period relating to a Eurodollar Loan begins on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, such Interest Period shall end on the last Business Day of such calendar month; (iv) if any Interest Period would otherwise expire on a day which is not a Business Day, such Interest Period shall expire on the next succeeding Business Day; provided, however, that if any Interest Period for a Eurodollar Loan would otherwise expire on a day which is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Interest Period shall expire on the next preceding Business Day;

(v) unless the Required Lenders otherwise agree, no Interest Period may be selected at any time when a Default or an Event of Default is then in existence; and

(vi) no Interest Period in respect of any Borrowing of Eurodollar Loans shall be selected which extends beyond the Maturity Date.

If upon the expiration of any Interest Period applicable to a Borrowing of Eurodollar Loans, the Borrower has failed to elect, or is not permitted to elect, a new Interest Period to be applicable to such Eurodollar Loans as provided above, the Borrower shall be deemed to have elected to convert such Eurodollar Loans into Base Rate Loans effective as of the expiration date of such current Interest Period.

1.10 Increased Costs, Illegality, etc. (a) In the event that any Lender shall have determined (which determination shall, absent manifest error, be final and conclusive and binding upon all parties hereto but, with respect to clause (i) below, may be made only by the Administrative Agent):

(i) on any Interest Determination Date that, by reason of any changes arising after the Effective Date affecting the interbank Eurodollar market, adequate and fair means do not exist for ascertaining the applicable interest rate on the basis provided for in the definition of Eurodollar Rate; or

(ii) at any time, that such Lender shall incur increased costs or reductions in the amounts received or receivable hereunder with respect to any Eurodollar Loan because of any change since the Effective Date in any applicable law or governmental rule, regulation, order, guideline or request (whether or not having the force of law) or in the interpretation or administration thereof and including the introduction of any new law or governmental rule, regulation, order, guideline or request, such as, for example, but not limited to: (A) a change in the basis of taxation of payment to any Lender of the principal of or interest on the Loans or the Revolving Notes or any other amounts payable hereunder (except for changes in the rate of tax on, or determined by reference to, the net income or net profits of such Lender pursuant to the laws of the jurisdiction in which it is organized or in which its principal office or applicable lending office is located or any subdivision thereof or therein), or (B) a change in official reserve requirements, but, in all events, excluding reserves required under Regulation D to the extent included in the computation of the Eurodollar Rate; or

(iii) at any time, that the making or continuance of any Eurodollar Loan has been made (x) unlawful by any law or governmental rule, regulation or order, (y) impossible by compliance by any Lender in good faith with any governmental request (whether or not having force of law) or (z) impracticable as a result of a contingency occurring after the Effective Date which materially and adversely affects the interbank Eurodollar market;

then, and in any such event, such Lender (or the Administrative Agent, in the case of clause (i) above) shall promptly give notice (by telephone confirmed in writing) to the Borrower and, except in the case of clause (i) above, to the Administrative Agent of such determination (which notice the Administrative Agent shall promptly transmit to each of the other Lenders). Thereafter (x) in the case of clause (i) above, Eurodollar Loans shall no longer

be available until such time as the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice by the Administrative Agent no longer exist, and any Notice of Borrowing or Notice of Conversion/Continuation given by the Borrower with respect to Eurodollar Loans which have not yet been incurred (including by way of conversion) shall be deemed rescinded by the Borrower, (y) in the case of clause (ii) above, the Borrower agrees to pay to such Lender, upon written demand therefor, such additional amounts (in the form of an increased rate of, or a different method of calculating, interest or otherwise as such Lender in its sole discretion shall determine) as shall be required to compensate such Lender for such increased costs or reductions in amounts received or receivable hereunder (a written notice as to the additional amounts owed to such Lender, showing the basis for the calculation thereof, submitted to the Borrower by such Lender in good faith shall, absent manifest error, be final and conclusive and binding on all the parties hereto) and (z) in the case of clause (iii) above, the Borrower shall take one of the actions specified in Section 1.10(b) as promptly as possible and, in any event, within the time period required by law.

(b) At any time that any Eurodollar Loan is affected by the circumstances described in Section 1.10(a)(ii) or (iii), the Borrower may (and in the case of a Eurodollar Loan affected by the circumstances described in Section 1.10(a)(iii) shall) either (x) if the affected Eurodollar Loan is then being made initially or pursuant to a conversion, cancel the respective Borrowing by giving the Administrative Agent telephonic notice (confirmed in writing) on the same date that the Borrower was notified by the affected Lender or the Administrative Agent pursuant to Section 1.10(a)(ii) or (iii) or (y) if the affected Eurodollar Loan is then outstanding, upon at least three Business Days' written notice to the Administrative Agent, require the affected Lender to convert such Eurodollar Loan into a Base Rate Loan, provided that if more than one Lender is affected at any time, then all affected Lenders must be treated the same pursuant to this Section 1.10(b).

(c) If at any time after the Effective Date any Lender determines that the introduction of or any change in any applicable law or governmental rule, regulation, order, guideline, directive or request (whether or not having the force of law) concerning capital adequacy, or any change in interpretation or administration thereof by any governmental authority, central bank or comparable agency, will have the effect of increasing the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender based on the existence of such Lender's Commitment hereunder or its obligations hereunder, then the Borrower agrees to pay to such Lender, upon its written demand therefor, such additional amounts as shall be required to compensate such Lender or such other corporation for the increased cost to such Lender or such other corporation or the reduction in the rate of return to such Lender or such other corporation as a result of such increase of capital. In determining such additional amounts, each Lender will act reasonably and in good faith and will use averaging and attribution methods which are reasonable, provided that such Lender's determination of compensation owing under this Section 1.10(c) shall, absent manifest error, be final and conclusive and binding on all the parties hereto. Each Lender, upon determining that any additional amounts will be payable pursuant to this Section 1.10(c), will give written notice thereof to the Borrower, which notice shall show the basis for calculation of such additional amounts.

(d) The provisions contained in this Section 1.10 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that in

no event shall the Borrower be obligated to reimburse or compensate any Lender for amounts contemplated by this Section 1.10 for any period prior to the date that is 90 days prior to the date upon which such Lender requests in writing such reimbursement or compensation from the Borrower. This Section 1.10(d) shall have no applicability to any other Section of this Agreement.

1.11 Compensation. The Borrower agrees to compensate each Lender, upon its written request (which request shall set forth the basis for requesting such compensation), for all reasonable losses, expenses and liabilities (including, without limitation, any loss, expense or liability incurred by reason of the liquidation or reemployment of deposits or other funds required by such Lender to fund its Eurodollar Loans but excluding any loss of anticipated profit) which such Lender may sustain: (i) if for any reason (other than a default by such Lender) a Borrowing of, or conversion from or into, Eurodollar Loans does not occur on a date specified therefor in a Notice of Borrowing or Notice of Conversion/Continuation (whether or not withdrawn by the Borrower or deemed withdrawn pursuant to Section 1.10(a)); (ii) if any repayment (including any repayment made pursuant to Section 1.13, 1.14, 4.02 or 13.12(b) or as a result of an acceleration of the Loans pursuant to Section 10) or conversion of any of its Eurodollar Loans occurs on a date which is not the last day of an Interest Period with respect thereto; (iii) if any prepayment of any of its Eurodollar Loans is not made on any date specified in a notice of prepayment given by the Borrower; or (iv) as a consequence of (x) any other default by the Borrower to repay its Loans when required by the terms of this Agreement or any Revolving Note held by such Lender or (y) any election made pursuant to Section 1.10(b). The provisions contained in this Section 1.11 shall survive the termination of this Agreement and the payment of all amounts payable hereunder; provided, however, that in no event shall the Borrower be obligated to reimburse or compensate any Lender for amounts contemplated by this Section 1.11 for any period prior to the date that is 90 days prior to the date upon which such Lender requests in writing such reimbursement or compensation from the Borrower, provided, further, that this sentence shall have no applicability to any other Section of this Agreement

1.12 Change of Lending Office. Each Lender agrees that upon the occurrence of any event giving rise to the operation of Section 1.10(a)(ii) or (iii), Section 1.10(c), Section 2.06 or Section 4.04 with respect to such Lender, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Lender) to designate another lending office for any Loans or Letters of Credit affected by such event, provided that such designation is made on such terms that such Lender and its lending office suffer no economic, legal or regulatory disadvantage, with the object of avoiding the consequence of the event giving rise to the operation of such Section. Nothing in this Section 1.12 shall affect or postpone any of the obligations of the Borrower or the rights of any Lender provided in Sections 1.10, 2.06 and 4.04.

1.13 Replacement of Lenders. If any Lender becomes a Defaulting Lender or otherwise defaults in its obligations to make Loans or fund Unpaid Drawings, (b) upon the occurrence of any event giving rise to the operation of Section 1.10(a)(ii) or (iii), Section 1.10(c), Section 2.06 or Section 4.04 with respect to any Lender which results in such Lender charging to the Borrower increased costs in excess of those being generally charged by the other Lenders, (c) if any Lender becomes a Non-Continuing Lender pursuant to Section 1.14 or (d) if the Borrower elects to terminate a Lender's Commitment as provided in Section 13.12(b), then, in each case the Borrower shall have the right, if no Default or Event of Default will exist immediately after

giving effect to the respective replacement, to replace such Lender (the "Replaced Lender") with one or more other Eligible Transferee or Transferees, none of whom shall constitute a Defaulting Lender at the time of such replacement (collectively, the "Replacement Lender") reasonably acceptable to the Administrative Agent, provided that (i) at the time of any replacement pursuant to this Section 1.13, the Replacement Lender shall enter into one or more Assignment and Assumption Agreements pursuant to Section 13.04(b) (and with all fees payable pursuant to said Section 13.04(b) to be paid by the Replacement Lender) pursuant to which the Replacement Lender shall acquire all of the Commitments and outstanding Loans of, and participations in Letters of Credit by, the Replaced Lender and, in connection therewith, shall pay to (x) the Replaced Lender in respect thereof an amount equal to the sum of (A) an amount equal to the principal of, and all accrued interest on, all outstanding Loans of the Replaced Lender, (B) an amount equal to all Unpaid Drawings that have been funded by (and not reimbursed to) such Replaced Lender, together with all then unpaid interest with respect thereto at such time and (C) an amount equal to all accrued, but theretofore unpaid, Fees owing to the Replaced Lender pursuant to Section 3.01 and (y) each Issuing Lender an amount equal to such Replaced Lender's Percentage of any Unpaid Drawing (which at such time remains an Unpaid Drawing) to the extent such amount was not theretofore funded by such Replaced Lender to such Issuing Lender, and (ii) all obligations of the Borrower owing to the Replaced Lender (other than those specifically described in clause (i) above in respect of which the assignment purchase price has been, or is concurrently being, paid) shall be paid in full to such Replaced Lender concurrently with such replacement. Upon the execution of the respective Assignment and Assumption Agreements, the payment of amounts referred to in clauses (i) and (ii) above and, if so requested by the Replacement Lender, delivery to the Replacement Lender of the appropriate Revolving Notes executed by the Borrower, the Replacement Lender shall become a Lender hereunder and the Replaced Lender shall cease to constitute a Lender hereunder, except with respect to indemnification provisions under this Agreement (including, without limitation, Sections 1.10, 1.11, 2.06, 4.04, 13.01 and 13.06), which shall survive as to such Replaced Lender.

1.14 Recommitment; Replacement of Non-Continuing Lender. So long as no Default or Event of Default has occurred and is continuing, the Borrower may, prior to (but not less than 30 days nor more than 45 days prior to) the Maturity Date then in effect, by written notice (each such notice, a "Recommitment Request") to the Administrative Agent (which notice the Administrative Agent shall promptly transmit to each Lender), request that the Maturity Date then in effect be extended to a date occurring 364 days after such Maturity Date. Each Recommitment Request shall be accompanied by a certificate of a Responsible Officer of the Borrower stating that no Default or Event of Default has occurred and is continuing. Each Lender shall, in its sole discretion, consent to such Recommitment Request no less than 10 Business Days prior to the Maturity Date then in effect (each such date, a "Recommitment Deadline"), in writing to the Borrower and the Administrative Agent, with the failure of any Lender to consent on or prior to the Recommitment Deadline being deemed to be a negative response. If each Lender, in its sole discretion, shall consent to such Recommitment Request, by the relevant Recommitment Deadline, the Maturity Date then in effect shall be automatically extended to the date occurring 364 days following such Maturity Date and the term "Maturity Date" shall automatically be deemed amended to such date with no further action on the part of the Lenders or the Borrower. If the consent of each Lender in respect of such Recommitment Request shall not have been obtained, the Borrower may prior to the Maturity Date then in effect, (i) replace each such Lender failing to consent to such Recommitment Request (each such

Lender, a "Non-Continuing Lender") in accordance with Section 1.13, and in the event that the Replacement Lender with respect to each such Non-Continuing Lender shall consent to such Recommitment Request prior to the Maturity Date then in effect, such Recommitment Request shall be effective as if each Lender had originally consented to such request or (ii) terminate each such Non-Continuing Lender's Commitment and repay such Non-Continuing Lender's Loans pursuant to Section 3.02(b), 4.01(b) and 13.12(b), and upon taking all actions required thereby in connection with such removal, such Recommitment Request shall be effective as if each Lender had originally consented to such request. Promptly upon the effectiveness of any extension of the Maturity Date pursuant to this Section 1.14, the Administrative Agent shall notify each Lender and the Borrower of such effectiveness and the Maturity Date then in effect (after giving effect to the extension thereof) which Maturity Date shall absent manifest error, be final, conclusive and binding on all parties hereto.

## SECTION 2. Letters of Credit.

2.01 Letters of Credit. Subject to and upon the terms and conditions herein set forth, the Borrower may request that any Issuing Lender issue, at any time and from time to time on and after the Effective Date and prior to the fifth Business Day prior to the Maturity Date, for the account of the Borrower and in support of, such obligations (that arise in the ordinary course of business in respect of general corporate purposes and are not otherwise prohibited hereunder) of the Borrower and its Subsidiaries to any other Person, an irrevocable standby letter of credit, in a form customarily used by such Issuing Lender (including Letters of Credit governed by ISP98) or in such other form as has been approved by such Issuing Lender (each such letter of credit, together with any amendments thereto and any extensions thereof, a "Letter of Credit" and, collectively, the "Letters of Credit"). All Letters of Credit shall be denominated in Dollars and shall be issued on a sight basis only.

(a) Subject to and upon the terms and conditions set forth herein, each Issuing Lender agrees that it will, at any time and from time to time on or after the Effective Date and prior to the fifth Business Day prior to the Maturity Date, following its receipt of the respective Letter of Credit Request, issue for the account of the Borrower one or more Letters of Credit as is permitted to exist pursuant to this Agreement without giving rise to a Default or Event of Default hereunder, provided that the respective Issuing Lender shall be under no obligation to issue any Letter of Credit of the types described above if at the time of such issuance:

(i) any order, judgment or decree of any governmental authority or arbitrator shall purport by its terms to enjoin or restrain such Issuing Lender from issuing such Letter of Credit or any requirement of law applicable to such Issuing Lender or any request or directive (whether or not having the force of law) from any governmental authority with jurisdiction over such Issuing Lender shall prohibit, or request that such Issuing Lender refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Lender with respect to such Letter of Credit any restriction or reserve or capital requirement (for which such Issuing Lender is not otherwise compensated), in any such case not in effect on the date hereof, or any unreimbursed loss, cost or expense which was not applicable, in effect or known to such Issuing Lender as of the date hereof and which such Issuing Lender in good faith deems material to it; or

(ii) such Issuing Lender shall have determined or shall have received notice from the Administrative Agent or any Lender prior to the issuance of such Letter of Credit of the type described in the second sentence of Section 2.03(b).

(b) Notwithstanding the foregoing, (i) no Letter of Credit shall be issued the Stated Amount of which, when added to the Letter of Credit Outstandings (exclusive of Unpaid Drawings which are repaid on the date of, and prior to the issuance of, the respective Letter of Credit) at such time would exceed when added to the aggregate principal amount of all Loans then outstanding, an amount equal to the Total Commitment at such time, and (ii) each Letter of Credit shall by its terms expire on or before the fifth Business Day prior to the Maturity Date.

2.02 Minimum Stated Amount. The Stated Amount of each Letter of Credit shall not be less than \$50,000 or such lesser amount as is acceptable to the respective Issuing Lender.

2.03 Letter of Credit Requests. Whenever the Borrower desires that a Letter of Credit be issued hereunder for its account, the Borrower shall have (x) executed and delivered to the Administrative Agent and the respective Issuing Lender at least three Business Days prior to the issuance thereof (or such shorter period as may be acceptable to the respective Issuing Lender), a Letter of Credit Request in the form of Exhibit C attached hereto (each a "Letter of Credit Request").

(a) The making of each Letter of Credit Request shall be deemed to be a representation and warranty by the Borrower that (i) such Letter of Credit may be issued in accordance with, and will not violate the requirements of, Section 2.01(c) and (ii) the matters set forth in Section 7 are true and correct in all material respects on the date thereof and the matters set forth in Section 6 have been satisfied in accordance with the terms thereof. Unless the respective Issuing Lender has determined or has received notice from the Administrative Agent or any Lender before it issues a Letter of Credit that one or more of the conditions specified in Section 6 are not then satisfied, or that the issuance of such Letter of Credit would violate Section 2.01(c), then such Issuing Lender may issue the requested Letter of Credit for the account of the Borrower in accordance with such Issuing Lender's usual and customary practices. Upon the issuance of, or modification or amendment to, any Letter of Credit, the Issuing Lender thereof shall notify the Administrative Agent and the Borrower, in writing, of such issuance, modification or amendment and such notice shall be accompanied by a copy of such Letter of Credit, or modification or amendment thereto, as the case may be. Upon receipt of such notice, the Administrative Agent shall promptly notify each Lender, in writing of such issuance, modification or amendment. Notwithstanding anything to the contrary contained in this Agreement, in the event that a Lender Default exists, no Issuing Lender shall be required to issue any Letter of Credit unless such Issuing Lender has entered into arrangements satisfactory to it and the Borrower to eliminate such Issuing Lender's risk with respect to the participation in Letters of Credit by the Defaulting Lender or Lenders, including by cash collateralizing such Defaulting Lender's or Lenders' Percentage or Percentages of the Letter of Credit Outstandings.

2.04 Letter of Credit Participations. Immediately upon the issuance by any Issuing Lender of any Letter of Credit, such Issuing Lender shall be deemed to have sold and transferred to each Lender, other than such Issuing Lender (each such Lender, in its capacity under this Section 2.04, a "Participant"), and each such Participant shall be deemed irrevocably



and unconditionally to have purchased and received from such Issuing Lender, without recourse or warranty, an undivided interest and participation, to the extent of such Participant's Percentage, in such Letter of Credit and each drawing or payment made thereunder and the obligations of the Borrower under this Agreement with respect thereto, and any security therefor or guaranty pertaining thereto. Upon any change in the Commitments or Percentages of the Lenders pursuant to Section 1.13, 1.14, 3.02(b), 13.04 or 13.12(b), it is hereby agreed that, with respect to all outstanding Letters of Credit and Unpaid Drawings with respect thereto, there shall be an automatic adjustment to the participations pursuant to this Section 2.04 to reflect the new Percentages of the assignor and assignee Lender or of all Lenders, as the case may be.

(a) In determining whether to pay under any Letter of Credit, such Issuing Lender shall have no obligation relative to the other Lenders other than to confirm that any documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by any Issuing Lender under or in connection with any Letter of Credit shall not create for such Issuing Lender any resulting liability to the Borrower or any other Lender, unless such action taken or omitted to be taken was the result of gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and non-appealable proceeding) of such Issuing Lender.

(b) In the event that any Issuing Lender makes any payment under any Letter of Credit issued by it and the Borrower shall not have reimbursed such amount in full to such Issuing Lender pursuant to Section 2.05(a), such Issuing Lender shall promptly notify the Administrative Agent, which shall promptly notify each Participant of such failure, and each Participant shall promptly and unconditionally pay to such Issuing Lender the amount of such Participant's Percentage of such unreimbursed payment in Dollars and in same day funds. If the Administrative Agent so notifies, prior to 11:00 A.M. (New York City time) on any Business Day, any Participant required to fund a payment under a Letter of Credit, such Participant shall make available to such Issuing Lender in Dollars such Participant's Percentage of the amount of such payment on such Business Day in same day funds. If and to the extent such Participant shall not have so made its Percentage of the amount of such payment available to such Issuing Lender, such Participant agrees to pay to such Issuing Lender, forthwith on demand, such amount, together with interest thereon, for each day from such date until the date such amount is paid to such Issuing Lender at the overnight Federal Funds Rate for the first three days and at the interest rate applicable to Base Rate Loans for each day thereafter. The failure of any Participant to make available to such Issuing Lender its Percentage of any payment under any Letter of Credit shall not relieve any other Participant of its obligation hereunder to make available to such Issuing Lender its Percentage of any payment with respect to any Letter of Credit on the date required, as specified above, but no Participant shall be responsible for the failure of any other Participant to make available to such Issuing Lender such other Participant's Percentage of any such payment.

(c) Whenever any Issuing Lender receives a payment of a reimbursement obligation as to which it has received any payments from the Participants pursuant to clause (c) above, such Issuing Lender shall pay to each Participant which has paid its Percentage thereof, in Dollars and in same day funds, an amount equal to such Participant's share (based upon the proportionate aggregate amount originally funded by such Participant to the aggregate

amount funded by all Participants) of the principal amount of such reimbursement obligation and interest thereon accruing after the purchase of the respective participations.

(d) Upon the request of any Participant, the Administrative Agent shall deliver to such Participant copies of any Letters of Credit or modifications or amendments thereto and such other documentation as may be reasonably requested by such Participant.

(e) The obligations of the Participants to make payments to each Issuing Lender with respect to Letters of Credit issued thereunder shall be irrevocable and not subject to any qualification or exception whatsoever (the respective Issuing Lender's only obligation being to confirm that any documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit) and shall be made in accordance with the terms and conditions of this Agreement under all circumstances, including, without limitation, any of the following circumstances:

(i) any lack of validity or enforceability of this Agreement or any of the other Credit Documents;

(ii) the existence of any claim, setoff, defense or other right which the Borrower or any of its Subsidiaries may have at any time against a beneficiary named in a Letter of Credit, any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), the Administrative Agent, any Participant, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transaction between any Borrower and the beneficiary named in any such Letter of Credit);

(iii) any draft, certificate or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(iv) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Credit Documents; or

(v) the occurrence of any Default or Event of Default.

2.05 Agreement to Repay Letter of Credit Drawings. The Borrower hereby agrees to reimburse the respective Issuing Lender, by making payment in Dollars to the Administrative Agent at the Payment Office in immediately available funds for the account of such Issuing Lender, for any payment or disbursement made by such Issuing Lender under any Letter of Credit (each such amount so paid until reimbursed, an "Unpaid Drawing"), within one Business Day following the Issuing Lender's or the Administrative Agent's notice to the Borrower of such payment or disbursement (provided that any such notice shall be deemed to have been given on a certain day only if given before 11:00 A.M. (New York City time) on such day), with interest on the amount so paid or disbursed by such Issuing Lender, to the extent not reimbursed prior to 12:00 Noon (New York City time) on the date of such payment or disbursement, from and including the date paid or disbursed to but excluding the date such Issuing Lender was reimbursed by the Borrower therefor at a rate per annum which shall be the Base Rate in effect from time to time plus the Applicable Margin, provided, however, to the extent

such amounts are not reimbursed prior to 12:00 Noon (New York City time) on the second Business Day following notice by the Issuing Lender to the Borrower of such payment or disbursement, interest shall thereafter accrue on the amounts so paid or disbursed by such Issuing Lender (and until reimbursed by the Borrower) at a rate per annum which shall be the Base Rate in effect from time to time plus the Applicable Margin plus 2%, in each such case, with interest to be payable by the Borrower on demand (it being understood that the Borrower may simultaneously incur Loans in accordance with Section 1.01 and 1.03, in order to repay such Unpaid Drawing).

(a) The obligations of the Borrower under this Section 2.05 to reimburse the respective Issuing Lender with respect to drawings on Letters of Credit (including interest thereon) (each, a "Drawing") shall be absolute and unconditional under any and all circumstances and irrespective of (i) any setoff, counterclaim or defense to payment which the Borrower may have or have had against any Lender (including in its capacity as issuer of the Letter of Credit or as Participant), (ii) any draft, certificate or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect or (iii) any nonapplication or misapplication by the beneficiary of the proceeds of such Drawing. It being understood that, the respective Issuing Lender's only obligation to the Borrower being to confirm that any documents required to be delivered under such Letter of Credit have been delivered and that they substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by any Issuing Lender under or in connection with any Letter of Credit if taken or omitted in the absence of gross negligence or willful misconduct, as determined by a court of competent jurisdiction in a final and non-appealable proceeding, shall not create for such Issuing Lender any resulting liability to the Borrower.

2.06 Increased Costs. If at any time after the date of this Agreement, the introduction of or any change in any applicable law, rule, regulation, order, guideline or request or in the interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Issuing Lender or any Participant with any request or directive by any such authority (whether or not having the force of law), or any change in generally acceptable accounting principles, shall either (i) impose, modify or make applicable any reserve, deposit, capital adequacy or similar requirement against Letters of Credit issued by any Issuing Lender or participated in by any Participant, or (ii) impose on any Issuing Lender or any Participant any other conditions relating, directly or indirectly, to this Agreement, any Letter of Credit; and the result of any of the foregoing is to increase the cost to any Issuing Lender or any Participant of issuing, maintaining or participating in any Letter of Credit or reduce the amount of any sum received or receivable by any Issuing Lender or any Participant hereunder or reduce the rate of return on its capital with respect to Letters of Credit (except for changes in the rate of tax on, or determined by reference to, the net income or net profits of such Issuing Lender or such Participant pursuant to the laws of the jurisdiction in which it is organized or in which its principal office or applicable lending office is located or any subdivision thereof or therein), then, upon demand to the Borrower by such Issuing Lender or any Participant (a copy of which demand shall be sent by such Issuing Lender or such Participant to the Administrative Agent), the Borrower agrees to pay to such Issuing Lender or such Participant such additional amount or amounts as will compensate such Lender for such increased cost or reduction in the amount receivable or reduction on the rate of return on its capital. Any Issuing

Lender or any Participant, upon determining that any additional amounts will be payable pursuant to this Section 2.06, will give prompt written notice thereof to the Borrower, which notice shall include a certificate submitted to the Borrower by such Issuing Lender or such Participant (a copy of which certificate shall be sent by such Issuing Lender or such Participant to the Administrative Agent), setting forth in reasonable detail the basis for the calculation of such additional amount or amounts necessary to compensate such Issuing Lender or such Participant. The certificate required to be delivered pursuant to this Section 2.06 shall, and absent manifest error, be final and conclusive and binding on the Borrower.

SECTION 3. Commitment Commission; Fees; Reductions of Commitment.

3.01 Fees. The Borrower agrees to pay to the Administrative Agent for distribution to each Non-Defaulting Lender a commitment commission (the "Commitment Commission") for the period from the Effective Date to but excluding the Maturity Date (or such earlier date as the Total Commitment shall have been terminated), computed at a rate per annum equal to the Applicable Commitment Commission Percentage on the Unutilized Commitment of each such Non-Defaulting Lender as in effect from time to time. Accrued Commitment Commission shall be due and payable quarterly in arrears on each Quarterly Payment Date and at maturity (whether by acceleration or otherwise) or such earlier date upon which the Total Commitment is terminated and after such date, upon demand.

(a) The Borrower agrees to pay to the Administrative Agent for pro rata distribution to each Non-Defaulting Lender (based on each such Lender's respective Percentage) a fee in respect of each Letter of Credit (the "Letter of Credit Fee") for the period from and including the date of issuance of such Letter of Credit to and including the date of termination or expiration of such Letter of Credit, computed at a rate per annum equal to the Applicable Margin as in effect from time to time with respect to Eurodollar Loans on the daily Stated Amount of each such Letter of Credit. Accrued Letter of Credit Fees shall be due and payable quarterly in arrears on each Quarterly Payment Date and upon the first day on or after the termination of the Total Commitment upon which no Letters of Credit remain outstanding.

(b) The Borrower agrees to pay to the respective Issuing Lender, for its own account, a facing fee in respect of each Letter of Credit issued for its account hereunder (the "Facing Fee") for the period from and including the date of issuance of such Letter of Credit to and including the date of termination or expiration of such Letter of Credit, computed at a rate per annum equal to 1/8 of 1% on the daily Stated Amount of such Letter of Credit, provided that in any event the minimum amount of Facing Fees payable in any twelve-month period for each Letter of Credit shall be not less than \$500; it being agreed that, on the date of issuance of any Letter of Credit and on each anniversary thereof prior to the termination or expiration of such Letter of Credit, if \$500 will exceed the amount of Facing Fees that will accrue with respect to such Letter of Credit for the immediately succeeding twelve-month period, the full \$500 shall be payable on the date of issuance of such Letter of Credit and on each such anniversary thereof. Except as otherwise provided in the proviso to the immediately preceding sentence, accrued Facing Fees shall be due and payable quarterly in arrears on each Quarterly Payment Date and on the date upon which the Total Commitment has been terminated and all Letters of Credit have been terminated in accordance with their terms.

(c) The Borrower agrees to pay, upon each drawing under, issuance of, or amendment to any Letter of Credit, such amount as shall at the time of such event be the administrative charge and out-of-pocket expenses which the respective Issuing Lender customarily imposes in connection with such occurrence with respect to letters of credit, as the case may be.

(d) The Borrower agrees to pay to the Administrative Agent, for its own account, such other fees as have been agreed to in writing by the Borrower and the Administrative Agent.

3.02 Optional Commitment Reductions. Upon three Business Days' prior notice from a Responsible Officer of the Borrower to the Administrative Agent at the Notice Office (which notice the Administrative Agent shall promptly transmit to each of the Lenders), the Borrower shall have the right, at any time or from time to time, without premium or penalty, to terminate the Total Unutilized Commitment in whole or reduce it in part, pursuant to this Section 3.02(a), in an integral multiple of \$5,000,000, provided that each such reduction shall apply proportionately to permanently reduce the Commitment of each Lender.

(a) In connection with the Borrower's rights under Section 1.14 or 13.12(b), the Borrower may upon ten Business Days' prior written notice to the Administrative Agent at the Notice Office (which notice the Administrative Agent shall promptly transmit to each of the Lenders) terminate the Commitment of such Lender so long as all Loans, together with accrued and unpaid interest, Fees and all other amounts, owing to such Lender are repaid concurrently with the effectiveness of such termination pursuant to Section 4.01(b) (at which time Schedule I shall be deemed modified to reflect such changed amounts), and at such time, such Lender shall no longer constitute a "Lender" for purposes of this Agreement, except with respect to indemnifications under this Agreement (including, without limitation, Sections 1.10, 1.11, 2.06, 4.04, 13.01 and 13.06), which shall survive as to such repaid Lender.

3.03 Mandatory Reduction of Commitments. The Total Commitment (and the Commitment of each Lender) shall terminate in its entirety on December 31, 2003 unless this Agreement has been executed and delivered by all of the parties hereto and the Effective Date has occurred.

(a) In addition to any other mandatory commitment reductions pursuant to this Section 3.03, the Total Commitment (and the Commitment of each Lender) shall terminate in its entirety on the Maturity Date.

#### SECTION 4. Prepayments; Payments; Taxes.

4.01 Voluntary Prepayments. The Borrower shall have the right to prepay the Loans, without premium or penalty, in whole or in part at any time and from time to time on the following terms and conditions: (i) a Responsible Officer of the Borrower shall give the Administrative Agent prior to 12:00 Noon (New York City time) at the Notice Office (x) at least one Business Day's prior written notice (or telephonic notice promptly confirmed in writing) of the Borrower's intent to prepay Base Rate Loans and (y) at least three Business Days' prior written notice (or telephonic notice promptly confirmed in writing) of their intent to prepay

Eurodollar Loans, the amount of such prepayment and the Types of Loans to be prepaid and, in the case of Eurodollar Loans, the specific Borrowing or Borrowings pursuant to which made, which notice the Administrative Agent shall promptly transmit to each of the Lenders; (ii) each prepayment shall be in an aggregate principal amount of at least \$1,000,000, provided that if any partial prepayment of Eurodollar Loans made pursuant to any Borrowing shall reduce the outstanding Eurodollar Loans made pursuant to such Borrowing to an amount less than the Minimum Borrowing Amount applicable thereto, then such Borrowing may not be continued as a Borrowing of Eurodollar Loans and any election of an Interest Period with respect thereto given by the Borrower shall have no force or effect; and (iii) each prepayment in respect of any Loans made pursuant to a Borrowing shall be applied pro rata among such Loans, provided that at the Borrowers' election in connection with any prepayment of Loans pursuant to this Section 4.01(a), such prepayment shall not, so long as no Default or Event of Default then exists, be applied to the prepayment of Loans of a Defaulting Lender.

(a) In connection with rights of the Borrower under Section 1.14 or 13.12(b), the Borrower may, upon ten Business Days' prior written notice to the Administrative Agent at the Notice Office (which notice the Administrative Agent shall promptly transmit to each of the Lenders) repay all Loans, together with accrued and unpaid interest, Fees, and other amounts owing to such Lender so long as the Commitment of such Lender is terminated concurrently with such repayment pursuant to Section 3.02(b) (at which time Schedule I shall be deemed modified to reflect the changed Commitments).

4.02 Mandatory Repayments and Cash Collateralizations. (a) On any day on which the sum of (i) the aggregate outstanding principal amount of all Loans (after giving effect to all other repayments thereof on such date) and (ii) the aggregate amount of all Letter of Credit Outstandings (after giving effect to all other repayments thereof on such date) exceeds Total Commitment as then in effect, the Borrower agrees to prepay on such day the principal of Loans in an amount equal to such excess. If, after giving effect to the prepayment of all outstanding Loans, the aggregate amount of the Letter of Credit Outstandings exceeds the Total Commitment as then in effect, the Borrower agrees to pay to the Administrative Agent at the Payment Office on such date an amount of cash equal to the amount of such excess (up to a maximum amount equal to the Letter of Credit Outstandings at such time), such cash to be held as security for all obligations of the Borrower to Lenders hereunder in a cash collateral account to be established by the Administrative Agent on terms reasonably satisfactory to the Administrative Agent.

(b) With respect to each repayment of Loans required by Section 4.02(a), the Borrower may designate the Types of Loans which are to be repaid and, in the case of Eurodollar Loans, the specific Borrowing or Borrowings pursuant to which made, provided that: (i) repayments of Eurodollar Loans pursuant to Section 4.02(a) may only be made on the last day of an Interest Period applicable thereto unless all Eurodollar Loans with Interest Periods ending on such date of required repayment and all Base Rate Loans have been paid in full; (ii) if any repayment of Eurodollar Loans made pursuant to a single Borrowing shall reduce the outstanding Eurodollar Loans made pursuant to such Borrowing to an amount less than the Minimum Borrowing Amount applicable thereto, then such Borrowing shall be converted at the end of the then current Interest Period into a Borrowing of Base Rate Loans; and (iii) each repayment of Loans required by Section 4.02(a) shall be applied pro rata among such Loans. In the absence of a designation by the Borrower as described in the preceding sentence, the Administra-

tive Agent shall, subject to the above, make such designation in its sole discretion with a view, but no obligation, to minimize breakage costs owing under Section 1.11.

(c) In addition to any other mandatory repayments required pursuant to this Section 4.02, all then outstanding Loans shall be repaid in full on the Maturity Date.

4.03 Method and Place of Payment. Except as otherwise specifically provided herein, all payments under this Agreement or any Revolving Note shall be made to the Administrative Agent for the account of the Lender or Lenders entitled thereto not later than 12:00 Noon (New York City time) on the date when due and shall be made in Dollars in immediately available funds at the Payment Office. Any payments received by the Administrative Agent after such time shall be deemed to have been received on the next Business Day. Whenever any payment to be made hereunder or under any Revolving Note shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest shall be payable at the applicable rate during such extension.

4.04 Net Payments. (a) All payments made by the Borrower hereunder or under any Revolving Note will be made without setoff, counterclaim or other defense. Except as provided in Section 4.04(b), all such payments will be made free and clear of, and without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein with respect to such payments (but excluding, except as provided in the second succeeding sentence, any tax imposed on or measured by the net income or net profits of a Lender pursuant to the laws of the jurisdiction in which it is organized or the jurisdiction in which the principal office or applicable lending office of such Lender is located or any subdivision thereof or therein) and all interest, penalties or similar liabilities with respect thereto (all such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges being referred to collectively as "Taxes"). If any Taxes are so levied or imposed, the Borrower agrees to pay the full amount of such Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement or under any Revolving Note, after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein or in such Revolving Note. If any amounts are payable in respect of Taxes pursuant to the preceding sentence, the Borrower agrees to reimburse each Lender, upon the written request of such Lender, for taxes imposed on or measured by the net income or net profits of such Lender pursuant to the laws of the jurisdiction in which such Lender is organized or in which the principal office or applicable lending office of such Lender is located or under the laws of any political subdivision or taxing authority of any such jurisdiction in which such Lender is organized or in which the principal office or applicable lending office of such Lender is located and for any withholding or similar taxes as such Lender shall determine are payable by, or withheld from, such Lender but only in respect of such amounts so paid to or on behalf of such Lender pursuant to the preceding sentence and in respect of any amounts paid to or on behalf of such Lender pursuant to this sentence. The Borrower will furnish to the Administrative Agent within 45 days after the date the payment or other documentary proof providing evidence of such payment that is satisfactory to the Administrative Agent of any Taxes is due pursuant to applicable law certified copies of tax receipts evidencing such payment by the Borrower. The Borrower agrees to indemnify and hold harmless each

Lender, and reimburse such Lender upon its written request, for the amount of any Taxes so levied or imposed and paid by such Lender.

(b) Each Lender that is not a United States person (as such term is defined in Section 7701(a)(30) of the Internal Revenue Code) agrees to deliver to the Borrower and the Administrative Agent on or prior to the Effective Date, or in the case of a Lender that is an assignee or transferee of an interest under this Agreement pursuant to Section 1.13 or 13.04 (unless the respective Lender was already a Lender hereunder immediately prior to such assignment or transfer), on the date of such assignment or transfer to such Lender, (i) two accurate and complete original signed copies of Internal Revenue Service Form W-8ECI or Form W-8BEN (with respect to a complete exemption under an income tax treaty) (or successor forms) certifying to such Lender's entitlement to a complete exemption from United States withholding tax with respect to payments to be made under this Agreement and under any Revolving Note, or (ii) if the Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Internal Revenue Code and cannot deliver either Internal Revenue Service Form W-8ECI or Form W-8BEN (with respect to a complete exemption under an income tax treaty) pursuant to clause (i) above, (x) a certificate substantially in the form of Exhibit D (any such certificate, a "Section 4.04(b)(ii) Certificate") and (y) two accurate and complete original signed copies of Internal Revenue Service Form W-8BEN (with respect to the portfolio interest exemption) (or successor form) certifying to such Lender's entitlement to a complete exemption from United States withholding tax with respect to payments of interest to be made under this Agreement and under any Revolving Note. In addition, each Lender agrees that from time to time after the Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to the Borrower and the Administrative Agent two new accurate and complete original signed copies of Internal Revenue Service Form W-8ECI, Form W-8BEN (with respect to the benefits of any income tax treaty), or Form W-8BEN (with respect to the portfolio interest exemption) and a Section 4.04(b)(ii) Certificate, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any Revolving Note, or it shall immediately notify the Borrower and the Administrative Agent of its inability to deliver any such Form or Certificate, in which case such Lender shall not be required to deliver any such Form or Certificate pursuant to this Section 4.04(b). Notwithstanding anything to the contrary contained in Section 4.04(a), but subject to Section 13.04(b) and the immediately succeeding sentence, (x) the Borrower shall be entitled, to the extent it is required to do so by law, to deduct or withhold income or similar taxes imposed by the United States (or any political subdivision or taxing authority thereof or therein) from interest, fees or other amounts payable hereunder for the account of any Lender which is not a United States person (as such term is defined in Section 7701(a)(30) of the Internal Revenue Code) for U.S. Federal income tax purposes to the extent that such Lender has not provided to the Borrower U.S. Internal Revenue Service Forms that establish a complete exemption from such deduction or withholding and (y) the Borrower shall not be obligated pursuant to Section 4.04(a) hereof to gross-up payments to be made to a Lender, or to indemnify, hold harmless or reimburse such Lender, in respect of income or similar taxes imposed by the United States if (I) such Lender has not provided to the Borrower the Internal Revenue Service Forms required to be provided to the Borrower pursuant to this Section 4.04(b) or (II) in the case of a payment, other than interest, to a Lender described in clause (ii) above, to the extent that such forms do not establish a complete exemption from withholding of such taxes.



Notwithstanding anything to the contrary contained in the preceding sentence or elsewhere in this Section 4.04 and except as set forth in Section 13.04(b), the Borrower agrees to pay additional amounts and to indemnify each Lender in the manner set forth in Section 4.04(a) (without regard to the identity of the jurisdiction requiring the deduction or withholding) in respect of any amounts deducted or withheld by it as described in the immediately preceding sentence as a result of any changes after the Effective Date in any applicable law, treaty, governmental rule, regulation, guideline or order, or in the interpretation thereof, relating to the deducting or withholding of income or similar Taxes (except for changes in the rate of tax on, or determined by reference to, the net income or net profits of such Lender pursuant to the laws of the jurisdiction in which it is organized or in which its principal office or applicable lending office is located or any subdivision thereof or therein provided that this parenthetical exception shall not apply for purposes of applying the fourth sentence of Section 4.04(a)).

SECTION 5. Conditions Precedent to the Effective Date. The occurrence of the Effective Date pursuant to Section 13.10 is subject to the satisfaction of the following conditions:

5.01 Execution of Agreement; Revolving Notes. On or prior to the Effective Date (i) this Agreement shall have been executed and delivered as provided in Section 13.10 and (ii) there shall have been delivered to the Administrative Agent for the account of each Lender that has requested same, the appropriate Revolving Note executed by the Borrower, in each case in the amount, maturity and as otherwise provided herein.

5.02 Officer's Certificate. On the Effective Date, the Administrative Agent shall have received a certificate, dated the Effective Date, and signed on behalf of the Borrower by a Responsible Officer, stating that all conditions in Sections 5.05, 5.07 and 6.02 have been satisfied on such date.

5.03 Opinions of Counsel. The Administrative Agent shall have received legal opinions addressed to each Agent and the Lenders from (i) New York counsel opinion of Baker Botts LLP, (ii) the Deputy General Counsel of CenterPoint Energy and (iii) local counsel opinion of Baker Botts LLP, and, in each case covering matters, reasonably acceptable to the Administrative Agent including, without limitation, (x) a no-conflicts opinion as to (1) the Indebtedness of any Credit Party which will remain outstanding of the Effective Date (if any) and (2) the CNP Credit Agreement, the RRI Option Agreement and any other material contracts of CenterPoint Energy and any material contracts of Parent or its subsidiaries, (y) title, perfection and priority of the security interests securing the Bond and (z) and such other matters incident to the transactions contemplated hereby as the Administrative Agent may reasonably request.

5.04 Corporate Documents; Proceedings; etc. On the Effective Date, the Administrative Agent shall have received from each Credit Party, a certificate, dated the Effective Date, signed by a Responsible Officer of such Credit Party, and attested to by the Secretary or Assistant Secretary of such Credit Party, in the form of Exhibit F with appropriate insertions, together with copies of (i) the certificate of incorporation and by-laws (or equivalent organizational documents), (ii) long-form good standing certificates (or equivalent thereof) of such Credit Party and (iii) the resolutions of such Credit Party referred to in such certificate, and the foregoing shall be in form and substance reasonably acceptable to the Administrative Agent.

(a) All corporate, partnership, limited liability company and legal proceedings and all instruments and agreements in connection with the transactions contemplated by this Agreement and the other Credit Documents shall be reasonably satisfactory in form and substance to the Administrative Agent, and the Administrative Agent shall have received all information and copies of all documents and papers, including governmental approvals, good standing certificates and bring-down telegrams, if any, which the Administrative Agent reasonably may have requested in connection therewith, such documents and papers where appropriate to be certified by proper corporate or governmental authorities.

5.05 (a) Security Documents. On the Effective Date, the Borrower shall have duly authorized, executed and delivered the Pledge Agreement in the form of Exhibit G (as modified, supplemented or amended from time to time, the "Pledge Agreement") and shall have delivered to the Collateral Agent, as pledgee thereunder, the Pledge Agreement Collateral, and the Pledge Agreement shall be in full force and effect.

(b) Indenture. On the Effective Date, the Borrower and the Trustee shall have duly authorized, executed and delivered the Indenture, dated December 23, 2003 made by the Borrower in favor of JPMorgan Chase Bank as Trustee in the form of Exhibit H (as modified, supplemented or amended from time to time the "Indenture") covering all of the Borrower's present and future Indenture Collateral, together with:

(i) proper Financing Statements (Form UCC-1 or the appropriate equivalent) fully executed for filing under the UCC of each jurisdiction as may be necessary or, in the opinion of the Collateral Agent, desirable to perfect the security interests purported to be created by the Indenture;

(ii) certified copies of Requests for Information or Copies (Form UCC-11), or equivalent reports, listing all effective Financing Statements that name the Parent or any of its Subsidiaries, in each case as debtor and that are filed in the jurisdictions referred to in clause (1) above, together with copies of such other Financing Statements filed in any other jurisdiction that name the Parent or any of its Subsidiaries as debtor (none of which shall cover the Indenture Collateral except to the extent evidencing Permitted Liens);

(iii) evidence of the completion of all other recordings and filings of, or with respect to, the Indenture as may be necessary or, in the reasonable opinion of the Collateral Agent, desirable to effectively to create a valid and enforceable first priority mortgage Lien and otherwise perfect the security interests purported to be created by the Indenture; and

(iv) evidence that all other actions necessary or, in the reasonable opinion of the Collateral Agent, desirable to perfect and protect the security interests purported to be created by the Indenture have been taken;

and the Indenture shall be in full force and effect.

5.06 Guaranties. On the Effective Date, each Guarantor shall have duly authorized, executed and delivered the Guaranty and the Guaranty shall be in full force and effect.

5.07 Adverse Change; Governmental and Third Party Approvals; etc. (a) Since December 31, 2002, nothing shall have occurred (and neither the Administrative Agent nor any Lender shall have become aware of any facts or conditions not previously known) which the Administrative Agent or the Required Lenders shall determine could reasonably be expected to have a Material Adverse Effect.

(b) On or prior to the Effective Date, all necessary governmental (domestic and foreign) and third party approvals and/or consents in connection with the transactions contemplated by the Credit Documents and otherwise referred to herein shall have been obtained and remain in effect, and all applicable waiting periods shall have expired without any action being taken by any competent authority which in the reasonable judgment of the Administrative Agent or the Required Lenders restrains, prevents or imposes materially adverse conditions upon the consummation of the transactions contemplated by the Credit Documents. Additionally, there shall not exist any judgment, order, injunction or other restraint issued or filed or a hearing seeking injunctive relief or other restraint pending or notified prohibiting or imposing materially adverse conditions upon the making of any Loan, issuance of any Letter of Credit or the consummation of the transactions contemplated by the Credit Documents.

(c) On the Effective Date, no consents or approvals shall be required to be obtained by CenterPoint Energy or any of its Affiliates or any Credit Party or any of their Affiliates from (i) the lenders under CenterPoint Energy's senior credit agreement, dated as of October 7, 2003 and agented by JPMorgan Chase (as in effect on the Effective Date, the "CNP Credit Agreement") or (ii) the holders of any option under the RRI Option Agreement, dated as of December 31, 2000 between CenterPoint Energy (as successor in interest to Reliant Energy Incorporated) and Reliant Resources Inc. (as in effect on the Effective Date, the "RRI Option Agreement"), in each case, in connection with the entering into of (1) this Agreement (and the incurrence of Loans hereunder), (2) any Security Document (and the granting of Liens thereunder) or (3) any of the other Credit Document or any other documents referred to therein or herein (and any transaction contemplated hereby or thereby).

5.08 Litigation. On the Effective Date, no litigation by any entity (private or governmental) shall be pending or threatened with respect to this Agreement, any other Credit Document or any other documentation executed in connection herewith and therewith or the transactions contemplated hereby and thereby, or which the Administrative Agent or the Required Lenders shall determine has had, or could reasonably be expected to have, a Material Adverse Effect.

5.09 Financial Statements; Projections. On or prior to the Effective Date, there shall have been delivered to the Administrative Agent and each Lender (i) true and correct copies of the historical financial statements referred to in Section 7.05(a) and (ii) detailed projected consolidated financial statements of the Parent and its Subsidiaries for the period through December 31, 2008 (the "Projections"), which Projections and historical financial statements shall (x) in the case of the Projections, reflect the forecasted financial condition and results of operations of the Parent and its Subsidiaries after giving effect to the transactions contemplated hereby and by the other Credit Documents and (y) in each case, be in form and substance reasonably satisfactory to the Administrative Agent and the Required Lenders.

5.10 Fees, etc. On the Effective Date, all costs, fees and expenses (including, without limitation, the reasonable legal fees and expenses of White & Case LLP) payable to the Lead Arranger, the Agents and the Lenders shall have been paid to the extent due.

5.11 Insurance. On or prior to the Effective Date, the Administrative Agent shall have received evidence of insurance maintained by the Parent and its Subsidiaries with responsible and reputable insurance companies or associations in such amounts, subject to customary self-insurance, and covering such risks as is customarily carried by companies engaged in the electric generation industry with similar assets in similar areas which the Parent and such Subsidiaries operate which insurance shall name the Trustee as an additional insured and/or loss payee and shall state that such insurance shall not be cancelled without at least 30 days' prior written notice to the Trustee.

SECTION 6. Conditions Precedent to All Credit Events. The obligation of each Lender to make Loans (including Loans made on the Effective Date), and the obligation of an Issuing Lender to issue any Letter of Credit, is subject, at the time of each such Credit Event, to the satisfaction of the following conditions:

6.01 Effective Date. The Effective Date shall have occurred.

6.02 No Default; Representations and Warranties. At the time of each such Credit Event and also after giving effect thereto (i) there shall exist no Default or Event of Default and (ii) all representations and warranties contained herein and in the other Credit Documents shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on the date of such Credit Event (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date).

6.03 (a) Notice of Borrowing; Letter of Credit Request. Prior to the making of each Loan, the Administrative Agent shall have received the notice required by Section 1.03(a).

(b) Prior to the issuance of each Letter of Credit, the Administrative Agent and the respective Issuing Lender shall have received a Letter of Credit Request meeting the requirements of Section 2.03.

The acceptance of the benefit of each Credit Event shall constitute a representation and warranty by the Borrower to the Agents and each of the Lenders that all the conditions specified (x) in the case of Credit Events occurring on the Effective Date, in Section 5 and (y) in the case of Credit Events occurring on or after the Effective Date, in this Section 6 and applicable to such Credit Event have been satisfied as of that time. All of the Revolving Notes, certificates, legal opinions and other documents and papers referred to in Section 5 and in this Section 6, unless otherwise specified, shall be delivered to the Administrative Agent at the Notice Office for the account of each of the Lenders and, except for the Revolving Notes, in sufficient counterparts or copies for each of the Lenders and shall be in form and substance reasonably satisfactory to the Lenders.

SECTION 7. Representations, Warranties and Agreements. In order to induce the Lenders to enter into this Agreement and to make the Loans, and issue (or participate in) the

Letters of Credit as provided herein, each Credit Party makes the following representations, warranties and agreements, in each case after giving effect to the occurrence of the Effective Date, all of which shall survive the execution and delivery of this Agreement and the Revolving Notes and the making of the Loans and issuance of the Letters of Credit, with the occurrence of each Credit Event on or after the Effective Date being deemed to constitute a representation and warranty that the matters specified in this Section 7 are true and correct in all material respects on and as of the Effective Date and on the date of each such Credit Event (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date).

7.01 Corporate Status. Each Credit Party and each of its Subsidiaries (i) is a duly organized and validly existing corporation, limited partnership or limited liability company, as the case may be, in good standing under the laws of the jurisdiction of its organization, (ii) has the corporate, limited partnership or limited liability company power and authority, as the case may be, to own its property and assets and to transact the business in which it is engaged and presently proposes to engage and (iii) is duly qualified as a foreign corporation, limited partnership or limited liability company, as the case may be, and is authorized to do business and is in good standing in each jurisdiction where the ownership, leasing or operation of property or the conduct of its business requires such qualifications, except, in the case of preceding clause (iii), in those jurisdictions where the failure to be so qualified could not reasonably be expected to, either individually or in the aggregate, have a Material Adverse Effect.

7.02 Corporate Power and Authority. Each Credit Party has the corporate, limited partnership or limited liability company power and authority, as the case may be, to execute, deliver and carry out the terms and provisions of each of the Credit Documents to which it is party and has taken all necessary corporate, limited partnership or limited liability company action, as the case may be, to authorize the execution, delivery and performance by it of each Credit Document to which it is a party. Each Credit Party has duly executed and delivered each Credit Document to which it is party and each such Credit Document constitutes the legal, valid and binding obligation of such Credit Party enforceable in accordance with its terms, except to the extent that the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally and by equity principles (regardless of whether enforcement is sought in equity or at law).

7.03 No Violation. Neither the execution, delivery or performance by any Credit Party of any Credit Document to which it is a party, nor compliance by it with any of the terms and provisions thereof, (i) will contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or governmental instrumentality, (ii) will conflict or be inconsistent with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any Lien (except pursuant to the Security Documents) upon (x) any property or asset of such Credit Party or any of its Subsidiaries pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement, loan agreement or any other material agreement, contract or instrument to which such Credit Party or any of its Subsidiaries is a party or by which it or any of their respective property or assets are bound or to which it may be subject or (y) under the CNP Credit Agreement or the RRI Option Agreement or (iii) will violate

any provision of the articles of incorporation or by-laws (or equivalent organizational documents) of such Credit Party or any of its Subsidiaries.

7.04 Governmental Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except as have been obtained or made and are listed in Schedule III attached hereto, if any, and except for any filings of financing statements, mortgages and other documents required by the Security Documents, all of which have been made), or exemption by, any governmental or public body or authority, or any subdivision thereof, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of any Credit Document or (ii) the legality, validity, binding effect or enforceability of any such Credit Document.

7.05 (a) Financial Statements; Financial Condition. The statements of Consolidated financial condition of the Parent and its Subsidiaries for the fiscal year ending December 31, 2002 and the nine-month period ending September 30, 2003 and the related Consolidated statements of income and cash flows of the Parent and its Subsidiaries for the fiscal year and nine-month period ended on such dates, as the case may be (which (x) in the case of the financial statements for the fiscal year ended on December 31, 2002, have been certified by nationally recognized independent certified public accountants satisfactory to the Administrative Agent and (y) in the case of all such financial statements, have heretofore been furnished to the Lenders), fairly present, in all material respects, the Consolidated financial condition of the Parent and its Subsidiaries as at such dates and the Consolidated results of the operations of the Parent and its Subsidiaries for the periods ended on such dates, all in accordance with generally accepted accounting principles consistently applied, except for the inclusion of detailed footnotes and subject to year-end audit adjustments.

(b) Since December 31, 2002, there has been no Material Adverse Change.

7.06 Litigation. There is no pending or threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, affecting any Credit Party or any of its Subsidiaries before any court, agency of any Governmental Authority, or arbitrator that (i) could reasonably be expected to have a Material Adverse Effect or (ii) purports to affect the legality, validity or enforceability of this Agreement or any other Credit Document or the consummation of the transactions contemplated hereby.

7.07 True and Complete Disclosure. All written information heretofore furnished by or on behalf of any Credit Party to the Administrative Agent or any Lender for purposes of or in connection with this Agreement, any Credit Document or any transaction contemplated hereby or thereby is, and all such information hereafter furnished by or on behalf of any Credit Party to the Administrative Agent or any Lender will be, true and accurate in all material respects on the date as of which such information is stated in the light of the circumstances under which such information was provided (as modified or supplemented by other information so furnished, when taken together as a whole as of the date so stated); provided, that, with respect to the Projections, such Credit Party represents only that such information was prepared in good faith based on assumptions believed to be reasonable at the time, it being recognized by the Lenders that such Projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results. Each

Credit Party has disclosed to the Administrative Agent any and all facts specific to such Credit Party and its Subsidiaries and known as of the Effective Date to a Responsible Officer of such Credit Party that could reasonably be expected to result in a Material Adverse Effect or which could reasonably be expected to result in a Material Adverse Change.

7.08 Use of Proceeds; Margin Regulations. All proceeds of Loans shall be used (i) to pay fees and expenses incurred in connection with this Agreement and the other Credit Documents and (ii) for the Borrower's and its Subsidiaries' ongoing working capital and general corporate purposes (including, without limitation, the repayment of intercompany loans).

(a) No Credit Party is engaged in the business of extending credit for the purpose of purchasing or carrying Margin Stock, and no proceeds of any Loan will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock.

7.09 Tax Returns and Payments. Each of Parent and each of its Subsidiaries has timely filed or caused to be timely filed with the appropriate taxing authority all federal and state income tax returns and all other material tax returns, statements, forms and reports for taxes, domestic and foreign (the "Returns") required to be filed by, or with respect to the income, properties or operations of, Parent and/or any of its Subsidiaries, except to the extent failure to make such filings could not reasonably be expected to have a Material Adverse Effect. The Returns accurately reflect in all material respects all liability for taxes of Parent and its Subsidiaries for the periods covered thereby. Each of Parent and each of its Subsidiaries has paid all taxes and assessments payable, other than those that are being contested in good faith and adequately disclosed and fully provided for on the financial statements of Parent and its Subsidiaries in accordance with GAAP, except to the extent failure to make such payment could not reasonably be expected to have a Material Adverse Effect. There is no material action, suit, proceeding, investigation, audit or claim now pending or, to the best knowledge of Parent or any of its Subsidiaries, threatened by any authority regarding any taxes relating to Parent or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect. Neither Parent nor any of its Subsidiaries has entered into an agreement or waiver or been requested to enter into an agreement or waiver extending any statute of limitations relating to the payment or collection of taxes of Parent or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

7.10 Compliance with ERISA. Each Credit Party and each of its Subsidiaries are in compliance with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder), and have obtained and are in compliance with, all Environmental Permits required for the operation of the Borrower's business except for any non-compliance that could not reasonably be expected to have a Material Adverse Effect. No ERISA Event has occurred which could reasonably be expected to have a Material Adverse Effect. No Plan has an Unfunded Current Liability which, when added to the aggregate amount of Unfunded Current Liabilities with respect to all other Plans, could reasonably be expected to have a Material Adverse Effect.

7.11 Solvency. On the Effective Date and after giving effect to the Loans incurred thereon, the transactions and financings contemplated hereby and by each of the other Credit Documents, (i) the Borrower on a stand alone basis and (ii) each of the Parent and its Subsidiaries taken as a whole is, in each case Solvent.

7.12 Security Documents.

(a) The security interests created in favor of the Collateral Agent for the benefit of the Lenders under the Pledge Agreement constitute first priority perfected security interests in the Pledge Agreement Collateral subject to no Lien of any other Person. No consents, filings or recordings are required in order to perfect, and/or maintain the perfection and priority of, the security interests purported to be created by the Pledge Agreement.

(b) The Indenture creates, in favor of the Trustee for the benefit of the Collateral Agent on behalf of the Lenders, a valid and enforceable perfected first priority security interest in and Lien on all of the Indenture Collateral, as may be perfected by the filing of the Indenture (and related UCC fixture filings), superior to and prior to the rights and Liens (other than Permitted Liens) of all third Persons and subject to no other Liens other than Permitted Liens. No consents, filings or recordings are required to maintain the perfection and priority of the security interests purported to be created by the Indenture. At the time of the granting of any security interests pursuant to the Indenture the Borrower thereunder has good and marketable title to all Indenture Collateral referred to therein free and clear of all Liens (other than Permitted Liens).

7.13 Compliance with Statutes, etc. The Borrower and each of its Subsidiaries is in compliance with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of their business and the ownership of their property, except such noncompliances as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

7.14 Investment Company Act. No Credit Party nor any Subsidiary of any Credit Party is an "investment company" as defined in, or otherwise subject to regulation under, the Investment Company Act of 1940, as amended. Neither the execution, delivery or performance by any Credit Party of any Credit Document to which it is a party, nor compliance by it with any of the terms and provisions thereof will violate any regulation under the Public Utility Holding Company Act of 1935, as amended or any order or approval issued in connection therewith.

7.15 Environmental Matters. There are no facts, circumstances or conditions relating to the past or present business or operations of each Credit Party or any of its Subsidiaries or any of their predecessors (including the disposal of any wastes, hazardous substances or other materials), or to any Real Property at any time owned, leased or operated by any of them, that could reasonably be expected (i) to give rise to any Environmental Action which could reasonably be expected to have a Material Adverse Effect, or (ii) to subject any Real Property owned, leased or operated by each Credit Party or any of its Subsidiaries to any restrictions on the ownership, lease, occupancy, use or transfer of such Real Property under any Environmental Law which could reasonably be expected to have a Material Affect Effect.



7.16 Existing Indebtedness. On the Effective Date (after giving effect to the use of proceeds from the Loans made on such date), the Parent and its Subsidiaries shall have no (x) outstanding Indebtedness for Borrowed Money (including, without limitation, intercompany Indebtedness for Borrowed Money) or (y) preferred equity, in each case, except as set forth on Schedule IV hereto.

SECTION 8. Affirmative Covenants. Each Credit Party hereby covenants and agrees that on and after the Effective Date and until the Total Commitment and all Letters of Credit have terminated and the Loans, Revolving Notes and Unpaid Drawings (in each case together with interest thereon), Fees and all other Obligations (other than indemnities described in Section 13.13 which are not then due and payable) incurred hereunder and thereunder, are paid in full:

8.01 Information Covenants. The Parent and the Borrower shall furnish to each Lender:

(a) as soon as practicable and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Parent, unaudited Consolidated balance sheets of the Parent and its Subsidiaries, prepared in conformity with GAAP consistently applied, as of the end of such quarter and Consolidated statements of income and cash flows of the Parent and its Subsidiaries, prepared in conformity with GAAP consistently applied, for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, duly certified (subject to year-end audit adjustments and the inclusion of abbreviated footnotes) by a Responsible Officer of the Parent as having been prepared in accordance with GAAP and certificates of a Responsible Officer of the Parent as to compliance with the terms of this Agreement and setting forth in reasonable detail the calculations necessary to demonstrate compliance with Sections 9.08 and 9.09 (which requirement may be satisfied by delivering the Parent's quarterly report on Form 10-Q with respect to such fiscal quarter as filed with the Securities and Exchange Commission);

(b) as soon as practicable and in any event within 120 days after the end of each fiscal year of the Parent commencing 2003, a copy of the annual audit report for such year for the Parent and its Subsidiaries, containing Consolidated balance sheets of the Parent and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of the Parent and its Subsidiaries for such fiscal year accompanied by an opinion of an independent public accountants, in each case prepared in conformity with GAAP consistently applied (which requirement may be satisfied by delivering the Borrower's annual report on Form 10-K with respect to such fiscal year as filed with the Securities and Exchange Commission) together with a certificate of a Responsible Officer of the Parent identifying Significant Subsidiaries determined with respect to such financial statements;

(c) without duplication of any other certificate described in Section 8.01(a), with each set of statements to be delivered pursuant to Section 8.01(a) and (b) above, a certificate in a form reasonably satisfactory to the Administrative Agent, signed by a Responsible Officer of the Parent certifying compliance with Sections 9.08 and 9.09 and setting out in reasonable detail the calculations necessary to demonstrate such compliance as at the date of the most recent balance sheet included in such financial statements and stating that no Default or Event of

Default has occurred and is continuing or, if there is any Default or Event of Default, describing it and the steps, if any, being taken to cure it.

(d) as soon as practicable and in any event, within seven Business Days after a Responsible Officer of the Borrower becomes aware of the occurrence of each Default or Event of Default continuing on the date of such statement, a statement of a Responsible Officer of the Borrower setting forth details of such Default or Event of Default and the action that the Borrower has taken and proposes to take with respect thereto;

(e) within ten (10) days of the filing thereof, copies of all periodic reports (other than (x) reports on Form 11-K or any successor form, (y) current reports on Form 8-K that contain no information other than exhibits filed therewith and (z) reports on Form 10-Q or 10-K or any successor forms) under the Exchange Act (in each case other than exhibits thereto and documents incorporated by reference therein)) filed by the Parent with the Securities and Exchange Commission;

(f) promptly after the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting the Borrower or any of its Subsidiaries of the type described in Section 7.06;

(g) within ten Business Days after any officer of a Credit Party or any of its Subsidiaries obtains knowledge thereof, notice of any of the following environmental matters, to the extent such matters individually or in the aggregate could reasonably be expected to have a Material Adverse Effect: (i) any claim against any Credit Party or any of its Subsidiaries, or any Real Property owned, leased or occupied by any Credit Party or any of its Subsidiaries, under any Environmental Law; (ii) any condition or occurrence that results in noncompliance by any Credit Party or any of its Subsidiaries with Environmental Law or that could reasonably be expected to form the basis of any Environmental Action against, or to any liability on the part of any Credit Party or any of its Subsidiaries under any Environmental Law; and (iii) any condition or occurrence that could reasonably be expected to cause any Real Property owned, leased or occupied by any Credit Party or any of its Subsidiaries to be subject to any restrictions on the ownership, lease, occupancy, use or transfer of such Real Property under any Environmental Law; such notices shall describe in reasonable detail the nature of the claim, threatened claim, notice of potential liability, condition or occurrence and the Credit Party's or such Subsidiary's response thereto;

(h) with reasonable promptness, upon the Borrower or any ERISA Affiliate becoming aware of (A) the occurrence of any ERISA Event that could, individually or in the aggregate, be reasonably expected to result in a liability in excess of \$50,000,000 to any Credit Party or any ERISA Affiliate or that could reasonably be expected to have a Material Adverse Effect, or (B) a Plan that has an Unfunded Current Liability which, when added to the aggregate amount of Unfunded Current Liabilities with respect to all other Plans could reasonably be expected to have a Material Adverse Effect, a written notice specifying the nature thereof, what action the Credit Party or any ERISA Affiliate has taken, is taking or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, the Department of Labor or the PBGC with respect thereto;

(i) with reasonable promptness, copies of (a) all written notices received by the Borrower or any ERISA Affiliate from a Multiemployer Plan sponsor concerning an ERISA Event that could reasonably be expected to result in a liability in excess of \$50,000,000 or that could reasonably be expected to have a Material Adverse Effect; and (b) such other documents or governmental reports or filings relating to any Plan or Multiemployer Plan as the Lenders shall reasonably request;

(j) upon and after the receipt of any Debt Rating the Borrower shall deliver to the Administrative Agent, notice of any change by S&P or Moody's in such Debt Rating, promptly upon the effectiveness of any such change (it being understood that a change in outlook status (e.g. watch status, negative outlook status) is not a change in rating as contemplated hereby); and

(k) such other information respecting the Parent or any of its Subsidiaries as any Lender through the Administrative Agent may from time to time reasonably request.

Information required to be delivered pursuant to this Section 8.01 shall be deemed to have been delivered on the date on which the Administrative Agent receives such Information or notice (which notice the Administrative Agent shall convey promptly to the Lenders) that such information has been posted on the Securities and Exchange Commission website on the internet at [sec.gov/edgar/searches.htm](http://sec.gov/edgar/searches.htm) or at another website identified in such notice and accessible by the Lenders without charge; provided that such notice may be included in a certificate delivered pursuant to Section 8.01(c).

8.02 Keeping of Books. Each Credit Party shall keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of such Credit Party and each such Subsidiary in accordance with GAAP.

8.03 Maintenance of Insurance. Each Credit Party shall, and shall cause each of its respective Subsidiaries to, maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties; provided, however, that any Credit Party or its Subsidiaries may self-insure to the extent consistent with prudent business practice.

8.04 Preservation of Existence, Etc. Each Credit Party shall preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its existence, rights (charter and statutory) and franchises, except (other than in the case of the Borrower) to the extent such failure could not reasonably be expected to have a Material Adverse Effect; provided, however, that the Credit Parties and their Subsidiaries may consummate any merger or consolidation permitted under Section 9.02 and provided further that no the Credit Party nor any of its Subsidiaries shall be required to preserve any right or franchise if the board of directors of the such Credit Party or such Subsidiary shall determine that the preservation thereof is no longer desirable in the conduct of the business of such Credit Party or such Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to such Credit Party, such Subsidiary or the Lenders.

8.05 Maintenance of Properties, Etc. Each Credit Party shall maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, all of its properties that are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted; provided, however, the foregoing shall not prohibit the Borrower from (i) mothballing any of its generating units from time to time in its reasonable commercial judgment if mothballing such units could not reasonably be expected to have a Material Adverse Effect or (ii) failing to preserve or maintain any such properties, the preservation and maintenance of which in the good faith judgment of the Borrower is inadvisable or unnecessary to the business of the Borrower or its Subsidiaries, taken as a whole and if the failure to so preserve or maintain could not reasonably be expected to result in a Material Adverse Effect.

8.06 Maintenance of Existing Business. Each Credit Party shall maintain and preserve, and cause each of its respective Subsidiaries to maintain and preserve, its fundamental business of being a company and/or an owner (directly or indirectly) and operator of power generation facilities; provided, however, the foregoing shall not prohibit the Borrower from mothballing any of its generating units from time to time in its reasonable commercial judgment, if the operation of such units in the good faith judgment of the Borrower is inadvisable or unnecessary to the business of the Borrower and its Subsidiaries, taken as a whole and if mothballing such units could not reasonably be expected to have a Material Adverse Effect.

8.07 Compliance with Statutes, etc. Each Credit Party shall comply, and cause each of its Subsidiaries to comply, with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA, Environmental Laws and Environmental Permits, except to the extent the failure to so comply could not reasonably be expected to have a Material Adverse Effect. Each Credit Party shall pay, or cause to be paid, all costs and expenses incurred in connection with such compliance, and shall keep or cause to be kept all Real Property free and clear of any Liens imposed under Environmental Laws, except to the extent failure to do so could not reasonably be expected to have a Material Adverse Effect.

8.08 Visitation Rights. Each Credit Party shall, and shall cause each of its Subsidiaries to, at any reasonable time and from time to time, permit up to six representatives of the Lenders designated by the Required Lenders, or representatives of the Agents, on not less than five (5) Business Days' notice, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, such Credit Party and each Subsidiary of such Credit Party and to discuss the general business affairs of such Credit Party and each of its Subsidiaries with their respective officers and independent certified public accountants; subject, however, in all cases to the imposition of such reasonable conditions as such Credit Party and each of its Subsidiaries shall deem necessary based on reasonable considerations of safety and security; provided, however, that no Credit Party nor any of its Subsidiaries shall be required to disclose to any Agent, any Lender or any agents or representatives thereof any information which is the subject of attorney-client privilege or attorney work-product privilege properly asserted by the applicable Person to prevent the loss of such privilege in connection with such information or which is prevented from disclosure pursuant to a confidentiality agreement with third parties. Notwithstanding the foregoing, none of the conditions precedent to the exercise of the right of access described in the preceding sentence that relate to notice requirements or limitations on the Persons permitted to exercise such right shall apply at any time when a Default or an Event of Default shall have occurred.

8.09 Use of Proceeds. The Borrower shall use the proceeds of each Credit Event for general corporate purposes, including the repayment of intercompany obligations owed to CenterPoint Energy and its Subsidiaries, capital expenditures and working capital of the Borrower and its Subsidiaries and the repayment of commercial paper.

8.10 Payment of Taxes. Each Credit Party shall pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all taxes, assessments and governmental charges or levies imposed upon it or upon its property and (ii) all lawful claims that, if unpaid, might become a Lien upon its property or unless the failure to pay could not reasonably be expected to result in a Material Adverse Effect; provided, however, that no Credit Party nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained in accordance with GAAP or unless the failure to pay could not reasonably be expected to result in a Material Adverse Effect.

8.11 Further Assurances. Each of the Credit Parties shall, and shall cause each of its Subsidiaries to, at its own expense, make, execute, endorse, acknowledge, file and/or deliver to the Collateral Agent from time to time such vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, real property surveys, reports, landlord-lender agreements and other assurances or instruments and take such further steps relating to the collateral covered by any of the Security Documents as the Collateral Agent may reasonably require. Furthermore, the Credit Parties shall cause to be delivered to the Collateral Agent such opinions of counsel and other related documents as may be reasonably requested by the Administrative Agent to assure themselves that this Section 8.11 has been complied with. Each of the Credit Parties agree that each action required above by this Section 8.11 shall be completed as soon as possible, but in no event later than 90 days after such action is requested to be taken by the Administrative Agent or the Required Lenders.

8.12 Future Guarantors. Each of the Credit Parties shall and shall cause each of its Subsidiaries to promptly upon any Person becoming a direct or indirect Subsidiary of the Parent to become a guarantor under the Guaranty by executing an accession agreement in respect of this Agreement in form and substance reasonably satisfactory to the Administrative Agent, provided that no such Subsidiary that is not a Domestic Subsidiary shall be required to become a guarantor under the Guaranty, unless such Subsidiary shall at such time guarantee any Indebtedness of the Parent or any Domestic Subsidiary.

SECTION 9. Negative Covenants. Each Credit Party covenants and agrees that on and after the Effective Date and until the Total Commitment and all Letters of Credit have terminated and the Loans, Revolving Notes and Unpaid Drawings (in each case together with interest thereon), Fees and all other Obligations (other than indemnities described in Section 13.13 which are not then due and payable) incurred hereunder and thereunder, are paid in full:

9.01 Liens. The Credit Parties shall not pledge, mortgage or hypothecate, or permit to exist, and shall not permit any Subsidiary (other than a Project Finance Subsidiary) to pledge, mortgage or hypothecate, or permit to exist, except in favor of the Borrower or any

Wholly-Owned Subsidiary of the Parent (other than a Project Finance Subsidiary), any Lien upon, any Property at any time owned by such Credit Party or a Subsidiary of such Credit Party (other than a Project Finance Subsidiary); provided, however, that this restriction shall not apply to or prevent the creation or existence of any Permitted Lien.

9.02 Consolidation, Mergers or Disposal of Assets. The Credit Parties shall not, and shall not permit any Subsidiary to, (i) consolidate with, or merge into or amalgamate with or into, any other Person; (ii) liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); or (iii) convey, sell, transfer, lease or otherwise dispose of all or substantially all of its assets to any Person, or permit any Subsidiary (other than a Project Finance Subsidiary) to do so; provided, however, that nothing contained in this Section 9.02 shall prohibit (A) a merger in which any Credit Party is the surviving entity thereof; (B) mergers involving Subsidiaries of the Parent in which any Credit Party or, if no Credit Party is a party to such merger, a Wholly-Owned Significant Subsidiary of any Credit Party (other than a Project Finance Subsidiary, except for the case where all parties to such merger are Project Finance Subsidiaries) is the surviving entity; (C) so long as no Default or Event of Default has occurred or would result therefrom, a merger involving any Credit Party other than the Borrower, in which a Wholly-Owned domestic Subsidiary of CenterPoint Energy is the surviving Person, provided, that, such surviving Person shall (I) expressly agree in writing to assume all obligations and liabilities of such Credit Party under this Agreement and each of the other Credit Documents (including, without limitation, the Guaranty) and (II) take all actions and deliver all documents reasonably requested by the Administrative Agent to evidence the assumption of such obligations including, without limitation, those actions and documents described in Section 5 of this Agreement, as if such surviving Person were a Credit Party on the Effective Date; (D) the liquidation, winding up or dissolution of a Significant Subsidiary of any Credit Party if all of the assets of such Subsidiary are conveyed, transferred or distributed to any Credit Party or a Wholly-Owned Subsidiary of any Credit Party (other than a Project Finance Subsidiary, unless such Person is also a Project Finance Subsidiary); (E) the conveyance, sale, transfer, lease or other disposal of all or substantially all (or any lesser portion) of the assets of any Credit Party to another Credit Party or a Wholly-Owned Significant Subsidiary of any Credit Party (other than a Project Finance Subsidiary, unless such Significant Subsidiary is also a Project Finance Subsidiary); or (F) additional conveyances, sales, transfers, leases or other disposals of assets of any Credit Party and its Subsidiaries, provided, that the aggregate net book value of all assets of the Credit Parties and their Subsidiaries conveyed, sold, transferred, leased or otherwise disposed of pursuant to this clause (F) shall not exceed \$200,000,000 or shall constitute assets that are no longer necessary for the operation of the business of the Credit Parties and their Subsidiaries; provided that, in each case covered by this Section 9.02, immediately before and after giving effect to any such merger, dissolution or liquidation, or conveyance, sale, transfer, lease or other disposition, no Default or Event of Default shall have occurred and be continuing.

9.03 Accounting Changes. The Credit Parties shall not make or permit, or permit any of its Subsidiaries to make or permit, any change in accounting policies or reporting practices, except as required or permitted by GAAP.

9.04 Restrictions on Dividends, Intercompany Loans, or Investments. The Credit Parties shall not permit, or permit any Significant Subsidiary (other than a Project Finance Subsidiary) to, create or otherwise cause or permit to exist or become effective any explicit and

direct restriction under any agreement evidencing or providing for the issuance of Indebtedness for Borrowed Money (other than this Agreement) on the ability of any Significant Subsidiary (other than a Project Finance Subsidiary) to (i) pay dividends or make any other distributions on its capital stock or pay any Indebtedness owed to any Credit Party or any Subsidiary of any Credit Party, (ii) make any loans or advances to or investments in the Borrower or any Subsidiary of the Borrower, or (iii) transfer any of its property or assets to the Borrower or any Subsidiary of the Borrower; provided, that the foregoing shall not prohibit financial incurrence, maintenance and similar covenants that indirectly have the practical effect of prohibiting or restricting the ability of a Significant Subsidiary to make such payments or provisions that require that a certain amount of capital be maintained, or prohibit the return of capital to shareholders above certain dollar limits; provided, further, that the foregoing shall not apply to (i) restrictions and conditions imposed by law or by this Agreement, (ii) restrictions and conditions existing on the date hereof, any amendment or modification thereof (other than an amendment or modification expanding the scope of any such restriction or condition and any restrictions or conditions) that (x) replace restrictions or conditions existing on the date hereof and (y) are substantially similar to such existing restriction or condition, (iii) restrictions (including any extension of such restrictions that does not expand the scope of any such restrictions) existing at the time at which any such Subsidiary first becomes a Significant Subsidiary, so long as such restriction was in existence prior to such time in accordance with the other provisions of this Agreement and was not agreed to or incurred in contemplation of such change of status and (iv) any restrictions with respect to a Significant Subsidiary imposed pursuant to an agreement that has been entered into in connection with a disposition of all or substantially all of the Equity Interests or assets of such Subsidiary, so long as such disposal is otherwise permitted under this Agreement.

9.05 Affiliate Transactions. The Credit Parties shall not, and shall not permit any Subsidiary of such Credit Party to, make, directly or indirectly, (i) any transfer, sale, lease or other disposition of any Property to any Affiliate of such Credit Party or any Subsidiary of such Credit Party or any purchase or acquisition of any Property from any such Affiliate; or (ii) any other arrangement or transaction directly or indirectly with or for the benefit of any such Affiliate (including without limitation, guaranties and assumptions of obligations of any such Affiliate); provided, that (A) any Credit Party and their Subsidiaries may enter into any arrangement or other transaction with any such Affiliate if the monetary or business consideration arising therefrom would be substantially at least as advantageous to such Credit Party or such Subsidiary as the monetary or business consideration which would be obtained in a comparable arm's length transaction with a Person not an Affiliate of such Credit Party or any Subsidiary of such Credit Party; (B) the Credit Parties and their Subsidiaries may become liable in connection with guaranties of the obligations of any such Affiliate in the ordinary course of business, (C) the Credit Parties and their Subsidiaries may make purchases of receivables of any kind from the Credit Parties and their Subsidiaries on terms that any of them deem acceptable; (D) the Credit Parties may enter into any arrangement or other transaction with any Wholly-Owned Subsidiary of the any Credit Party, and any Wholly-Owned Subsidiary of any Credit Party may enter into any arrangement or other transaction with any Credit Party or any other Wholly-Owned Subsidiary of any Credit Party, in each case under this clause (D) only if such arrangements and other transactions do not involve any Person other than a Credit Party or any Wholly-Owned Subsidiaries of a Credit Party; (E) the Credit Parties may enter into arrangements or other transactions permitted by Section 9.02(D) and (F) any Credit Party and any Subsidiary

of a Credit Party may, directly or indirectly, enter into any arrangement or transaction with any Affiliate (including with CenterPoint Energy or its Subsidiaries) (i) that is authorized by order of the Securities and Exchange Commission ("SEC") under the Public Utility Holding Company Act of 1935, as amended; (ii) that is in existence on the Effective Date or is described in Parent's filings with the SEC on the Effective Date; or (iii) on terms not substantially less favorable to the Credit Party or its Subsidiaries than the terms of similar arrangements or transactions that are entered into from time to time among CenterPoint Energy or any of its Affiliates that are not a Credit Party or its Subsidiaries. Notwithstanding anything to the contrary contained in this Section 9.05 no Credit Party may make any loan, investment, advance or any extension of credit to CenterPoint Energy or its Affiliates that are not Credit Parties or their Subsidiaries, provided, however, that (i) at any time any Loan or Letter of Credit is outstanding hereunder and so long as no Default or Event of Default is in existence or would result therefrom, the Credit Parties may make intercompany loans under and pursuant to the Money Pool, in each case up to an aggregate principal amount of \$100,000,000 (determined without giving effect to any write-downs or write-offs thereof) outstanding at any time and (ii) at any time no Loan or Letter of Credit is outstanding hereunder and so long as no Default or Event of Default is in existence or would result therefrom, the Credit Parties may make intercompany loans under and pursuant to the Money Pool in excess of \$100,000,000 (determined without giving effect to any write-downs or write-offs thereof).

9.06 Payments on Preferred Stock. The Credit Parties shall not, and shall not permit any Subsidiary of the Borrower to, make or agree to make any payment or other distribution on or in connection with, or purchase, redeem or otherwise acquire or agree to do so, or convert or exchange or agree to convert or exchange, in whole or in part, any capital stock or other equity interest of the Borrower or any Subsidiary of the Borrower, in whole or in part (including, without limitation, dividends), in each case if prior to and immediately after giving effect thereto, any Default or Event of Default exists or would occur.

9.07 Use of Proceeds; Regulation U. The Borrower shall not directly or indirectly use the proceeds of any Borrowing (i) to purchase or carry, within the meaning of Regulation U, any Margin Stock, (ii) to participate in any tender offer for the securities of any Person, unless such tender offer has been approved by the board of directors, general partners or other governing body of such Person or (iii) for any purpose that would violate or result in a violation of any law or regulation. No Credit Party shall, nor shall permit any of its Subsidiaries to engage principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying, within the meaning of Regulation U, any Margin Stock.

9.08 Maximum Total Debt for Borrowed Money to Consolidated Capitalization Ratio. The Borrower shall not permit the ratio of Total Debt for Borrowed Money to Consolidated Capitalization to be greater than 0.50:1.00, calculated on a quarterly basis.

9.09 Minimum EBITDA to Cash Interest Ratio. The Borrower shall not permit the ratio of EBITDA to Cash Interest for the immediately preceding four calendar quarters to be less than 4.00:1.00, calculated on a quarterly basis.

SECTION 10. Events of Default. Upon the occurrence of any of the following specified events (each an "Event of Default"):



10.01 Payments. The Borrower shall fail (i) to pay any principal of any Loan or Revolving Note, or any Unpaid Drawing when the same becomes due and payable; or the Borrower shall fail to pay any interest on any Loan or Revolving Note or any Unpaid Drawing or (ii) make any other payment of fees or other amounts payable under this Agreement or any Revolving Note within five Business Days after the same becomes due and payable; or

10.02 Representations, etc. Any representation or warranty made by or on behalf of any Credit Party (or any of its officers) in this Agreement or any other Credit Document shall prove to have been incorrect in any material respect when made; or

10.03 Covenants. (i) any Credit Party shall fail to perform or observe any term, covenant or agreement contained in Sections 8.01(d), 8.04, 8.06 or 8.08, Section 9 or Section 14, or (ii) any Credit Party shall fail to perform or observe any other term, covenant or agreement contained in this Agreement on its part to be performed or observed if such failure shall not have been remedied within 30 days; or

10.04 Default Under Other Agreements. Any Credit Party or any of its Significant Subsidiaries (other than a Project Finance Subsidiary) shall fail to pay any principal of or premium or interest on any Indebtedness for Borrowed Money that is outstanding in a principal amount of at least \$30,000,000 individually or in the aggregate (but excluding Indebtedness outstanding hereunder) of such Credit Party or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness; or any other event shall occur or condition shall exist under any agreement or instrument relating to any such Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness; or any such Indebtedness shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or an offer to prepay, redeem, purchase or defease such Indebtedness shall be required to be made, in each case prior to the stated maturity thereof; or

10.05 Bankruptcy, etc. Any Credit Party or any of its Significant Subsidiaries (other than a Project Finance Subsidiary) shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against such Credit Party or any of its Significant Subsidiaries (other than any Project Finance Subsidiary) seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall

occur; or any Credit Party or any of its Significant Subsidiaries (other than any Project Finance Subsidiary) shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts described in this Section 10.05; or

10.06 Judgments. Judgments or orders for the payment of money in excess of \$30,000,000 individually or in the aggregate shall be rendered against any Credit Party or any of its Significant Subsidiaries (other than a Project Finance Subsidiary) and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

10.07 Non-Monetary Judgments. Any non-monetary judgment or order shall be rendered against any Credit Party or any of its Significant Subsidiaries (other than a Project Finance Subsidiary) that could be reasonably expected to have a Material Adverse Effect, and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

10.08 Change of Control. For any reason, (i) CenterPoint Energy fails to own, directly or indirectly, at least 50% of the economic interest in the Borrower or (ii) CenterPoint Energy fails to own, directly or indirectly, at least 50% of the outstanding shares of stock, Voting Stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect directors or other managers of the general partner of the Borrower or (iii) the Parent fails to own, directly or indirectly, at least 50% of the economic interest in the Borrower or (iv) the Parent fails to own at least 50% of the outstanding shares of stock, Voting Stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect directors or other managers of the general partner of the Borrower; or

10.09 ERISA. Any Credit Party or any of its ERISA Affiliates shall incur, or could be reasonably expected to incur, any liability in excess of \$50,000,000 individually or in the aggregate as a result of the occurrence of any ERISA Event, or a Plan has an Unfunded Current Liability which, when added to the aggregate amount of Unfunded Current Liabilities with respect to all other Plans, could reasonably be expected to have a Material Adverse Effect, in each case, if such liability or Unfunded Current Liability, as the case may be, is not discharged, satisfied or otherwise reduced below the respective threshold amounts described or set forth above in this Section 10.09 within 30 days from the date such liability or Unfunded Current Liability, as the case may be, exceeded such threshold amount;

10.10 Security Documents. Any Security Document shall cease to be in full force and effect in all material respects, or shall cease to give the Collateral Agent or the Trustee for the benefit of the Collateral Agent, as the case may be the Liens, rights, powers and privileges purported to be created thereby in favor of the Collateral Agent or the Trustee for the benefit of the Collateral Agent, as the case may be, or (b) any Credit Party shall default in the due performance or observance of any term, covenant or agreement on its part to be performed or observed pursuant to any such Security Document and such default shall continue beyond any

cure or grace period specifically applicable thereto pursuant to the terms of such Security Document; or

10.11 Guaranty. The Guaranty or any provision thereof shall cease to be in full force and effect in all material respects, or any Guarantor or any Person acting by or on behalf of such Guarantor shall deny or disaffirm such Guarantor's obligations under any Guaranty;

then, and in any such event, and at any time thereafter, if any Event of Default shall then be continuing, the Administrative Agent, upon the written request of the Required Lenders, shall by written notice to the Borrower, take any or all of the following actions, without prejudice to the rights of any Agent, any Lender or the holder of any Revolving Note to enforce its claims against any Credit Party (provided that, if an Event of Default specified in Section 10.05 shall occur with respect to the Borrower, the result of which would occur upon the giving of such written notice by the Administrative Agent to the Borrower as specified in clauses (i) and (ii) below shall occur automatically without the giving of any such notice): (i) declare the Total Commitment terminated, whereupon the Commitment of each Lender shall forthwith terminate immediately and any Commitment Commission and other Fees shall forthwith become due and payable without any other notice of any kind; (ii) declare the principal of and any accrued interest in respect of all Loans and the Revolving Notes and all Obligations owing hereunder and thereunder to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protect or other notice of any kind, all of which are hereby waived by each Credit Party; (iii) terminate any Letter of Credit which may be terminated in accordance with its terms; and (iv) direct the Borrower to pay (and the Borrower agrees that upon receipt of such notice, or upon the occurrence of an Event of Default specified in Section 10.05 with respect to the Borrower, it will pay) to the Administrative Agent at the Payment Office such additional amount of cash, to be held as security by the Administrative Agent, as is equal to the aggregate Stated Amount of all Letters of Credit issued for the account of the Borrower then outstanding.

#### SECTION 11. Definitions and Accounting Terms.

11.01 Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquired Entity" shall have the meaning set forth in the definition of "Permitted Liens".

"Administrative Agent" shall mean DBAG, in its capacity as Administrative Agent for the Lenders hereunder, and shall include any successor to the Administrative Agent appointed pursuant to Section 12.09.

"Affiliate" of any Person shall mean any other Person that, directly or indirectly, Controls or is Controlled by or is under common Control with such first Person.

"Agents" shall mean and include (i) the Administrative Agent, (ii) the Collateral Agent, (iii) for the purposes of Section 12 only, the Documentation Agent and (iv) for purposes of Sections 12, 13.01, 13.12 and 13.15 only, the Lead Arranger.

"Agreement" shall mean this Credit Agreement, as modified, supplemented, amended, restated, extended, renewed or replaced from time to time.

"Applicable Commitment Commission Percentage" and "Applicable Margin" shall mean (i) at all times when there is not a Debt Rating from both Moody's and S&P (x) with respect to Commitment Commission, a percentage per annum equal to 0.25% and (y) with respect to Loans maintained as (i) Eurodollar Loans, a percentage per annum equal to 1.50% and (ii) Base Rate Loans, a percentage per annum equal to 0.50% and (2) at all times after the receipt of an initial Debt Rating from both Moody's and S&P by the Borrower (A) with respect to Commitment Commission, the respective percentage per annum set forth below under the column "Applicable Commitment Commission Percentage" and (B) with respect to Loans, maintained as (i) Eurodollar Loans, the respective percentage per annum set forth below under the column "Eurodollar Margin" below and (ii) Base Rate Loans, the respective percentage per annum set forth below under the column "Base Rate Margin" and, in the case of preceding clauses (A) and (B), opposite the respective Level (i.e., Level 1, Level 2, Level 3, Level 4, Level 5 or Level 6, as the case may be) that is currently then in effect based on the Debt Rating:

Level	Eurodollar Margin	Base Rate Margin	Applicable Commitment Commission Percentage
Level 1 a rating from S&P of A- or above and a rating from Moody's of A3 or above	0.75%	0.0%	0.10%
Level 2 does not qualify for Level 1, with a rating from S&P of BBB+ or above and a rating from Moody's of Baa1 or above	0.875%	0.0%	0.125%
Level 3 does not qualify for Level 1 or Level 2, with a rating from S&P of BBB or above and a rating from Moody's of Baa2 or above.	1.00%	0.0%	0.15%
Level 4 does not qualify for Level 1, Level 2 or Level 3 with a rating from S&P of BBB- or above and a rating from Moody's of Baa3 or above	1.25%	0.25%	0.20%
Level 5 does not qualify for Level 1, Level 2, Level 3 or Level 4, but has a rating from S&P of at least BB+ or above or a rating from Moody's of Ba1 or above, and the other such rating agency shall have a rating in the case of S&P, of BBB- or above or in the case of Moody's, of Baa3 or above, as the case may be.	1.50%	0.50%	0.25%
Level 6 does not qualify for Level 1, Level 2, Level 3, Level 4 or Level 5	1.75%	0.75%	0.30%

; provided that (I) Level 6 pricing shall apply at all times (x) when a Default under Section 10.01 or 10.05 or an Event of Default is in existence or (y) after the Borrower has received an initial Debt Rating, either or both rating agencies no longer maintain any such rating and (II) any change in the Applicable Margin or the Applicable Commitment Commission Percentage due to a change in the Debt Rating shall be effective on the effective date of such change in the applicable Debt Rating.

"Assignment and Assumption Agreement" shall mean the Assignment and Assumption Agreement substantially in the form of Exhibit I (appropriately completed).

"Bankruptcy Code" shall mean Title 11 of the United States Code entitled "Bankruptcy" as now or hereafter in effect or any successor thereto.

"Base Rate" shall mean the higher of (x) the Prime Lending Rate and (y) 1/2 of 1% in excess of the overnight Federal Funds Rate.

"Base Rate Loan" shall mean each Loan designated or deemed designated as such by the Borrower at the time of the incurrence thereof or conversion thereto.

"Board" shall mean the Board of Governors of the Federal Reserve System of the United States (or any successor).

"Bond" shall mean the bond in the original principal amount of the Total Commitment as in effect on the Effective Date issued under the Indenture and pledged pursuant to the Pledge Agreement.

"Borrowed Money" of any Person shall mean any Indebtedness of such Person for or in respect of money borrowed or raised by whatever means (including acceptances, deposits and lease obligations under Capital Leases); provided, however, that Borrowed Money shall not include (a) any guarantees that may be incurred by endorsement of negotiable instruments for deposit or collection in the ordinary course of business or similar transactions, (b) any obligations or guarantees of performance of obligations under a franchise, performance bonds, franchise bonds, obligations to reimburse drawings under letters of credit issued in accordance with the terms of any safe harbor lease or franchise or in lieu of performance or in lieu of franchise bonds or other obligations that do not represent money borrowed or raised, which reimbursement obligations in each case shall be payable in full within ten (10) Business Days after the date upon which such obligation arises, (c) trade payables, (d) customer advance payments and deposits arising in the ordinary course of such Person's business, (e) operating leases and (f) obligations under swap agreements.

"Borrower" shall have the meaning provided in the first paragraph of this Agreement.

"Borrowing" shall mean the incurrence of one Type of Loan by the Borrower from all of the Lenders on a pro rata basis on a given date (or resulting from conversions on a given date), having in the case of Eurodollar Loans the same Interest Period; provided that Base

Rate Loans incurred pursuant to Section 1.10(b) shall be considered part of any related Borrowing of Eurodollar Loans.

"Business Day" shall mean (i) for all purposes other than as covered by clause (ii) below, any day except Saturday, Sunday and any day which shall be in New York City a legal holiday or a day on which banking institutions are authorized or required by law or other government action to close and (ii) with respect to all notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, any day which is a Business Day described in clause (i) above and which is also a day for trading by and between banks in the New York interbank Eurodollar market.

"Capital Lease" shall mean a lease that, in accordance with GAAP, would be recorded as a capital lease on the balance sheet of the lessee.

"Cash Interest" shall mean interest expense of the Parent and its Subsidiaries, to the extent actually paid in cash, during the relevant period; provided that Cash Interest for the quarter ended December 31, 2002 shall be deemed to be an amount equal to \$1,956,000.

"CenterPoint Energy" shall mean CenterPoint Energy, Inc., a Texas corporation.

"CNP Credit Agreement" shall have the meaning provided in Section 5.07(c).

"Collateral Agent" shall mean Deutsche Bank AG New York Branch, in its capacity of collateral agent under the Credit Documents.

"Commitment" shall mean, for each Lender, the amount set forth opposite such Lender's name in Schedule I hereto directly below the column entitled "Commitment," as same may be (x) reduced from time to time pursuant to Sections 1.14, 3.02, 3.03 and/or 10 or (y) adjusted from time to time as a result of assignments to or from such Lender pursuant to Section 1.13 or 13.04(b).

"Commitment Commission" shall have the meaning provided in Section 3.01(a).

"Consolidated" refers to the consolidation of accounts in accordance with GAAP.

"Consolidated Capitalization" shall mean the sum of (a) Consolidated Shareholders' Equity, (b) Consolidated Indebtedness for Borrowed Money and (c) without duplication, any Mandatory Payment Preferred Stock.

"Consolidated Net Tangible Assets" shall mean the total amount of assets of the Parent and its Subsidiaries less, without duplication, (a) total current liabilities (excluding Indebtedness for Borrowed Money due within 12 months); (b) all reserves for depreciation and other asset valuation reserves, but, excluding reserves for deferred federal income taxes arising from accelerated amortization or otherwise; (c) all intangible assets such as goodwill, trademarks, trade names, patents and unamortized debt discount and expense carried as an asset; and (d) all appropriate adjustments on account of minority interests of other persons holding common stock of any Subsidiary; all as reflected in the Parent's audited consolidated balance

sheet most recently delivered pursuant hereto prior to the date of a determination of Consolidated Net Tangible Assets hereunder.

"Consolidated Shareholders' Equity" shall mean, as of any date of determination, the total assets of the Parent and its Consolidated Subsidiaries less all liabilities of the Parent and its Consolidated Subsidiaries. (As used in this definition, "liabilities" means all obligations that, in accordance with GAAP consistently applied, would be classified on a balance sheet as liabilities, including, without limitation, (a) Indebtedness; (b) deferred liabilities; and (c) Indebtedness of the Parent or any of its Consolidated Subsidiaries that is expressly subordinated in right and priority of payment to other liabilities of the Parent or such Consolidated Subsidiaries, as the case may be, but in any case excluding as at such date of determination any adjustment, non-cash charge to net income or other non-cash charges or write-offs resulting thereto from the application of SFAS No. 142 and similar provisions of GAAP).

"Controlled" shall mean, with respect to any Person, the ability of another Person (whether directly or indirectly and whether by the ownership of voting securities, contract or otherwise) to appoint and/or remove the majority of the members of the board of directors or other governing body of that Person (and "Control" and "Controls" shall be similarly construed).

"Credit Documents" shall mean this Agreement (including, without limitation, the Guaranty), the Revolving Notes, the Security Documents, each Letter of Credit and all other documents executed in connection herewith and therewith, including, without limitation, each Notice of Borrowing.

"Credit Event" shall mean the making of any Loan or the issuance of any Letter of Credit.

"Credit Party" shall mean the Borrower and each Guarantor.

"DBAG" shall mean Deutsche Bank AG New York Branch, in its individual capacity.

"Debt Rating" shall mean, on any date, each of the ratings most recently publicly announced by Moody's and S&P for the Borrower's non-credit enhanced senior secured long-term Indebtedness.

"Default" shall mean any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulting Lender" shall mean any Lender with respect to which a Lender Default is in effect.

"Documentation Agent" shall mean Compass Bank, in its capacity as Documentation Agent.

"Dollars" and the sign "\$" shall each mean freely transferable lawful money of the United States.

"Domestic Subsidiary" shall mean each Subsidiary of the Parent that is incorporated or organized in the United States, any State or territory thereof or the District of Columbia or which is treated as a partnership by the Parent or any Domestic Subsidiary thereof or a disregarded entity pursuant to the provisions of Treasury Regulations Section 301.7701-3.

"Drawing" shall have the meaning provided in Section 2.05(b).

"EBITDA" shall mean, for any period, net income (or net loss) plus the sum of (a) interest expense, (b) income tax expense, (c) depreciation expense, (d) amortization expense and (e) to the extent reflected as a charge in the computation of net income for such period, any other non-cash charges, in each case determined in accordance with GAAP for such period, provided that, EBITDA for the quarter ended December 31, 2002 will be deemed to be an amount equal to -\$27,878,000.

"Effective Date" shall have the meaning provided in Section 13.10.

"Eligible Transferee" shall mean and include a commercial bank, a financial institution, any fund that regularly invests in bank loans or other "accredited investor" (as defined in Regulation D of the Securities Act) but in any event excluding the Borrower and its Subsidiaries.

"Environmental Action" shall mean any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" shall mean any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, rule of common law, decree or judicial or agency interpretation, policy or guidance having the force of law relating to pollution or protection of the environment, health, safety or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" shall mean any permit, approval, identification number, license or other authorization required under any Environmental Law.

"Equity Interests" shall mean any capital stock, partnership, joint venture, member or limited liability or unlimited liability company interest, beneficial interest in a trust or similar entity or other equity interest or investment of whatever nature.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.



"ERISA Affiliate" shall mean any Person that for purposes of Title IV of ERISA is a member of the Borrower's controlled group, or under common control with the Borrower, within the meaning of Section 414 of the Internal Revenue Code.

"ERISA Event" shall mean (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of such Section) are met with respect to a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of a Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such Plan within the following 30 days; (b) the application for a minimum funding waiver with respect to a Plan; (c) the provision by the administrator of any Plan of a notice of intent to terminate such Plan pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (d) the cessation of operations at a facility of the Borrower or any ERISA Affiliate in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by the Borrower or any ERISA Affiliate from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA or Section 412(n) of the Internal Revenue Code shall have been met with respect to any Plan; (g) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA; (h) the institution by the PBGC of proceedings to terminate a Plan pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, a Plan; (i) using actuarial assumptions and computation methods consistent with Part 1 of subtitle E of Title IV of ERISA, the aggregate liabilities of the Borrower and its ERISA Affiliates to all Multiemployer Plans in the event of a complete withdrawal therefrom, as of the close of the most recent fiscal year of each such Multiemployer Plan ended prior to the date of the most recent Credit Event, exceed \$50,000,000; (j) the partial or complete withdrawal of the Borrower or any of its ERISA Affiliates from a Multiemployer Plan; and (k) the reorganization or termination of a Multiemployer Plan.

"Eurodollar Loan" shall mean each Loan designated as such by the Borrower at the time of the incurrence thereof or conversion thereto.

"Eurodollar Rate" shall mean with respect to each Interest Period for a Eurodollar Loan, (i) the arithmetic average (rounded to the nearest 1/100 of 1%) of the offered quotation to first-class banks in the New York interbank Eurodollar market by DBAG for U.S. dollar deposits of amounts in same day funds comparable to the outstanding principal amount of the Eurodollar Loan of DBAG for which an interest rate is then being determined with maturities comparable to the Interest Period to be applicable to such Eurodollar Loan, determined as of 10:00 A.M. (New York City time) on the Interest Determination Date for such Interest Period divided (and rounded upward to the next whole multiple of 1/16 of 1%) by (ii) a percentage equal to 100% minus the then stated maximum rate of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves) applicable to any member bank of the Federal Reserve System in respect of Eurocurrency liabilities as defined in Regulation D (or any successor category of liabilities under Regulation D).

10. "Event of Default" shall have the meaning provided in Section

"Exchange Act" shall mean the Securities Exchange Act of 1933, as amended.

"Excess Funding Guarantor" shall have the meaning provided in Section 14.07(b).

"Excess Payment" shall have the meaning provided in Section 14.07(b).

"Facing Fee" shall have the meaning provided in Section 3.01(c).

"Federal Funds Rate" shall mean for any period, a fluctuating interest rate equal for each day during such period to the weighted average of the rates on overnight Federal Funds transactions with members of the Federal Reserve System arranged by Federal Funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Administrative Agent from three Federal Funds brokers of recognized standing selected by the Administrative Agent.

"Fees" shall mean all amounts payable pursuant to or referred to in Section 3.01.

"First Mortgage Bond" shall mean any bond, note or similar instrument issued pursuant to the Indenture.

"GAAP" shall have the meaning specified in Section 11.02.

"Genco GP" shall have the meaning provided in the first paragraph of this Agreement.

"Genco LP" shall have the meaning provided in the first paragraph of this Agreement.

"Genco Services" shall have the meaning provided in the first paragraph of this Agreement.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guarantee" shall mean, as to any Person (the "guaranteeing person"), any obligation of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement, counterindemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any principal of any Indebtedness for Borrowed Money (the "primary obligations") of any other third Person in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds for the purchase or payment of any such primary

obligation or (iii) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof. The amount of any Guarantee of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith (and "guaranteed" and "guarantor" shall be construed accordingly).

"Guaranteed Creditors" shall mean and include the Administrative Agent, the Collateral Agent, the Documentation Agent, the Issuing Lender and each of the Lenders.

"Guaranteed Obligations" shall mean the full and prompt payment when due (whether at the stated maturity, by acceleration or otherwise) of all obligations, liabilities and indebtedness (including, without limitation, all principal, premium, interest (including, without limitation, all interest that accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency, reorganization or similar proceeding of the Borrower or any Subsidiary thereof at the rate provided for in the respective documentation, whether or not a claim for post-petition interest is allowed in any such proceeding), reimbursement obligations under Letters of Credit, fees, costs and indemnities) of the Borrower to the Guaranteed Creditors, whether now existing or hereafter incurred under, arising out of, or in connection with, this Agreement and the other Credit Documents and the due performance and compliance by each Borrower with all of the terms, conditions and agreements contained in this Agreement and in the other Credit Documents.

"Guarantor" shall mean each of the Parent, Genco GP, Genco Services and Genco LP and any other Person required to become a guarantor under the Guaranty from time to time as contemplated by Section 8.12 of this Agreement.

"Guaranty" shall mean the guaranty of the Guarantors pursuant to Section 14 of this Agreement.

"Hazardous Materials" shall mean (a) petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

"Indebtedness" of any Person shall mean the sum of (a) all items (other than capital stock, capital surplus and retained earnings) that, in accordance with GAAP consistently applied, would be included in determining total liabilities as shown on the liability side of a balance sheet of such Person as at the date on which the Indebtedness is to be determined and (b) the amount of all Guarantees by such Person.

"Indenture" shall have the meaning set forth in Section 5.05(b) of this Agreement.

"Indenture Collateral" shall mean all of the power generation assets of Parent and its Subsidiaries securing the Obligations of the Borrower under and in connection with the Bond, as provided in the Indenture.

"Interest Determination Date" shall mean, with respect to any Eurodollar Loan, the second Business Day prior to the commencement of any Interest Period relating to such Eurodollar Loan.

"Interest Period" shall have the meaning provided in Section 1.09.

"Internal Revenue Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"Issuing Lender" shall mean Compass Bank (which for purposes of this definition also shall include any banking affiliate of Compass Bank) and any other Lender which at the request of the Borrower and with the consent of the Administrative Agent (which shall not be unreasonably withheld or delayed) agrees, in such Lender's sole discretion, to become an Issuing Lender for the purpose of issuing Letters of Credit pursuant to Section 2. It being understood and agreed that on the Effective Date the sole Issuing Lender is Compass Bank.

"Lead Arranger" shall mean Deutsche Bank Securities Inc., in its capacity as Lead Arranger.

"Leaseholds" of any Person shall mean all of the right, title and interest of such Person as lessee or licensee in, to and under leases or licenses of land, improvements and/or fixtures.

"Lender" shall mean each financial institution listed on Schedule I, as well as any Person which becomes a "Lender" hereunder pursuant to Section 1.13 or 13.04(b).

"Lender Default" shall mean (i) the refusal (which has not been retracted) or the failure of a Lender to make available its pro rata portion of any Borrowing or to fund its portion of any unreimbursed payment under Section 2.04(c) or (ii) a Lender having notified in writing the Borrower and/or the Administrative Agent that it does not intend to comply with its obligations under Section 1.01 or Section 2, in the case of either clause (i) or (ii) above as a result of the appointment of a receiver or conservator with respect to such Lender at the direction or request of any regulatory agency or authority.

"Letter of Credit" shall have the meaning provided in Section 2.01(a).

"Letter of Credit Fee" shall have the meaning provided in Section 3.01(b).

"Letter of Credit Outstandings" shall mean, at any time, the sum of (i) the aggregate Stated Amount of all outstanding Letters of Credit and (ii) the amount of all Unpaid Drawings.

"Letter of Credit Request" shall have the meaning provided in Section 2.03(a).

"Lien" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, charge, security interest, encumbrance or lien of any kind whatsoever (including any Capital Lease).

"Loan" shall have the meaning provided in Section 1.01(a).

"Mandatory Payment Preferred Stock" shall mean any preference or preferred stock of the Parent or of any of its Subsidiaries (in each case other than any issued to the Parent or its Subsidiaries that is subject to mandatory redemption, sinking fund or retirement provisions; provided, that any amounts subject to any mandatory redemption, sinking fund or retirement provisions due and payable prior to the Maturity Date or within one year following the Maturity Date will not be considered Mandatory Payment Preferred Stock.

"Margin Stock" shall mean any margin stock (as defined in Regulation U) and any margin security (as defined in Regulation T).

"Material Adverse Change" shall mean any material adverse change in the business, condition (financial or otherwise), operations, performance or properties of the Parent, the Borrower, the Parent and its Subsidiaries taken as a whole, or the Borrower and its Subsidiaries taken as a whole.

"Material Adverse Effect" shall mean a material adverse effect on the ability of any Credit Party to perform its obligations under this Agreement or any other Credit Document to which it is a party.

"Maturity Date" shall mean December 21, 2004.

"Minimum Borrowing Amount" shall mean an amount equal to \$1,000,000.

"Moody's" shall mean Moody's Investors Service, Inc.

"Money Pool" shall have the meaning provided in the Texas Genco Money Pool Agreement, dated as of October 22, 2003, among CenterPoint Energy and certain of its direct and indirect subsidiaries, as in effect on the Effective Date, as may be amended from time to time.

"Multiemployer Plan" shall mean a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" shall mean a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of, or is contributed to (or to which there is an obligation to contribute of) by, the Borrower or any ERISA Affiliate and at least one Person other than the Borrower and the ERISA Affiliates or (b) was so maintained, or contributed to by, and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"Non-Continuing Lender" shall have the meaning provided in Section 1.14.

"Non-Defaulting Lender" shall mean and include each Lender other than a Defaulting Lender.

"Non-Recourse Debt" shall mean (i) any Indebtedness for Borrowed Money incurred by any Project Finance Subsidiary to finance the acquisition, improvement, installation, design, engineering, construction, development, completion, maintenance or operation of, or otherwise to pay costs and expenses relating to or providing financing for any project, which Indebtedness for Borrowed Money does not provide for recourse against the Parent or any Subsidiary of the Parent (other than a Project Finance Subsidiary and such recourse as exists under a Performance Guaranty) or any property or asset of the Parent or any Subsidiary of the Parent (other than Equity Interests in, or the property or assets of, a Project Finance Subsidiary and such recourse as exists under a Performance Guaranty) and (ii) any refinancing of such Indebtedness for Borrowed Money that does not increase the outstanding principal amount thereof (other than to pay costs incurred in connection therewith and the capitalization of any interest, fees, premium or penalties) at the time of the refinancing or increase the property subject to any Lien securing such Indebtedness for Borrowed Money or otherwise add additional security or support for such Indebtedness for Borrowed Money.

"Notice of Borrowing" shall have the meaning provided in Section 1.03.

"Notice of Conversion/Continuation" shall have the meaning provided in Section 1.06.

"Notice Office" shall mean the office of the Administrative Agent located at 90 Hudson Street, Fifth Floor, Jersey City, New Jersey 07302, Attention: Peter Medina, or such other office as the Administrative Agent may hereafter designate in writing as such to the other parties hereto.

"Obligation" shall mean, with respect to any Person, any payment, performance or other obligation of such Person of any kind, including, without limitation, any liability of such Person on any claim, whether or not the right of any creditor to payment in respect of such claim is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, disputed, undisputed, legal, equitable, secured or unsecured, and whether or not claim is discharged, stayed or otherwise affected by any proceeding referred to in Section 10.05. Without limiting the generality of the foregoing, the Obligations of any Credit Party under each Credit Document to which it is a party include (a) the obligation to pay principal, interest, charges, expenses, fees, attorneys' fees and disbursements, indemnities and other amounts payable by such Credit Party under any Credit Document and (b) the obligation of such Credit Party to reimburse any amount in respect of any of the foregoing that any Lender, in its sole discretion, may elect to pay or advance on behalf of such Credit Party.

"Parent" shall have the meaning provided in the first paragraph of this Agreement.

"Participant" shall have the meaning provided in Section 2.04(a).

"Payment Office" shall mean the office of the Administrative Agent located at 90 Hudson Street, Fifth Floor, Jersey City, New Jersey 07302, or such other office as the Administrative Agent may hereafter designate in writing as such to the other parties hereto.

"PBGC" shall mean the Pension Benefit Guaranty Corporation (or any successor).

"Percentage" of any Lender at any time shall mean a fraction (expressed as a percentage) the numerator of which is the Commitment of such Lender at such time and the denominator of which is the Total Commitment at such time, provided that if the Percentage of any Lender is to be determined after the Total Commitment has been terminated, then the Percentages of the Lenders shall be determined immediately prior (and without giving effect) to such termination.

"Performance Guaranty" shall mean any guaranty issued in connection with any Non-Recourse Debt that (i) if secured, is secured only by assets of or Equity Interests in a Project Finance Subsidiary, and (ii) guarantees to the provider of such Non-Recourse Debt or any other Person (a) performance of the improvement, installation, design, engineering, construction, acquisition, development, completion, maintenance or operation of, or otherwise affects any such act in respect of, all or any portion of the project that is financed by such Non-Recourse Debt, (b) completion of the minimum agreed equity or other contributions or support to the relevant Project Finance Subsidiary, or (c) performance by a Project Finance Subsidiary of obligations to Persons other than the provider of such Non-Recourse Debt.

"Permitted Liens" shall mean:

(a) Liens securing Indebtedness under any First Mortgage Bond issued pursuant to and in accordance with the Indenture (or secured by a First Mortgage Bond) in an aggregate principal amount which, together with all other Indebtedness of the Parent and its Subsidiaries secured by a Lien permitted by this clause (a) (not including Indebtedness permitted to be secured under clauses (b)-(w) below unless such Indebtedness is secured pursuant to the Indenture or by a First Mortgage Bond issued pursuant to the Indenture) and the sum of the Value of all Sale and Leaseback Transactions of Parent and its Subsidiaries in existence at such time (other than any Sale and Leaseback Transaction which, if such Sale and Leaseback Transaction had been a Lien, would have been permitted by clauses (k) or (m) below), does not at the time of incurrence of such Indebtedness exceed \$250,000,000, provided that all such Liens shall rank pari passu with the Liens securing the Obligations of the Credit Parties pursuant to the Security Documents and shall be subject to the intercreditor provisions contained in the Indenture;

(b) undetermined or inchoate Liens and charges incidental to construction, maintenance, development or operation;

(c) the Lien of taxes and assessments for the then current year, the Lien of taxes and assessments not at the time delinquent and the Lien of specified taxes and assessments which are delinquent but the validity of which is being contested

at the time by the Parent or such Subsidiary of the Parent in good faith and by appropriate proceedings or for which its non-payment could not reasonably be expected to have a Material Adverse Effect;

(d) Liens in existence on the date hereof;

(e) Liens arising in connection with the securitization of accounts receivable of the Parent and its Subsidiaries or any securitization Subsidiary, in the case of the Parent and its Subsidiaries, to the extent affecting only the accounts receivable of the Parent and its Subsidiaries and assets customarily related thereto and Liens on the stock or assets of securitization Subsidiaries;

(f) the Lien reserved in leases for rent and for compliance with the terms of the lease in the case of leasehold estates;

(g) any obligations or duties, affecting the property of the Parent or such Subsidiary, to any municipality or public authority with respect to any franchise, grant, license, permit or similar arrangement;

(h) the Liens of any judgments or attachments in an aggregate amount not in excess of \$30,000,000, or the Lien of any judgment or attachment the execution or enforcement of which has been stayed or which has been appealed and secured, if necessary, by the filing of an appeal bond;

(i) Liens upon any property heretofore or hereafter acquired, constructed or improved, created at the time of acquisition or commercial operation thereof within one year thereafter (and the accessions thereto and proceeds thereof) to secure all or a portion of the purchase price thereof or the cost of such construction or improvement, or existing thereon at the date of acquisition or within one year thereafter to secure all or a portion of the purchase price thereof or the cost of such construction or improvement, or existing thereon at the date of acquisition, whether or not assumed by the Parent or any Subsidiary of the Parent, provided, that every such Lien shall apply only to the property so acquired or constructed and fixed improvements thereon (and the accessions thereto and proceeds thereof);

(j) any extension, renewal or refunding, in whole or in part, of any mortgage, pledge, Lien or encumbrance permitted by subparagraph (i) above, if limited to the same property or any portion thereof subject to, and securing not more than the amount secured by, the mortgage, pledge, Lien or encumbrance extended, renewed or refunded and related transaction costs and expenses;

(k) Liens upon any property heretofore or hereafter acquired by any Person that is or becomes a Subsidiary after the date hereof ("Acquired Entity"), provided, that (1) every such Lien shall either (A) exist prior to the time the Acquired Entity becomes a Subsidiary or (B) be created at the time the Acquired Entity becomes a Subsidiary or within one year thereafter to secure all or a portion of the acquisition price thereof and (2) every such Lien shall only apply to



those properties owned by the Acquired Entity at the time it becomes a Subsidiary or thereafter acquired by it from sources other than the Parent or any Subsidiary of the Parent;

(l) the pledge of current assets, in the ordinary course of business, to secure current liabilities;

(m) mechanics' or materialmen's Liens, any Liens or charges arising by reason of pledges or deposits to secure payment of workmen's compensation or other insurance, good faith deposits in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits to secure duties or public or statutory obligations, deposits to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or similar charges;

(n) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental regulation for any purpose at any time in connection with the financing of the acquisition or construction of property to be used in the business of the Parent or a Subsidiary or as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable the Parent or a Subsidiary to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, old age pensions or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(o) any Lien of or upon any office equipment, data processing equipment (including, without limitation, computer and computer peripheral equipment), or transportation equipment (including, without limitation, motor vehicles, tractors, trailers, marine vessels, barges, towboats, rolling stock and aircraft);

(p) any Lien created or assumed by the Parent or a Subsidiary in connection with the issuance of debt securities the interest on which is excludable from gross income of the holder of such security pursuant to the Internal Revenue Code, as amended, for the purpose of financing, in whole or in part, the acquisition or construction of property to be used by the Parent or a Subsidiary;

(q) the pledge or assignment of accounts receivable, or the pledge or assignment of conditional sales contracts or chattel mortgages and evidences of indebtedness secured thereby, received in connection with the sale by the Parent or such Subsidiary or others of goods or merchandise to customers of the Parent or such Subsidiary;

(r) any other Liens securing obligations under agreements to which the Parent or any of its Subsidiaries is a party or by which it is bound as of the Effective Date, which the Parent is obligated to equally and ratably secure as a result of granting the Liens to secure Indebtedness hereunder;

(s) Liens on Property of the Parent or any of its Subsidiaries securing non-recourse Indebtedness of the Parent or any such Subsidiary;

(t) Liens on cash collateral to secure obligations of the Parent and its Subsidiaries in respect of cash management arrangements with any Lender or Affiliate thereof;

(u) Liens on cash and short-term investments (i) deposited by the Borrower or any of its Subsidiaries in accounts with or on behalf of futures contract brokers or other counterparties or (ii) pledged by the Parent or any of its Subsidiaries, in the case of clause (i) or (ii) to secure its obligations with respect to contracts (including without limitation, physical delivery, option (whether cash or financial), exchange, swap and futures contracts) for the purchase or sale of any energy-related commodity or interest rate or currency rate management contracts;

(v) Liens on (i) Property owned by a Project Finance Subsidiary or (ii) equity interests in a Project Finance Subsidiary (including in each case a pledge of a partnership interest, common stock or a membership interest in a limited liability company) securing Indebtedness incurred in connection with a project financing; or

(w) Liens not otherwise permitted by Section 9.01 securing Indebtedness or other obligations of the Parent and its Subsidiaries so long as the aggregate principal amount outstanding at any time of the obligations secured thereby does not at any time exceed (as to the Parent and all of its Subsidiaries) \$20,000,000 at such time.

"Person" shall mean an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"Plan" shall mean a Single Employer Plan or a Multiple Employer Plan.

"Pledge Agreement" shall have the meaning provided in Section 5.05(a).

"Pledge Agreement Collateral" shall mean all "Collateral" as defined in the Pledge Agreement.

"Prime Lending Rate" shall mean the rate which DBAG announces from time to time as its prime lending rate, the Prime Lending Rate to change when and as such prime lending rate changes. The Prime Lending Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. DBAG may make commercial loans or other loans at rates of interest at, above or below the Prime Lending Rate.

"Project Finance Subsidiary" and "Project Finance Subsidiaries" shall mean any Subsidiary of the Parent designated by the Borrower whose principal purpose is to incur Non-Recourse Debt and/or construct, lease, own or operate the assets financed thereby, or to become

a direct or indirect partner, member or other equity participant or owner in a Person created for such purpose, and substantially all the assets of which Subsidiary or Person are limited to (x) those assets being financed (or to be financed), or the operation of which is being financed (or to be financed), in whole or in part by Non-Recourse Debt, or (y) Equity Interests in, or Indebtedness or other obligations of, one or more other such Subsidiaries or Persons, or (z) Indebtedness or other obligations of the Borrower or its Subsidiaries or other Persons; provided, however, that the sum of the net book value of all Project Finance Subsidiaries shall at no time exceed 10% of Consolidated Net Tangible Assets.

"Projections" shall have the meaning provided in Section 5.09.

"Property" shall mean any interest or right in any kind of property or asset, whether real, personal or mixed, owned or leased, tangible or intangible and whether now held or hereafter acquired.

"Pro Rata Share" shall have the meaning provided in Section 14.07(b).

"Quarterly Payment Date" shall mean the last Business Day of each March, June, September and December, occurring after the Effective Date.

"Real Property" of any Person shall mean all of the right, title and interest of such Person in and to land, improvements and fixtures, including Leaseholds.

"Recommitment Deadline" shall have the meaning provided in Section 1.14.

"Recommitment Request" shall have the meaning provided in Section 1.14.

"Register" shall have the meaning provided in Section 13.16.

"Regulation D" shall mean Regulation D of the Board as from time to time in effect and any successor to all or a portion thereof establishing reserve requirements.

"Regulation T" and "Regulation U" shall mean Regulation T and U, respectively, of the Board, in each case, as from time to time in effect and any successor to all or a portion thereof.

"Replaced Lender" shall have the meaning provided in Section 1.13.

"Replacement Lender" shall have the meaning provided in Section 1.13.

"Required Lenders" shall mean Non-Defaulting Lenders, the sum of whose outstanding Commitments (or after the termination thereof, outstanding Loans and Percentage of Letter of Credit Outstandings) represent greater than 50% of the Total Commitment less the Commitments of all Defaulting Lenders (or after the termination thereof, the sum of the then total outstanding Loans of Non-Defaulting Lenders and the aggregate Percentages of all Non-Defaulting Lenders of the Letter of Credit Outstandings at such time).

"Responsible Officer" shall mean, with respect to any Person, its chief financial officer, chief accounting officer, assistant treasurer, treasurer or comptroller of such Person or any other officer of such Person whose primary duties are similar to the duties of any of the previously listed officers of such Person.

"Returns" shall have the meaning provided in Section 7.09.

"Revolving Note" shall have the meaning provided in Section 1.05(a).

"RRI Option Agreement" shall have the meaning provided in Section 5.07(c).

"S&P" shall mean Standard & Poor's Rating Services.

"Sale and Leaseback Transaction" shall mean any arrangement with any Person providing for the leasing to the Parent or any Subsidiary of the Parent of any Property (except for temporary leases for a term, including any renewal thereof of not more than three years and except for leases between the Parent and a Subsidiary of the Parent or between Subsidiaries of the Parent), which Property has been or is to be sold or transferred by the Parent or any Subsidiary of the Parent to such Person.

"SEC" shall have the meaning provided in Section 9.05.

"Section 4.04(b)(ii) Certificate" shall have the meaning provided in Section 4.04(b)(ii).

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Security Documents" shall mean the Indenture, the Bond and Pledge Agreement and each other document or instrument entered into pursuant to Section 5.05 or 8.11, if any, in each case as and when delivered in accordance with this Agreement as same may be amended, modified or supplemented from time to time in accordance with the terms thereof and/or hereof.

"Significant Subsidiary" shall mean (i) for the purposes of determining what constitutes an "Event of Default" under Sections 10.04, 10.05, 10.06 and 10.07, a Subsidiary of any Credit Party (other than a Project Finance Subsidiary) whose total assets, as determined in accordance with GAAP, represent at least 10% of the total assets of such Credit Party, on a consolidated basis, as determined in accordance with GAAP and (ii) for all other purposes the "Significant Subsidiaries" shall be those Subsidiaries whose total assets, as determined in accordance with GAAP, represent at least 10% of the total assets of such Credit Party on a consolidated basis, as determined in accordance with GAAP for such Credit Party's most recently completed fiscal year and identified in the certificate most recently delivered pursuant to Section 8.01(b).

"Single Employer Plan" shall mean a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of, or is contributed to (or to which there is an obligation to contribute of) by, the Borrower or any ERISA Affiliate and no Person other than the Borrower and the ERISA Affiliates, or (b) was so maintained, or

contributed to by, and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Solvent" shall mean, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such Person, (b) the present fair salable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay such debts and liabilities as they mature and (d) such Person is not engaged in business or a transaction, and is not about to engage in business or a transaction, for which such Person's property would constitute an unreasonably small capital. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

"Stated Amount" of each Letter of Credit shall, at any time, mean the maximum amount available to be drawn thereunder (in each case determined without regard to whether any conditions to drawing could then be met).

"Subsidiary" of any Person shall mean any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability company, partnership, joint venture or other Person or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Taxes" shall have the meaning provided in Section 4.04(a).

"Total Commitment" shall mean, at any time, the sum of the Commitments of each of the Lenders at such time.

"Total Debt" shall mean, as of any date of determination, the sum of the total Indebtedness for Borrowed Money as shown on the consolidated balance sheet of the Parent and its Consolidated Subsidiaries, determined without duplication of any Guarantee of Indebtedness for Borrowed Money of the Parent by any of its Consolidated Subsidiaries or of any Guarantee of Indebtedness of any such Consolidated Subsidiary by the Parent or any other Consolidated Subsidiary of the Parent, and any Mandatory Payment Preferred Stock, less Non-Recourse Debt of the Parent and its Subsidiaries.

"Total Unutilized Commitment" shall mean, at any time, an amount equal to the remainder of (i) the Total Commitment then in effect, less (ii) the sum of the aggregate principal amount of Loans plus the then aggregate amount of Letter of Credit Outstandings.

"Trustee" shall mean JPMorgan Chase Bank, in its capacity as Trustee under the Indenture.

"Type" shall mean the type of Loan determined with regard to the interest option applicable thereto, i.e., whether a Base Rate Loan or a Eurodollar Loan.

"UCC" shall mean the Uniform Commercial Code as from time to time in effect in the relevant jurisdiction.

"Unfunded Current Liability" of any Plan shall mean the amount, if any, by which the value of the accumulated plan benefits under the Plan determined on a plan termination basis in accordance with actuarial assumptions at such time consistent with those prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds the fair market value of all plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions).

"United States" and "U.S." shall each mean the United States of America.

"Unpaid Drawing" shall have the meaning provided for in Section 2.05(a).

"Unutilized Commitment" with respect to any Lender, at any time, shall mean such Lender's Commitment at such time less the sum of (i) the aggregate outstanding principal amount of Loans made by such Lender and (ii) such Lender's Percentage of the Letter of Credit Outstandings at such time.

"Value" shall mean, with respect to a Sale and Leaseback Transaction, as of any particular time, the amount equal to the greater of (1) the net proceeds from the sale or transfer of the property leased pursuant to such Sale and Leaseback Transaction or (2) the fair value, in the opinion of the board of directors, of such property at the time of entering into such Sale and Leaseback Transaction, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in the lease.

"Voting Stock" shall mean capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"Wholly-Owned" shall mean, with respect to any Subsidiary of any Person, a Subsidiary, all the outstanding capital stock (other than directors' qualifying shares required by law) or other ownership interest of which are at the time owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person, or both.

11.02 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles in effect from time to time in the United States of America ("GAAP"); provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision of the Credit Documents to eliminate the effect of any change occurring after the date hereof in GAAP

or in the application thereof or in federal or foreign tax laws which adversely affects any of the Borrower and its Subsidiaries' ability to comply with its obligations under the Credit Documents, regardless of whether any such notice is given before or after such change or in the application thereof, then such provision shall be interpreted on the basis of GAAP or such tax laws as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

#### SECTION 12. The Agents.

12.01 Appointment. The Lenders hereby designate (i) DBAG as Administrative Agent and Collateral Agent to act as specified herein and in the other Credit Documents, (ii) Compass Bank as Documentation Agent and (iii) Deutsche Bank Securities, Inc. as Lead Arranger, in each case to act as specified herein and in the other Credit Documents. Each Lender hereby irrevocably authorizes, and each holder of any Revolving Note by the acceptance of such Revolving Note shall be deemed irrevocably to authorize, each Agent to take such action on its behalf under the provisions of this Agreement, the other Credit Documents and any other instruments and agreements referred to herein or therein and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of each Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto. Each Agent may perform any of their duties hereunder by or through their respective officers, directors, agents, employees or affiliates.

12.02 Nature of Duties. The Agents shall not have any duties or responsibilities except those expressly set forth in this Agreement and the other Credit Documents. No Agent nor any of its respective officers, directors, agents, employees or affiliates shall be liable for any action taken or omitted by them hereunder or under any other Credit Document or in connection herewith or therewith, unless caused by their gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and non-appealable decision). The duties of the Agents shall be mechanical and administrative in nature; no Agent shall have by reason of this Agreement or any other Credit Document a fiduciary relationship in respect of any Lender or the holder of any Revolving Note; and nothing in this Agreement or any other Credit Document, expressed or implied, is intended to or shall be so construed as to impose upon any Agent any obligations in respect of this Agreement or any other Credit Document except as expressly set forth herein or therein.

12.03 Lack of Reliance on the Agents. Independently and without reliance upon any Agent, each Lender and the holder of each Revolving Note, to the extent it deems appropriate, has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of the Parent and its Subsidiaries in connection with the making and the continuance of the Loans and the taking or not taking of any action in connection herewith and (ii) its own appraisal of the creditworthiness of the Parent and its Subsidiaries and, except as expressly provided in this Agreement, no Agent shall have any duty or responsibility, either initially or on a continuing basis, to provide any Lender or the holder of any Revolving Note with any credit or other information with respect thereto, whether coming into its possession before the making of the Loans or at any time or times thereafter. No Agent nor any of its affiliates or any of its officers, directors, agents or employees shall be responsible to any Lender or the holder of any Revolving Note for any recitals, statements, information, representations or

warranties herein or in any document, certificate or other writing delivered in connection herewith or for the execution, effectiveness, genuineness, validity, enforceability, perfection, collectibility, priority or sufficiency of this Agreement or any other Credit Document or the financial condition of the Parent and its Subsidiaries or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or any other Credit Document, or the financial condition of the Parent and its Subsidiaries or the existence or possible existence of any Default or Event of Default.

12.04 Certain Rights of the Agents. If any Agent shall request instructions from the Required Lenders with respect to any act or action (including failure to act) in connection with this Agreement or any other Credit Document, such Agent shall be entitled to refrain from such act or taking such action unless and until such Agent shall have received instructions from the Required Lenders; and such Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, no Lender nor any holder of any Revolving Note shall have any right of action whatsoever against any Agent as a result of such Agent acting or refraining from acting hereunder or under any other Credit Document in accordance with the instructions of the Required Lenders.

12.05 Reliance. Each Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype, facsimile or telecopier message, cablegram, radiogram, order or other document or telephone message signed, sent or made by any Person that such Agent believed to be the proper Person, and, with respect to all legal matters pertaining to this Agreement and any other Credit Document and its duties hereunder and thereunder, upon advice of counsel selected by such Agent (which may be counsel for the Credit Parties).

12.06 Indemnification. To the extent that any Agent is not reimbursed and indemnified by the Borrower, each Lender will reimburse and indemnify such Agent, in proportion to its "percentage" as used in determining the Required Lenders (determined as if there were no Defaulting Lenders) for and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses or disbursements of whatsoever kind or nature which may be imposed on, asserted against or incurred by such Agent in performing its duties hereunder or under any other Credit Document, in any way relating to or arising out of this Agreement or any other Credit Document; provided that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses or disbursements resulting from such Agent's gross negligence or willful misconduct (as determined by a court of competent jurisdiction in a final and non-appealable decision).

12.07 The Agents in Their Individual Capacity. With respect to its obligation to make Loans and participate in Letters of Credit under this Agreement, each Agent shall have the rights and powers specified herein for a "Lender" and may exercise the same rights and powers as though it were not performing the duties specified herein; and the term "Lenders," "Required Lenders," "holders of Revolving Notes" or any similar terms shall, unless the context clearly otherwise indicates, include each Agent in its individual capacity. Each Agent may accept deposits from, lend money to, and generally engage in any kind of banking, trust or other business with any Credit Party or any Affiliate of any Credit Party as if it were not performing the



duties specified herein, and may accept fees and other consideration from the Borrower, or any other Credit Party for services in connection with this Agreement and otherwise without having to account for the same to the Lenders.

12.08 Holders. The Administrative Agent may deem and treat the payee of any Revolving Note as the owner thereof for all purposes hereof unless and until a written notice of the assignment, transfer or endorsement thereof, as the case may be, shall have been filed with the Administrative Agent. Any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is the holder of any Revolving Note shall be conclusive and binding on any subsequent holder, transferee, assignee or endorsee, as the case may be, of such Revolving Note or of any Revolving Note or Revolving Notes issued in exchange therefor.

12.09 (a) Resignation. The Administrative Agent may resign from the performance of all its functions and duties hereunder and/or under the other Credit Documents at any time by giving 15 Business Days' prior written notice to the Borrower and the Lenders. Any such resignation by any Agent hereunder shall also constitute its resignation as an Issuing Lender (if applicable), in which case upon the effectiveness of such resignation in accordance with this Section 12.09 such resigning Agent (x) shall not be required to issue any further Letters of Credit hereunder and (y) shall maintain all of its rights as an Issuing Lender with respect to any Letters of Credit issued by it, in each case prior to the effective date of such resignation. Such resignation shall take effect upon the appointment of a successor Administrative Agent pursuant to clauses (b) and (c) below or as otherwise provided below.

(b) Upon any such notice of resignation, the Required Lenders shall, with the consent of the Borrower (which consent shall not be unreasonably withheld or delayed and shall not be required at any time when an Event of Default exists), appoint a successor Administrative Agent hereunder or thereunder who shall be a commercial bank or trust company.

(c) If a successor Administrative Agent shall not have been so appointed within such 15 Business Day period, the Administrative Agent, with the consent of the Borrower (which consent shall not be unreasonably withheld or delayed and shall not be required at any time when an Event of Default exists), shall then appoint a commercial bank or trust company as successor Administrative Agent who shall serve as Administrative Agent hereunder or thereunder until such time, if any, as the Required Lenders appoint a successor Administrative Agent as provided above.

(d) If no successor Administrative Agent has been appointed pursuant to clause (b) or (c) above by the 20th Business Day after the date such notice of resignation was given by the Administrative Agent, the Administrative Agent's resignation shall become effective and the Required Lenders shall thereafter perform all the duties of the Administrative Agent hereunder and/or under any other Credit Document until such time, if any, as the Required Lenders appoint a successor Administrative Agent as provided in clause (b) above.

(e) Upon a resignation of any Agent pursuant to this Section 12.09, such Agent shall remain indemnified to the extent provided in this Agreement and the other Credit

Documents and the provisions of this Section 12 shall continue in effect for the benefit of such Agent for all of its actions and inactions while serving as an Agent.

12.10 Documentation Agent. Notwithstanding anything to the contrary contained herein, nothing in this Agreement shall impose on the Documentation Agent, in such capacity, any duties or obligations.

#### SECTION 13. Miscellaneous.

13.01 Payment of Expenses, etc. The Borrower shall: (i) whether or not the transactions herein contemplated are consummated, pay all reasonable out-of-pocket costs and expenses of (x) the Administrative Agent (including, without limitation, the reasonable fees and disbursements of White & Case LLP) in connection with the preparation, execution and delivery of this Agreement and the other Credit Documents and the documents and instruments referred to herein and therein and any amendment, waiver or consent relating hereto or thereto, it being understood that for purposes of this clause (x), the Administrative Agent shall use no more than one transaction counsel and such local counsel as reasonably necessary, (y) each Agent in connection with its syndication efforts with respect to this Agreement and (z) the Administrative Agent and, following and during the continuation of an Event of Default, each of the Lenders in connection with the enforcement of this Agreement and the other Credit Documents and the documents and instruments referred to herein and therein (including, without limitation, the reasonable fees and disbursements of counsel and consultants for the Administrative Agent and, following and during the continuation of an Event of Default, for each of the Lenders) in each case promptly following receipt of a reasonably detailed invoice therefor; (ii) without duplication of any other payments paid or payable pursuant to any other provision of this Agreement or any other Credit Document, pay and hold each of the Lenders harmless from and against any and all present and future stamp, excise and other similar taxes with respect to the foregoing matters and hold each of the Lenders harmless from and against any and all liabilities with respect to or resulting from any delay or omission (other than to the extent attributable to such Lender) to pay such taxes; and (iii) without duplication of any other payments paid or payable pursuant to any other provision of this Agreement or any other Credit Document, indemnify each Agent and each Lender (including in its capacity as an Issuing Lender), and each of their respective officers, directors, employees, representatives, affiliates and agents from and hold each of them harmless against any and all liabilities, obligations (including removal or remedial actions), losses, damages, penalties, claims, actions, judgments, suits, costs, expenses and disbursements (including reasonable attorneys' and consultants' fees and disbursements) incurred by, imposed on or assessed against any of them as a result of, or arising out of, or in any way related to, or by reason of, (a) any investigation, litigation or other proceeding (whether or not any Agent or any Lender is a party thereto) related to the entering into and/or performance of this Agreement or any other Credit Document or the use of any Letter of Credit or the proceeds of any Loans hereunder or the consummation of any transactions contemplated herein or in any other Credit Document or the exercise of any of their rights or remedies provided herein or in the other Credit Documents, or (b) the actual or alleged presence of Hazardous Materials in the air, surface water or groundwater or on the surface or subsurface of any Real Property owned or at any time operated by the Borrower or any of its Subsidiaries, the generation, storage, transportation, handling or disposal of Hazardous Materials at any location, whether or not owned or operated by the Borrower or any of its Subsidiaries, the non-compliance of any Real Property with

foreign, federal, state and local laws, regulations, and ordinances (including applicable permits thereunder) applicable to any Real Property, or any Environmental Action asserted against the Borrower, any of its Subsidiaries, or any Real Property owned or at any time operated by the Borrower or any of its Subsidiaries, including, in each case, without limitation, the reasonable fees and disbursements of counsel and other consultants incurred in connection with any such investigation, litigation or other proceeding (but excluding any losses, liabilities, claims, damages or expenses to the extent incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified (as determined by a court of competent jurisdiction in a final and non-appealable decision)). To the extent that the undertaking to indemnify, pay or hold harmless any Agent or any Lender set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, the Borrower shall make the maximum contribution to the payment and satisfaction of each of the indemnified liabilities which is permissible under applicable law.

13.02 Right of Setoff. In addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuance of an Event of Default, each Lender is hereby authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and apply any and all deposits (general or special) and any other Indebtedness at any time held or owing by such Lender (including, without limitation, by branches and agencies of such Lender wherever located) to or for the credit or the account of any Credit Party against and on account of the Obligations and liabilities of all Credit Parties to such Lender under this Agreement or under any of the other Credit Documents, including, without limitation, all interests in Obligations purchased by such Lender pursuant to Section 13.06(b), and all other claims of any nature or description arising out of or connected with this Agreement or any other Credit Document, irrespective of whether or not such Lender shall have made any demand hereunder and although said Obligations, liabilities or claims, or any of them, shall be contingent or unmatured.

13.03 Notices. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including telegraphic, telex, telecopier or cable communication) and mailed, telegraphed, telexed, telecopied, cabled or delivered: if to the Borrower, at the Borrower's address specified opposite its signature below; if to any other Credit Party, at such Credit Party's address set forth opposite its signature below; if to any Lender, at its address specified on Schedule II below; and if to the Administrative Agent, at the Notice Office; or, as to any Credit Party or the Administrative Agent, at such other address as shall be designated by such party in a written notice to the other parties hereto and, as to each Lender, at such other address as shall be designated by such Lender in a written notice to the Borrower and the Administrative Agent. All such notices and communications shall, when mailed, telegraphed, telexed, telecopied, or cabled or sent by overnight courier, be effective when deposited in the mails, delivered to the telegraph company, cable company or overnight courier, as the case may be, or sent by telex or telecopier, except that notices and communications to the Administrative Agent shall not be effective until received by the Administrative Agent.

13.04 (a) Benefit of Agreement. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; provided, however, that the Borrower may not assign or transfer any of its rights, obligations or interest hereunder or under any other Credit Document without the prior written consent of all of the Lenders and the Administrative Agent and, provided further, that although any Lender may transfer, assign or grant participations in its rights hereunder, such Lender shall remain a "Lender" for all purposes hereunder (and may not transfer or assign all or any portion of its Commitment hereunder except as provided in Section 13.04(b)) and the transferee, assignee or participant, as the case may be, shall not constitute a "Lender" hereunder and, provided further, that no Lender shall transfer or grant any participation under which the participant shall have rights to approve any amendment to or waiver of this Agreement or any other Credit Document except to the extent such amendment or waiver would (i) extend the final scheduled maturity of any Loan or Revolving Note or extend the expiry date of any Letter of Credit beyond the Maturity Date, or reduce the rate or extend the time of payment of interest or Fees thereon (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the participant's participation over the amount thereof then in effect (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or Events of Default or of a mandatory reduction in the Total Commitment shall not constitute a change in the terms of such participation, and that an increase in any Commitment shall be permitted without the consent of any participant if the participant's participation is not increased as a result thereof) or (ii) consent to the assignment or transfer by the Borrower of any of their rights and obligations under this Agreement. In the case of any such participation, the participant shall not have any rights under this Agreement or any of the other Credit Documents (the participant's rights against such Lender in respect of such participation to be those set forth in the agreement executed by such Lender in favor of the participant relating thereto) and all amounts payable by the Borrower hereunder shall be determined as if such Lender had not sold such participation.

(b) Notwithstanding the foregoing, any Lender (or any Lender together with one or more other Lenders) may (x) assign all or a portion of its Commitment and related outstanding Obligations hereunder (or, if the Commitments have terminated, its outstanding Obligations) to (i) its parent company and/or any affiliate of such Lender which is at least 50% owned by such Lender or its parent company or to one or more other Lenders or (ii) in the case of any Lender that is a fund that invests in bank loans, any other fund that invests in bank loans and is managed by the same investment advisor of such Lender or by an Affiliate of such investment advisor or (y) assign all, or if less than all, a portion equal to at least \$1,000,000 in the aggregate for the assigning Lender or assigning Lenders, of such Commitments and related outstanding Obligations hereunder (or, if the Commitments have terminated, its outstanding Obligations) to one or more Eligible Transferees, each of which assignees shall become a party to this Agreement as a Lender by execution of an Assignment and Assumption Agreement, provided that (i) at such time Schedule I shall be deemed modified to reflect the Commitment of such new Lender and of the existing Lenders, (ii) at the request of the assignee Lender, and upon surrender of the relevant Revolving Notes or the provision of a customary lost note indemnification agreement from the assignor or assignee Lender, as the case may be, new Revolving Notes will be issued, at the Borrowers' expense, to such new Lender and to the assigning Lender, such new Revolving Notes to be in conformity with the requirements of Section 1.05 (with appropriate modifications) to the extent needed to reflect the revised

Commitments, (iii) the consent of the Administrative Agent, any Issuing Lender and, at any time when no Default or Event of Default is in existence, the Borrower shall be required in connection with any such assignment pursuant to clause (y) above (each of which consents shall not to be unreasonably withheld or delayed), and (iv) the Administrative Agent shall receive at the time of each such assignment, from the assigning or assignee Lender, the payment of a non-refundable assignment fee of \$3,500 and, provided further, that such transfer or assignment will not be effective until recorded by the Administrative Agent on the Register pursuant to Section 13.16 hereof. To the extent of any assignment pursuant to this Section 13.04(b), the assigning Lender shall be relieved of its obligations hereunder with respect to its assigned Commitments. At the time of each assignment pursuant to this Section 13.04(b) to a Person which is not already a Lender hereunder and which is not a United States person (as such term is defined in Section 7701(a)(30) of the Internal Revenue Code) for Federal income tax purposes, the respective assignee Lender shall provide to the Borrower and the Administrative Agent the appropriate Internal Revenue Service Forms (and, if applicable a Section 4.04(b)(ii) Certificate) described in Section 4.04(b). To the extent that an assignment of all or any portion of a Lender's Commitments and related outstanding Obligations pursuant to Section 1.13 or this Section 13.04(b) would, at the time of such assignment, result in increased costs under Section 1.10, 1.11 or 4.04 greater than those being charged by the respective assigning Lender prior to such assignment, then the Borrower shall not be obligated to pay such greater increased costs (although the Borrower shall be obligated to pay any other increased costs of the type described above resulting from changes after the date of the respective assignment).

(b) Nothing in this Agreement shall prevent or prohibit any Lender from pledging its Loans and Revolving Notes hereunder to a Federal Reserve Bank in support of borrowings made by such Lender from such Federal Reserve Bank and, with the consent of the Administrative Agent, any Lender which is a fund may pledge all or any portion of its Revolving Notes or Loans to its trustee or to a collateral agent providing credit or credit support to such Lender in support of its obligations to its trustee or such collateral agent, as the case may be. No pledge pursuant to this clause (c) shall release the transferor Lender from any of its obligations hereunder.

13.05 No Waiver; Remedies Cumulative. No failure or delay on the part of any Agent or any Lender or any holder of any Revolving Note in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Borrower or any other Credit Party and any Agent or any Lender or the holder of any Revolving Note shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights, powers and remedies herein or in any other Credit Document expressly provided are cumulative and not exclusive of any rights, powers or remedies which any Agent or any Lender or the holder of any Revolving Note would otherwise have. No notice to or demand on any Credit Party in any case shall entitle any Credit Party to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of any Agent or any Lender or the holder of any Revolving Note to any other or further action in any circumstances without notice or demand.

13.06 (a) Payments Pro Rata. Except as otherwise provided in this Agreement, the Administrative Agent agrees that promptly after its receipt of each payment from or on behalf of the Borrower in respect of any Obligations hereunder, it shall distribute such payment to the Lenders (other than any Lender that has consented in writing to waive its pro rata share of any such payment) pro rata based upon their respective shares, if any, of the Obligations with respect to which such payment was received.

(b) Each of the Lenders agrees that, if it should receive any amount hereunder (whether by voluntary payment, by realization upon security, by the exercise of the right of setoff or banker's lien, by counterclaim or cross action, by the enforcement of any right under the Credit Documents, or otherwise), which is applicable to the payment of the principal of, or interest on, the Loans, Unpaid Drawings, Commitment Commission or other Fees, of a sum which with respect to the related sum or sums received by other Lenders is in a greater proportion than the total of such Obligation then owed and due to such Lender bears to the total of such Obligation then owed and due to all of the Lenders immediately prior to such receipt, then such Lender receiving such excess payment shall purchase for cash without recourse or warranty from the other Lenders an interest in the Obligations of the Borrower to such Lenders in such amount as shall result in a proportional participation by all the Lenders in such amount; provided that if all or any portion of such excess amount is thereafter recovered from such Lender, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest.

(c) Notwithstanding anything to the contrary contained herein, the provisions of the preceding Sections 13.06(a) and (b) shall be subject to the express provisions of this Agreement which require, or permit, differing payments to be made to Non-Defaulting Lenders as opposed to Defaulting Lenders.

13.07 Calculations; Computations. (a) The financial statements to be furnished to the Lenders pursuant hereto shall be made and prepared in accordance with generally accepted accounting principles in the United States consistently applied throughout the periods involved (except as set forth in the notes thereto or as otherwise disclosed in writing by the Borrower to the Lenders), provided that except as otherwise specifically provided herein, all computations of Applicable Commitment Commission Percentage and the Applicable Margin, and all computations and all definitions (including accounting terms) used in determining compliance with Sections 9.08 and 9.09, shall utilize accounting principles and policies in conformity with those used to prepare the historical financial statements referred to in Section 7.05(a).

(b) All computations of interest on Eurodollar Loans hereunder shall be made on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. All computations of interest on Base Rate Loans and computations of Fees hereunder shall be made on the basis of a year of 365/366 days for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or Fees are payable.

13.08 GOVERNING LAW; SUBMISSION TO JURISDICTION; VENUE. THIS AGREEMENT AND THE OTHER CREDIT DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE CON-

STRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, IN EACH CASE WHICH ARE LOCATED IN THE COUNTY OF NEW YORK, AND, BY EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH CREDIT PARTY HEREBY IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS. EACH CREDIT PARTY HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH COURTS LACK PERSONAL JURISDICTION OVER IT, AND AGREES NOT TO PLEAD OR CLAIM, IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENTS BROUGHT IN ANY OF THE AFOREMENTIONED COURTS, THAT SUCH COURTS LACK PERSONAL JURISDICTION OVER IT. EACH CREDIT PARTY FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO EACH CREDIT PARTY AT ITS ADDRESS SET FORTH OPPOSITE ITS SIGNATURE BELOW, SUCH SERVICE TO BECOME EFFECTIVE 30 DAYS AFTER SUCH MAILING. NOTHING HEREIN SHALL AFFECT THE RIGHT OF ANY AGENT, ANY LENDER OR THE HOLDER OF ANY NOTE TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST ANY CREDIT PARTY IN ANY OTHER JURISDICTION.

(a) EACH CREDIT PARTY HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT BROUGHT IN THE COURTS REFERRED TO IN CLAUSE (a) ABOVE AND HEREBY FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

13.09 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A set of counterparts executed by all the parties hereto shall be lodged with the Borrower and the Administrative Agent.

13.10 Effectiveness. This Agreement shall become effective on the date (the "Effective Date") on which (i) the Borrower, each Lender and the Administrative Agent shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile) the same to the Administrative Agent at the Notice Office or, in the case of the Lenders, shall have given the Administrative Agent telephonic (confirmed in writing), written or telex notice (actually received) at such office that same has been signed and mailed to it and (ii) the conditions contained in Section 5 are met to the satis-

faction of the Agents and the Required Lenders. Unless the Administrative Agent has received actual notice from any Lender that the conditions contained in Section 5 have not been met to its reasonable satisfaction, upon the satisfaction of the condition described in clause (i) of the immediately preceding sentence and upon the Administrative Agent's good faith determination that the conditions described in clause (ii) of the immediately preceding sentence have been met, then the Effective Date shall have been deemed to have occurred, regardless of any subsequent determination that one or more of the conditions thereto had not been met (although the occurrence of the Effective Date shall not release the Borrower from any liability for failure to satisfy one or more of the applicable conditions contained in Section 5). The Administrative Agent will give the Borrower and each Lender prompt written notice of the occurrence of the Effective Date.

13.11 Headings Descriptive. The headings of the several sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

13.12 (a) Amendment or Waiver; Removal of Lender etc. Neither this Agreement nor any other Credit Document nor any terms hereof or thereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by the respective Credit Parties party thereto and the Required Lenders, provided that no such change, waiver, discharge or termination shall, without the consent of each Lender (other than a Defaulting Lender) (with Obligations being directly affected thereby in the case of following clause (i)), (i) extend the final scheduled maturity of any Loan or Revolving Note, or extend the stated maturity of, or any reimbursement obligation under, any Letter of Credit beyond the Maturity Date, or reduce the rate or extend the time of payment of interest or Fees (it being understood that any amendment or modification to the financial definitions in this Agreement or to Section 13.07(a) shall not constitute a reduction in the rate of interest or Fees for the purposes of this clause (i)), or reduce the principal amount thereof, or reduce any reimbursement obligations under any Letter of Credit, (ii) amend, modify or waive any provision of this Section 13.12 (except for technical amendments with respect to additional extensions of credit under this Agreement of the type which afford the protections to such additional extensions of credit provided to the Commitments on the Effective Date), (iii) reduce the percentage specified in the definition of Required Lenders (it being understood and agreed that, with the consent of the Required Lenders, additional extensions of credit pursuant to this Agreement may be included in the determination of the Required Lenders on substantially the same basis as the Commitments are included on the Effective Date) or (iv) consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement; provided further, that no such change, waiver, discharge or termination shall (1) increase the Commitment of any Lender over the amount thereof then in effect without the consent of such Lender (it being understood and agreed that waivers or modifications of conditions precedent, covenants (including, without limitation, by means of modifications to the financial definitions or modifications in the method of calculation of any financial covenants), Defaults or Events of Default or of a mandatory reduction in the Total Commitments shall not constitute an increase of the Commitment of any Lender, and that an increase in the available portion of any Commitment of any Lender shall not constitute an increase in the Commitment of such Lender), (2) without the consent of the respective Issuing Lender or Issuing Lenders, amend, modify or waive any provision of Section 2 with respect to Letters of Credit issued by it or alter its rights or



obligations with respect to Letters of Credit, or (3) without the consent of each Agent affected thereby, amend, modify or waive any provision of Section 12 as same applies to such Agent or any other provision as same relates to the rights or obligations of such Agent.

(b) Notwithstanding anything herein to the contrary, the Borrower may in accordance with and subject to the provisions of Sections 3.02(b) and/or 4.01(b) as applicable, at any time in its sole discretion, terminate any Lender's Commitment upon ten Business Days' prior written notice to such Lender and the Administrative Agent (the contents of which notices shall be promptly communicated by the Administrative Agent to each other Lender), provided that notwithstanding the foregoing, it is understood and agreed that no Lender's Commitment may be terminated hereunder at a time when an Event of Default shall have occurred and be continuing or solely as a result of the exercise of such Lender's rights pursuant to the second proviso to Section 13.12(a) (including the withholding of any required consent by such Lender pursuant thereto). Concurrently with any termination made pursuant to this Section 13.12(b), the Borrower shall pay to such removed Lender all amounts owing to such Lender hereunder and under each other Credit Document in immediately available funds and take all other actions, in each case in accordance with Sections 3.02(b) and/or 4.01(b) as applicable, in connection with such termination and immediately upon making such payments and taking such actions, such Lender shall no longer constitute a "Lender" for purposes of this Agreement, except with respect to indemnifications under this Agreement (including, without limitation, Sections 1.10, 1.11, 2.06, 4.04, 13.01 and 13.06), which shall survive as to such Lender. Each notice by the Borrower under this Section 13.12(b) shall constitute a representation by Borrower that the removal described in such notice is permitted under this Section 13.12(b).

13.13 Survival. All indemnities set forth herein including, without limitation, in Sections 1.10, 1.11, 2.06, 4.04, 13.01 and 13.06 shall, survive the execution, delivery and termination of this Agreement and the Revolving Notes and the making and repayment of the Loans.

13.14 Domicile of Loans. Each Lender may transfer and carry its Loans at, to or for the account of any office, Subsidiary or Affiliate of such Lender. Notwithstanding anything to the contrary contained herein, to the extent that a transfer of Loans pursuant to this Section 13.14 would, at the time of such transfer, result in increased costs under Section 1.10, 1.11, 2.06 or 4.04 from those being charged by the respective Lender prior to such transfer, then the Borrower shall not be obligated to pay such increased costs (although the Borrower shall be obligated to pay any other increased costs of the type described above resulting from changes after the date of the respective transfer).

13.15 Confidentiality. Subject to the provisions of clause (b) of this Section 13.15, each Lender agrees that it will not disclose without the prior consent of the Parent (other than to its employees, auditors, advisors or counsel or to another Lender if the Lender or such Lender's holding or parent company in its sole discretion determines that any such party should have access to such information, provided such Persons shall be subject to the provisions of this Section 13.15 to the same extent as such Lender) any information with respect to the Parent or any of its Subsidiaries which is now or in the future furnished pursuant to this Agreement or any other Credit Document and which is designated by the Parent to the Lenders in writing as confidential, provided that any Lender may disclose any such information (a) as has become

generally available to the public, (b) as may be required or appropriate in any report, statement or testimony submitted to any municipal, state or Federal regulatory body having or claiming to have jurisdiction over such Lender or to the Federal Reserve Board or the Federal Deposit Insurance Corporation or similar organizations (whether in the United States or elsewhere) or their successors, (c) as may be required or appropriate in respect to any summons or subpoena or in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to such Lender, (e) to any Agent, (f) to any prospective or actual transferee or participant in connection with any contemplated transfer or participation of any of the Revolving Notes or Commitments or any interest therein by such Lender, provided that such prospective transferee agrees to be subject to the provisions contained in this Section 13.15 and (g) to any nationally recognized rating agency that requires access to information about such Lender's investment portfolio in connection with ratings issued to such Lender.

(b) Each Credit Party hereby acknowledges and agrees that each Lender may share with any of its Affiliates any information related to the Parent or any of its Subsidiaries (including, without limitation, any nonpublic customer information regarding the creditworthiness of the Parent and its Subsidiaries), provided such Persons shall be subject to the provisions of this Section 13.15 to the same extent as such Lender.

(c) Each Credit Party hereby represents and acknowledges that, to the best of its knowledge, no Agent nor any Lender, nor any employees or agents of, or other persons affiliated with, any Agent or any Lender, have directly or indirectly made or provided any statement (oral or written) to such Credit Party or to any of their respective employees or agents, or other persons affiliated with or related to such Credit Party (or, so far as such Credit Party is aware, to any other Person), as to the potential tax consequences of this Agreement, any other Credit Document or any of the transactions contemplated hereby or thereby.

(d) Neither the Agents, the Lenders or any of their respective affiliates nor any Credit Party provide accounting, tax, or legal advice and each party has consulted, or will consult, its own advisors regarding its participation in the transactions contemplated by this Agreement. Notwithstanding anything provided herein, in the other Credit Documents or in any other document or agreement relating to the transactions contemplated herein and in the other Credit Documents, and any express or implied claims of exclusivity or proprietary rights, the Agents, the Lenders and each of the Credit Parties hereby agree and acknowledge that each Credit Party, the Agents, the Lenders and any of their respective affiliates (and each of their respective employees, representatives or other agents) are authorized to disclose to any and all persons, beginning immediately upon commencement of their discussions regarding such transactions and without limitation of any kind, the U.S. federal, state, or local tax treatment and tax structure of such transactions, and all materials of any kind (including opinions or other tax analyses) that are provided by either any Credit Party, any Agent, any Lender or any of their respective affiliates (and any of their respective employees, representatives or other agents) to any other such party relating to such tax treatment and tax structure, except to the extent that such disclosure is subject to restrictions reasonably necessary to comply with securities laws. For purposes of this authorization, "tax treatment" of a transaction means the purported or claimed tax treatment of the transaction and "tax structure" of a transaction means any fact that may be relevant to understanding the purported or claimed tax treatment of the transaction. Nothing herein is intended to imply that any oral or written statement as to any potential tax

consequences that are related to, or may result from, the transactions contemplated by the Agreement and the other Credit Documents have been made or provided to, or for the benefit of, any Agent, Lender, Credit Party or any of their respective affiliates by any other such party.

13.16 Register. The Borrower hereby designates the Administrative Agent to serve as the Borrower's agent, solely for purposes of this Section 13.16, to maintain a register (the "Register") on which it will record the Commitments from time to time of each of the Lenders, the Loans made by each of the Lenders and each repayment in respect of the principal amount of the Loans of each Lender. The entries in the Register shall be conclusive and binding for all purposes, absent manifest error. Failure to make any such recordation, or any error in such recordation shall not affect the Borrower's obligations in respect of such Loans. With respect to any Lender, the transfer of the Commitments of such Lender and the rights to the principal of, and interest on, any Loan made pursuant to such Commitments shall not be effective until such transfer is recorded on the Register maintained by the Administrative Agent with respect to ownership of such Commitments and Loans and prior to such recordation all amounts owing to the transferor with respect to such Commitments and Loans shall remain owing to the transferor. The registration of assignment or transfer of all or part of any Commitments and Loans shall be recorded by the Administrative Agent on the Register only upon the acceptance by the Administrative Agent of a properly executed and delivered Assignment and Assumption Agreement pursuant to Section 13.04(b). Coincident with the delivery of such an Assignment and Assumption Agreement to the Administrative Agent for acceptance and registration of assignment or transfer of all or part of a Loan, or as soon thereafter as practicable, the assigning or transferor Lender shall surrender the Revolving Note evidencing such Loan, and thereupon one or more new Revolving Notes in the same aggregate principal amount shall be issued to the assigning or transferor Lender and/or the new Lender. The Borrower agrees to indemnify the Administrative Agent from and against any and all losses, claims, damages and liabilities of whatsoever nature which may be imposed on, asserted against or incurred by the Administrative Agent in performing its duties under this Section 13.16.

#### SECTION 14. Guaranty.

14.01 Guaranty. In order to induce the Lenders to enter into this Agreement and to extend credit hereunder and in recognition of the direct benefits to be received by each Guarantor from the proceeds of the Loans and the issuance of, and participations in, the Letters of Credit, each Guarantor hereby agrees with the Lenders as follows: Each Guarantor hereby unconditionally and irrevocably guarantees, as primary obligor and not merely as surety the full and prompt payment when due in cash, whether upon maturity, acceleration or otherwise, of any and all of the Guaranteed Obligations to the Guaranteed Creditors. If any or all of the Guaranteed Obligations to the Guaranteed Creditors becomes due and payable hereunder, each Guarantor unconditionally promises to pay such indebtedness to the Guaranteed Creditors, or order, on demand, together with any and all expenses which may be incurred by the Guaranteed Creditors in collecting any of the Guaranteed Obligations. This Guaranty is a continuing one and the Guaranteed Obligations shall be conclusively presumed to have been created in reliance hereon. If claim is ever made upon any Guaranteed Creditor for repayment or recovery of any amount or amounts received in payment or on account of any of the Guaranteed Obligations and any of the Guaranteed Creditors repays all or part of said amount by reason of (i) any judgment, decree or order of any court or administrative body having jurisdiction over such Guaranteed

Creditor or any of its property or (ii) any settlement or compromise of any such claim effected by such Guaranteed Creditor with any such claimant (including the Borrower), then and in such event each Guarantor agrees that any such judgment, decree, order, settlement or compromise shall be binding upon the Guarantors, notwithstanding any revocation of this Guaranty or any other instrument evidencing any liability of the Borrower, and each Guarantor shall be and remain liable to the Guaranteed Creditors hereunder for the amount so repaid or recovered to the same extent as if such amount had never originally been received by any such payee.

14.02 Bankruptcy. Additionally, each Guarantor unconditionally and irrevocably guarantees the payment of any and all of the Guaranteed Obligations to the Guaranteed Creditors whether or not due or payable by the Borrower upon the occurrence of any of the events specified in Section 10.05, and unconditionally promises to pay such indebtedness to the Guaranteed Creditors, or order, on demand.

14.03 Nature of Liability. The liability of each Guarantor hereunder is exclusive and independent of any security for or other guaranty of the Guaranteed Obligations whether executed by any Guarantor, any other guarantor or by any other party, and the liability of each Guarantor hereunder is not affected or impaired by (a) any direction as to application of payment by any Borrower or by any other party, or (b) any other continuing or other guaranty, undertaking or maximum liability of a guarantor or of any other party as to the Guaranteed Obligations, or (c) any payment on or in reduction of any such other guaranty or undertaking, or (d) any dissolution, termination or increase, decrease or change in personnel by the Borrower, or (e) any payment made to the Guaranteed Creditors on the Guaranteed Obligations which any such Guaranteed Creditor repays to the Borrower pursuant to court order in any bankruptcy, reorganization, arrangement, moratorium or other debtor relief proceeding, and each Guarantor waives any right to the deferral or modification of its obligations hereunder by reason of any such proceeding.

14.04 Independent Obligation. No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations or of any security therefor shall affect, impair or be a defense to this Guaranty, and this Guaranty shall be primary, absolute and unconditional notwithstanding the occurrence of any event or the existence of any other circumstances which might constitute a legal or equitable discharge of a surety or guarantor except payment in full of the Guaranteed Obligations. The obligations of each Guarantor hereunder are independent of the obligations of the Borrower, any other guarantor or any other Person, and a separate action or actions may be brought and prosecuted against each Guarantor whether or not action is brought against any Borrower, any other guarantor or any other Person and whether or not any Borrower, any other guarantor or any other Person be joined in any such action or actions. Each Guarantor waives, to the full extent permitted by law, the benefit of any statute of limitations affecting its liability hereunder or the enforcement thereof. Any payment by a Borrower or other circumstance which operates to toll any statute of limitations as to such Borrower shall operate to toll the statute of limitations as to the Guarantors.

14.05 Authorization. Each Guarantor authorizes the Guaranteed Creditors without notice or demand (except as shall be required by applicable law and cannot be waived), and without affecting or impairing its liability hereunder, from time to time to:

(a) change the manner, place or terms of payment of, and/or change or extend the time of payment of, renew, increase, accelerate or alter, any of the Guaranteed Obligations (including any increase or decrease in the rate of interest thereon), any security therefor, or any liability incurred directly or indirectly in respect thereof, and this Guaranty shall apply to the Guaranteed Obligations as so changed, extended, renewed or altered;

(b) take and hold security for the payment of the Guaranteed Obligations and sell, exchange, release, surrender, realize upon or otherwise deal with in any manner and in any order any property by whomsoever at any time pledged or mortgaged to secure, or howsoever securing, the Guaranteed Obligations or any liabilities (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and/or any offset thereagainst;

(c) exercise or refrain from exercising any rights against the Borrower or others, or otherwise act or refrain from acting;

(d) release or substitute any one or more endorsers, guarantors, the Borrower or other obligors;

(e) settle or compromise any of the Guaranteed Obligations, any security therefor or any liability (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and may subordinate the payment of all or any part thereof to the payment of any liability (whether due or not) of the Borrower to its creditors other than the Guaranteed Creditors;

(f) apply any sums by whomsoever paid or howsoever realized to any liability or liabilities of the Borrower to the Guaranteed Creditors regardless of what liability or liabilities of the Borrower remain unpaid;

(g) consent to or waive any breach of, or any act, omission or default under, this Agreement, any other Credit Document or any of the instruments or agreements referred to herein or therein, or otherwise amend, modify or supplement this Agreement, any other Credit Document or any of such other instruments or agreements; and/or

(h) take any other action which would, under otherwise applicable principles of common law, give rise to a legal or equitable discharge of any Guarantor from its liabilities under this Guaranty.

14.06 Reliance. It is not necessary for the Guaranteed Creditors to inquire into the capacity or powers of the Borrower or the officers, directors, partners or agents acting or purporting to act on its or their behalf, and any Guaranteed Obligations made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder.

14.07 Rights of Contribution. (a) The Guarantors hereby agree, as between themselves, that if any Guarantor shall become an Excess Funding Guarantor (as defined below) by reason of the payment by such Guarantor of any Guaranteed Obligations, each other Guarantor shall, on demand of such Excess Funding Guarantor (but subject to the next sentence),

pay to such Excess Funding Guarantor an amount equal to such Guarantor's Pro Rata Share (as defined below and determined, for this purpose, without reference to the properties, debts and liabilities of such Excess Funding Guarantor) of the Excess Payment (as defined below) in respect of such Guaranteed Obligations. The payment obligation of a Guarantor to any Excess Funding Guarantor under this Section shall be subordinate and subject in right of payment to the prior payment in full of the obligations of such Guarantor under the other provisions of this Article 14 and such Excess Funding Guarantor shall not exercise any right or remedy with respect to such excess until payment in full of all Guaranteed Obligations.

(b) For purpose of this Section, (i) "Excess Funding Guarantor" means, in respect of any Guaranteed Obligations, a Guarantor that has paid an amount in excess of its Pro Rata Share of such Guaranteed Obligations, (ii) "Excess Payment" means, in respect of any Guaranteed Obligations, the amount paid by an Excess Funding Guarantor in excess of its Pro Rata Share of such Guaranteed Obligations and (iii) "Pro Rata Share" means, for any Guarantor, the ratio (expressed as percentage) or (x) the amount by which the aggregate present fair saleable value of all properties of such Guarantor (excluding any shares of stock of any other Guarantor) exceeds the amount of all the debts and liabilities of such Guarantor (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of such Guarantor hereunder and any obligations of any other Guarantor that have been Guaranteed by such Guarantor) to (y) the amount by which the aggregate fair saleable value of all properties of all the Guarantors exceeds the amount of all the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of the Borrower and the Guarantors hereunder and under the other Credit Documents) of all the Guarantors, determined (A) with respect to any Guarantor that is a party hereto on the Effective Date, as of the Effective Date, and (B) with respect to any other Guarantor, as of the date such Guarantor becomes a Guarantor hereunder.

14.08 Waiver. (a) Each Guarantor waives any right (except as shall be required by applicable law and cannot be waived) to require any Guaranteed Creditor to (i) proceed against the Borrower, any other guarantor or any other party, (ii) proceed against or exhaust any security held from the Borrower, any other guarantor or any other party or (iii) pursue any other remedy in any Guaranteed Creditor's power whatsoever. Each Guarantor waives any defense based on or arising out of any defense of the Borrower any other guarantor or any other party, other than payment in full in cash of the Guaranteed Obligations, based on or arising out of the disability of the Borrower, any other guarantor or any other party, or the unenforceability of the Guaranteed Obligations or any part thereof from any cause, or the cessation from any cause of the liability of the Borrower other than payment in full of the Guaranteed Obligations. The Guaranteed Creditors may, at their election, foreclose on any security held by the Administrative Agent, the Collateral Agent or any other Guaranteed Creditor by one or more judicial or nonjudicial sales, whether or not every aspect of any such sale is commercially reasonable (to the extent permitted by applicable law and subject to the relevant provisions of the applicable Security Documents), or exercise any other right or remedy the Guaranteed Creditors may have against the Borrower or any other party, or any security, without affecting or impairing in any way the liability of any Guarantor hereunder except to the extent the Guaranteed Obligations have been irrevocably and indefeasibly paid in full in cash. Each Guarantor waives any defense arising out of any such election by the Guaranteed Creditors, even though such election operates to impair or extinguish

any right of reimbursement or subrogation or other right or remedy of any Guarantor against the Borrower or any other party or any security.

(b) Each Guarantor waives all presentments, demands for performance, protests and notices, including, without limitation, notices of nonperformance, notices of protest, notices of dishonor, notices of acceptance of this Guaranty, and notices of the existence, creation or incurring of new or additional Guaranteed Obligations. Each Guarantor assumes all responsibility for being and keeping itself informed of the Borrower's financial condition and assets, and of all other circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations and the nature, scope and extent of the risks which such Guarantor assumes and incurs hereunder, and agrees that the Guaranteed Creditors shall have no duty to advise any Guarantor of information known to them regarding such circumstances or risks.

(c) Until such time as the Guaranteed Obligations have been paid in full in cash, each Guarantor hereby waives all rights of subrogation which it may at any time otherwise have as a result of this Guaranty (whether contractual, under Section 509 of the Bankruptcy Code, or otherwise) to the claims of the Guaranteed Creditors against the Borrower or any other guarantor of the Guaranteed Obligations and all contractual, statutory or common law rights of reimbursement, contribution or indemnity from the Borrower or any other guarantor which it may at any time otherwise have as a result of this Guaranty.

(d) Each Guarantor warrants and agrees that each of the waivers set forth above is made with full knowledge of its significance and consequences and that if any of such waivers are determined to be contrary to any applicable law of public policy, such waivers shall be effective only to the maximum extent permitted by law.

14.09 Payment. All payments made by any Guarantor pursuant to this Section 14 shall be made in Dollars in immediately available funds. All payments made by any Guarantor pursuant to this Section 14 will be made without setoff, counterclaim or other defense, and shall be subject to the provisions of Sections 4.03 and 4.04.

14.10 Savings Clause. Each Lender and each Guarantor hereby confirms that it is its intention that this Guaranty not constitute a fraudulent transfer or conveyance for purposes of the Bankruptcy Code, the Uniform Fraudulent Transfer Act or any similar federal or state law. To effectuate the foregoing intention, each Lender and each Guarantor hereby irrevocably agrees that Guaranteed Obligations guaranteed by each Guarantor under this Guaranty shall be limited to such amount as will, after giving effect to such maximum amount and all of such Guarantor's other (contingent or otherwise) liabilities that are relevant under such laws (but excluding, to the maximum extent permitted by applicable law, any liabilities of a Guarantor arising under any other indebtedness that is subordinated to the Guaranteed Obligations or any obligations under this Guarantee), and after giving effect to any rights to contribution pursuant to Section 14.07 hereof, result in the Guaranteed Obligations of such Guarantor in respect of such maximum amount not constituting a fraudulent transfer or conveyance.

\*\*\*\*\*

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Agreement as of the date first above written.

Address: TEXAS GENCO, LP  
c/o Texas Genco GP, LLC  
1111 Louisiana Street  
Houston, Texas 77002  
Attn: Linda Geiger, Assistant Treasurer  
Facsimile: (713) 207-3301  
copy to: Marc Kilbride, Treasurer  
Facsimile: (713) 207-3301

By: TEXAS GENCO GP, LLC,  
its General Partner  
By: /s/ MARC KILBRIDE  
-----  
Name: Marc Kilbride  
Title: Vice President and Treasurer

Address: TEXAS GENCO HOLDINGS, INC.  
1111 Louisiana Street  
Houston, Texas 77002  
Attn: Linda Geiger, Assistant Treasurer  
Facsimile: (713) 207-3301  
copy to: Marc Kilbride, Treasurer  
Facsimile: (713) 207-3301

By: /s/ MARC KILBRIDE  
-----  
Name: Marc Kilbride  
Title: Vice President and Treasurer

Address: TEXAS GENCO GP, LLC  
1111 Louisiana Street  
Houston, Texas 77002  
Attn: Linda Geiger, Assistant Treasurer  
Facsimile: (713) 207-3301  
copy to: Marc Kilbride, Treasurer  
Facsimile: (713) 207-3301

By: /s/ MARC KILBRIDE  
-----  
Name: Marc Kilbride  
Title: Vice President and Treasurer

SIGNATURE PAGE TO TEXAS GENCO CREDIT AGREEMENT



Address:  
1011 Centre Road, Suite 324  
Wilmington, DE 19805  
Telephone: 302-225-0600  
Facsimile: 302-225-0625  
Attn: President

TEXAS GENCO LP, LLC  
By: /s/ PATRICIA F. GENZEL  
-----  
Name: Patricia F. Genzel  
Title: President and Secretary

with a copy to:  
c/o Texas Genco Holdings, Inc.  
1111 Louisiana Street  
Houston, Texas 77002  
Attn: Linda Geiger, Assistant Treasurer  
Facsimile: (713) 207-3301  
copy to: Marc Kilbride, Treasurer  
Facsimile: (713) 207-3301

Address:  
c/o Texas Genco GP, LLC  
1111 Louisiana Street  
Houston, Texas 77002  
Attn: Linda Geiger, Assistant Treasurer  
Facsimile: (713) 207-3301  
copy to: Marc Kilbride, Treasurer  
Facsimile: (713) 207-3301

TEXAS GENCO SERVICES , LP  
By: TEXAS GENCO GP, LLC,  
its General Partner  
By: /s/ MARC KILBRIDE  
-----  
Name: Marc Kilbride  
Title: Vice President and Treasurer

SIGNATURE PAGE TO TEXAS GENCO CREDIT AGREEMENT

DEUTSCHE BANK AG NEW YORK BRANCH,  
individually and as  
Administrative Agent and  
Collateral Agent

By: /s/ RICHARD HENSHALL

-----  
Name: Richard Henshall  
Title: Director

By: /s/ JOEL MAKOWSKY

-----  
Name: Joel Makowsky  
Title: Director

SIGNATURE PAGE TO TEXAS GENCO CREDIT AGREEMENT

COMPASS BANK, individually and as  
Documentation Agent

By: /s/ COLLIN G. SANDERS

-----  
Name: Collin G. Sanders  
Title: Senior Vice President

SIGNATURE PAGE TO TEXAS GENCO CREDIT AGREEMENT

BANK OF AMERICA N.A.

By: /s/ RICHARD L. STEIN  
-----  
Name: Richard L. Stein  
Title: Principal

CITIBANK, N.A.

By: /s/ STUART J. GLEN  
-----  
Name: Stuart J. Glen  
Title: Vice President

CREDIT SUISSE FIRST BOSTON ACTING  
THROUGH ITS CAYMAN ISLANDS BRANCH

By: /s/ S. WILLIAM FOX  
-----  
Name: S. William Fox  
Title: Director

By: /s/ DAVID J. DODD  
-----  
Name: David J. Dodd  
Title: Associate

JPMORGAN CHASE BANK

By: /s/ ROBERT TRUBAND  
-----  
Name: Robert Truband  
Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ D. MITCH WILSON  
-----  
Name: D. Mitch Wilson  
Title: Vice President

## COMMITMENTS

Lender - - - - -	Commitment - - - - -
Deutsche Bank AG New York Branch	\$15,000,000
Bank of America, N.A.	\$10,000,000
Citibank N.A.	\$10,000,000
Compass Bank	\$10,000,000
Credit Suisse First Boston, acting through its Cayman Islands Branch	\$10,000,000
JPMorgan Chase Bank	\$10,000,000
Wachovia	\$10,000,000
Total:	\$75,000,000 =====

SCHEDULE II

LENDER ADDRESSES

DEUTSCHE BANK AG NEW YORK BRANCH  
60 Wall Street  
New York, NY 10005-2858  
Telephone: (212) 250-3968  
Facsimile: (212) 797-4346  
Attention: Richard Henshall

COMPASS BANK  
24 Greenway Plaza, Suite 1400  
Houston, TX 77046  
Telephone: (713) 968-8234  
Facsimile: (713) 968-8211  
Attention: Collis Sanders

BANK OF AMERICA, N.A.  
901 Main Street, 14th Floor  
Dallas, TX 75202  
Telephone: (214) 209-1228  
Facsimile: (214) 290-9415  
Attention: Marija Salic

CITIBANK, N.A.  
2 Penns Way, Suite 110  
New Castle, DE 19720  
Telephone: (302) 894-6084  
Facsimile: (212) 994-0847  
Attention: Karen Riley

CREDIT SUISSE FIRST BOSTON, ACTING THROUGH ITS  
CAYMAN ISLANDS BRANCH  
One Madison Avenue  
New York, NY 10010  
Telephone: (212) 538-3380  
Facsimile: (212) 325-9049  
Attention: Ed Markowski

JPMORGAN CHASE BANK  
1111 Fannin Street, 10th Floor  
Houston, TX 77002  
Telephone: (713) 750-2355  
Facsimile: (713) 427-6307  
Attention: Claudette Reid

WACHOVIA BANK, NATIONAL ASSOCIATION  
201 S. College St. 9th Floor  
NC 1183  
Charlotte, NC 28288-1183  
Telephone: (704) 374-4425  
Facsimile: (704) 715-0097  
Attention: Cynthia Rawson

SCHEDULE III

Governmental Approvals

None



SCHEDULE IV

Existing Indebtedness

OUTSTANDING INDEBTEDNESS FOR BORROWED MONEY AS OF THE EFFECTIVE DATE  
(IN THOUSANDS)

Kilman Note	12.50%	8/25/2017	\$ 436
Capitalized Lease Obligations			6,784
Money Pool Borrowings			0
Credit Agreement Borrowings			26,000
			-----
Total for Parent and its Subsidiaries			\$33,220
			=====

FORM OF REVOLVING NOTE

THIS NOTE AND THE OBLIGATIONS REPRESENTED HEREBY MAY NOT BE TRANSFERRED EXCEPT IN COMPLIANCE WITH THE TERMS AND CONDITIONS OF THE AGREEMENT REFERRED TO BELOW. TRANSFERS OF THIS NOTE AND THE OBLIGATIONS REPRESENTED HEREBY MUST BE RECORDED IN THE REGISTER MAINTAINED BY THE ADMINISTRATIVE AGENT PURSUANT TO THE TERMS OF SUCH AGREEMENT.

\$ \_\_\_\_\_

New York, New York  
\_\_\_\_\_, 200\_

FOR VALUE RECEIVED, TEXAS GENCO, LP (the "Borrower") hereby promises to pay to \_\_\_\_\_ or its registered assigns (the "Lender"), in Dollars (as defined in the Agreement referred to below) in immediately available funds, at the office of Deutsche Bank AG New York Branch (the "Administrative Agent") located at 90 Hudson Street, First Floor, Jersey City, New Jersey 07302 on the Maturity Date (as defined in the Agreement) the principal sum of \_\_\_\_\_ DOLLARS (\$\_\_\_\_) or, if less, the unpaid principal amount of all Loans (as defined in the Agreement) made by the Lender pursuant to the Agreement.

The Borrower promises also to pay interest on the unpaid principal amount hereof in like money at said office from the date hereof until paid at the rates and at the times provided in Section 1.08 of the Agreement.

This Note is one of the Revolving Notes referred to in the Credit Agreement, dated as of December 23, 2003, among the Borrower, Texas Genco Holdings, Inc., Texas Genco GP, LLC, Texas Genco LP, LLC, Texas Genco Services, LP, certain financial institutions from time to time party thereto (including the Lender), Compass Bank, as Documentation Agent and the Administrative Agent in such capacity and as Collateral Agent (as amended, modified or supplemented from time to time, the "Agreement") and is entitled to the benefits thereof and of the other Credit Documents (as defined in the Agreement). This Note is secured by the Security Documents (as defined in the Agreement) to the extent provided therein, and is entitled to the benefits of the Guaranty (as defined in the Agreement). This Note is subject to voluntary prepayment and mandatory repayment prior to the Maturity Date (as defined in the Agreement), in whole or in part, as provided in the Agreement.

In case an Event of Default (as defined in the Agreement) shall occur and be continuing, the principal of and accrued interest on this Note may become or be declared to be due and payable in the manner and with the effect provided in the Agreement.

The Borrower hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

THIS NOTE MAY NOT BE TRANSFERRED EXCEPT PURSUANT TO AND IN ACCORDANCE WITH THE REGISTRATION AND OTHER PROVISIONS OF SECTION 13.16 OF THE AGREEMENT.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

TEXAS GENCO, LP

By: TEXAS GENCO GP, LLC,  
its General Partner

By: \_\_\_\_\_  
Name:  
Title:

FORM OF OFFICER'S CERTIFICATE  
[NAME OF CREDIT PARTY]

The undersigned, the duly elected or appointed, authorized and acting Responsible Officer of [Name of Credit Party], a \_\_\_\_\_ corporation, pursuant to Section 5.04 of the Credit Agreement dated as of December 23, 2003 (the "Credit Agreement") among Texas Genco, Texas Genco, LP, Texas Genco GP, LLC, Texas Genco LP, LLC, Texas Genco Services, LP, the lenders from time party thereto, Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent, and Compass Bank, as Documentation Agent (all capitalized terms not defined herein have the meaning ascribed to them in the Credit Agreement), hereby certifies as follows:

a. The following named individuals are Responsible Officers of [Name of Credit Party], each of which holds the office of [Name of Credit Party] set forth opposite his name as of the date hereof. The signature written opposite the name and title of each such officer is his genuine signature.

Name	Office	Signature
-----	-----	-----
_____	_____	_____
_____	_____	_____

b. Attached hereto as Exhibits "A" and "B," respectively, are true and correct copies of (i) the [Articles of Incorporation or equivalent organizational document] of [Name of Credit Party] as filed in the Office of the Secretary of State of the State of \_\_\_\_\_ on \_\_\_\_\_ as in full force and effect on the date hereof and (ii) the [Bylaws or equivalent organizational document] of [Name of Credit Party] as in full force and effect on the date hereof.

c. Attached hereto as Exhibit "C" are true and correct copies of certain resolutions (the "Resolutions") duly adopted by the [Board of Directors][Sole Manager] of [Name of Credit Party] approving and authorizing the execution, delivery and performance by [Name of Credit Party] of each Credit Document to which such person is a party and authorizing the borrowings and other transactions contemplated thereunder. The Resolutions have not been amended, modified or revoked since their adoption and remain in full force and effect as of the date hereof. Except as attached hereto as Exhibit C, no resolutions have been adopted by the [Board of Directors][Sole Manager] of [Name of Credit Party] which deal with the execution, delivery or performance of any of the Credit Documents to which [Name of Credit Party] is party.

d. Attached hereto as Exhibit "D" is a true and correct copy of a [long form good standing certificate][certificate of existence and a certificate of account status] of [Name of Credit Party] in its jurisdiction of organization.

REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK

IN WITNESS WHEREOF, the undersigned has executed this certificate as of  
December \_\_, 2003.

\_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

I, the undersigned, [Responsible Officer] of [Name of Credit Party], do  
hereby certify on behalf of [Name of Credit Party] that:

1. [Name of Person making above certifications] is the duly  
elected and qualified [Responsible Officer] of [Name of Credit Party] and the  
signature above is his genuine signature.

2. The certifications made by [name of Person making above  
certifications] on behalf of [Name of Credit Party] in items a, b, c and d above  
are true and correct.

IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of  
December, 2003.

[NAME OF CREDIT PARTY]

By: \_\_\_\_\_  
Name:  
Title:

FORM OF PLEDGE AGREEMENT

PLEDGE AGREEMENT, dated as of \_\_\_\_\_, 200\_, made by and among Texas Genco, LP, a Texas limited partnership (the "Company"), with and in favor of the Collateral Agent (as defined below).

W I T N E S S E T H:

WHEREAS, the Company, Texas Genco Holdings, Inc., Texas Genco GP, LLC, Texas Genco GP, LLC, Texas Genco, LP, Texas Genco Services, LP, the lenders from time to time party thereto (the "Lenders"), Deutsche Bank AG New York Branch, as Administrative Agent and Compass Bank, as Documentation Agent, have entered into a Credit Agreement, dated the date hereof (as amended, modified or supplemented from time to time, the "Credit Agreement"), providing for the making of Loans to, and the issuance of Letters of Credit for the account of, the Company as contemplated therein;

WHEREAS, it is a condition precedent to the making of Loans and the issuance of, and participation in, Letters of Credit for the account of the Company under the Credit Agreement that the Company shall have executed and delivered to the Collateral Agent this Agreement; and

WHEREAS, the Company will obtain benefits from the incurrence of Loans by, and the issuance of, and participation in, Letters of Credit for its account under the Credit Agreement and, accordingly, the Company desires to enter into this Agreement in order to satisfy the condition described in the preceding paragraph;

NOW, THEREFORE, in consideration of the premises and to induce the Lenders to maintain or make Loans and issue Letters of Credit under the Credit Agreement, the parties hereto hereby agree as follows:

1. Defined Terms. (a) Unless otherwise defined herein, each term defined in the Credit Agreement and used herein shall have the meaning given to such term in the Credit Agreement.

(b) The following terms shall have the following meanings:

"Agreement": this Pledge Agreement, as the same may be amended, modified or otherwise supplemented from time to time.

"Bonds": bonds issued by the Company pursuant to the Indenture, including without limitation, the Pledged Bonds.

"Collateral": the collective reference to (i) the Pledged Bonds, all documents and instruments issued or delivered in respect of any Pledged Bonds, the rights and interest of the holder or registered owner of each Pledged Bond in and under the Pledged Bonds (including such rights and interest in any and all collateral securing the Pledged Bonds), such documents and instruments, any and all other documents and instruments that from time to time secure payment of such Pledged Bond, (ii) all Investment Property constituting or arising from any Collateral, and (iii) all Proceeds of any of the foregoing.

"Collateral Agent": Deutsche Bank AG New York Branch, in its capacity as Collateral Agent under the Credit Agreement.

"Credit Agreement": the Credit Agreement, dated as of December 23, 2003, among Texas Genco Holdings, Inc., Texas Genco GP, LLC, Texas Genco GP, LLC, Texas Genco, LP, the lenders from time to time party thereto, Deutsche Bank AG New York Branch, as Administrative Agent and Compass Bank, as Documentation Agent, as amended, supplemented or otherwise modified from time to time.

"Indenture": the First Mortgage Indenture, dated as of December 23, 2003, between the Company and the Trustee, as amended or supplemented from time to time.

"Investment Property": the collective reference to (i) all "investment property" as such term is defined in Section 9-102(a)(49) of the New York UCC as in effect in the State of New York on the date hereof and (ii) whether or not constituting "investment property" as so defined, all Pledged Bonds.

"New York UCC": the Uniform Commercial Code as from time to time in effect in the State of New York.

"Obligations": shall mean and include all of the following:

(1) the full and prompt payment when due (whether at the stated maturity, by acceleration or otherwise) of all obligations, liabilities and indebtedness (including, without limitation, principal, premium, interest (including, without limitation, all interest that accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency, reorganization or similar proceeding of any Credit Party at the rate provided for in the respective documentation, whether or not a claim for post-petition interest is allowed in any such proceeding), reimbursement obligations under Letters of Credit, fees, costs and indemnities) of each Credit Party to the Secured Parties, whether now existing or hereafter incurred under, arising out of, or in connection with, the Credit Agreement and the other Credit Documents (including, in the case of each Credit Party that is a Guarantor, all such obligations, liabilities and indebtedness of such Credit Party under the Guaranty) and the due performance and compliance by each Credit Party with all of the terms, conditions and agreements contained in the Credit Agreement and in such other Credit Documents;

(2) any and all sums advanced by the Collateral Agent in order to preserve the Collateral or preserve its security interest in the Collateral;

(3) in the event of any proceeding for the collection or enforcement of any indebtedness, obligations, or liabilities of any Credit Party referred to in clause (1), after an Event of Default shall have occurred and be continuing, the reasonable expenses of retaking, holding, preparing for sale or lease, selling or otherwise disposing of or realizing on the Collateral, or of any exercise by the Collateral Agent of its rights hereunder, together with reasonable attorneys' fees and court costs;

(4) all amounts paid by any Agent or Lender as to which such Agent or Lender has the right to reimbursement under the relevant Sections described in Section 13.13 of the Credit Agreement; and

(5) all amounts owing to the Administrative Agent pursuant to any of the Credit Documents in its capacity as such;

it being acknowledged and agreed that the "Obligations" shall include extensions of credit of the types described above, whether outstanding on the date of this Agreement or extended from time to time after the date of this Agreement.

"Pledged Bonds": shall mean the First Mortgage Indenture Bonds Series A, initially authenticated and delivered in the aggregate principal amount of Seventy-five Million Dollars (\$75,000,000), established in the First Supplemental Indenture, dated as of December 23, 2003, between the Company and the Trustee.

"Primary Obligations" shall have the meaning provided in Section 6(c) of this Agreement.

"Pro Rata Share" shall have the meaning provided in Section 6(c) of this Agreement.

"Proceeds": all "proceeds" as such term is defined in Section 9-102(a)(64) of the New York UCC in effect in the State of New York on the date hereof and, in any event, including, without limitation, principal, interest and other income from the Pledged Bonds and all collections thereon and any money or property realized or collected in connection with any collateral security or guarantee with respect to the Pledged Bonds.

"Secondary Obligations" shall have the meaning provided in Section 6(c) of this Agreement.

"Secured Party": each Lender under the Credit Agreement, the Issuing Lenders, the Collateral Agent and each other Agent.

"Securities Act": the Securities Act of 1933, as amended.

"Termination Date": shall have the meaning provided in Section 21 of this Agreement.

"Trustee": JPMorgan Chase Bank, in its capacity as Trustee under the Indenture.

(c) The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any



particular provision of this Agreement, and section and paragraph references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

2. Delivery and Pledge. (a) The Company hereby delivers, transfers, assigns, pledges and issues to the Collateral Agent, for the ratable benefit of the Secured Parties, the Pledged Bonds, and hereby grants to the Collateral Agent, for the ratable benefit of the Secured Parties, a first priority security interest in the Collateral, in each case as collateral security for the prompt and complete payment and performance by the Company when due (whether at the stated maturity, by acceleration or otherwise) of the Obligations. The Company hereby agrees that (i) subject to the terms hereof, the Collateral Agent is, and will have all the rights and interests of a holder and registered owner of each Pledged Bond, and all rights and interests under and in the Collateral, and (ii) the Collateral Agent may exercise such rights and any other rights set forth herein or under applicable law, and realize on such interests, in each case for the ratable benefit of the Secured Parties, to satisfy, in whole or in part, the Obligations, in accordance with, and subject to, the terms hereof and the terms of the Credit Agreement.

(b) The Company shall cause the physical delivery of the Pledged Bonds in certificated form to the Collateral Agent, registered in its name as Collateral Agent.

3. Restrictions on Transfer of Pledged Bonds; Voting of Pledged Bonds. (a) unless an Event of Default shall have occurred and be continuing, the Collateral Agent shall not sell, assign or transfer the Pledged Bonds.

(b) Unless an Event of Default shall have occurred or unless otherwise instructed by the Required Lenders, where consent of holders of Bonds of the Company is sought, the Collateral Agent shall vote, or shall consent with respect thereto, as follows: (i) the Collateral Agent shall vote all Pledged Bonds then held by it, or consent with respect thereto, in favor of any or all amendments or modifications of the Indenture which the Company has requested in connection with the supplemental indentures thereto for the issuance of additional Bonds to the extent permitted under the Credit Agreement; and (ii) with respect to any other amendments or modifications of the Indenture, the Collateral Agent shall vote all Pledged Bonds then held by it, or consent with respect thereto, in accordance with the written direction of the Required Lenders. Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, the Collateral Agent may vote the Pledged Bonds as contemplated by Section 6 of this Agreement.

4. Representations and Warranties. The Company represents and warrants that:

(a) The Pledged Bonds in certificated form delivered to the Collateral Agent and registered in its name as Collateral Agent represents all of the Bonds authenticated and delivered on the date hereof.

(b) Each of the Pledged Bonds constitutes the legal, valid and binding obligation of the Company, enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

(c) Upon delivery in certificated form to the Collateral Agent of the Pledged Bonds, (i) subject to Section 3(b) hereof, the Collateral Agent shall be entitled to all voting, consensual and other rights accruing to the holders of Bonds under the Indenture, and (ii) the security interest created pursuant to this Agreement will constitute a valid, perfected first priority security interest in the Collateral, enforceable in accordance with its terms against all creditors of the Company and any persons purporting to purchase any Collateral from the Company, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

(d) There exists no default under any Pledged Bond.

5. Covenants. The Company covenants and agrees with the Collateral Agent, for the benefit of the Secured Parties, that, from and after the date of this Agreement until this Agreement is terminated and the security interests created hereby are released:

(a) The Company shall (i) not take or omit to take any action, the taking or the omission of which would result in an alteration or impairment of the security interest created by this Agreement, it being understood that the foregoing is not intended to restrict any supplement to the Indenture that is effected from time to time in accordance with the terms thereof to the extent permitted by the Credit Agreement and (ii) defend such security interest against claims and demands of all persons whomsoever. At any time and from time to time, upon the written request of the Collateral Agent and at the sole expense of the Company, the Company shall promptly and duly execute and deliver, and have recorded, such further instruments and documents and take such further actions as the Collateral Agent reasonably may request for the purposes of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted, including, without limitation, in the case of any relevant Collateral, taking any actions necessary to enable the Collateral Agent to obtain "control" (within the meaning of the New York UCC) with respect thereto.

(b) The Company shall not enter into any agreement amending or supplementing the Collateral except in accordance with, and subject to the terms of, the Indenture and to the extent permitted by the Credit Agreement.

(c) The Company shall pay, and save the Collateral Agent and the Secured Parties harmless from, any and all liabilities with respect to, or resulting from any delay in paying, any and all stamp, excise, sales or other taxes and any and all recording and

filing fees which may be payable or determined to be payable with respect to any of the Collateral or in connection with any of the transactions contemplated by this Agreement.

(d) Any sums paid upon or in respect of the Pledged Bonds upon the liquidation or dissolution of the Company shall be paid over to the Collateral Agent to be held by it or applied hereunder, for the ratable benefit of the Secured Parties, as additional collateral security for the Obligations, and in case any distribution of capital shall be made on or in respect of the Pledged Bonds or any property shall be distributed upon or with respect to the Pledged Bonds pursuant to the recapitalization or reclassification of the capital of the Company or pursuant to the reorganization thereof, the property so distributed shall, unless otherwise subject to a perfected security interest in favor of the Collateral Agent, be delivered to the Collateral Agent to be held or applied hereunder, for the ratable benefit of the Secured Parties, as additional collateral security for the Obligations. If any sums of money or property so paid or distributed in respect of the Pledged Bonds shall be received by the Company, the Company shall, until such money or property is paid or delivered to the Collateral Agent, hold such money or property in trust for the Collateral Agent and the Secured Parties, segregated from other funds of the Company, as additional collateral security for the Obligations.

(e) The Company shall not (i) create, incur or permit to exist any Lien or option in favor of, or any claim of any person with respect to, any of the Pledged Bonds, or any interest therein, except for the security interests created by this Agreement or by the Indenture or (ii) enter into any agreement or undertaking restricting the right or ability of the Company or the Collateral Agent to sell, assign, transfer or apply to the Obligations any of the Collateral.

6. Remedies; Application of Proceeds. (a) If an Event of Default shall have occurred and be continuing, the rights and remedies of the Collateral Agent with respect to the Company and the Collateral shall include (without limitation of the other rights and remedies available to the Collateral Agent or any Secured Party under the Credit Agreement, the Indenture, each other Credit Document or otherwise available to it under applicable law) (i) the right to collect all amounts payable under the Pledged Bonds or any other Collateral for the benefit of the Secured Parties and hold it for their benefit or apply it to the Obligations, (ii) the right to attend or be represented by proxy at any meeting of bondholders under the Indenture without regard to Section 3(b) hereof, (iii) the right to vote the Pledged Bonds in accordance with the terms of the Indenture without regard to Section 3(b) hereof, (iv) the right to issue consents and waivers with respect to the Pledged Bonds without regard to Section 3(b) hereof, (v) the right to issue any and all instructions and requests for action to the Trustee that are permitted to a bondholder under the Indenture without regard to Section 3(b) hereof, and (vi) the right to exercise all other rights and remedies of a registered "holder" of a Pledged Bond under the Indenture without regard to Section 3(b) hereof.

(b) Application of Proceeds by the Collateral Agent hereunder, or any other application by the Collateral Agent of sums or property hereunder to be made to, or for the benefit of, the Secured Parties shall be as follows:

(i) first, to the payment of all amounts owing to the Collateral Agent of the type described in clauses (2), (3) and (4) of the definition of "Obligations";

(ii) second, to the extent proceeds remain after the application pursuant to the preceding clause (i), to the payment of all amounts owing to the Administrative Agent of the type described in clauses (4) and (5) of the definition of "Obligations";

(iii) third, to the extent proceeds remain after the application pursuant to the preceding clauses (i) and (ii), an amount equal to the outstanding Primary Obligations shall be paid to the Secured Parties as provided in Section 6(f) hereof, with each Secured Party receiving an amount equal to its outstanding Primary Obligations or, if the proceeds are insufficient to pay in full all such Primary Obligations, its Pro Rata Share of the amount remaining to be distributed;

(iv) fourth, to the extent proceeds remain after the application pursuant to the preceding clauses (i) through (iii), inclusive, an amount equal to the outstanding Secondary Obligations shall be paid to the Secured Parties as provided in Section 6(f) hereof, with each Secured Party receiving an amount equal to its outstanding Secondary Obligations or, if the proceeds are insufficient to pay in full all such Secondary Obligations, its Pro Rata Share of the amount remaining to be distributed; and

(v) fifth, to the extent proceeds remain after the application pursuant to the preceding clauses (i) through (iv), inclusive, and following the termination of this Agreement pursuant to Section 21 hereof, to the Company or to whomever may be lawfully entitled to receive such surplus.

(c) For purposes of this Agreement (x) "Pro Rata Share" shall mean, when calculating a Secured Party's portion of any distribution or amount, that amount (expressed as a percentage) equal to a fraction the numerator of which is the then unpaid amount of such Secured Party's Primary Obligations or Secondary Obligations, as the case may be, and the denominator of which is the then outstanding amount of all Primary Obligations or Secondary Obligations, as the case may be, (y) "Primary Obligations" shall mean all principal of, premium and interest on, all Loans, all Unpaid Drawings, the Stated Amount on all outstanding Letters of Credit and all Fees and (z) "Secondary Obligations" shall mean all Obligations other than Primary Obligations.

(d) When payments to the Secured Parties are based upon their respective Pro Rata Shares, the amounts received by such Secured Parties hereunder shall be applied (for purposes of making determinations under this Section 6 only) (i) first, to their Primary Obligations and (ii) second, to their Secondary Obligations. If any payment to any Secured Party of its Pro Rata Share of any distribution would result in overpayment to such Secured Party, such excess amount shall instead be distributed in respect of the unpaid Primary Obligations or Secondary Obligations, as the case may be, of the other Secured Parties, with each Secured Party whose Primary Obligations or Secondary Obligations, as the case may be, have not been paid in full to receive an amount equal to such excess amount multiplied by a fraction the numerator of which is the unpaid Primary Obligations or Secondary Obligations, as the case may be, of such Secured Party and the denominator of which is the unpaid Primary Obligations or Secondary Obligations, as the case may be, of all Secured Parties entitled to such distribution.

(e) Each of the Secured Parties, by their acceptance of the benefits hereof, agrees and acknowledges that if the Secured Parties are to receive a distribution on account of undrawn amounts with respect to Letters of Credit issued under the Credit Agreement (which shall only occur after all outstanding Loans and Unpaid Drawings with respect to such Letters of Credit have been paid in full), such amounts shall be paid to the Administrative Agent under the Credit Agreement and held by it, for the equal and ratable benefit of the Secured Parties, as cash security for the repayment of Obligations owing to the Secured Parties as such. If any amounts are held as cash security pursuant to the immediately preceding sentence, then upon the termination of all outstanding Letters of Credit, and after the application of all such cash security to the repayment of all Obligations owing to the Secured Parties after giving effect to the termination of all such Letters of Credit, if there remains any excess cash, such excess cash shall be returned by the Administrative Agent to the Collateral Agent for distribution in accordance with Section 6(b) hereof.

(f) All payments required to be made hereunder shall be made to the Administrative Agent under the Credit Agreement for the account of the Secured Parties.

(g) For purposes of applying payments received in accordance with this Section 6, the Collateral Agent shall be entitled to rely upon the Administrative Agent under the Credit Agreement or, in the absence thereof, upon the Required Lenders for a determination of the outstanding Primary Obligations and Secondary Obligations owed to the Secured Parties. Unless the Collateral Agent has received written notice from a Secured Party to the contrary, the Administrative Agent, in furnishing information pursuant to the preceding sentence, the Collateral Agent, in acting hereunder, shall be entitled to assume that no Secondary Obligations are outstanding.

(h) It is understood that the Company and the Guarantors shall remain liable to the extent of any deficiency between the amount of the proceeds of the Collateral and the aggregate amount of the Obligations.

(i) If an Event of Default shall have occurred and be continuing, the Collateral Agent, on behalf of the Secured Parties, may exercise, in addition to all other rights and remedies granted in this Agreement and in any other instrument or agreement securing, evidencing or relating to the Obligations, all rights and remedies of a secured party under the New York UCC. Without limiting the generality of the foregoing, the Collateral Agent, without demand of performance or other demand, presentment, protest, advertisement or notice of any kind (except any notice required by law referred to below) to or upon the Company or any other person (all and each of which demands, defenses, advertisements and notices are hereby waived), may in such circumstances forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, assign, give option or options to purchase or otherwise dispose of and deliver the Collateral or any part thereof (or contract to do any of the foregoing), in one or more parcels at public or private sale or sales, at any exchange, broker's board or office of the Collateral Agent or Secured Party or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk. The Collateral Agent or any Secured Party shall have the right upon any such public sale or sales, and, to the extent permitted

by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption in the Company, which right or equity is hereby waived or released. The Collateral Agent shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, as set forth in Section 6(b) hereof, and only after such application and after the payment by the Collateral Agent of any other amount required by any provision of law, including, without limitation, Section 9-615(a)(3) of the New York UCC, need the Collateral Agent account for the surplus, if any, to the Company. To the extent permitted by applicable law, the Company waives all claims, damages and demands it may acquire against the Collateral Agent or any Secured Party arising out of the exercise by them of any rights hereunder. If any notice of a proposed sale or other disposition of Collateral shall be required by law, such notice shall be deemed reasonable and proper if given in writing at least 10 days before such sale or other disposition.

(i) (i) The Company recognizes that the Collateral Agent may be unable to effect a public sale of any or all the Pledged Bonds, by reason of certain prohibitions contained in the Securities Act and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. The Company acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. The Collateral Agent shall be under no obligation to delay a sale of any of the Pledged Bonds for the period of time necessary to permit the Company to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Company would agree to do so.

(ii) The Company agrees to use its reasonable efforts to do or cause to be done all such other acts as may be necessary to make such sale or sales of all or any portion of the Pledged Bonds pursuant to this Section 6(j) valid and binding and in compliance with any and all other applicable requirements of law.

7. Collateral Agent's Appointment as Attorney-in-Fact.  
At any time after the occurrence and during the continuance of an Event of Default, the Company hereby irrevocably constitutes and appoints the Collateral Agent and any officer or agent thereof, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Company and in the name of the Company or in its own name, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until this Agreement is terminated and the security interests created hereby are released.

8. Duty of Collateral Agent. The Collateral Agent's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the New York UCC or otherwise, shall be to deal with it in the same manner as

the Collateral Agent deals with its securities and property for its own accounts. None of the Collateral Agent, any Lender nor any of their respective directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of the Company or any other person or to take any other action whatsoever with regard to the Collateral or any part thereof. The powers conferred on the Collateral Agent hereunder are solely to protect the Secured Parties' interests in the Collateral and shall not impose any duty upon the Collateral Agent to exercise any such powers. The Collateral Agent shall be accountable only for amounts that it actually receives as a result of the exercise of such powers, and neither it nor any of its officers, directors, employees or agents shall be responsible to the Company for any act or failure to act hereunder, except for their own gross negligence or willful misconduct.

9. Authority of Collateral Agent. The Company acknowledges that the rights and responsibilities of the Collateral Agent under this Agreement with respect to any action taken by it or the exercise or non-exercise by it of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between the Collateral Agent and the Secured Parties, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Collateral Agent and the Company, the Collateral Agent shall be conclusively presumed to be acting as an agent for the Lenders with full and valid authority so to act or refrain from acting, and the Company shall not be under any obligation, or entitlement, to make any inquiry respecting such authority.

10. Execution of Financing Statements. Pursuant to any applicable law, the Company authorizes the Collateral Agent to file or record financing statements and other filing or recording documents or instruments with respect to the Collateral without the signature of the Company in such form and in such offices as the Collateral Agent reasonably determines appropriate to perfect the security interests of the Collateral Agent under this Agreement. A carbon, photographic or other reproduction of this Agreement shall be sufficient as a financing statement or other filing or recording document or instrument for filing or recording for filing in any jurisdiction.

11. Notices. All notices, requests and demands to or upon the Company or the Collateral Agent to be effective shall be in writing (or by telex, fax or similar electronic transfer confirmed in writing) and shall be deemed to have been duly given or made (i) when delivered by hand or (ii) if given by mail, when deposited in the mails by certified mail, return receipt requested, or (iii) if by telex, fax or similar electronic transfer, when sent and receipt has been confirmed, addressed to the Company or the Collateral Agent at the following:

(x) if to the Company: c/o Texas Genco GP, LLC, 1111 Louisiana, Houston, Texas 77002, Attention of Linda Geiger, Assistant Treasurer (Telecopy No. 713-207-3301), copy to Marc Kilbride, Treasurer (Telecopy No. 713 207-3301); and

(y) if to the Collateral Agent: Deutsche Bank AG New York Branch, 90 Hudson Street, First Floor, Jersey City, NJ 07302, Attention: Peter Medina.

12. Return of Documents; Cooperation. Upon the payment in full of all Obligations and termination of this Agreement, the Collateral Agent shall (a) surrender the Pledged Bonds to the Trustee and (b) return to the Company all other Collateral previously delivered to the Collateral Agent and then held by it, in each case without recourse, representation or warranty, and execute and deliver to the Trustee or the Company, as the case may be, such documents of assignment as are reasonably necessary to terminate the Collateral Agent's security interest in the Collateral interest hereunder.

13. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14. Amendments. (a) Except as set forth in clause (b) below, none of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except by a written instrument executed by the Company and the Collateral Agent (as instructed by the Required Lenders pursuant to the terms of the Credit Agreement).

(b) The Collateral Agent is authorized (but is under no obligation) to enter into amendments and modifications of a technical nature that do not materially impair the rights of the Secured Parties hereunder taken as a whole.

15. No Waiver; Cumulative Remedies. (a) None of the Secured Parties shall by any act (except by a written instrument pursuant to Section 14(a) hereof), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default or in any breach of any of the terms and conditions hereof. No failure to exercise, nor any delay in exercising, on the part of any Secured Party, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by any Secured Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which such Secured Party would otherwise have on any future occasion.

(b) The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

16. Headings. The headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

17. Successors and Assigns. This Agreement shall be binding upon the successors and assigns of the Company and shall inure to the benefit of each of the Secured Parties and its successors and assigns.

18. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the law of the State of New York.



19. Integration. This Agreement, the Credit Agreement and the other Credit Documents represent the agreement of the Company and the Secured Parties with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or warranties by the Secured Parties relative to subject matter hereof and thereof not expressly set forth or referred to herein, in the Credit Agreement or in the other Credit Documents.

20. Submission To Jurisdiction; Waivers. The Company hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and time other Credit Documents, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Company at its address referred to in Section 11 or at such other address of which the Collateral Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section any special, exemplary, punitive or consequential damages.

21. Termination. After the Termination Date, this Agreement shall terminate and the Collateral Agent, at the request and expense of the Company, will promptly execute and deliver to the Company a proper instrument or instruments (including Uniform Commercial Code termination statements on Form UCC-3) acknowledging the satisfaction and termination of this Agreement, and will duly assign, transfer and deliver to the Company (without recourse and without any representation or warranty) such of the Collateral as may be in the possession of the Collateral Agent and as has not theretofore been sold or otherwise applied or released pursuant to this Agreement. As used in this Agreement, "Termination Date" shall mean the date upon which the Total Commitment has been terminated, no Revolving Note, Loan or Letter of Credit is outstanding and all other Obligations (other than indemnities described in Section 13.13 of the Credit Agreement, and any other indemnities set forth in any other Security Document, in each case which are not then due and payable) have been paid in full in cash.

IN WITNESS WHEREOF, the undersigned has caused this Agreement to be duly executed and delivered as of the date first above written.

TEXAS GENCO, LP

By: TEXAS GENCO GP, LLC, its General Partner

By: \_\_\_\_\_

Name:

Title:

DEUTSCHE BANK AG NEW YORK BRANCH, as  
Collateral Agent

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

FORM OF ASSIGNMENT AND ASSUMPTION AGREEMENT(1)

This Assignment and Assumption Agreement (this "Assignment"), is dated as of the Effective Date set forth below and is entered into by and between [the][each] Assignor identified in item [1][2] below ([the] [each, an] "Assignor") and [the] [each] Assignee identified in item 2 below ([the] [each, an] "Assignee"). [It is understood and agreed that the rights and obligations of such [Assignees][and Assignors] hereunder are several and not joint.] Capitalized terms used herein but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, restated, supplemented and/or otherwise modified from time to time, the "Credit Agreement"). The Standard Terms and Conditions for Assignment and Assumption Agreement set forth in Annex 1 hereto (the "Standard Terms and Conditions") are hereby agreed to and incorporated herein by reference and made a part of this Assignment as if set forth herein in full.

For an agreed consideration, [the][each] Assignor hereby irrevocably sells and assigns to [the] [each] Assignee, and [the] [each] Assignee hereby irrevocably purchases and assumes from [the][each] Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below, the interest in and to all of [the][each] Assignor's rights and obligations under the Credit Agreement and any other document or instrument delivered pursuant thereto that represents the amount and percentage interest identified below of all of the [respective] Assignor's outstanding rights and obligations under the respective facilities identified below (including, to the extent included in any such facilities, Letters of Credit) ([the] [each, an] "Assigned Interest"). [Each] [Such] sale and assignment is without recourse to [the][any] Assignor and, except as expressly provided in this Assignment, without representation or warranty by [the][any] Assignor.

[1. Assignor: \_\_\_\_\_

2. Assignee: \_\_\_\_\_](2)

[1][3]. Credit Agreement: Credit Agreement, dated as of December 23, 2003, among Texas Genco Holdings, Inc. ("Parent"), Texas Genco GP, LLC, Texas Genco LP, LLC, Texas Genco Services, LP, Texas Genco, LP (the "Borrower"), the lenders from time to time party thereto, Deutsche Bank AG New York Branch, as Administrative Agent and Collateral Agent, Compass Bank, as Documentation Agent, and [Deutsche Bank Securities Inc., as Lead Arranger and Bookrunner].

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- (1) This Form of Assignment and Assumption Agreement should be used by Lenders for an assignment to a single Assignee or to funds managed by the same or related investment managers.
  - (2) If the form is used for a single Assignor and Assignee, items 1 and 2 should list the Assignor and the Assignee, respectively. In the case of an assignment to funds managed by the same or related investment managers, or an assignment by multiple Assignors, the Assignors and the Assignee(s) should be listed in the table under bracketed item 2 below.

[2. Assigned Interest:(3)

Assignor	Assignee	Aggregate Amount of Commitment/Loans for all Lenders	Amount of Commitment/Loans Assigned	Percentage of Assigned Commitment/Loans(4)
-----	-----	-----	-----	-----
[Name of Assignor]	[Name of Assignee]	-----	-----	-----%
[Name of Assignor]	[Name of Assignee]	-----	-----	-----%]

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(3) Insert this chart if this Form of Assignment and Assumption Agreement is being used for assignments to funds managed by the same or related investment managers or for an assignment by multiple Assignors. Insert additional rows as needed.

(4) Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders.

[4. Assigned Interest:(5)

Aggregate Amount of Commitment/Loans for all Lenders	Amount of Commitment/Loans Assigned	Percentage of Assigned Commitment/Loans (6)
-----	-----	-----
\$-----	\$-----	%-----

Effective Date \_\_\_\_\_, \_\_\_\_\_, 200\_\_.

ASSIGNOR[S] INFORMATION

ASSIGNEE[S] INFORMATION

Payment Instructions: \_\_\_\_\_

Payment Instructions: \_\_\_\_\_

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Reference:\_\_\_\_\_

Reference:\_\_\_\_\_

Notice Instructions: \_\_\_\_\_

Notice Instructions: \_\_\_\_\_

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Reference:\_\_\_\_\_

Reference:\_\_\_\_\_

The terms set forth in this Assignment are hereby agreed to:

ASSIGNOR  
[NAME OF ASSIGNOR]

ASSIGNEE  
[NAME OF ASSIGNEE](7)

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

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- (5) Insert this chart if this Form of Assignment and Assumption Agreement is being used by a single Assignor for an assignment to a single Assignee.
- (6) Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.
- (7) Add additional signature blocks, as needed, if this Form of Assignment and Assumption Agreement is being used by funds managed by the same or related investment managers.

[Consented to and](8) Accepted:

DEUTSCHE BANK AG NEW YORK BRANCH,  
as Administrative Agent

By: \_\_\_\_\_

Name:  
Title:

TEXAS GENCO, LP

By: TEXAS GENCO GP, LLC,  
its General Partner

By: \_\_\_\_\_

Name:  
Title:](9)

[[NAME OF EACH ISSUING LENDER],  
as Issuing Lender

By: \_\_\_\_\_

Name:  
Title:](10)

- - - - -

- (8) Insert only if assignment is being made to an Eligible Transferee pursuant to Section 13.04(b)(y) of the Credit Agreement. Consent of the Administrative Agent shall not be unreasonably withheld or delayed.
- (9) Insert only if (i) no Event of Default or Default of the Credit Agreement is then in existence and, (ii) the assignment is being made to an Eligible Transferee pursuant to 13.04(b)(y) of the Credit Agreement. Consent of the Borrower shall not be unreasonably withheld or delayed.
- (10) Insert for any assignment of a Commitment pursuant to clause (x) or (y) of Section 13.04(b) of the Credit Agreement.

TEXAS GENCO, LP

CREDIT AGREEMENT

STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT  
AND ASSUMPTION AGREEMENT

1. Representations and Warranties.

1.1. Assignor. [The] [Each] Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of [the] [its] Assigned Interest, (ii) [the] [its] Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with any Credit Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, any other Credit Document or any other instrument or document delivered pursuant thereto (other than this Assignment) or any collateral thereunder, (iii) the financial condition of the Parent, any of its Subsidiaries or affiliates or any other Person obligated in respect of any Credit Document or (iv) the performance or observance by the Parent, any of its Subsidiaries or affiliates or any other Person of any of their respective obligations under any Credit Document.

1.2. Assignee. [The] [Each] Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) confirms that it is (A) a Lender, (B) a parent company and/or an affiliate of [the][each] Assignor which is at least 50% owned by [the][each] Assignor or its parent company, (C) a fund that invests in bank loans and is managed by the same investment advisor as a Lender, by an affiliate of such investment advisor or by a Lender or (D) an Eligible Transferee under Section 13.04(b) of the Credit Agreement; (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement and, to the extent of [the][its] Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 8.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and to purchase [the][its] Assigned Interest on the basis of which it has made such analysis and decision and (v) if it is organized under the laws of a jurisdiction outside the United States, it has attached to this Assignment any tax documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by it; (b) agrees that it will, independently and without reliance upon the Administrative Agent, [the][each] Assignor, or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (c) appoints and authorizes each of the Administrative Agent, the Documentation Agent and the Collateral Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement and the other Credit Documents as are delegated to or otherwise conferred upon the Administrative Agent, the Documentation Agent or the Collateral



Agent, as the case may be, by the terms thereof, together with such powers as are reasonably incidental thereto; and (d) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Documents are required to be performed by it as a Lender.

2. Payment. From and after the Effective Date, the Administrative Agent shall make all payments in respect [the] [each] Assigned Interest (including payments of principal, interest, fees, commissions and other amounts) to [the][each] Assignor for amounts which have accrued to but excluding the Effective Date and to [the] [each] Assignee for amounts which have accrued from and after the Effective Date.

3. Effect of Assignment. Upon the delivery of a fully executed original hereof to the Administrative Agent, as of the Effective Date, (i) [the][each] Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment, have the rights and obligations of a Lender thereunder and under the other Credit Documents and (ii) [the][each] Assignor shall, to the extent provided in this Assignment, relinquish its rights and be released from its obligations under the Credit Agreement and the other Credit Documents.

4. General Provisions. This Assignment shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment by telecopy shall be effective as delivery of a manually executed counterpart of the Assignment. THIS ASSIGNMENT SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

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This Instrument Grants a Security Interest  
by a Utility

=====

TEXAS GENCO, LP

To

JPMORGAN CHASE BANK

Trustee

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First Mortgage Indenture

Dated as of December 23, 2003

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This Instrument Contains After-Acquired Property Provisions

CERTAIN SECTIONS OF THIS INDENTURE RELATING TO  
 SECTIONS 310 THROUGH 318,  
 INCLUSIVE, OF THE TRUST INDENTURE ACT OF 1939:

TRUST INDENTURE ACT SECTION	INDENTURE SECTION(S)
Section 310(a)(1).....	1009
(a)(2).....	1009
(a)(3).....	1014(3)
(a)(4).....	Not Applicable
(b).....	1008, 1010
Section 311(a).....	1013
(b).....	1013
(c).....	Not Applicable
Section 312(a).....	1101, 1102
(b).....	1102
(c).....	1102
Section 313(a).....	1103
(b).....	1103
(c).....	1103
(d).....	1103
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(b).....	608
(c)(1).....	105
(c)(2).....	105
(c)(3).....	106
(d).....	402, 607(2), 703, 704, 709
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(b).....	1002
(c).....	1001
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(e).....	918
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(a)(1)(A).....	916
(a)(1)(B).....	917
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(b).....	912
(c).....	107
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NOTE: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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FIRST MORTGAGE INDENTURE (herein called this "Indenture"), dated as of December 23, 2003, between TEXAS GENCO, LP, a Texas limited partnership (herein called the "Company"), having its principal office at 1111 Louisiana, Houston, Texas 77002, and JPMORGAN CHASE BANK, a New York state bank having an office at 600 Travis Street, Suite 1150, Houston, Texas 77002, as Trustee (hereinafter called the "Trustee").

#### RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture, as originally executed and delivered, to provide for the issuance from time to time of its bonds, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as contemplated herein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Securities. All acts necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been performed. For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires, capitalized terms used herein shall have the meanings assigned to them in Article One of this Indenture.

#### GRANTING CLAUSES

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that, in consideration of the premises and of the purchase of the Securities by the Holders thereof, and in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Securities from time to time Outstanding and the performance of the covenants therein and herein contained and to declare the terms and conditions on which such Securities are secured, the Company hereby grants, bargains, sells, conveys, assigns, transfers, mortgages, pledges, sets over and confirms to the Trustee, and grants to the Trustee a security interest in, the following (subject, however, to the terms and conditions set forth in this Indenture):

#### GRANTING CLAUSE FIRST

All right, title and interest of the Company, as of the date of the execution and delivery of this Indenture, as originally executed and delivered, in and to all property, real, personal and mixed (other than Excepted Property) including without limitation all right, title and interest of the Company in and to the following property so located (other than Excepted Property): (a) all real property owned in fee, easements and other interests in real property located in the State of Texas including, without limitation, the real property interests described in Exhibit A hereto, save and except the real property, easements and other interests described therein title to which has been conveyed by the Company to any third party prior to the date hereof, including, without limitation, the real property and other interests described in Exhibit B hereto; (b) all licenses, permits to use the real property of others, franchises to use public roads, streets and other public properties, rights of way and other rights or interests relating to the occupancy or use of real property located in the State of Texas; (c) all facilities, machinery, equipment and fixtures located in the State of Texas for the generation, transmission and distribution of electric energy including, but not limited to, all plants, powerhouses, dams, diversion works, generators,

turbines, engines, boilers, fuel handling and transportation facilities, air and water pollution control and sewage and solid waste disposal facilities, switchyards, towers, substations, transformers, poles, lines, cables, conduits, ducts, conductors, meters, regulators and all other property used or to be used for any or all of such purposes; (d) all buildings, offices, warehouses, structures or improvements located in the State of Texas in addition to those referred to or otherwise included in clauses (a) and (c) above; (e) all computers, data processing, data storage, data transmission and/or telecommunications facilities, equipment and apparatus necessary for the operation or maintenance of any facilities, machinery, equipment or fixtures described or referred to in clause (c) above; and (f) all of the foregoing property in the process of construction;

#### GRANTING CLAUSE SECOND

Subject to the applicable exceptions permitted by Section 709(3), Section 1203 and Section 1205, all right, title and interest of the Company in all property, real, personal and mixed located in the State of Texas (other than Excepted Property) which may be hereafter acquired by the Company, it being the intention of the Company that all such property acquired by the Company after the date of the execution and delivery of this Indenture, as originally executed and delivered, shall be as fully embraced within and subjected to the Lien hereof as if such property were owned by the Company as of the date of the execution and delivery of this Indenture, as originally executed and delivered;

#### GRANTING CLAUSE THIRD

Any Excepted Property, which may, from time to time after the date of the execution and delivery of this Indenture, as originally executed and delivered, by delivery or by an instrument supplemental to this Indenture, be subjected to the Lien hereof by the Company, the Trustee being hereby authorized to receive the same at any time as additional security hereunder; it being understood that any such subjection to the Lien hereof of any Excepted Property as additional security may be made subject to such reservations, limitations or conditions respecting the use and disposition of such property or the proceeds thereof as shall be set forth in such instrument; and

#### GRANTING CLAUSE FOURTH

All tenements, hereditaments, servitudes and appurtenances belonging or in any wise appertaining to the aforesaid property, with the reversions and remainders thereof;

#### EXCEPTED PROPERTY

Expressly excepting and excluding, however, from the Lien of this Indenture all right, title and interest of the Company in and to the following property, whether now owned or hereafter acquired (herein sometimes called "Excepted Property"):

(1) all cash on hand or in banks or other financial institutions, deposit accounts, shares of stock, interests in general or limited partnerships, bonds, membership interests in limited liability companies, notes, other evidences of ownership, equity, indebtedness and other

securities, of whatsoever kind and nature, not hereafter paid or delivered to, deposited with or held by the Trustee hereunder or required so to be;

(2) all contracts, leases, operating agreements and other agreements of whatsoever kind and nature; all contract rights, bills, notes and other instruments and chattel paper (except to the extent that any of the same constitute securities, in which case they are separately excepted from the Lien of this Indenture under clause (1) above); all revenues, income and earnings, all accounts, accounts receivable and unbilled revenues, and all rents, tolls, issues, product and profits, claims, credits, demands and judgments; all governmental and other licenses, permits, franchises, consents and allowances (except to the extent that any of the same are specifically described in clause (b) of Granting Clause First of this Indenture, in which case they are included within the Lien of this Indenture); and all patents, patent licenses and other patent rights, patent applications, trade names, trademarks, copyrights, domain names, claims, credits, choses in action and other intangible property and general intangibles including, but not limited to, computer software;

(3) all automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment; all rolling stock, rail cars and other railroad equipment; all vessels, boats, barges and other marine equipment; all airplanes, helicopters, aircraft engines and other flight equipment; all parts, accessories and supplies used in connection with any of the foregoing; and all personal property of such character that the perfection of a security interest therein or other Lien thereon is not governed by the Uniform Commercial Code as in effect in the jurisdiction in which such property is located;

(4) all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; all materials, supplies, inventory and other items of personal property which are consumable (otherwise than by ordinary wear and tear) in their use in the operation or ownership of the Mortgaged Property; all fuel, whether or not any such fuel is in a form consumable in the operation or ownership of the Mortgaged Property, including separate components of any fuel in the forms in which such components exist at any time before, during or after the period of the use thereof as fuel; all hand and other portable tools and equipment; all furniture and furnishings; and computers and data processing, data storage, data transmission, telecommunications and other facilities, equipment and apparatus, which, in any case, are used primarily for administrative or clerical purposes or are otherwise not necessary for the operation or maintenance of the facilities, machinery, equipment or fixtures described or referred to in clause (c) or (d) of Granting Clause First of this Indenture;

(5) all coal, lignite, ore, sand, gravel, gas, oil and other minerals and all timber, and all rights and interests in any of the foregoing, whether or not such minerals or timber shall have been mined or extracted or otherwise separated from the land; and all electric energy, gas (natural or artificial), steam, water and other products generated, produced, manufactured, purchased or otherwise acquired by the Company;

(6) all real property, leaseholds, gas rights, wells, gas works, stations and substations, transmission pipelines, storage facilities, holders, tanks, retorts, purifiers, odorizers, scrubbers, compressors, valves, regulators, pumps, mains, pipes, service pipes, conduits, ducts, fittings and connections, services, meters, gathering, tap or other pipe lines, facilities, equipment, apparatus

or any other property used or to be used for the production, gathering, transmission, storage or distribution of natural gas, crude oil or other hydro-carbons or minerals;

(7) all property which is the subject of a lease agreement designating the Company as lessee and all right, title and interest of the Company in and to such property and in, to and under such lease agreement, whether or not such lease agreement is intended as security;

(8) all facilities, machinery, equipment and fixtures for the appropriation, storage, transmission and distribution of water including, but not limited to, water works, reservoirs, diversion works, stations and substations, transmission pipelines, canals, raceways, flumes, waterways, aqueducts, storage facilities, tanks, purifiers, valves, regulators, pumps, mains, pipes, service pipes, conduits, fittings and connections, services, meters and any and all other property used or to be used for any or all of such purposes; and

(9) all right, title and interest of the Company in personal or mixed property related to real property located outside of the State of Texas;

provided, however, that subject to the provisions of Section 1203, (x) if, at any time after the occurrence of an Event of Default, the Trustee, or any separate trustee or co-trustee appointed under Section 1014 or any receiver appointed pursuant to Section 908 or otherwise, shall have entered into possession of all or substantially all of the Mortgaged Property, all the Excepted Property described or referred to in the foregoing clauses (2), (3) and (4), then owned or held or thereafter acquired by the Company, to the extent that the same is used in connection with, or otherwise relates or is attributable to, the Mortgaged Property, shall immediately, and, in the case of any Excepted Property described or referred to in clause (7), to the extent that the same is used in connection with, or otherwise relates or is attributable to, the Mortgaged Property, upon demand of the Trustee or such other trustee or receiver, become subject to the Lien of this Indenture to the extent not prohibited by law or by the terms of any other Lien or encumbrance on such Excepted Property, and the Trustee or such other trustee or receiver may, to the extent not prohibited by law or by the terms of any such other Lien (and subject to the rights of the holders of all such other Liens), at the same time likewise take possession thereof, and (y) whenever all Events of Default shall have been cured and the possession of all or substantially all of the Mortgaged Property shall have been restored to the Company, such Excepted Property shall again be excepted and excluded from the Lien hereof to the extent set forth above; it being understood that the Company may, however, pursuant to Granting Clause Third, subject to the Lien of this Indenture any Excepted Property, whereupon the same shall cease to be Excepted Property;

TO HAVE AND TO HOLD all such property, real, personal and mixed, unto the Trustee, its successors in trust and their assigns forever;

SUBJECT, HOWEVER, to (a) Liens existing at the date of the execution and delivery of this Indenture, as originally executed and delivered, (b) as to property acquired by the Company after the date of the execution and delivery of this Indenture, as originally executed and delivered, Liens existing or placed thereon at the time of the acquisition thereof (including, but not limited to, Purchase Money Liens), (c) Permitted Liens and all other Liens permitted to exist under Section 606;

IN TRUST, NEVERTHELESS, for the equal and ratable benefit and security of the Holders from time to time of all Outstanding Securities without any priority of any such Security over any other such Security;

PROVIDED, HOWEVER, that the right, title and interest of the Trustee in and to the Mortgaged Property shall cease, terminate and become void in accordance with, and subject to the conditions set forth in, Article Eight or Article Thirteen hereof, and if, thereafter, the principal of and premium, if any, and interest, if any, on the Securities shall have been paid to the Holders thereof, or shall have been paid to the Company pursuant to Section 603 hereof, then and in that case this Indenture shall terminate, and the Trustee shall execute and deliver to the Company such instruments as the Company shall require to evidence such termination; otherwise this Indenture, and the estate and rights hereby granted, shall be and remain in full force and effect; and

IT IS HEREBY COVENANTED AND AGREED by and between the Company and the Trustee that all the Securities are to be authenticated and delivered, and that the Mortgaged Property is to be held, subject to the further covenants, conditions and trusts hereinafter set forth, and the Company hereby covenants and agrees to and with the Trustee, for the equal and ratable benefit of all Holders, as follows:

#### ARTICLE ONE.

##### DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

###### SECTION 101. General Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article One have the meanings assigned to them in this Article One and include the plural as well as the singular;

(2) all other terms used herein without definition which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all terms used herein without definition which are defined in the Uniform Commercial Code as in effect in any jurisdiction in which any portion of the Mortgaged Property is located shall have the meanings assigned to them therein with respect to such portion of the Mortgaged Property;

(4) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted in the United States at the date of such

computation or, at the election of the Company from time to time, at the date of the execution and delivery of this Indenture, as originally executed and delivered;

(5) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Indenture;

(6) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(7) words importing either gender include the other gender;

(8) references to statutes are to be construed as including all statutory provisions consolidating, amending or replacing the statute referred to;

(9) references to "writing" include printing, typing, lithography and other means of reproducing words in a visible form;

(10) the words "including," "includes" and "include" shall be deemed to be followed by the words "without limitation"; and

(11) unless otherwise provided, references to agreements and other instruments shall be deemed to include all amendments and other modifications to such agreements and instruments, but only to the extent such amendments and other modifications are not prohibited by the terms of this Indenture.

"Accountant" means a Person engaged in the accounting profession or otherwise qualified to pass on accounting matters (including, but not limited to, a Person certified or licensed as a public accountant, whether or not then engaged in the public accounting profession), which Person, unless required to be Independent, may be an employee or Affiliate of the Company.

"Act", when used with respect to any Holder, has the meaning specified in Section 107.

"Adjusted Net Earnings" means the amount calculated in accordance with Section 104(1); provided, however, that if any of the property of the Company owned by it at the time of the making of any Net Earnings Certificate (a) shall have been acquired during or after any period for which Adjusted Net Earnings of the Company are to be computed, (b) shall not have been acquired in exchange or substitution for property the net earnings of which have been included in the Adjusted Net Earnings of the Company, and (c) had been operated as a separate unit and items of revenue and expense attributable thereto are readily ascertainable, then the net earnings of such property (computed in the manner provided for the computation of the Adjusted Net Earnings of the Company) during such period or such part of such period as shall have preceded the acquisition thereof, to the extent that the same have not otherwise been included in the Adjusted Net Earnings of the Company, shall be so included.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified

Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Annual Interest Requirements" means the amount calculated in accordance with Section 104(2).

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 1015 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Authorized Officer" means the President, any Vice President or the Treasurer of the General Partner, or any other duly authorized officer, agent or attorney-in-fact of the General Partner named in an Officer's Certificate signed by any of such officers.

"Authorized Publication" means a newspaper or financial journal of general circulation, printed in the English language and customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays; or, in the alternative, shall mean such form of communication as may have come into general use for the dissemination of information of import similar to that of the information specified to be published by the provisions hereof. In the event that successive weekly publications in an Authorized Publication are required hereunder they may be made (unless otherwise expressly provided herein) on the same or different days of the week and in the same or in different Authorized Publications. In case, by reason of the suspension of publication of any Authorized Publication, or by reason of any other cause, it shall be impractical without unreasonable expense to make publication of any notice in an Authorized Publication as required by this Indenture, then such method of publication or notification as shall be made with the approval of the Trustee shall be deemed the equivalent of the required publication of such notice in an Authorized Publication.

"Authorized Purposes" means the authentication and delivery of Securities, the release of property and/or the withdrawal of cash under any of the provisions of this Indenture.

"Business Day", when used with respect to any Place of Payment or any other particular location specified in the Securities or this Indenture, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close.

"Commission" means the Securities and Exchange Commission, from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this Indenture, as originally executed and delivered, such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this Indenture until a Successor Corporation shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such Successor Corporation.



"Company Request" or "Company Order" mean, respectively, a written request or order signed in the name of the Company by the Chief Executive Officer, the Chief Financial Officer, the President or a Vice President of the General Partner, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary of the General Partner, and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, which office at the date of the execution and delivery of this Indenture, as originally executed and delivered, is as follows: at 600 Travis Street, Suite 1150, Houston, Texas 77002.

"Corporation" means a corporation, limited liability company, company, association, joint-stock company or business trust.

"Cost" has the meaning specified in Section 103.

"Defaulted Interest" has the meaning specified in Section 307.

"Dollar" or "\$" means a dollar or other equivalent unit in such coin or currency of the United States as at the time shall be legal tender for the payment of public and private debts.

"Eligible Obligations" means:

(1) with respect to Securities denominated in Dollars, Government Obligations; or

(2) with respect to Securities denominated in a currency other than Dollars or in a composite currency, such other obligations or instruments as shall be specified with respect to such Securities as contemplated by Section 301.

"Event of Default" has the meaning specified in Section 901.

"Excepted Property" has the meaning specified in the Granting Clauses of this Indenture.

"Exchange Act" means the Securities Exchange Act of 1934 and any statute successor thereto, in each case as amended from time to time.

"Exchange Rate" has the meaning specified in Section 901.

"Expert" means a Person which is an engineer, appraiser or other expert and which, with respect to any certificate to be signed by such Person and delivered to the Trustee, is qualified to pass upon the matters set forth in such certificate. For purposes of this definition, (a) "engineer" means a Person engaged in the engineering profession or otherwise qualified to pass upon engineering matters (including, but not limited to, a Person licensed as a professional engineer) and (b) "appraiser" means a Person engaged in the business of appraising property or otherwise qualified to pass upon the Fair Value or fair market value of property.

"Expert's Certificate" means a certificate signed by an Authorized Officer and by an Expert (which Expert (a) shall be selected by an Authorized Officer, the execution of such

certificate by such Authorized Officer to be conclusive evidence of such selection, and (b) except as otherwise required in Sections 402, 607 and 709, may be an employee or Affiliate of the Company duly authorized by an Authorized Officer) and delivered to the Trustee. The amount stated in any Expert's Certificate as to the Cost or Fair Value of property shall be conclusive and binding upon the Company, the Trustee and the Holders.

"Expiration Date" has the meaning specified in Section 107.

"Fair Value", with respect to property, means the fair value of such property as may reasonably be determined by reference to (a) the amount which would be likely to be obtained in an arm's-length transaction with respect to such property between an informed and willing buyer and an informed and willing seller, under no compulsion, respectively, to buy or sell, (b) the amount of investment with respect to such property which, together with a reasonable return thereon, would be likely to be recovered through ordinary business operations or otherwise, (c) the Cost, accumulated depreciation and replacement cost with respect to such property and/or (d) any other relevant factors; provided, however, that (x) the Fair Value of property shall be determined without deduction for any Liens on such property prior to the Lien of this Indenture (except as otherwise provided in Section 703) and (y) the Fair Value to the Company of Property Additions shall not reflect any reduction relating to the fact that such Property Additions may be of less value to a Person which is not the owner or operator of the Mortgaged Property or any portion thereof than to a Person which is such owner or operator. Fair Value may be determined, in the discretion of the Expert certifying the same, without physical inspection, by the use of accounting and/or engineering records and/or other data maintained by the Company or otherwise available to such Expert.

"Funded Cash" has the meaning specified in Section 102.

"Funded Property" has the meaning specified in Section 102.

"General Partner" means Texas Genco GP, LLC, the general partner of the Company.

"General Partner Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the General Partner to have been duly adopted by the managers of the General Partner and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Governmental Authority" means the government of the United States or of any State or Territory thereof or of the District of Columbia or of any county, municipality or other political subdivision of any thereof, or any department, agency, authority or other instrumentality of any of the foregoing.

"Government Obligations" means:

(1) any security which is (A) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (B) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full

faith and credit obligation by the United States of America, which, in either case (A) or (B), is not callable or redeemable at the option of the issuer thereof; and

(2) certificates, depositary receipts or other instruments which evidence a direct ownership interest in obligations described in clause (1) above or in any specific interest or principal payments due in respect thereof; provided, however, that the custodian of such obligations or specific interest or principal payments shall be a bank or trust company (which may include the Trustee or any Paying Agent) subject to Federal or State supervision or examination with a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000); and provided, further, that except as may be otherwise required by law, such custodian shall be obligated to pay to the holders of such certificates, depositary receipts or other instruments the full amount received by such custodian in respect of such obligations or specific payments and shall not be permitted to make any deduction therefrom.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term "Indenture" shall also include the terms of particular series of Securities established as contemplated by Section 301.

"Independent", when applied to any Accountant or Expert, means such a Person who (a) is in fact independent, (b) does not have any direct material financial interest in the Company or in any other obligor upon the Securities or in any Affiliate of the Company or of such other obligor, (c) is not connected with the Company or such other obligor as an officer, employee, promoter, underwriter, trustee, partner, director or any person performing similar functions and (d) is approved by the Trustee in the exercise of reasonable care.

"Independent Expert's Certificate" means a certificate signed by an Independent Expert and delivered to the Trustee.

"Initial Expert's Certificate" means an Expert's certificate delivered upon the earliest of (a) the first authentication and delivery of Securities, subsequent to the initial authentication and delivery of the Securities of the Initial Series (excluding Securities of the Initial Series issued in connection with a transfer, exchange or replacement of any Predecessor Securities of such series), upon the basis of Property Additions pursuant to Section 402, (b) the first release of any part of the Mortgaged Property pursuant to Section 703 or 704 and (c) the first withdrawal of cash on the basis of Property Additions pursuant to Section 706.

"Initial Series" means:

(1) the series of Securities, initially authenticated and delivered in the aggregate principal amount of Seventy Five Million Dollars (\$75,000,000) established in the First Supplemental Indenture, dated as of December 23, 2003, between the Company and the Trustee,

the form and terms of which are established in the Officer's Certificate, dated December 23, 2003, pursuant to the First Supplemental Indenture; and

(2) each additional series of Securities, provided that the aggregate principal amount of the Securities to be authenticated and delivered in respect of such series, when added to the aggregate principal amount of Securities Outstanding immediately prior to the issuance thereof (other than any Securities for the payment or redemption of which such Securities are to be issued and any Securities pledged as security for the payment obligations of the Company in respect of indebtedness for the satisfaction of which such Securities are to be issued), shall not exceed an amount equal to the sum of Two Hundred Fifty Million Dollars (\$250,000,000) and the aggregate amount of all Transaction Costs relating to any such series.

"Interest" when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Investment Securities" means any of the following obligations or securities on which neither the Company, any other obligor on the Securities nor any Affiliate of either is the obligor: (a) Government Obligations; (b) interest bearing deposit accounts (which may be represented by certificates of deposit) in any national or state bank (which may include the Trustee or any Paying Agent) or savings and loan association which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (c) bankers' acceptances drawn on and accepted by any commercial bank (which may include the Trustee or any Paying Agent) which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (d) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, any State or Territory of the United States or the District of Columbia, or any political subdivision of any of the foregoing, which are rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (e) bonds or other obligations of any agency or instrumentality of the United States; (f) corporate debt securities which are rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (g) repurchase agreements with respect to any of the foregoing obligations or securities with any banking or financial institution (which may include the Trustee or any Paying Agent) which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (h) securities issued by any regulated investment company (including any investment company for which the Trustee or any Paying Agent is the advisor), as defined in Section 851 of the Internal Revenue Code of 1986, as

amended, or any successor Section of such Code or successor federal statute, provided that the portfolio of such investment company is limited to obligations or securities of the character and investment quality contemplated in clauses (a) through (f) above and repurchase agreements which are fully collateralized by any of such obligations or securities; and (i) any other obligations or securities which may lawfully be purchased by the Trustee in its capacity as such.

"Lien" means any mortgage, deed of trust, pledge, security interest, encumbrance, easement, lease, reservation, restriction, servitude, charge or similar right and any other lien of any kind, including, without limitation, the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Maximum Interest Rate" has the meaning specified in Section 310.

"Mortgaged Property" means, as of any particular time, all property which at such time is subject to the Lien of this Indenture.

"Net Earnings Certificate" has the meaning specified in Section 104.

"Notice of Default" has the meaning specified in Section 901.

"Officer's Certificate" means a certificate signed by an Authorized Officer and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company or other counsel acceptable to the Trustee and who may be an employee or Affiliate of the Company.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 902.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(1) Securities theretofore canceled or delivered to the Securities Registrar or the Trustee for cancellation;

(2) Securities deemed to have been paid for all purposes of this Indenture in accordance with Section 801 (whether or not the Company's indebtedness in respect thereof shall be satisfied and discharged for any other purpose); and

(3) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture,

other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it and the Company that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company; provided, however, that in determining whether or not the Holders of the requisite principal amount of the Outstanding Securities under this Indenture, or the Outstanding Securities of any series or Tranche, have given, made or taken any request, demand, authorization, direction, notice, consent, election, waiver or other action hereunder or whether or not a quorum is present at a meeting of Holders, as of any date, (A) the principal amount of an Original Issue Discount Security which shall be deemed to be Outstanding shall be the amount of the principal thereof which would be due and payable as of such date upon acceleration of the Maturity thereof to such date pursuant to Section 902; (B) if, as of such date, the principal amount payable at the Stated Maturity of a Security is not determinable, the principal amount of such Security which shall be deemed to be Outstanding shall be the amount as specified or determined as contemplated by Section 301; (C) the principal amount of a Security denominated in one or more foreign currencies or currency units which shall be deemed to be Outstanding shall be the U.S. dollar equivalent, determined as of such date in the manner provided as contemplated by Section 301, of the principal amount of such Security (or, in the case of a Security described in clause (A) or (B) above, of the amount determined as provided in such clause); and (D) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, election, waiver or other action, only Securities which the Trustee knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person, including the Company or any of its Affiliates, authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"Periodic Offering" means an offering of Securities of a series from time to time any or all of the specific terms of which Securities, including without limitation the rate or rates of interest, if any, thereon, the Stated Maturity or Maturities thereof and the redemption provisions, if any, with respect thereto, are to be determined by the Company or its agents from time to time subsequent to the initial request for the authentication and delivery of such Securities by the Trustee, all as contemplated in Section 301 and clause (2) of Section 401.

"Permitted Liens" means, as of any particular time, any of the following:

(1) Liens for taxes, assessments and other governmental charges or requirements which are not delinquent or which are being contested in good faith by appropriate proceedings or which secure charges that do not exceed Five Million Dollars (\$5,000,000);

(2) mechanics', workmen's, repairmen's, materialmen's, warehousemen's and carriers' Liens, other Liens incident to construction, improvement, repair or maintenance of

property, Liens or privileges of any officers or employees of the Company for compensation earned which is not delinquent, and other Liens, including without limitation Liens for worker's compensation awards, arising in the ordinary course of business for charges or requirements which are not delinquent or which are being contested in good faith and by appropriate proceedings;

(3) Liens in respect of attachments, judgments or awards arising out of judicial or administrative proceedings (i) in an amount not exceeding the greater of (A) Thirty Million Dollars (\$30,000,000) and (B) three percentum (3%) of the principal amount of the Securities Outstanding at the time such Lien arises or (ii) with respect to which the Company shall (X) in good faith be prosecuting an appeal or other proceeding for review and with respect to which the Company shall have secured a stay of execution pending such appeal or other proceeding or (Y) have the right to prosecute an appeal or other proceeding for review;

(4) easements, leases, reservations or other rights of others in, on, over and/or across, and laws, regulations and restrictions affecting, and defects, irregularities, deficiencies, exceptions and limitations in title to, the Mortgaged Property or any part thereof; provided, however, that such easements, leases, reservations, rights, laws, regulations, restrictions, defects, irregularities, deficiencies, exceptions and limitations do not in the aggregate materially impair the use by the Company of the Mortgaged Property considered as a whole for the purposes for which it is held by the Company;

(5) Liens, defects, irregularities, exceptions and limitations in title to property subject to rights-of-way in favor of the Company or otherwise or used or to be used by the Company primarily for right-of-way purposes or property held by the Company under lease, easement, license or similar right; provided, however, that (i) the Company shall have obtained from the apparent owner or owners of such property a sufficient right, by the terms of the instrument granting such right-of-way, lease, easement, license or similar right, to the use thereof for the purposes for which the Company acquired the same, (ii) the Company has power under eminent domain or similar statutes to remove such defects, irregularities, exceptions or limitations or (iii) such defects, irregularities, exceptions and limitations may be otherwise remedied without undue effort or expense; and defects, irregularities, exceptions and limitations in title to flood lands, flooding rights and/or water rights;

(6) Liens securing indebtedness or other obligations neither created, assumed nor guaranteed by the Company, nor on account of which it customarily pays interest, upon real property or rights in or relating to real property of the Company existing at the date of execution and delivery of this Indenture, or, as to property thereafter acquired, at the time of the acquisition thereof by the Company;

(7) leases existing at the date of the execution and delivery of this Indenture, as originally executed and delivered, affecting properties owned by the Company at such date and renewals and extensions thereof; and leases affecting such properties entered into after such date or affecting properties acquired by the Company after such date which, in either case, (i) have respective terms (or periods at the end of which the Company may terminate the lease) of not more than fifteen (15) years (including extensions or renewals at the option of the tenant) or (ii)

do not in the aggregate materially impair the use by the Company of such properties considered as a whole for the purpose for which they are held by the Company;

(8) Liens vested in lessors, licensors, franchisors, permittees or others for rent or other amounts to become due or for other obligations or acts to be performed, the payment of which rent or the performance of which other obligations or acts is required under leases, subleases, licenses, franchises or permits, so long as the payment of such rent or other amounts or the performance of such other obligations or acts is not delinquent or is being contested in good faith and by appropriate proceedings;

(9) controls, restrictions, obligations, duties and/or other burdens imposed by federal, state, municipal or other law, or by rules, regulations or orders of Governmental Authorities, upon the Mortgaged Property or any part thereof or the operation or use thereof or upon the Company with respect to the Mortgaged Property or any part thereof or the operation or use thereof or with respect to any franchise, grant, license, permit or public purpose requirement, or any rights reserved to or otherwise vested in Governmental Authorities to impose any such controls, restrictions, obligations, duties and/or other burdens;

(10) rights which Governmental Authorities may have by virtue of franchises, grants, licenses, permits or contracts, or by virtue of law, to purchase, recapture or designate a purchaser of or order the sale of the Mortgaged Property or any part thereof, to terminate franchises, grants, licenses, permits, contracts or other rights or to regulate the property and business of the Company; and any and all obligations of the Company correlative to any such rights;

(11) Liens required by law or governmental regulations (i) as a condition to the transaction of any business or the exercise of any privilege or license, (ii) to enable the Company to maintain self-insurance or to participate in any funds established to cover any insurance risks, (iii) in connection with workmen's compensation, unemployment insurance, social security, any pension or welfare benefit plan or (iv) to share in the privileges or benefits required for companies participating in one or more of the arrangements described in clauses (ii) and (iii) above;

(12) Liens on the Mortgaged Property or any part thereof which are granted by the Company to secure (or to obtain letters of credit that secure) the performance of duties or public or statutory, bid or performance obligations or to secure, or serve in lieu of, surety, stay or appeal bonds;

(13) rights reserved to or vested in others to take or receive any part of any coal, ore, gas, oil and other minerals, any timber and/or any electric capacity or energy, gas, water, steam and any other products, developed, produced, manufactured, generated, purchased or otherwise acquired or used by the Company or by others on property of the Company;

(14) (i) rights and interests of Persons other than the Company arising out of contracts, agreements and other instruments to which the Company is a party and which relate to the common ownership or joint use of property; and (ii) all Liens on the interests of Persons other than the Company in property owned in common by such Persons and the Company if and to the



extent that the enforcement of such Liens would not adversely affect the interests of the Company in such property in any material respect;

(15) any restrictions on assignment and/or requirements of any assignee to qualify as a permitted assignee and/or public utility or public service corporation or company;

(16) any Liens which have been bonded for the full amount in dispute or for the payment of which other adequate security arrangements have been made;

(17) rights and interests granted pursuant to Section 702(4);

(18) Liens granted on air or water pollution control, sewage or solid waste disposal, or other similar facilities of the Company in connection with the issuance of pollution control revenue bonds, in connection with financing the cost of, or the construction, acquisition, improvement, repair or maintenance of, such facilities;

(19) the Trustee's Lien; and

(20) Prepaid Liens.

"Person" means any individual, Corporation, partnership, limited liability partnership, joint venture, trust, unincorporated organization or any Governmental Authority.

"Place of Payment", when used with respect to the Securities of any series, or any Tranche thereof, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed (to the extent lawful) to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Prepaid Lien" means any Lien securing indebtedness for the payment, prepayment or redemption of which there shall have been irrevocably deposited in trust with the trustee or other holder of such Lien moneys and/or Investment Securities which (together with the interest reasonably expected to be earned from the investment and reinvestment in Investment Securities of the moneys and/or the principal of and interest on the Investment Securities so deposited) shall be sufficient for such purpose; provided, however, that if such indebtedness is to be redeemed or otherwise prepaid prior to the stated maturity thereof, any notice requisite to such redemption or prepayment shall have been given in accordance with the instrument creating such Lien or irrevocable instructions to give such notice shall have been given to such trustee or other holder.

"Property Additions" has the meaning specified in Section 103.

"Purchase Money Lien" means, with respect to any property (and any improvements or accessions thereto) being acquired or disposed of by the Company or being released from the Lien of this Indenture, a Lien on such property which:

(1) is taken or retained by the transferor of such property to secure all or part of the purchase price thereof;

(2) is granted to one or more Persons other than the transferor which, by making advances or incurring an obligation, give value to enable the grantor of such Lien to acquire rights in or the use of such property;

(3) is granted to any other Person in connection with the release of such property from the Lien of this Indenture on the basis of the deposit with the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture of obligations secured by such Lien on such property (as well as any other property subject thereto);

(4) is held by a trustee or agent for the benefit of one or more Persons described in clause (1), (2) and/or (3) above, provided that such Lien may be held, in addition, for the benefit of one or more other Persons which shall have theretofore given, or may thereafter give, value to or for the benefit or account of the grantor of such Lien for one or more other purposes; or

(5) otherwise constitutes a purchase money mortgage or a purchase money security interest under applicable law; and, without limiting the generality of the foregoing, for purposes of this Indenture, the term Purchase Money Lien shall be deemed to include any Lien described above whether or not such Lien (x) shall permit the issuance or other incurrence of additional indebtedness secured by such Lien on such property, (y) shall permit the subjection to such Lien of additional property and the issuance or other incurrence of additional indebtedness on the basis thereof and/or (z) shall have been granted prior to the acquisition, disposition or release of such property, shall attach to or otherwise cover property other than the property being acquired, disposed of or released and/or shall secure obligations issued prior and/or subsequent to the issuance of the obligations delivered in connection with such acquisition, disposition or release.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"Responsible Officer", when used with respect to the Trustee, means an officer in the Institutional Trust Services department of the Trustee having direct responsibility for administration of this Indenture.

"Retired Securities" means any Securities authenticated and delivered under this Indenture which (a) no longer remain Outstanding by reason of the applicability of clause (1) or

(2) in the definition of "Outstanding" (other than any Predecessor Security of any Security), (b) have not been made the basis under any of the provisions of this Indenture of one or more Authorized Purposes and (c) have not been paid, redeemed, purchased or otherwise retired by the application thereto of Funded Cash; provided, however, that, after the delivery to the Trustee of the Initial Expert's Certificate, no Security shall be deemed to be a Retired Security unless the retirement thereof shall have occurred after such delivery of the Initial Expert's Certificate.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Interest Rate" means a rate (whether fixed or variable) at which an obligation by its terms is stated to bear simple interest. Any calculation or other determination to be made under this Indenture by reference to the Stated Interest Rate on a Security shall be made (a) without regard to the effective interest cost to the Company of such Security and (b) without regard to the Stated Interest Rate on, or the effective cost to the Company of, any other obligation for which such Security is pledged or otherwise delivered as security.

"Stated Maturity", when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of or interest on such Security, or such installment of principal or interest, is due and payable.

"Successor Corporation" has the meaning specified in Section 1201.

"Tranche" means a group of Securities which (a) are of the same series and (b) have identical terms except as to principal amount and/or date of issuance.

"Transaction Costs" means all costs associated with any transaction involving the issuance and sale of Securities, including but not limited to the fees and disbursements of counsel, the compensation of underwriters, and accountants' or other professional fees.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; provided, however, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this Indenture until a successor trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to the Securities of that series.

"Trustee's Lien" has the meaning specified in Section 1007.

"United States" means the United States of America, its Territories, its possessions and other areas subject to its political jurisdiction.

SECTION 102. Funded Property; Funded Cash.

"Funded Property" means:

(1) all Property Additions to the extent that the same shall have been designated in an Initial Expert's Certificate to be deemed to be Funded Property;

(2) all Property Additions to the extent that the same shall have been made the basis of the authentication and delivery of Securities under this Indenture pursuant to Section 402;

(3) all Property Additions to the extent that the same shall have been made the basis of the release of property from the Lien of this Indenture pursuant to Section 703;

(4) all Property Additions to the extent that the same shall have been substituted for Funded Property retired pursuant to Section 702;

(5) all Property Additions to the extent that the same shall have been made the basis of the withdrawal of cash held by the Trustee pursuant to Section 404 or 706; and

(6) all Property Additions to the extent that the same shall have been used as the basis of a credit against, or otherwise in satisfaction of, the requirements of any sinking, improvement, maintenance, replacement or similar fund or analogous provision established with respect to the Securities of any series, or any Tranche thereof, as contemplated by Section 301; provided, however, that any such Property Additions shall cease to be Funded Property when all of the Securities of such series or Tranche shall have been paid.

In the event that in any certificate filed with the Trustee in connection with any of the transactions referred to in clauses (1), (2), (3), (5) and (6) of this Section, only a part of the Cost or Fair Value of the Property Additions described in such certificate shall be required for the purposes of such certificate, then such Property Additions shall be deemed to be Funded Property only to the extent so required for the purpose of such certificate.

All Funded Property that shall be abandoned, destroyed, released or otherwise disposed of shall for the purpose of Section 103 hereof be deemed Funded Property retired and for other purposes of this Indenture shall thereupon cease to be Funded Property but as in this Indenture provided may at any time thereafter again become Funded Property. Neither any reduction in the cost or book value of property recorded in the plant account of the Company, nor the transfer of any amount appearing in such account to intangible and/or adjustment or expense accounts, otherwise than in connection with actual retirements of physical property abandoned, destroyed, released or disposed of, and otherwise than in connection with the removal of such property in its entirety from plant account, shall be deemed to constitute a retirement of Funded Property.

The Company may make allocations, on a pro-rata or other reasonable basis (including, but not limited to, the designation of specific properties or the designation of all or a specified portion of the properties reflected in one or more generic accounts or subaccounts in the Company's books of account), for the purpose of determining the extent to which fungible properties, or other properties not otherwise identified, reflected in the same generic account or subaccount in the Company's books of account constitute Funded Property or Funded Property retired.

"Funded Cash" means:

(1) cash, held by the Trustee hereunder, to the extent that it represents the proceeds of insurance on Funded Property (except as otherwise provided in Section 607), or cash deposited in connection with the release of Funded Property pursuant to Article Seven, or the payment of the principal of, or the proceeds of the release of, obligations secured by Purchase Money Lien and delivered to the Trustee pursuant to Article Seven, all subject, however, to the provisions of Section 607 and Section 706; and

(2) any cash deposited with the Trustee under Section 404.

SECTION 103. Property Additions; Cost.

(1) "Property Additions" means, as of any particular time, any item, unit or element of property which at such time is owned by the Company and is subject to the Lien of this Indenture; provided, however, that Property Additions shall not include:

(A) goodwill, going concern value rights or intangible property except as provided in clause (3) of this Section; or

(B) any property the cost of acquisition or construction of which is, in accordance with generally accepted accounting principles, properly chargeable to an operating expense account of the Company.

(2) When any Property Additions are certified to the Trustee as the basis of any Authorized Purpose (except as otherwise provided in Section 703 and Section 706):

(A) there shall be deducted from the Cost or Fair Value to the Company thereof, as the case may be (as of the date so certified), an amount equal to the Cost (or as to Property Additions of which the Fair Value to the Company at the time the same became Funded Property was certified to be an amount less than the Cost as determined pursuant to this Section, then such Fair Value, as so certified, in lieu of Cost) of all Funded Property of the Company retired to the date of such certification (other than the Funded Property, if any, in connection with the application for the release of which such certificate is filed) and not theretofore deducted from the Cost or Fair Value to the Company of Property Additions theretofore certified to the Trustee; and

(B) there may, at the option of the Company, be added to such Cost or Fair Value, as the case may be, the sum of:

(i) the principal amount of any obligations secured by Purchase Money Lien, not theretofore so added and which the Company then elects so to add, which shall theretofore have been delivered to the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture as the basis of the release of Funded Property retired from the Lien of this Indenture or such prior Lien, as the case may be;

(ii) ten-sevenths (10/7) of the amount of any cash, not theretofore so added and which the Company then elects so to add, which shall theretofore have been delivered to the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture as the proceeds of insurance on Funded Property retired (to the extent of the portion thereof deemed to be Funded Cash) or as the basis of the release of Funded Property retired from the Lien of this Indenture or from such prior Lien, as the case may be;

(iii) ten-sevenths (10/7) of the principal amount of any Security or Securities, or portion of such principal amount, not theretofore so added and which the Company then elects so to add, (I) which shall theretofore have been delivered to the Trustee as the basis of the release of Funded Property retired or (II) the right to the authentication and delivery of which under the provisions of Section 403 shall at any time theretofore have been waived under Section 703(4)(C) as the basis of the release of Funded Property retired;

(iv) the Cost or Fair Value to the Company (whichever shall be less), after making any deductions and any additions pursuant to this Section, of any Property Additions, not theretofore so added and which the Company then elects so to add, which shall theretofore have been made the basis of the release of Funded Property retired (such Fair Value to be the amount shown in the Expert's Certificate delivered to the Trustee in connection with such release); and

(v) the Cost to the Company of any Property Additions not theretofore so added and which the Company then elects so to add, to the extent that the same shall have been substituted for Funded Property retired;

provided, however, that the aggregate of the amounts added under clause (B) above shall in no event exceed the amounts deducted under clause (A) above.

(3) Except as otherwise provided in Section 703, the term "Cost" with respect to Property Additions shall mean the sum of (i) any cash delivered in payment therefor or for the acquisition thereof, (ii) an amount equivalent to the fair market value in cash (as of the date of delivery) of any securities or other property delivered in payment therefor or for the acquisition thereof, (iii) the principal amount of any obligations secured by prior Lien upon such Property Additions outstanding at the time of the acquisition thereof, (iv) the principal amount of any other obligations incurred or assumed in connection with the payment for such Property Additions or for the acquisition thereof and (v) any other amounts which, in accordance with generally accepted accounting principles, are properly charged or chargeable to the plant or other property accounts of the Company with respect to such Property Additions as part of the cost of construction or acquisition thereof, including, but not limited to any allowance for funds used during construction or any similar or analogous amount; provided, however, that, notwithstanding any other provision of this Indenture,

(A) with respect to Property Additions owned by a Successor Corporation immediately prior to the time it shall have become such by consolidation or merger or acquired by a Successor Corporation in or as a result of a consolidation or merger (excluding, in any case, Property Additions owned by the Company immediately prior to such time), Cost shall mean the amount or amounts at which such Property Additions are recorded in the plant or other property accounts of such Successor Corporation, or the predecessor corporation from which such Property Additions are acquired, as the case may be, immediately prior to such consolidation or merger;

(B) with respect to Property Additions which shall have been acquired (otherwise than by construction) by the Company without any consideration consisting of cash, securities or other property or the incurring or assumption of indebtedness or other obligation, no determination of Cost shall be required, and, wherever in this Indenture provision is made for Cost or Fair Value, Cost with respect to such Property Additions shall mean an amount equal to the Fair Value to the Company thereof or, if greater, the aggregate amount reflected in the Company's books of account with respect thereto upon the acquisition thereof; and

(C) in no event shall the Cost of Property Additions be required to reflect any depreciation or amortization in respect of such Property Additions, or any adjustment to the amount or amounts at which such Property Additions are recorded in plant or other property accounts due to the non-recoverability of investment or otherwise.

If any Property Additions are shown by the Expert's Certificate provided for in Section 402 (2)(B) to include property which has been used or operated by others than the Company in a business similar to that in which it has been or is to be used or operated by the Company, the Cost thereof need not be reduced by any amount in respect of any goodwill, going concern value rights and/or intangible property simultaneously acquired and in such case the term Property Additions as defined herein may include such goodwill, going concern value rights and intangible property.

#### SECTION 104. Net Earnings Certificate; Adjusted Net Earnings; Annual Interest Requirements.

A "Net Earnings Certificate" means a certificate signed by an Authorized Officer and an accountant (who may be employed by or Affiliated with the Company), stating:

(1) the "Adjusted Net Earnings" of the Company for a period of twelve (12) consecutive calendar months within the eighteen (18) calendar months immediately preceding the first day of the month in which the Company Order requesting the authentication and delivery under this Indenture of Securities is delivered to the Trustee, specifying:

(A) its operating revenues (which may include revenues of the Company subject when collected or accrued to possible refund at a future date);

(B) its operating expenses, excluding (i) expenses for taxes on income or profits and other taxes measured by, or dependent on, net income, (ii) provisions for reserves for renewals, replacements, depreciation, depletion or retirement of property (or any expenditures therefor), or provisions for amortization of property, (iii) expenses or provisions for

interest on any indebtedness of the Company, for the amortization of debt discount, premium, expense or loss on reacquired debt, for any maintenance and replacement, improvement or sinking fund or other device for the retirement of any indebtedness, or for other amortization, (iv) expenses or provisions for any non-recurring charge to income or to retained earnings of whatever kind or nature (including without limitation the recognition of expense or impairment due to the non-recoverability of assets or expense), whether or not recorded as a non-recurring charge in the Company's books of account, and (v) provisions for any refund of revenues previously collected or accrued by the Company subject to possible refund;

(C) the amount remaining after deducting the amount required to be stated in such certificate by clause (B) above from the amount required to be stated therein by clause (A) above;

(D) its other income, net of related expenses (excluding expenses or provisions for any non-recurring charge to the income or retained earnings of the entity which is the source of such other income of whatever kind or nature (including without limitation the recognition of expense or impairment due to the non-recoverability of assets or expense), whether or not recorded and a non-recurring charge in such entity's books of account), which other income may include any portion of the allowance for funds used during construction and other deferred costs (or any analogous amounts) which is not included in "other income" (or any analogous item) in the Company's books of account; and

(E) the Adjusted Net Earnings of the Company for such period of twelve (12) consecutive calendar months (being the sum of the amounts required to be stated in such certificate by clauses (C) and (D) above); and

(2) the "Annual Interest Requirements," being the interest requirements for one year, at the respective Stated Interest Rates, if any, borne prior to Maturity, upon:

(A) all Securities Outstanding hereunder at the date of such certificate, except any for the payment or redemption of which the Securities applied for are to be issued; provided, however, that, if Outstanding Securities of any series bear interest at a variable rate or rates, then the interest requirement on the Securities of such series shall be determined by reference to the rate or rates in effect on the day immediately preceding the date of such certificate;

(B) all Securities then applied for in pending applications for the original issuance of Securities, including the application in connection with which such certificate is made; provided, however, that if Securities of any series are to bear interest at a variable rate or rates, then the interest requirement on the Securities of such series shall be determined by reference to the rate or rates to be in effect at the time of the initial authentication and delivery of such Securities; and provided, further, that the determination of the interest requirement on Securities of a series subject to a Periodic Offering shall be further subject to the provisions of clause (6) of Section 401; and

(C) the principal amount of all other indebtedness (except (i) indebtedness of the Company the repayment of which supports or is supported by other



indebtedness included in Annual Interest Requirements pursuant to one of the other clauses of this definition, (ii) indebtedness for the payment of which the Securities applied for are to be issued, and (iii) indebtedness secured by a Prepaid Lien prior to the Lien of this Indenture upon property subject to the Lien of this Indenture) outstanding on the date of such certificate and secured by a Lien on a parity with or prior to the Lien of this Indenture upon property subject to the Lien of this Indenture, if such indebtedness has been issued, assumed or guaranteed by the Company or if the Company customarily pays the interest upon the principal thereof or collections from the Company's customers are applied to, or pledged as security for the payment of such interest; provided, however, that if any such indebtedness bears interest at a variable rate or rates, then the interest requirement on such indebtedness shall be determined by reference to the rate or rates in effect on the day immediately preceding the date of such certificate; and provided, further, that any amounts collected by others to be applied to debt service on indebtedness of the Company, and not otherwise treated on the Company's books as revenue, shall be added to the Company's operating revenues when determining Adjusted Net Earnings.

In any case where a Net Earnings Certificate is required as a condition precedent to the authentication and delivery of Securities, such certificate shall be accompanied by a certificate signed by an Independent Accountant if the aggregate principal amount of Securities then applied for plus the aggregate principal amount of Securities authenticated and delivered hereunder since the commencement of the then current calendar year (other than those with respect to which a Net Earnings Certificate is not required, or with respect to which a Net Earnings Certificate accompanied by a certificate signed by an Independent Accountant has previously been furnished to the Trustee) is ten percent (10%) or more of the principal amount of the Securities at the time Outstanding, which certificate shall provide that such Independent Accountant has reviewed the Net Earnings Certificate and that such Independent Accountant has no knowledge that any statements in such Net Earnings Certificate are not true.

#### SECTION 105. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(1) a statement that each Person signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such Person, such Person has made such examination or investigation as is necessary to enable such Person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such Person, such condition or covenant has been complied with.

SECTION 106. Content and Form of Documents Delivered to Trustee.

(1) Any Officer's Certificate may be based (without further examination or investigation), insofar as it relates to or is dependent upon legal matters, upon an opinion of, or representations by, counsel, and, insofar as it relates to or is dependent upon matters which are subject to verification by Accountants, upon a certificate or opinion of, or representations by, an Accountant, and, insofar as it relates to or is dependent upon matters which are required in this Indenture to be covered by a certificate or opinion of, or representations by, an Expert, upon the certificate or opinion of, or representations by, an Expert, unless, in any case, such officer has actual knowledge that the certificate or opinion or representations with respect to the matters upon which such Officer's Certificate may be based as aforesaid are erroneous.

Any Expert's Certificate may be based (without further examination or investigation), insofar as it relates to or is dependent upon legal matters, upon an opinion of, or representations by, counsel, and insofar as it relates to or is dependent upon factual matters, information with respect to which is in the possession of the Company and which are not subject to verification by Experts, upon a certificate or opinion of, or representations by, an officer or officers of the Company, unless such Expert has actual knowledge that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous.

Any certificate of an Accountant may be based (without further examination or investigation), insofar as it relates to or is dependent upon legal matters, upon an opinion of, or representations by, counsel, and insofar as it relates to or is dependent upon factual matters, information with respect to which is in the possession of the Company and which are not subject to verification by Accountants, upon a certificate of, or representations by, an officer or officers of the Company, unless such Accountant has actual knowledge that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous.

Any Opinion of Counsel may be based (without further examination or investigation), insofar as it relates to or is dependent upon factual matters, information with respect to which is in the possession of the Company, upon a certificate of, or representations by, an officer or officers of the Company, and, insofar as it relates to or is dependent upon matters which are subject to verification by Accountants upon a certificate or opinion of, or representations by, an Accountant, and, insofar as it relates to or is dependent upon matters required in this Indenture to be covered by a certificate or opinion of, or representations by, an Expert, upon the certificate or opinion of, or representations by, an Expert, unless such counsel has actual knowledge that the certificate or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous. In addition, any Opinion of Counsel may be based (without

further examination or investigation), insofar as it relates to or is dependent upon matters covered in an Opinion of Counsel rendered by other counsel, upon such other Opinion of Counsel, unless such counsel has actual knowledge that the Opinion of Counsel rendered by such other counsel with respect to the matters upon which his Opinion of Counsel may be based as aforesaid are erroneous. Further, any Opinion of Counsel with respect to the status of title to or the sufficiency of descriptions of property, and/or the existence of Liens thereon, and/or the recording or filing of documents, and/or any similar matters, may be based (without further examination or investigation) upon (i) title insurance policies or commitments and reports, lien search certificates and other similar documents or (ii) certificates of, or representations by, officers, employees, agents and/or other representatives of the Company or (iii) any combination of the documents referred to in (i) and (ii), unless, in any case, such counsel has actual knowledge that the document or documents with respect to the matters upon which his opinion may be based as aforesaid are erroneous. If, in order to render any Opinion of Counsel provided for herein, the signer thereof shall deem it necessary that additional facts or matters be stated in any Officer's Certificate, certificate of an Accountant or Expert's Certificate provided for herein, then such certificate may state all such additional facts or matters as the signer of such Opinion of Counsel may request.

(2) In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents. Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

(3) Whenever, subsequent to the receipt by the Trustee of any General Partner Resolution, Officer's Certificate, Expert's Certificate, Net Earnings Certificate, Opinion of Counsel or other document or instrument, a material clerical, typographical or other inadvertent or unintentional error or omission shall be discovered therein, a new document or instrument shall be substituted therefor in corrected form with the same force and effect as if originally filed in the corrected form and, irrespective of the date or dates of the actual execution and/or delivery thereof, such substitute document or instrument shall be deemed to have been executed and/or delivered as of the date or dates required with respect to the document or instrument for which it is substituted. Anything in this Indenture to the contrary notwithstanding, if any such corrective document or instrument indicates that action has been taken by or at the request of the Company which could not have been taken had the original document or instrument not contained such error or omission, the action so taken shall not be invalidated or otherwise rendered ineffective but shall be and remain in full force and effect, except to the extent that such action was a result of willful misconduct or bad faith. Without limiting the generality of the foregoing, any Securities issued under the authority of such defective document or instrument shall nevertheless be the valid obligations of the Company entitled to the benefit of the Lien of this Indenture equally and ratably with all other Outstanding Securities, except as aforesaid.

SECTION 107. Acts of Holders; Record Dates.

Any request, demand, authorization, direction, notice, consent, election, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing; or, alternatively, may be embodied in and evidenced by the record of Holders voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders duly called and held in accordance with the provisions of Article Fourteen, or a combination of such instruments and any such record. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments and so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and (subject to Section 1001) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section 107. The record of any meeting of Holders shall be proved in the manner provided in Section 1406.

The fact and date of the execution by any Person of any such instrument or writing may be proved in any reasonable manner which the Trustee and the Company deem sufficient. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee and the Company deem sufficient.

The ownership of Securities shall be proved by the Security Register.

Any request, demand, authorization, direction, notice, consent, election, waiver or other Act of a Holder shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

The Company may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to give, make or take any request, demand, authorization, direction, notice, consent, election, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of Securities of such series, provided that the Company may not set a record date for, and the provisions of this paragraph shall not apply with respect to, the giving or making of any notice, declaration, request or direction referred to in the next paragraph. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series on such record date, and no other Holders, shall be entitled to take the relevant action, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Company from setting a new record date for any action for which a

record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be canceled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Company, at its own expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Trustee in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 109.

The Trustee may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to join in the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 902, (iii) any request to institute proceedings referred to in Section 911 or (iv) any direction referred to in Section 916, in each case with respect to Securities of such series. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of such series on such record date, and no other Holders, shall be entitled to join in such notice, declaration, request or direction, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be canceled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Trustee, at the Company's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Company in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 109.

With respect to any record date set pursuant to this Section 107, the party hereto which sets such record dates may designate any day as the "Expiration Date" and from time to time may change the Expiration Date to any earlier or later day; provided that no such change shall be effective unless notice of the proposed new Expiration Date is given to the other party hereto in writing, and to each Holder of Securities of the relevant series in the manner set forth in Section 109, on or prior to the existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to this Section 107, the party hereto which set such record date shall be deemed to have initially designated the one hundred eightieth (180th) day after such record date as the Expiration Date with respect thereto, subject to its right to change the Expiration Date as provided in this paragraph. Notwithstanding the foregoing, no Expiration Date shall be later than the one hundred eightieth (180th) day after the applicable record date.

Without limiting the foregoing, a Holder entitled hereunder to take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents, each of which may do so pursuant to such appointment with regard to all or any part of such principal amount.

SECTION 108. Notices, Etc., to Trustee and Company.

Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, election, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Institutional Trust Services, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to the attention of the Treasurer of the Company at the address of the Company's principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

SECTION 109. Notice to Holders; Waiver.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event otherwise to be specified therein, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

SECTION 110. Conflict with Trust Indenture Act.

If any provision of this Indenture limits, qualifies or conflicts with a provision of the Trust Indenture Act which is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

SECTION 111. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 112. Successors and Assigns.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 113. Separability Clause.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 114. Benefits of Indenture.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 115. Governing Law.

This Indenture and the Securities shall be governed by and construed in accordance with the law of the State of New York (including without limitation Section 5-1401 of the New York General Obligations Law or any successor to such statute), except to the extent that the Trust Indenture Act shall be applicable and except to the extent that the law of any jurisdiction wherein any portion of the Mortgaged Property is located shall mandatorily govern the creation of a mortgage lien on and security interest in, or perfection, priority or enforcement of the Lien of this Indenture or exercise of remedies with respect to, such portion of the Mortgaged Property.

SECTION 116. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities (other than a provision of any Security which specifically states that such provision shall apply in lieu of this Section 116)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, and no additional interest shall accrue as the result of such delayed payment.

SECTION 117. Investment of Cash Held by Trustee.

Any cash held by the Trustee or any Paying Agent under any provision of this Indenture shall, except as otherwise provided in Section 706 or in Article Eight, at the request of the Company evidenced by Company Order, be invested or reinvested in Investment Securities designated by the Company (such Company Order to contain a representation to the effect that the securities designated therein constitute Investment Securities), and any interest on such

Investment Securities shall be promptly paid over to the Company as received free and clear of any Lien. Such Investment Securities shall be held subject to the same provisions hereof as the cash used to purchase the same, but upon a like request of the Company shall be sold, in whole or in designated part, and the proceeds of such sale shall be held subject to the same provisions hereof as the cash used to purchase the Investment Securities so sold. If such sale shall produce a net sum less than the cost of the Investment Securities so sold, the Company shall pay to the Trustee or any such Paying Agent, as the case may be, such amount in cash as, together with the net proceeds from such sale, shall equal the cost of the Investment Securities so sold, and if such sale shall produce a net sum greater than the cost of the Investment Securities so sold, the Trustee or any such Paying Agent, as the case may be, shall promptly pay over to the Company an amount in cash equal to such excess, free and clear of any Lien. In no event shall the Trustee be liable for any loss incurred in connection with the sale of any Investment Security pursuant to this Section.

Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, interest on Investment Securities and any gain upon the sale thereof shall be held as part of the Mortgaged Property until such Event of Default shall have been cured or waived, whereupon such interest and gain shall be promptly paid over to the Company free and clear of any Lien.

## ARTICLE TWO.

### SECURITY FORMS

#### SECTION 201. Forms Generally.

The definitive Securities of each series shall be in substantially the form or forms established in the indenture supplemental hereto establishing such series, or in a General Partner Resolution establishing such series, or in an Officer's Certificate pursuant to such a supplemental indenture or General Partner Resolution, in any case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with applicable tax laws or the rules of any securities exchange or automated quotation system on which the Securities of such series may be listed or traded or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution thereof. If the form of Securities of any series is established by action taken pursuant to a General Partner Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the General Partner and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 401 for the authentication and delivery of such Securities.

The Securities of each series shall be issuable in registered form without coupons. The definitive Securities of each series shall be typewritten, printed, lithographed or engraved or produced by any combination of these methods, if required by any securities exchange or automated quotation system on which the Securities of such series may be listed or traded, on steel engraved borders or may be produced in any other manner permitted by the rules of any securities exchange or automated quotation system on which the Securities of such series may be



listed or traded, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

SECTION 202. Form of Trustee's Certificate of Authentication.

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_  
As Trustee

By: \_\_\_\_\_  
Authorized Signatory

ARTICLE THREE.

THE SECURITIES

SECTION 301. Amount Unlimited; Issuable in Series.

Subject to the provisions of Article Four, the aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series each of which may be issued in Tranches. Subject to the penultimate paragraph of this Section, prior to the authentication and delivery of Securities of any series there shall be established by specification in a supplemental indenture or in a General Partner Resolution, or in an Officer's Certificate pursuant to a supplemental indenture or a General Partner Resolution:

(1) the title of the Securities of such series (which shall distinguish the Securities of such series from Securities of all other series);

(2) any limit upon the aggregate principal amount of the Securities of such series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of such series pursuant to Section 304, 305, 306, 507 or 1306 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(3) the Persons (without specific identification) to whom interest on Securities of such series, or any Tranche thereof, shall be payable on any Interest Payment Date, if other than the Persons in whose names such Securities (or one or more Predecessor Securities) are registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of the Securities of such series, or any Tranche thereof, is payable or any formulary or other method or other means by which such date or dates shall be determined, by reference to an index or other fact or event ascertainable outside of this Indenture or otherwise (without regard to any provisions for redemption, prepayment, acceleration, purchase or extension);

(5) the rate or rates at which the Securities of such series, or any Tranche thereof, shall bear interest, if any (including the rate or rates at which overdue principal shall bear interest, if different from the rate or rates at which such Securities shall bear interest prior to Maturity, and, if applicable, the rate or rates at which overdue premium or interest shall bear interest, if any), or any formulary or other method or other means by which such rate or rates shall be determined, by reference to an index or other fact or event ascertainable outside of this Indenture or otherwise; the date or dates from which such interest shall accrue; the Interest Payment Dates on which such interest shall be payable and the Regular Record Date, if any, for the interest payable on such Securities on any Interest Payment Date; and the basis of computation of interest, if other than as provided in Section 310;

(6) the place or places at which and/or the methods (if other than as provided elsewhere in this Indenture) by which (i) the principal of and premium, if any, and interest, if any, on Securities of such series, or any Tranche thereof, shall be payable, (ii) registration of transfer of Securities of such series, or any Tranche thereof, may be effected, (iii) exchanges of Securities of such series, or any Tranche thereof, may be effected and (iv) notices and demands to or upon the Company in respect of the Securities of such series, or any Tranche thereof, and this Indenture may be served; the Security Registrar and any Paying Agent or Agents for such series or Tranche; and, if such is the case, that the principal of such Securities shall be payable without the presentment or surrender thereof;

(7) the period or periods within which or the date or dates on which, the price or prices at which and the terms and conditions upon which the Securities of such series, or any Tranche thereof, may be redeemed, in whole or in part, at the option of the Company;

(8) the obligation or obligations, if any, of the Company to redeem or purchase the Securities of such series, or any Tranche thereof, pursuant to any sinking fund or other mandatory redemption provisions or at the option of a Holder thereof and the period or periods within which or the date or dates on which, the price or prices at which and the terms and conditions upon which such Securities shall be redeemed or purchased, in whole or in part, pursuant to such obligation, and applicable exceptions to the requirements of Section 504 in the case of mandatory redemption or redemption at the option of the Holder;

(9) the denominations in which Securities of such series, or any Tranche thereof, shall be issuable if other than denominations of One Thousand Dollars (\$1,000) and any integral multiple thereof;

(10) the currency or currencies, including composite currencies, in which payment of the principal of and premium, if any, and interest, if any, on the Securities of such series, or any Tranche thereof, shall be payable (if other than in Dollars); it being understood that, for purposes of calculations under this Indenture (including calculations of principal amount

under Article Four), any amounts denominated in a currency other than Dollars or in a composite currency shall be converted to Dollar equivalents by calculating the amount of Dollars which could have been purchased by the amount of such other currency based on such quotations or methods of determination as shall be specified pursuant to this clause (10);

(11) if the principal of or premium, if any, or interest, if any, on the Securities of such series, or any Tranche thereof, are to be payable, at the election of the Company or a Holder thereof, in a coin or currency other than that in which the Securities are stated to be payable, the coin or currency in which payment of any amount as to which such election is made will be payable, the period or periods within which, and the terms and conditions upon which, such election may be made; it being understood that, for purposes of calculations under this Indenture (including calculations of principal amount under Article Four), any such election shall be required to be taken into account, in the manner contemplated in clause (10) of this paragraph, only after such election shall have been made;

(12) if the principal of or premium, if any, or interest, if any, on the Securities of such series, or any Tranche thereof, are to be payable, or are to be payable at the election of the Company or a Holder thereof, in securities or other property, the type and amount of such securities or other property, or the formulary or other method or other means by which such amount shall be determined, and the period or periods within which, and the terms and conditions upon which, any such election may be made; it being understood that all calculations under this Indenture (including calculations of principal amount under Article Four) shall be made on the basis of the fair market value of such securities or the Fair Value of such other property, in either case determined as of the most recent practicable date, except that, in the case of any amount of principal or interest that may be so payable at the election of the Company or a Holder, if such election shall not yet have been made, such calculations shall be made on the basis of the amount of principal or interest, as the case may be, that would be payable if no such election were made;

(13) if the amount payable in respect of principal of or premium, if any, or interest, if any, on the Securities of such series, or any Tranche thereof, may be determined with reference to an index or other fact or event ascertainable outside of this Indenture, the manner in which such amounts shall be determined (to the extent not established pursuant to clause (5) of this paragraph); it being understood that all calculations under this Indenture (including calculations of principal amount under Article Four) shall be made on the basis of the amount that would be payable as principal if such principal were due, or on the basis of the interest rates in effect, as the case may be, on the date next preceding the date of such calculation;

(14) if other than the principal amount thereof, the portion of the principal amount of Securities of such series, or any Tranche thereof, which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 902;

(15) the terms, if any, pursuant to which the Securities of such series, or any Tranche thereof, may be converted into or exchanged for membership interests or shares of capital stock or other securities of the Company or any other Person;

(16) the obligations or instruments, if any, which shall be considered to be Eligible Obligations in respect of the Securities of such series, or any Tranche thereof, denominated in a currency other than Dollars or in a composite currency, and any additional or alternative provisions for the reinstatement of the Company's indebtedness in respect of such Securities after the satisfaction and discharge thereof as provided in Section 801;

(17) if the Securities of such series, or any Tranche thereof, are to be issued in global form, (i) any limitations on the rights of the Holder or Holders of such Securities to transfer or exchange the same or to obtain the registration of transfer thereof, (ii) any limitations on the rights of the Holder or Holders thereof to obtain certificates therefor in definitive form in lieu of temporary form and (iii) any and all other matters incidental to such Securities;

(18) if the Securities of such series, or any Tranche thereof, are to be issuable as bearer securities, any and all matters incidental thereto which are not specifically addressed in a supplemental indenture as contemplated by clause (4) of Section 1301;

(19) to the extent not established pursuant to clause (17) of this paragraph, any limitations on the rights of the Holders of the Securities of such series, or any Tranche thereof, to transfer or exchange such Securities or to obtain the registration of transfer thereof; and if a service charge will be made for the registration of transfer or exchange of Securities of such series, or any Tranche thereof, the amount or terms thereof;

(20) any exceptions to Section 116, or variation in the definition of Business Day, with respect to the Securities of such series, or any Tranche thereof;

(21) the terms of any sinking, improvement, maintenance, replacement or analogous fund for any series; and

(22) any other terms of the Securities of such series, or any Tranche thereof.

With respect to Securities of a series subject to a Periodic Offering, the indenture supplemental hereto or the General Partner Resolution which establishes such series, or the Officer's Certificate pursuant to such supplemental indenture or General Partner Resolution, as the case may be, may provide general terms or parameters for Securities of such series and provide either that the specific terms of Securities of such series, or any Tranche thereof, shall be specified in a Company Order or that such terms shall be determined by the Company or its agents in accordance with procedures specified in a Company Order as contemplated by clause (2) of Section 401.

Anything herein to the contrary notwithstanding, the Trustee shall be under no obligation to authenticate and deliver Securities of any series the terms of which, established as contemplated by this Section, would affect the rights, duties, obligations, liabilities or immunities of the Trustee under this Indenture or otherwise.

SECTION 302. Denominations.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, or any Tranche thereof, the Securities of each series shall be issuable in denominations of One Thousand Dollars (\$1,000) and any integral multiple thereof.

#### SECTION 303. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by an Authorized Officer, under seal reproduced or impressed thereon and attested by the Secretary or one of the Assistant Secretaries of the General Partner. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at time of execution the proper officers of the General Partner shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

Unless otherwise specified as contemplated by Section 301 with respect to any series of Securities, or any Tranche thereof, each Security shall be dated the date of its authentication.

Unless otherwise specified as contemplated by Section 301 with respect to any series of Securities, or any Tranche thereof, no Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by the manual signature of one of its authorized signatories, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if (a) any Security shall have been authenticated and delivered hereunder to the Company, or any Person acting on its behalf, but shall never have been issued and sold by the Company, (b) the Company shall deliver such Security to the Security Registrar for cancellation or shall cancel such Security and deliver evidence of such cancellation to the Trustee, in each case as provided in Section 309, and (c) the Company, at its election, shall deliver to the Trustee a written statement (which need not comply with Section 105 and need not be accompanied by an Officer's Certificate or an Opinion of Counsel) stating that such Security has never been issued and sold by the Company, then, for all purposes of this Indenture, such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits hereof.

#### SECTION 304. Temporary Securities.

Pending the preparation of definitive Securities of any series, or any Tranche thereof, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities of such series in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

Except as otherwise specified as contemplated by Section 301 with respect to the Securities of any series, or any Tranche thereof, after the preparation of definitive Securities of

such series or Tranche, the temporary Securities of such series or Tranche shall be exchangeable, without charge to the Holder thereof, for definitive Securities of such series or Tranche upon surrender of such temporary Securities at the office or agency of the Company maintained pursuant to Section 602 in a Place of Payment for such Securities. Upon such surrender of temporary Securities, the Company shall, except as aforesaid, execute and the Trustee shall authenticate and deliver in exchange therefor definitive Securities of the same series and Tranche, of authorized denominations and of like tenor and aggregate principal amount.

#### SECTION 305. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept, with respect to the Securities of each series, or any Tranche thereof, at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities of such series or Tranche and the registration of transfer thereof. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided. If any indenture supplemental hereto refers to any transfer agents (in addition to the Security Registrar) initially designated by the Company with respect to any series of Securities, the Company may at any time rescind the designation of any such transfer agent or approve a change in the location through which such transfer agent acts, provided that the Company maintains a transfer agent in each Place of Payment for such series. The Company may at any time designate additional transfer agents with respect to the Securities of any series, or any Tranche thereof.

Upon surrender for registration of transfer of any Security of such series or Tranche at the office or agency of the Company in a Place of Payment for such series or Tranche, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series and Tranche, of authorized denominations and of like tenor and aggregate principal amount.

Except as otherwise specified as contemplated by Section 301 with respect to the Securities of any series, or any Tranche thereof, any Security of such series or Tranche may be exchanged at the option of the Holder, for one or more new Securities of the same series and Tranche, of authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at any such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company, the Trustee or the Security Registrar) be duly endorsed or shall be accompanied by a written instrument of transfer in form satisfactory to the Company, the

Trustee or the Security Registrar, as the case may be, duly executed by the Holder thereof or his attorney duly authorized in writing.

Unless otherwise specified as contemplated by Section 301 with respect to Securities of any series, or any Tranche thereof, no service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 507 or 1306 not involving any transfer.

Neither the Trustee nor the Company shall be required, pursuant to the provisions of this Section 305, (A) to issue, register the transfer of or exchange any Securities of any series (or of any Tranche thereof) during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of any such Securities of such series or Tranche selected for redemption under Section 503 and ending at the close of business on the day of such mailing, or (B) to register the transfer of or exchange any Security so selected for redemption, in whole or in part, except, in the case of any Security to be redeemed in part, any portion not to be redeemed.

#### SECTION 306. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security is surrendered to the Trustee together with such security or indemnity as may be required by the Company or the Trustee to save each of them and any agent of either of them harmless, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and Tranche, and of like tenor and principal amount and bearing a number not contemporaneously outstanding and shall cancel and destroy such mutilated Security.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security is held by a Person purporting to be the owner of such Security, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and Tranche, and of like tenor and principal amount and bearing a number not contemporaneously outstanding. If, after the delivery of such new Security, a bona fide purchaser of the original Security in lieu of which such new Security was issued presents for payment or registration such original Security, the Trustee shall be entitled to recover such new Security from the party to whom it was delivered or any party taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Company and the Trustee in connection therewith and shall cancel and destroy such new Security.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section 306, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of counsel to the Company and the fees and expenses of the Trustee, its agents and counsel) connected therewith.

Every new Security of any series issued pursuant to this Section 306 in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section 306 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

#### SECTION 307. Payment of Interest; Interest Rights Preserved.

Except as otherwise provided as contemplated by Section 301 with respect to the Securities of any series, or any Tranche thereof, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest in respect of Securities of such series, or any Tranche thereof, except that, unless otherwise provided in the Securities of such series, or any Tranche thereof, interest payable on the Stated Maturity of the principal of a Security shall be paid to the Person to whom principal is paid. The initial payment of interest on any Security of any series which is issued between a Regular Record Date and the related Interest Payment Date shall be payable as provided in such Security or in the General Partner Resolution pursuant to Section 301 with respect to the related series of Securities. Except in the case of a Security in global form, at the option of the Company, interest on any series of Securities may be paid (i) by check mailed to the address of the Person entitled thereto as it shall appear on the Security Register of such series or (ii) by wire transfer in immediately available funds at such place and to such account as designated in writing by the Person entitled thereto as specified in the Security Register of such series.

Any Paying Agents will be identified in a supplemental indenture hereto. The Company may at any time designate additional Paying Agents or rescind the designation of any Paying Agent; however, the Company at all times will be required to maintain a Paying Agent in each Place of Payment for each series of Securities.

Unless otherwise provided as contemplated by Section 301 with respect to any series of Securities, any interest on any Security of any series which is payable, but is not timely paid or duly provided for, on any Interest Payment Date for Securities of such series (herein called "Defaulted Interest") shall forthwith cease to be payable to the registered Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:



(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series in respect of which interest is in default (or their respective Predecessor Securities) are registered at the close of business on a date (herein called a "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as provided in this clause (1). Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than fifteen (15) days and not less than ten (10) days prior to the date of the proposed payment and not less than ten (10) days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder of Securities of such series in the manner set forth in Section 109, not less than ten (10) days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange or automated quotation system on which such Securities may be listed or traded, and upon such notice as may be required by such exchange or automated quotation system, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section 307 and Section 305, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

#### SECTION 308. Persons Deemed Owners.

The Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name any Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and premium, if any, and (subject to Sections 305 and 307) interest, if any, on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

#### SECTION 309. Cancellation.

All Securities surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly canceled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section 309, except as expressly permitted by this Indenture. All canceled Securities held by the Trustee shall be treated in accordance with the Trustee's document retention policies.

SECTION 310. Computation of Interest; Usury Not Intended.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, or any Tranche thereof, interest on the Securities of each series shall be computed on the basis of a three hundred sixty (360)-day year of twelve (12) thirty (30)-day months and interest on the Securities of each series for any partial period shall be computed on the basis of a three hundred sixty (360)-day year of twelve (12) thirty (30)-day months and the actual number of days elapsed in any partial month.

The amount of interest (or amounts deemed to be interest under applicable law) payable or paid on any Security shall be limited to an amount which shall not exceed the maximum nonusurious rate of interest allowed by the applicable laws of the State of Texas or any applicable law of the United States permitting a higher maximum nonusurious rate that preempts such applicable Texas laws, which could lawfully be contracted for, taken, reserved, charged or received (the "Maximum Interest Rate"). If, as a result of any circumstances whatsoever, the Company or any other Person is deemed to have paid interest (or amounts deemed to be interest under applicable law) or any Holder is deemed to have contracted for, taken, reserved, charged or received interest (or amounts deemed to be interest under applicable law), in excess of the Maximum Interest Rate, then, ipso facto, the obligation to be fulfilled shall be reduced to the limit of validity, and if from any such circumstance, the Trustee, acting on behalf of the Holders, or any Holder shall ever receive interest or anything that might be deemed interest under applicable law that would exceed the Maximum Interest Rate, such amount that would be excessive interest shall be applied to the reduction of the principal amount owing on the applicable Security or Securities and not to the payment of interest, or if such excessive interest exceeds the unpaid principal balance of any such Security or Securities, such excess shall be refunded to the Company. In addition, for purposes of determining whether payments in respect of any Security are usurious, all sums paid or agreed to be paid with respect to such Security for the use, forbearance or detention of money shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such Security.

SECTION 311. CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" or other similar numbers (if then generally in use), and, if so, the Trustee or Security Registrar may use "CUSIP" or such other numbers in notices of redemption as a convenience to Holders; provided that any such

notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, in which case none of the Company or, as the case may be, the Trustee or the Security Registrar, or any agent of any of them, shall have any liability in respect of any CUSIP number used on any such notice, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee in writing of any change in "CUSIP" numbers.

#### ARTICLE FOUR.

##### ISSUANCE OF SECURITIES

###### SECTION 401. General.

Subject to the provisions of Section 402, 403 or 404, whichever may be applicable, the Trustee shall authenticate and deliver Securities of a series, for original issue, at one time or from time to time in accordance with the Company Order referred to below, upon receipt by the Trustee of:

(1) the instrument or instruments establishing the form or forms and terms of such series, as provided in Sections 201 and 301;

(2) a Company Order requesting the authentication and delivery of such Securities and, to the extent that the terms of such Securities shall not have been established in an indenture supplemental hereto or in a General Partner Resolution, or in an Officer's Certificate pursuant to a supplemental indenture or General Partner Resolution, all as contemplated by Section 301, either (i) establishing such terms or (ii) in the case of Securities of a series subject to a Periodic Offering, specifying procedures, acceptable to the Trustee, by which such terms are to be established (which procedures may provide for authentication and delivery pursuant to oral or electronic instructions from the Company or any agent or agents thereof, which oral instructions are to be promptly confirmed electronically or in writing), in either case in accordance with the instrument or instruments delivered pursuant to clause (1) above;

(3) the Securities of such series, executed on behalf of the Company by an Authorized Officer; (4) an Opinion of Counsel to the effect that:

(A) the form or forms of such Securities have been duly authorized by the Company and have been established in conformity with the provisions of this Indenture;

(B) the terms of such Securities have been duly authorized by the Company and have been established in conformity with the provisions of this Indenture; and

(C) when such Securities shall have been authenticated and delivered by the Trustee and issued and delivered by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, such Securities will constitute valid and legally binding obligations of the Company, enforceable against the Company (subject to customary

exceptions) and entitled to the benefit of the Lien of this Indenture equally and ratably with all other Securities then Outstanding;

provided, however, that, with respect to Securities of a series subject to a Periodic Offering, the Trustee shall be entitled to receive such Opinion of Counsel only once at or prior to the time of the first authentication and delivery of such Securities (provided that such Opinion of Counsel addresses the authentication and delivery of all such Securities) and that, in lieu of the opinions described in clauses (B) and (C) above, counsel may opine that:

- (X) when the terms of such Securities shall have been established pursuant to a Company Order or Orders or pursuant to such procedures as may be specified from time to time by a Company Order or Orders, all as contemplated by and in accordance with the instrument or instruments delivered pursuant to clause (1) above, such terms will have been duly authorized by the Company and will have been established in conformity with the provisions of this Indenture; and
- (Y) when such Securities shall have been authenticated and delivered by the Trustee in accordance with this Indenture and the Company Order or Orders or the specified procedures referred to in paragraph (X) above and issued and delivered by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, such Securities will constitute valid and legally binding obligations of the Company, entitled to the benefit of the Lien of this Indenture equally and ratably with all other Securities then Outstanding, and enforceable against the Company (subject to customary exceptions);

(5) an Officer's Certificate to the effect that, to the knowledge of the signer, no Event of Default has occurred and is continuing; provided, however, that with respect to Securities of a series subject to a Periodic Offering, either (i) such an Officer's Certificate shall be delivered at the time of the authentication and delivery of each Security of such series or (ii) the Officer's Certificate delivered at or prior to the time of the first authentication and delivery of the Securities of such series shall state that the statements therein shall be deemed to be made at the time of each, or each subsequent, authentication and delivery of Securities of such series;

(6) a Net Earnings Certificate showing the Adjusted Net Earnings of the Company for the period therein specified to have been not less than an amount equal to two (2) times the Annual Interest Requirements therein specified, all in accordance with the provisions of Section 104; provided, however, that the Trustee shall not be entitled to receive a Net Earnings Certificate hereunder if the Securities of such series are to have no Stated Interest Rate prior to Maturity; and provided, further, that, with respect to Securities of a series subject to a Periodic Offering, other than Securities theretofore authenticated and delivered, (i) it shall be assumed in the Net Earnings Certificate delivered in connection with the authentication and delivery of Securities of such series that none of the Securities of such series not yet authenticated and delivered shall have a Stated Interest Rate in excess of a maximum rate to be stated therein, and thereafter no Securities of such series which would have a Stated Interest Rate at the time of the initial authentication and delivery thereof in excess of such maximum rate shall

be authenticated and delivered under the authority of such Net Earnings Certificate but instead shall only be authenticated and delivered under the authority of a new Net Earnings Certificate which complies with the requirements of this clause (6), including the proviso relating to Securities of a series subject to a Periodic Offering, and (ii) so long as the Stated Interest Rate that Securities of a series subject to a Periodic Offering bear at the time of the initial authentication and delivery thereof does not exceed the maximum rate assumed in the most recent Net Earnings Certificate delivered with respect to the Securities of such series, the Trustee shall not be entitled to receive a new Net Earnings Certificate at the time of any subsequent authentication and delivery of the Securities of such series (unless such Securities are authenticated and delivered on or after the date which is two years after the most recent Net Earnings Certificate with respect to such series was delivered pursuant to this clause (6), in which case this subclause (ii) shall not apply), provided that no Net Earnings Certificate shall be required in connection with the initial authentication and delivery of the Securities in the Initial Series; and

(7) such other Opinions of Counsel, certificates and other documents as may be required under Section 402, 403 or 404, whichever may be applicable to the authentication and delivery of the Securities of such series.

With respect to Securities of a series subject to a Periodic Offering, the Trustee may conclusively rely, as to the authorization by the Company of any of such Securities, the forms and terms thereof, the validity thereof and the compliance of the authentication and delivery thereof with the terms and conditions of this Indenture, upon the Opinion or Opinions of Counsel and the certificates and other documents delivered pursuant to this Article Four at or prior to the time of the first authentication and delivery of Securities of such series until any of such opinions, certificates or other documents have been superseded or revoked or expire by their terms. In connection with the authentication and delivery of Securities of a series subject to a Periodic Offering, the Trustee shall be entitled to assume that the Company's instructions to authenticate and deliver such Securities do not violate any applicable law or any applicable rule, regulation or order of any Governmental Authority having jurisdiction over the Company.

Anything herein to the contrary notwithstanding, none of the conditions specified in Sections 402, 403 and 404 shall be required to be satisfied in connection with the initial authentication and delivery of the Securities of the Initial Series.

#### SECTION 402. Issuance of Securities on the Basis of Property Additions.

(1) Securities of any one or more series may be authenticated and delivered on the basis of Property Additions which do not constitute Funded Property in a principal amount not exceeding seventy percentum (70%) of the balance of the Cost or the Fair Value to the Company of such Property Additions (whichever shall be less) after making any deductions and any additions pursuant to Section 103(2) except as otherwise specified in clause (2) with respect to the Initial Expert's Certificate.

(2) Securities of any series shall be authenticated and delivered by the Trustee on the basis of Property Additions upon receipt by the Trustee of:

(A) the documents with respect to the Securities of such series specified in Section 401;

(B) an Expert's Certificate dated as of a date not more than ninety (90) days prior to the date of the Company Order requesting the authentication and delivery of such Securities:

(i) describing generally all property constituting Property Additions and designated by the Company, in its discretion, to be made the basis of the authentication and delivery of such Securities (such description of property to be made by reference, at the election of the Company, either to specified items, units and/or elements of property or portions thereof, on a percentage or Dollar basis, or to properties reflected in specified accounts or subaccounts in the Company's books of account or portions thereof, on a Dollar basis), and stating the Cost of such property;

(ii) stating that all such property constitutes Property Additions;

(iii) stating that such Property Additions are desirable for use in the conduct of the business, or one of the businesses, of the Company;

(iv) stating that such Property Additions, to the extent of the Cost or Fair Value to the Company thereof (whichever is less) to be made the basis of the authentication and delivery of such Securities, do not constitute Funded Property;

(v) stating, except as to Property Additions acquired, made or constructed wholly through the delivery of securities or other property or the incurrence of other obligations, that the amount of cash forming all or part of the Cost thereof was equal to or more than an amount to be stated therein;

(vi) briefly describing, with respect to any Property Additions acquired, made or constructed in whole or in part through the delivery of securities or other property or the incurrence of other obligations, the securities or other property so delivered or obligations so incurred and stating the date of such delivery or incurrence;

(vii) stating what part, if any, of such Property Additions includes property which within six months prior to the date of acquisition thereof by the Company had been used or operated by others than the Company in a business similar to that in which it has been or is to be used or operated by the Company and stating whether or not, in the judgment of the signers, the Fair Value thereof to the Company, as of the date of such certificate, is less than One Hundred Thousand Dollars (\$100,000) and whether or not such Fair Value is less than one percentum (1%) of the aggregate principal amount of Securities then Outstanding;

(viii) stating, in the judgment of the signers, the Fair Value to the Company, as of the date of such certificate, of such Property Additions, except any thereof with respect to the Fair Value to the Company of which a statement is to be made in an Independent Expert's Certificate pursuant to clause (C) below;

(ix) stating the amount required to be deducted under Section 103(2)(A) and the amounts elected to be added under Section 103(2)(B) in respect of Funded Property retired of the Company;

(x) if any property included in such Property Additions is subject to a Lien of the character described (a) in clause (4) of the definition of Permitted Liens, stating that such Lien does not, in the judgment of the signers, materially impair the use by the Company of the Mortgaged Property considered as a whole, or (b) in clause (7)(ii) of the definition of Permitted Liens, stating that such Lien does not, in the judgment of the signers, in the aggregate materially impair the use by the Company of such properties, considered as a whole for the purposes for which it is held by the Company or (c) in clause (14)(ii) of the definition of Permitted Liens, stating that the enforcement of such Lien would not, in the judgment of the signers, adversely affect the interests of the Company in such property in any material respect;

(xi) stating the lower of the Cost or the Fair Value to the Company of such Property Additions, after the deductions therefrom and additions thereto specified in such Expert's Certificate pursuant to clause (ix) above;

(xii) stating the amount equal to seventy percentum (70%) of the amount required to be stated pursuant to clause (xi) above; and

(xiii) stating the aggregate principal amount of the Securities to be authenticated and delivered on the basis of such Property Additions (such amount not to exceed the amount stated pursuant to clause (xii) above); provided, however, that in the Initial Expert's Certificate there shall be stated, in lieu of such principal amount, the sum of (a) the principal amount of Securities to be authenticated and delivered on the basis of Property Additions and (b) the aggregate principal amount of all Securities then Outstanding (such sum not to exceed the amount stated pursuant to clause (xii) above);

(C) in case any Property Additions are shown by the Expert's Certificate provided for in clause (B) above to include property which, within six months prior to the date of acquisition thereof by the Company, had been used or operated by others than the Company in a business similar to that in which it has been or is to be used or operated by the Company and such certificate does not show the Fair Value thereof to the Company, as of the date of such certificate, to be less than One Hundred Thousand Dollars (\$100,000) or less than one percentum (1%) of the aggregate principal amount of Securities then Outstanding, an Independent Expert's Certificate stating, in the judgment of the signer, the Fair Value to the Company, as of the date of such Independent Expert's Certificate, of (X) such Property Additions which have been so used or operated and (at the option of the Company) as to any other Property Additions included in the Expert's Certificate provided for in clause (B) above and (Y) in case such Independent Expert's Certificate is being delivered in connection with the authentication and delivery of Securities, any property so used or operated which has been subjected to the Lien of this Indenture since the commencement of the then current calendar year as the basis for the authentication and delivery of Securities and as to which an Independent Expert's Certificate has not previously been furnished to the Trustee;

(D) in case any Property Additions are shown by the Expert's Certificate provided for in clause (B) above to have been acquired, made or constructed in whole or in part through the delivery of securities or other property or the incurrence of an obligation, an Expert's Certificate stating, in the judgment of the signers, the fair market value in cash of such securities or other property or other obligation at the time of delivery thereof in payment for or for the acquisition of such Property Additions;

(E) an Opinion of Counsel to the effect that:

(i) this Indenture constitutes, or, upon the delivery of, and/or the filing and/or recording in the proper places and manner of, the instruments of conveyance, assignment or transfer, if any, specified in said opinion, will constitute, a Lien on all the Property Additions to be made the basis of the authentication and delivery of such Securities, subject to no Lien thereon prior to the Lien of this Indenture except Permitted Liens; and

(ii) the Company has limited partnership authority to operate such Property Additions; and

(F) copies of the instruments of conveyance, assignment and transfer, if any, specified in the Opinion of Counsel provided for in clause (E) above.

#### SECTION 403. Issuance of Securities on the Basis of Retired Securities.

(1) Securities of any one or more series may be authenticated and delivered on the basis of, and in an aggregate principal amount not exceeding the aggregate principal amount of, Retired Securities.

(2) Securities of any series shall be authenticated and delivered by the Trustee on the basis of Retired Securities upon receipt by the Trustee of:

(A) the documents with respect to the Securities of such series specified in Section 401; provided, however, that no Net Earnings Certificate shall be required to be delivered unless the maximum Stated Interest Rate, if any, on such Retired Securities at the time of their authentication and delivery was less than the maximum Stated Interest Rate, if any, on such Securities to be in effect upon the initial authentication and delivery thereof; and

(B) an Officer's Certificate stating that Retired Securities, specified by series, in an aggregate principal amount not less than the aggregate principal amount of Securities to be authenticated and delivered, have theretofore been authenticated and delivered and, as of the date of such Officer's Certificate, constitute, or will constitute upon the application of the proceeds of issuance of the Securities to be authenticated and delivered on the basis of such Retired Securities to the repayment of the aggregate principal amount of such Retired Securities, Retired Securities and are the basis for the authentication and delivery of such Securities.

#### SECTION 404. Issuance of Securities on the Basis of Deposit of Cash.



(1) Securities of any one or more series may be authenticated and delivered on the basis of, and in an aggregate principal not exceeding the amount of, any deposit with the Trustee of cash for such purpose.

(2) Securities of any series shall be authenticated and delivered by the Trustee on the basis of the deposit of cash when the Trustee shall have received, in addition to such deposit, the documents with respect to the Securities of such series specified in Section 401.

(3) All cash deposited with the Trustee under the provisions of this Section shall be held by the Trustee as a part of the Mortgaged Property and may be withdrawn from time to time by the Company, upon application of the Company to the Trustee, in an amount equal to the aggregate principal amount of Securities to the authentication and delivery of which the Company shall be entitled under any of the provisions of this Indenture by virtue of compliance with all applicable provisions of this Indenture (except as hereinafter in this clause (3) otherwise provided).

Upon any such application for withdrawal, the Company shall comply with all applicable provisions of this Indenture relating to the authentication and delivery of Securities except that the Company shall not in any event be required to deliver the documents specified in Section 401.

Any withdrawal of cash under this clause (3) shall operate as a waiver by the Company of its right to the authentication and delivery of the Securities on which it is based and such Securities may not thereafter be authenticated and delivered hereunder. Any Property Additions which have been made the basis of any such right to the authentication and delivery of Securities so waived shall be deemed to have been made the basis of the withdrawal of such cash and any Retired Securities which have been made the basis of any such right to the authentication and delivery of Securities so waived shall be deemed to have been made the basis of the withdrawal of such cash.

(4) If at any time the Company shall so direct, any sums deposited with the Trustee under the provisions of this Section may be used or applied to the purchase, payment or redemption of Securities in the manner and subject to the conditions provided in clauses (4) and (5) of Section 706.

#### ARTICLE FIVE.

#### REDEMPTION OF SECURITIES

##### SECTION 501. Applicability of Article.

Securities of any series, or any Tranche thereof, which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for Securities of such series or Tranche) in accordance with this Article.

##### SECTION 502. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by a General Partner Resolution or in another manner specified as contemplated by Section 301 for such Securities. In case of any redemption at the election of the Company of less than all the Securities of any series (including any such redemption affecting only a single Security), the Company shall, not less than forty-five (45) nor more than sixty (60) days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date, of the principal amount of Securities of such series, or any Tranche thereof, to be redeemed and, if applicable, of the tenor of the Securities to be redeemed. In the case of any redemption of Securities (a) prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, or (b) pursuant to an election of the Company which is subject to a condition specified in the terms of such Securities, the Company shall furnish the Trustee with an Officers' Certificate and an Opinion of Counsel evidencing compliance with such restriction or condition.

#### SECTION 503. Selection by Trustee of Securities to Be Redeemed.

If less than all the Securities of any series, or any Tranche thereof, are to be redeemed (unless all the Securities of such series or Tranche and of a specified tenor are to be redeemed or unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than sixty (60) days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series, or any Tranche thereof, not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any Security of such series, or any Tranche thereof, provided that the unredeemed portion of the principal amount of any Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security. If less than all the Securities of such series, or any Tranche thereof, and of a specified tenor are to be redeemed (unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than sixty (60) days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series, or any Tranche thereof, and specified tenor not previously called for redemption in accordance with the preceding sentence.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption as aforesaid and, in case of any Securities selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

The provisions of the two preceding paragraphs shall not apply with respect to any redemption affecting only a single Security, whether such Security is to be redeemed in whole or in part. In the case of any such redemption in part, the unredeemed portion of the principal amount of the Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed. If the Company shall so direct, Securities registered in the name of

the Company or any Affiliate thereof shall not be included in the Securities selected for redemption.

SECTION 504. Notice of Redemption.

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than thirty (30) nor more than sixty (60) days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

With respect to Securities of each series, or any Tranche thereof, to be redeemed, each notice of redemption shall identify the Securities to be redeemed (including CUSIP numbers) and shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) if less than all the Outstanding Securities of any series, or any Tranche thereof, consisting of more than a single Security are to be redeemed, the identification (and, in the case of partial redemption of any such Securities, the principal amounts) of the particular Securities to be redeemed and, if less than all the Outstanding Securities of any series, or any Tranche thereof, consisting of a single Security are to be redeemed, the principal amount of the particular Security to be redeemed;

(4) that on the Redemption Date the Redemption Price, together with accrued interest, if any, to the Redemption Date, will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date;

(5) the place or places where such Securities are to be surrendered for payment of the Redemption Price and accrued interest, if any, unless it shall have been specified as contemplated by Section 301 with respect to such Securities that such surrender shall not be required;

(6) that the redemption is for a sinking fund, if such is the case;

(7) such other matters as the Company shall deem desirable or appropriate; and

(8) with respect to any notice of redemption of Securities at the election of the Company, unless, upon the giving of such notice, such Securities shall be deemed to have been paid in accordance with Section 801, such notice may state that such redemption shall be conditional upon the receipt by the Paying Agent or Agents for such Securities, on or prior to the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such Securities and that if such money shall not have been so received such notice shall be of no force or effect and the Company shall not be required to redeem such Securities. In the event that such notice of redemption contains such a condition and such money is not so received, the redemption shall not be made and within a reasonable time thereafter notice shall be given, in the manner in which the notice of redemption was given, that such

money was not so received and such redemption was not required to be made, and the Paying Agent or Agents for the Securities otherwise to have been redeemed shall promptly return to the Holders thereof any of such Securities which had been surrendered for payment upon such redemption.

Notice of redemption of Securities to be redeemed at the election of the Company, and any notice of non-satisfaction of a condition for redemption as aforesaid, shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable. The notice if mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the Holder receives such notice. In any case, a failure to give such notice by mail or any defect in the notice to the Holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

#### SECTION 505. Deposit of Redemption Price.

On or before the Redemption Date specified in the notice of redemption given as provided in Section 504, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 603) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

#### SECTION 506. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, and the conditions, if any, set forth in such notice having been satisfied, the Securities or portions thereof so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless, in the case of an unconditional notice of redemption, the Company shall default in the payment of the Redemption Price and accrued interest, if any) such Securities or portions thereof, if interest bearing, shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with such notice, such Security or portion thereof shall be paid by the Company at the Redemption Price, together with accrued interest, if any, to the Redemption Date; provided, however, that no such surrender shall be a condition to such payment if so specified as contemplated by Section 301 with respect to such Security; and provided, further, that, except as otherwise specified as contemplated by Section 301 with respect to such Security, any installment of interest on any Security the Stated Maturity of which installment is on or prior to the Redemption Date shall be payable to the Holder of such Security, or one or more Predecessor Securities, registered as such at the close of business on the related Record Date according to the terms of such Security and subject to the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

#### SECTION 507. Securities Redeemed in Part.

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

#### ARTICLE SIX.

##### COVENANTS

###### SECTION 601. Payment of Securities; Lawful Possession; Maintenance of Lien.

(1) The Company covenants and agrees that it will duly and punctually pay the principal of and any premium and interest on the Securities of each series in accordance with the terms of such Securities and this Indenture.

(2) At the date of the execution and delivery of this Indenture, as originally executed and delivered, the Company is lawfully possessed of the Mortgaged Property.

(3) The Company shall maintain and preserve the Lien of this Indenture so long as any Securities shall remain Outstanding, subject, however, to the provisions of Article Seven and Article Thirteen.

###### SECTION 602. Maintenance of Office or Agency.

The Company will maintain in each Place of Payment for the Securities of each series, or any Tranche thereof, an office or agency where Securities of that series or Tranche may be presented or surrendered for payment, where Securities of that series or Tranche may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series or Tranche and this Indenture may be served. The Company initially appoints the Trustee, acting through its Corporate Trust Office, as its agent for said purpose. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency and prompt notice to the Holders of any such change in the manner specified in Section 109. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series, or any Tranche thereof, may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the

Trustee, and prompt notice to the Holders in the manner specified in Section 109, of any such designation or rescission and of any change in the location of any such other office or agency.

Anything herein to the contrary notwithstanding, any office or agency required by this Section may be maintained at an office of the Company, in which event the Company shall perform all functions to be performed at such office or agency.

#### SECTION 603. Money for Securities Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to the Securities of any series, or any Tranche thereof, it will, on or before each due date of the principal of or any premium or interest on any such Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for the Securities of any series, or any Tranche thereof, it will provide to a Paying Agent a sum sufficient to pay the principal of or any premium or interest on such Securities, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for the Securities of any series, or any Tranche thereof, other than the Company or the Trustee, to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section 603, that such Paying Agent will:

(1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent; and

(2) during the continuance of any default by the Company (or any other obligor upon such Securities), upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of such Securities.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability

of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, shall, upon receipt of a Company Request and at the expense of the Company, cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in The City of New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than thirty (30) days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company. In the absence of a written request from the Company to return unclaimed funds to the Company, the Trustee or Paying Agent shall from time to time deliver all unclaimed funds to or as directed by applicable escheat authorities, as determined by the Trustee or the Paying Agent in its sole discretion, in accordance with its customary practices and procedures. Any unclaimed funds held by the Trustee or Paying Agent pursuant to this Section 603 shall be held uninvested and without any liability for interest.

#### SECTION 604. Existence.

Subject to Article Twelve and the Company's ability to convert into a corporation, limited liability company or limited liability partnership or other legal entity under applicable law, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence as a limited partnership. On and after any conversion of the Company into a corporation, limited liability company or limited liability partnership or other legal entity under applicable law, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate, limited liability company or limited liability partnership or other existence, as applicable.

#### SECTION 605. Maintenance of Properties.

The Company shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) the Mortgaged Property, considered as a whole, to be maintained and kept in good condition, repair and working order and shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) to be made such repairs, renewals, replacements, betterments and improvements thereof, as, in the judgment of the Company, may be necessary in order that the operation of the Mortgaged Property, considered as a whole, may be conducted in accordance with common industry practice; provided, however, that nothing in this Section shall prevent the Company from discontinuing, or causing the discontinuance of, the operation and maintenance of any portion of the Mortgaged Property; and provided, further, that nothing in this Section shall prevent the Company from selling, transferring or otherwise disposing of, or causing the sale, transfer or other disposition of, any portion of the Mortgaged Property or other property, subject to the provisions of this Indenture.

#### SECTION 606. Payment of Taxes; Discharge of Liens.

The Company shall pay all taxes and assessments and other governmental charges lawfully levied or assessed upon the Mortgaged Property, or upon any part thereof, or upon the interest of the Trustee in the Mortgaged Property, before the same shall become delinquent, and

shall make reasonable effort to observe and conform in all material respects to all valid requirements of any Governmental Authority relative to any of the Mortgaged Property and all covenants, terms and conditions upon or under which any of the Mortgaged Property is held; and the Company shall not suffer any Lien to be created upon the Mortgaged Property, or any part thereof, prior to the Lien hereof, other than Permitted Liens and other than, in the case of property hereafter acquired, Purchase Money Liens and any other Liens existing or placed thereon at the time of the acquisition thereof; provided, however, that nothing in this Section contained shall require the Company (i) to observe or conform to any requirement of Governmental Authority or to cause to be paid or discharged, or to make provision for, any such Lien, or to pay any such tax, assessment or governmental charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings or such Lien, tax, assessment or charge is not greater than Five Million Dollars (\$5,000,000), (ii) to pay, discharge or make provisions for any tax, assessment or other governmental charge, the validity of which shall not be so contested if adequate security for the payment of such tax, assessment or other governmental charge and for any penalties or interest which may reasonably be anticipated from failure to pay the same shall be given to the Trustee or (iii) to pay, discharge or make provisions for any Liens existing on the Mortgaged Property at the date of execution and delivery of this Indenture, as originally executed and delivered; and provided, further, that nothing in this Section shall prohibit the issuance or other incurrence of additional indebtedness, or the refunding of outstanding indebtedness, secured by any Lien prior to the Lien hereof which is permitted under this Section to continue to exist.

#### SECTION 607. Insurance.

(1) The Company shall (i) keep or cause to be kept all the Mortgaged Property insured against loss by fire, to the extent that property of similar character is usually so insured by companies similarly situated and operating like properties, to a reasonable amount, by reputable insurance companies, the proceeds of such insurance (except as to any loss of Excepted Property and except as to any particular loss less than the greater of (A) Thirty Million Dollars (\$30,000,000) and (B) three percentum (3%) of the principal amount of Securities Outstanding on the date of such particular loss) to be made payable, subject to applicable law, to the Trustee as the interest of the Trustee may appear, or to the trustee or other holder of any other Lien prior hereto upon property subject to the Lien hereof, if the terms thereof require such payment or (ii) in lieu of or supplementing such insurance in whole or in part, adopt some other method or plan of protection against loss by fire at least equal in protection to the method or plan of protection against loss by fire of companies similarly situated and operating properties subject to similar fire hazards or properties on which an equal primary fire insurance rate has been set by reputable insurance companies; and if the Company shall adopt such other method or plan of protection, it shall, subject to applicable law (and except as to any loss of Excepted Property and except as to any particular loss less than the greater of (X) Thirty Million Dollars (\$30,000,000) and (Y) three percentum (3%) of the principal amount of Securities Outstanding on the date of such particular loss) pay to the Trustee on account of any loss covered by such method or plan an amount in cash equal to the amount of such loss less any amounts otherwise paid to the Trustee in respect of such loss or paid to the trustee or other holder of any other Lien prior hereto upon property subject to the Lien hereof in respect of such loss if the terms thereof require such payment. Any cash so required to be paid by the Company pursuant to any such method or plan shall for the purposes of this Indenture be deemed to be proceeds of insurance. In case of the adoption of such



other method or plan of protection, the Company shall also furnish to the Trustee a certificate of an actuary or other qualified person appointed by the Company with respect to the adequacy of such method or plan.

Anything herein to the contrary notwithstanding, the Company may have fire insurance policies with (i) a deductible provision in a dollar amount per occurrence not exceeding the greater of (A) Thirty Million Dollars (\$30,000,000) and (B) three percentum (3%) of the principal amount of the Securities Outstanding on the date such policy goes into effect and/or (ii) co-insurance provisions with a dollar amount per occurrence not exceeding thirty percentum (30%) of the loss proceeds otherwise payable; provided, however, that the dollar amount described in clause (i) above may be exceeded to the extent such dollar amount per occurrence is below the deductible amount in effect as to fire insurance (X) on property of similar character insured by companies similarly situated and operating like property or (Y) on property as to which an equal primary fire insurance rate has been set by reputable insurance companies.

(2) All moneys paid to the Trustee by the Company in accordance with this Section or received by the Trustee as proceeds of any insurance, in either case on account of a loss on or with respect to Funded Property, shall, subject to the requirements of any other Lien prior hereto upon property subject to the Lien hereof, be held by the Trustee and, subject as aforesaid, shall be paid by it from time to time to the Company to reimburse the Company for amounts (including incremental amounts) expended or committed for expenditure in the rebuilding, renewal and/or replacement of or substitution for the property destroyed or damaged or lost, upon receipt by the Trustee of:

(A) a Company Request requesting such payment;

(B) an Expert's Certificate:

(i) describing the property so damaged or destroyed or otherwise lost;

(ii) stating the Cost of such property (or, if the Fair Value to the Company of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost) or, if such damage or destruction shall have affected only a portion of such property, stating the allocable portion of such Cost or Fair Value;

(iii) stating the amounts so expended or committed for expenditure in the rebuilding, renewal, replacement of and/or substitution for such property; and

(iv) stating the Fair Value to the Company of such property as rebuilt or renewed or as to be rebuilt or renewed and/or of the replacement or substituted property, and if:

(a) within six months prior to the date of acquisition thereof by the Company, such property has been used or operated, by a person or persons other than the Company, in a business similar to that in which it has been or is to be used or operated by the Company; and

(b) the Fair Value to the Company of such property as set forth in such Expert's Certificate is not less than One Hundred Thousand Dollars (\$100,000) and not less than one percentum (1%) of the aggregate principal amount of the Securities at the time Outstanding, the Expert making the statement required by this clause (B) shall be an Independent Expert; and

(C) an Opinion of Counsel stating that, in the opinion of the signer, the property so rebuilt or renewed or to be rebuilt or renewed, and/or the replacement property, is or will be subject to the Lien hereof to the same extent as was the property so destroyed or damaged or otherwise lost.

Any such moneys not so applied within thirty-six (36) months after its receipt by the Trustee, or in respect of which notice in writing of intention to apply the same to the work of rebuilding, renewal, replacement or substitution then in progress and uncompleted shall not have been given to the Trustee by the Company within such thirty-six (36) months, or which the Company shall at any time notify the Trustee is not to be so applied, shall thereafter be withdrawn, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 706; provided, however, that if the amount of such moneys shall exceed seventy percentum (70%) of the amount stated pursuant to clause (B) in the Expert's Certificate referred to above, the amount of such excess shall not be deemed to be Funded Cash, shall not be subject to Section 706 and shall be remitted to or upon the order of the Company upon the withdrawal, use or application of the balance of such moneys pursuant to Section 706.

Anything in this Indenture to the contrary notwithstanding, if property on or with respect to which a loss occurs constitutes Funded Property in part only, the Company may, at its election, obtain the reimbursement of insurance proceeds attributable to the part of such property which constitutes Funded Property under this clause (2) and obtain the reimbursement of insurance proceeds attributable to the part of such property which does not constitute Funded Property under clause (3) of this Section 607.

(3) All moneys paid to the Trustee by the Company in accordance with this Section or received by the Trustee as proceeds of any insurance, in either case on account of a loss on or with respect to property which does not constitute Funded Property, shall, subject to the requirements of any other Lien prior hereto upon property subject to the Lien hereof, be held by the Trustee and, subject as aforesaid, shall be paid by it to the Company upon receipt by the Trustee of:

(A) a Company Request requesting such payment;

(B) an Expert's Certificate stating:

(i) that such moneys were paid to or received by the Trustee on account of a loss on or with respect to property which does not constitute Funded Property; and

(ii) if true, either (I) that the aggregate amount of the Cost or Fair Value to the Company (whichever is less) of all Property Additions which do not constitute Funded Property (excluding, to the extent of such loss, the property on or with respect to which

such loss was incurred), after making deductions therefrom and additions thereto of the character contemplated by Section 103, is not less than zero (0) or (II) that the amount of such loss does not exceed the aggregate Cost or Fair Value to the Company (whichever is less) of Property Additions acquired, made or constructed on or after the ninetieth (90th) day prior to the date of the Company Request requesting such payment; or

(iii) if neither of the statements contemplated in subclause (ii) above can be made, the amount by which zero (0) exceeds the amount referred to in subclause (ii)(I) above (showing in reasonable detail the calculation thereof); and

(C) if the Expert's Certificate required by clause (B) above contains neither of the statements contemplated in clause (B)(ii) above, an amount in cash, to be held by the Trustee as part of the Mortgaged Property, equal to seventy percentum (70%) of the amount shown in clause (B)(iii) above.

To the extent that the Company shall be entitled to withdraw proceeds of insurance pursuant to this clause (3), such proceeds shall be deemed not to constitute Funded Cash.

(4) Whenever under the provisions of this Section the Company is required to deliver moneys to the Trustee and at the same time shall have satisfied the conditions set forth herein for payment of moneys by the Trustee to the Company, there shall be paid to or retained by the Trustee or paid to the Company, as the case may be, only the net amount.

#### SECTION 608. Recording, Filing, etc.

The Company shall cause this Indenture and all indentures and instruments supplemental hereto (or notices, memoranda or financing statements as may be recorded or filed to place third parties on notice thereof) to be promptly recorded and filed and re-recorded and re-filed in such manner and in such places, as may be required by law in order fully to preserve and protect the security of the Holders and all rights of the Trustee, and shall furnish to the Trustee:

(1) promptly after the execution and delivery of this Indenture, as originally executed and delivered, and of each supplemental indenture, an Opinion of Counsel either stating that in the opinion of such counsel this Indenture or such supplemental indenture (or any other instrument, notice, memorandum or financing statement in connection therewith) has been properly recorded and filed, so as to make effective the Lien intended to be created hereby or thereby, and reciting the details of such action, or stating that in the opinion of such counsel no such action is necessary to make such Lien effective. The Company shall be deemed to be in compliance with this clause (1) if (i) the Opinion of Counsel herein required to be delivered to the Trustee shall state that this Indenture or such supplemental indenture (or any other instrument, notice, memorandum or financing statement in connection therewith) has been received for record or filing in each jurisdiction in which it is required to be recorded or filed and that, in the opinion of such counsel (if such is the case), such receipt for record or filing makes effective the Lien intended to be created by this Indenture or such supplemental indenture, and (ii) such opinion is delivered to the Trustee within such time, following the date of the execution and delivery of this Indenture, as originally executed and delivered, or such supplemental indenture, as shall be practicable having due regard to the number and distance of the

jurisdictions in which this Indenture or such supplemental indenture (or such other instrument, notice, memorandum or financing statement in connection therewith) is required to be recorded or filed; and

(2) on or before April 1 of each year, beginning April 1, 2004, an Opinion of Counsel stating either (i) that in the opinion of such counsel such action has been taken, since the date of the most recent Opinion of Counsel furnished pursuant to this clause (2) or the first Opinion of Counsel furnished pursuant to clause (1) of this Section, with respect to the recording, filing, re-recording, and re-filing of this Indenture and of each indenture supplemental to this Indenture (or any other instrument, notice, memorandum or financing statement in connection therewith), as is necessary to maintain the effectiveness of the Lien hereof, and reciting the details of such action, or (ii) that in the opinion of such counsel no such action is necessary to maintain the effectiveness of such Lien.

The Company shall execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as may be necessary or proper to carry out the purposes of this Indenture and to make subject to the Lien hereof any property hereafter acquired, made or constructed and intended to be subject to the Lien hereof, and to transfer to any new trustee or trustees or co-trustee or co-trustees, the estate, powers, instruments or funds held in trust hereunder.

#### SECTION 609. Waiver of Certain Covenants.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in:

(1) any covenant or restriction specified with respect to the Securities of any one or more series, or any one or more Tranches thereof, as contemplated by Section 301 if before the time for such compliance the Holders of at least a majority in aggregate principal amount of the Outstanding Securities of all series and Tranches with respect to which compliance with such covenant or restriction is to be omitted, considered as one class, shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition; provided, however, that no such waiver shall be effective as to any of the matters contemplated in clause (1), (2), (3) or (4) in Section 1302 without the consent of the Holders specified in such Section; and

(2) Section 604, 605, 606 or 607 or Article Twelve if before the time for such compliance the Holders of at least a majority in principal amount of Securities Outstanding under this Indenture shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition; but, in either case, no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

#### SECTION 610. Annual Officer's Certificate as to Compliance.

Within one hundred twenty (120) days after the end of each fiscal year of the Company ending after the date hereof, the Company shall deliver to the Trustee an Officer's Certificate which need not comply with Section 105, executed by the principal executive officer, the principal financial officer or the principal accounting officer of the Company, as to such officer's knowledge of the Company's compliance with all conditions and covenants under this Indenture, such compliance to be determined (solely for the purpose of this Section 610) without regard to any period of grace or requirement of notice under this Indenture.

#### ARTICLE SEVEN.

##### POSSESSION, USE AND RELEASE OF MORTGAGED PROPERTY

###### SECTION 701. Quiet Enjoyment.

Unless one or more Events of Default shall have occurred and be continuing, the Company shall be permitted to possess, use and enjoy the Mortgaged Property (except, to the extent not herein otherwise provided, such cash and securities as are expressly required to be deposited with the Trustee).

###### SECTION 702. Dispositions without Release.

Unless an Event of Default shall have occurred and be continuing, the Company may at any time and from time to time, without any release or consent by, or report to, the Trustee:

(1) sell or otherwise dispose of, free from the Lien of this Indenture, any machinery, equipment, apparatus, towers, transformers, poles, lines, cables, conduits, ducts, conductors, meters, regulators, holders, tanks, retorts, purifiers, odorizers, scrubbers, compressors, valves, pumps, mains, pipes, service pipes, fittings, connections, services, tools, implements, or any other fixtures or personalty, then subject to the Lien hereof, which shall have become old, inadequate, obsolete, worn out, unfit, unadapted, unserviceable, undesirable or unnecessary for use in the operations of the Company upon replacing the same by, or substituting for the same, similar or analogous property, or other property performing a similar or analogous function or otherwise obviating the need therefor, having a Fair Value to the Company at least equal to that of the property sold or otherwise disposed of and subject to the Lien hereof, subject to no Liens prior hereto except Permitted Liens and any other Liens to which the property sold or otherwise disposed of was subject;

(2) cancel or make changes or alterations in or substitutions for any and all easements, servitudes, rights-of-way and similar rights and/or interests;

(3) surrender or assent to the modification of any right, power, franchise, license, governmental consent or permit under which it may be operating, provided that any such surrender or modification which adversely affects the Mortgaged Property, taken as a whole, in any material respect is, in the opinion of the General Partner (such opinion to be stated in a resolution to be filed with the Trustee), necessary or desirable in the conduct of the business of the Company; and

(4) grant, free from the Lien of this Indenture, easements, ground leases or rights-of-way in, upon, over and/or across the property or rights-of-way of the Company for the purpose of roads, pipe lines, transmission lines, distribution lines, communication lines, railways, removal of coal or other minerals or timber, and other like purposes, or for the joint or common use of real property, rights-of-way, facilities and/or equipment; provided, however, that such grant shall not materially impair the use of the property or rights-of-way for the purposes for which such property or rights-of-way are held by the Company.

#### SECTION 703. Release of Funded Property.

Unless an Event of Default shall have occurred and be continuing, the Company may obtain the release of any part of the Mortgaged Property, or any interest therein, which constitutes Funded Property, and the Trustee shall release all its right, title and interest in and to the same from the Lien hereof, upon receipt by the Trustee of:

(1) a Company Order requesting the release of such property and transmitting therewith a form of instrument to effect such release;

(2) an Officer's Certificate stating that, to the knowledge of the signer, no Event of Default has occurred and is continuing;

(3) an Expert's Certificate made and dated not more than ninety (90) days prior to the date of such Company Order:

(A) describing the property to be released;

(B) stating the Fair Value, in the judgment of the signers, of the property to be released;

(C) stating the Cost of the property to be released (or, if the Fair Value to the Company of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost); and

(D) stating that, in the judgment of the signers, such release will not impair the security under this Indenture in contravention of the provisions hereof;

(4) an amount in cash to be held by the Trustee as part of the Mortgaged Property, equal to the amount, if any, by which seventy percentum (70%) of the amount referred to in clause (3)(C) above exceeds the aggregate of the following items:

(A) an amount equal to seventy percentum (70%) of the aggregate principal amount of any obligations secured by Purchase Money Lien delivered to the Trustee, to be held as part of the Mortgaged Property, subject to the limitations hereafter in this Section set forth;

(B) an amount equal to seventy percentum (70%) of the Cost or Fair Value to the Company (whichever is less), after making any deductions and any additions

pursuant to Section 103, of any Property Additions not constituting Funded Property described in an Expert's Certificate, dated not more than ninety (90) days prior to the date of the Company Order requesting such release and complying with clause (B) and, to the extent applicable, clause (C) in Section 402(2), delivered to the Trustee; provided, however, that the deductions and additions contemplated by Section 103 shall not be required to be made if such Property Additions were acquired, made or constructed on or after the ninetieth (90th) day preceding the date of such Company Order;

(C) the aggregate principal amount of Securities to the authentication and delivery of which the Company shall be entitled under the provisions of Section 403, by virtue of compliance with all applicable provisions of Section 403 (except as hereinafter in this Section otherwise provided); provided, however, that such release shall operate as a waiver by the Company of the right to the authentication and delivery of such Securities and, to such extent, no such Securities may thereafter be authenticated and delivered hereunder; and any Securities which were the basis of such right to the authentication and delivery of Securities so waived shall be deemed to have been made the basis of such release of property;

(D) any amount in cash and/or an amount equal to seventy percentum (70%) of the aggregate principal amount of any obligations secured by Purchase Money Lien that, in either case, is evidenced to the Trustee by a certificate of the trustee or other holder of a Lien prior to the Lien of this Indenture to have been received by such trustee or other holder in accordance with the provisions of such Lien in consideration for the release of such property or any part thereof from such Lien, all subject to the limitations hereafter in this Section set forth;

(E) the aggregate principal amount of any Outstanding Securities delivered to the Trustee; and

(F) any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released;

(5) if the release is on the basis of Property Additions or on the basis of the right to the authentication and delivery of Securities under Section 403, all documents contemplated below in this Section; and

(6) if the release is on the basis of the delivery to the Trustee or to the trustee or other holder of a prior Lien of obligations secured by Purchase Money Lien, all documents contemplated below in this Section, to the extent required.

If and to the extent that the release of property is, in whole or in part, based upon Property Additions (as permitted under the provisions of clause (4)(B) in the first paragraph of this Section), the Company shall, subject to the provisions of said clause (4)(B) and except as hereafter in this paragraph provided, comply with all applicable provisions of this Indenture as if such Property Additions were to be made the basis of the authentication and delivery of Securities equal in principal amount to seventy percentum (70%) of the Cost (or, as to property of which the Fair Value to the Company at the time the same became Funded Property was certified to be an amount less than the Cost thereof, such Fair Value, as so certified, in lieu of Cost) of that portion of the property to be released which is to be released on the basis of such

Property Additions, as shown by the Expert's Certificate required by clause (3) in the first paragraph of this Section; provided, however, that the Cost of any Property Additions received or to be received by the Company in whole or in part as consideration in exchange for the property to be released shall for all purposes of this Indenture be deemed to be the amount stated in the Expert's Certificate provided for in clause (3) in the first paragraph of this Section to be the Fair Value of the property to be released (x) plus the amount of any cash and the fair market value of any other consideration, further to be stated in such Expert's Certificate, paid and/or delivered or to be paid and/or delivered by, and the amount of any obligations assumed or to be assumed by, the Company in connection with such exchange as additional consideration for such Property Additions and/or (y) less the amount of any cash and the fair market value of any other consideration, which shall also be stated in such Expert's Certificate, received or to be received by the Company in connection with such exchange in addition to such Property Additions. If and to the extent that the release of property is in whole or in part based upon the right to the authentication and delivery of Securities under Section 403 (as permitted under the provisions of clause (4)(C) in the first paragraph of this Section), the Company shall, except as hereafter in this paragraph provided, comply with all applicable provisions of Section 403 relating to such authentication and delivery. Notwithstanding the foregoing provisions of this paragraph, in no event shall the Company be required to deliver the documents specified in Section 401.

If the release of property is, in whole or in part, based upon the delivery to the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture of obligations secured by Purchase Money Lien, the Company shall deliver to the Trustee:

(A) an Officer's Certificate (i) stating that no event has occurred and is continuing which entitles the holder of such Purchase Money Lien to accelerate the maturity of the obligations, if any, outstanding thereunder and (ii) reciting the aggregate principal amount of obligations, if any, then outstanding thereunder in addition to the obligations then being delivered in connection with the release of such property and the terms and conditions, if any, on which additional obligations secured by such Purchase Money Lien are permitted to be issued; and

(B) an Opinion of Counsel stating that, in the opinion of the signer, (i) such obligations are valid and legally binding obligations, enforceable against the Company (subject to customary exceptions) and entitled to the benefit of such Purchase Money Lien equally and ratably with all other obligations, if any, then outstanding thereunder, (ii) that such Purchase Money Lien constitutes, or, upon the delivery of, and/or the filing and/or recording in the proper places and manner of, the instruments of conveyance, assignment or transfer, if any, specified in such opinion, will constitute, a Lien upon the property to be released, subject to no Lien prior thereto except Liens generally of the character of Permitted Liens and such Liens, if any, as shall have existed thereon immediately prior to such release as Liens prior to the Lien of this Indenture, (iii) if any obligations in addition to the obligations being delivered in connection with such release of property are then outstanding, or are permitted to be issued, under such Purchase Money Lien, (a) that such Purchase Money Lien constitutes, or, upon the delivery of, and/or the filing and/or recording in the proper places and manner of, the instruments of conveyance, assignment or transfer, if any, specified in such opinion, will constitute, a Lien upon all other property, if any, purporting to be subject thereto, subject to no Lien prior thereto except Liens generally of the character of Permitted Liens and Liens permitted to exist or to be hereafter



created under Section 606 and (b) that the terms of such Purchase Money Lien, as then in effect, do not permit the issuance of obligations thereunder except on the basis of property generally of the character of Property Additions, the retirement or deposit of outstanding obligations, the deposit of prior Lien obligations or the deposit of cash.

Anything herein to the contrary notwithstanding (a) the aggregate principal amount of obligations secured by Purchase Money Lien which may be used pursuant to subclause (A) and/or subclause (D) of clause (4) in the first paragraph of this Section as the basis for the release of property from the Lien of this Indenture shall not exceed seventy-five percentum (75%) of the Fair Value of the property to be released, as certified pursuant to clause (3)(B) in the first paragraph of this Section, and (b) no obligations secured by Purchase Money Lien shall be used as the basis for the release of property hereunder, if the aggregate principal amount of such obligations to be used by the Company pursuant to subclause (A) and/or subclause (D) of such clause (4) plus the aggregate principal amount used by the Company pursuant to said subclause (A) and subclause (D) in connection with all previous releases of property from the Lien hereof on the basis of obligations secured by Purchase Money Lien theretofore delivered to and then held by the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture shall, immediately after the release then being applied for, exceed forty percentum (40%) of the aggregate principal amount of Securities then Outstanding; provided, however, that the limitation set forth in clause (a) above shall not be applicable if no additional obligations are then outstanding, or are permitted to be issued, under the Purchase Money Lien securing such obligations; and provided, further, that there shall not be taken into account for purposes of the calculation contemplated in clause (b) above any obligations secured by Purchase Money Lien with respect to which there shall have been delivered to the Trustee:

- (X) an Officer's Certificate (i) if any obligations shall then be outstanding under such Purchase Money Lien and/or additional obligations are permitted to be issued thereunder, either (A) stating that the terms of such Purchase Money Lien, as then in effect, do not permit the issuance of obligations thereunder on the basis of property additions in a principal amount exceeding seventy percentum (70%) of the balance of the cost or fair value of such property additions to the issuer thereof (whichever shall be less) after making deductions and additions similar to those provided for in Section 103 or (B) in the event that the statements contained in clause (A) above cannot be made, stating that such issuer has irrevocably waived its right to the authentication and delivery of obligations under such Purchase Money Lien (1) on any basis, in a principal amount equal to the excess of (I) the aggregate principal amount of obligations, if any, then outstanding under such Purchase Money Lien which were issued on the basis of property additions or on the basis of the retirement of obligations which were issued (whether directly or indirectly when considered in light of the successive issuance and retirement of obligations) on the basis of property additions over (II) an amount equal to seventy percentum (70%) of the aggregate Dollar amount of property additions certified as the basis for the issuance of such obligations then outstanding and (2) on the basis of property additions, in a principal amount exceeding seventy percentum (70%) of the balance of the cost or fair value thereof to such issuer

(whichever shall be less) after making deductions and additions similar to those provided for in Section 103 and (ii) stating either (A) that the obligations secured by such Purchase Money Lien delivered to the Trustee or to the trustee or other holder of a Lien prior to the Lien of this Indenture as the basis for such release of property contain a provision for mandatory redemption upon the acceleration of the maturity of all Outstanding Securities following an Event of Default (whether or not such redemption may be rescinded upon the rescission of such acceleration) or (B) that so long as such obligations are held by the Trustee or the trustee or other holder of such a prior Lien, an Event of Default under this Indenture constitutes a matured event of default under such Purchase Money Lien (provided, however, that the waiver or cure of such Event of Default hereunder and the rescission and annulment of the consequences thereof may constitute a cure of the corresponding event of default under such Purchase Money Lien and a rescission and annulment of the consequences thereof); and

- (Y) an Opinion or Opinions of Counsel to the effect that (i) if any obligations shall then be outstanding under such Purchase Money Lien and/or additional obligations are permitted to be issued thereunder, to the effect either (A) that the terms of such Purchase Money Lien, as then in effect, do not permit the issuance of obligations thereunder upon the basis of property additions in a principal amount exceeding seventy percentum (70%) of the balance of the cost or the fair value thereof to the issuer of such obligations (whichever shall be less) after making deductions and additions similar to those provided for in Section 103, or, if such is not the case, (B) that the waivers contemplated by clause (X)(i)(B) above have been duly made and (ii) to the effect either (A) that the obligations secured by such Purchase Money Lien delivered to the Trustee or to the trustee or other holder of a Lien prior to the Lien of this Indenture as the basis for such release of property contain a provision for mandatory redemption upon an acceleration of the maturity of all Outstanding Securities following an Event of Default (whether or not such redemption may be rescinded upon the rescission of such acceleration) or (B) that, so long as such obligations are held by the Trustee or the trustee or other holder of such a prior Lien, an Event of Default under this Indenture constitutes a matured event of default under such Purchase Money Lien (provided, however, that the waiver or cure of such Event of Default hereunder and the rescission and annulment of the consequences thereof may constitute a cure of the corresponding event of default under such Purchase Money Lien and a rescission and annulment of the consequences thereof).

If (a) any property to be released from the Lien of this Indenture under any provision of this Article (other than Section 707) is subject to a Lien prior to the Lien hereof and is to be sold, exchanged, dedicated or otherwise disposed of subject to such prior Lien and (b) after such release, such prior Lien will not be a Lien on any property subject to the Lien hereof, then the Fair Value of such property to be released shall be deemed, for all purposes of this Indenture, to

be the value thereof unencumbered by such prior Lien less the principal amount of the indebtedness secured by such prior Lien.

Any Outstanding Securities delivered to the Trustee pursuant to clause (4) in the first paragraph of this Section shall forthwith be canceled by the Trustee. Any cash and/or obligations so deposited with the Trustee, and the proceeds of any such obligations, shall be held as part of the Mortgaged Property and shall be withdrawn, released, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 706.

Anything in this Indenture to the contrary notwithstanding, if property to be released constitutes Funded Property in part only, the Company shall obtain the release of the part of such property which constitutes Funded Property under this Section 703 and obtain the release of the part of such property which does not constitute Funded Property under Section 704. In such event, (a) the application of Property Additions in the release under this Section 703 as contemplated in clause (4)(B) in the first paragraph thereof shall be taken into account in clause (E) or clause (F), whichever may be applicable, of the Expert's Certificate described in clause (3) in Section 704 and (b) the Trustee shall, at the election of the Company, execute and deliver a separate instrument of release with respect to the property released under each of such Sections or a consolidated instrument of release with respect to the property released under both of such Sections considered as a whole.

#### SECTION 704. Release of Property Not Constituting Funded Property.

Unless an Event of Default shall have occurred and be continuing, the Company may obtain the release of any part of the Mortgaged Property, or any interest therein, which does not constitute Funded Property, and the Trustee shall release all its right, title and interest in and to the same from the Lien hereof, upon receipt by the Trustee of:

(1) a Company Order requesting the release of such property and transmitting therewith a form of instrument to effect such release;

(2) an Officer's Certificate stating that, to the knowledge of the signer, no Event of Default has occurred and is continuing;

(3) an Expert's Certificate, made and dated not more than ninety (90) days prior to the date of such Company Order:

(A) describing the property to be released;

(B) stating the Fair Value, in the judgment of the signers, of the property to be released;

(C) stating the Cost of the property to be released;

(D) stating that the property to be released does not constitute Funded Property;

(E) if true, stating either (i) that the aggregate amount of the Cost or Fair Value to the Company (whichever is less) of all Property Additions which do not constitute Funded Property (excluding the property to be released), after making deductions therefrom and additions thereto of the character contemplated by Section 103, is not less than zero (0) or (ii) that the Cost or Fair Value (whichever is less) of the property to be released does not exceed the aggregate Cost or Fair Value to the Company (whichever is less) of Property Additions acquired, made or constructed on or after the ninetieth (90th) day prior to the date of the Company Order requesting such release;

(F) if neither of the statements contemplated in clause (E) above can be made, stating the amount by which zero (0) exceeds the amount referred to in subclause (E)(i) above (showing in reasonable detail the calculation thereof); and

(G) stating that, in the judgment of the signers, such release will not impair the security under this Indenture in contravention of the provisions hereof; and

(4) if the Expert's Certificate required by clause (3) above contains neither of the statements contemplated in clause (3)(E) above, an amount in cash, to be held by the Trustee as part of the Mortgaged Property, equal to the amount, if any, by which seventy percentum (70%) of the lower of (i) the Cost or Fair Value (whichever shall be less) of the property to be released and (ii) the amount shown in clause (3)(F) above exceeds the aggregate of items of the character described in subclauses (C) and (E) of clause (4) in the first paragraph of Section 703 then to be used as a credit under this Section 704 (subject, however, to the same limitations and conditions with respect to such items as are set forth in Section 703).

Anything herein to the contrary notwithstanding, if any part of the Mortgaged Property is to be released prior to the delivery of the Initial Expert's Certificate pursuant to Section 402(2)(B), the Company shall deliver to the Trustee an Initial Expert's Certificate complying with the provisions of Section 402(2)(B), except that there shall be stated in clause (xiii) the aggregate principal amount of Securities then Outstanding. Such Initial Expert's Certificate shall be accompanied by the documents specified in clauses (C), (D), and (E) of Section 402(2). Thereupon, the part of the Mortgaged Property to be released shall be released pursuant to Section 703, to the extent the same shall constitute Funded Property, and/or pursuant to Section 704, to the extent the same shall not constitute Funded Property.

#### SECTION 705. Release of Minor Properties.

Notwithstanding the provisions of Sections 703 and 704, unless an Event of Default shall have occurred and be continuing, the Company may obtain the release from the Lien hereof of any part of the Mortgaged Property, or any interest therein, and the Trustee shall whenever from time to time requested by the Company in a Company Order transmitting therewith a form of instrument to effect such release, and without requiring compliance with any of the provisions of Section 703 or 704, release from the Lien hereof all the right, title and interest of the Trustee in and to the same provided that the aggregate Fair Value of the property to be so released on any date in a given calendar year, together with all other property released pursuant to this Section 705 in such calendar year, shall not exceed the greater of (a) Thirty Million Dollars (\$30,000,000) and (b) three percentum (3%) of the aggregate principal amount of Securities then

Outstanding. Prior to the granting of any such release, there shall be delivered to the Trustee (x) an Officer's Certificate stating that, to the knowledge of the signer, no Event of Default has occurred and is continuing and (y) an Expert's Certificate stating, in the judgment of the signers, the Fair Value of the property to be released, the aggregate Fair Value of all other property theretofore released pursuant to this Section in such calendar year and, as to Funded Property, the Cost thereof (or, if the Fair Value to the Company of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost), and that, in the judgment of the signers, the release thereof will not impair the security under this Indenture in contravention of the provisions hereof. On or before December 31st of each calendar year, the Company shall deposit with the Trustee an amount in cash equal to seventy percentum (70%) of the aggregate Cost of the properties constituting Funded Property so released during such year (or, if the Fair Value to the Company of any particular property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost); provided, however, that no such deposit shall be required to be made hereunder to the extent that cash or other consideration shall, as indicated in an Officer's Certificate delivered to the Trustee, have been deposited with the trustee or other holder of any other Lien prior to the Lien of this Indenture in accordance with the provisions thereof; and provided, further, that the amount of cash so required to be deposited may be reduced, at the election of the Company, by the items specified in clause (4) in the first paragraph of Section 703, subject to all of the limitations and conditions specified in such Section, to the same extent as if such property were being released pursuant to Section 703. Any cash deposited with the Trustee under this Section may thereafter be withdrawn, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 706.

**SECTION 706. Withdrawal or Other Application of Funded Cash; Purchase Money Obligations.**

Subject to the provisions of Section 404 and except as hereafter in this Section provided, unless an Event of Default shall have occurred and be continuing, any Funded Cash held by the Trustee, and any other cash which is required to be withdrawn, used or applied as provided in this Section:

(1) may be withdrawn from time to time by the Company to the extent of an amount equal to seventy percentum (70%) of the Cost or the Fair Value to the Company (whichever is less) of Property Additions not constituting Funded Property, after making any deductions and additions pursuant to Section 103, described in an Expert's Certificate, dated not more than ninety (90) days prior to the date of the Company Order requesting such withdrawal and complying with clause (B) and, to the extent applicable, clause (C) in Section 402(2), delivered to the Trustee; provided, however, that the deductions and additions contemplated by Section 103 shall not be required to be made if such Property Additions were acquired, made or constructed on or after the ninetieth (90th) day preceding the date of such Company Order;

(2) may be withdrawn from time to time by the Company in an amount equal to the aggregate principal amount of Securities to the authentication and delivery of which the Company shall be entitled under the provisions of Section 403 hereof, by virtue of compliance with all applicable provisions of Section 403 (except as hereinafter in this Section otherwise

provided); provided, however, that such withdrawal of cash shall operate as a waiver by the Company of the right to the authentication and delivery of such Securities and, to such extent, no such Securities may thereafter be authenticated and delivered hereunder; and any such Securities which were the basis of such right to the authentication and delivery of Securities so waived shall be deemed to have been made the basis of such withdrawal of cash;

(3) may be withdrawn from time to time by the Company in an amount equal to the aggregate principal amount of any Outstanding Securities delivered to the Trustee;

(4) may, upon the request of the Company, be used by the Trustee for the purchase of Securities in the manner, at the time or times, in the amount or amounts, at the price or prices and otherwise as directed or approved by the Company, all subject to the limitations hereafter in this Section set forth; or

(5) may, upon the request of the Company, be applied by the Trustee to the payment (or provision therefor pursuant to Article Seven) at Stated Maturity of any Securities or to the redemption (or similar provision therefor) of any Securities which are, by their terms, redeemable, in each case of such series as may be designated by the Company, any such redemption to be in the manner and as provided in Article Five, all subject to the limitations hereafter in this Section set forth. Such moneys shall, from time to time, be paid or used or applied by the Trustee, as aforesaid, upon the request of the Company in a Company Order, and upon receipt by the Trustee of an Officer's Certificate stating that, to the knowledge of the signer, no Event of Default has occurred and is continuing. If and to the extent that the withdrawal of cash is based upon Property Additions (as permitted under the provisions of clause (1) above), the Company shall, subject to the provisions of said clause (1) and except as hereafter in this paragraph provided, comply with all applicable provisions of this Indenture as if such Property Additions were made the basis for the authentication and delivery of Securities equal in principal amount to the cash so to be withdrawn. If and to the extent that the withdrawal of cash is based upon the right to the authentication and delivery of Securities (as permitted under the provisions of clause (2) above), the Company shall, except as hereafter in this paragraph provided, comply with all applicable provisions of Section 403 relating to such authentication and delivery. Notwithstanding the foregoing provisions of this paragraph, in no event shall the Company be required to deliver the documents specified in Section 401.

Notwithstanding the generality of clauses (3) and (4) above, no cash to be applied pursuant to such clauses shall be applied to the payment of an amount in excess of the principal amount of any Securities to be purchased, paid or redeemed except to the extent that the aggregate principal amount of all Securities theretofore, and of all Securities then to be, purchased, paid or redeemed pursuant to such clauses is not less than the aggregate cost for principal of, premium, if any, and accrued interest, if any, on and brokerage commissions, if any, with respect to, such Securities.

Any obligations secured by Purchase Money Lien delivered to the Trustee in consideration of the release of property from the Lien of this Indenture, together with any evidence of such Purchase Money Lien held by the Trustee, shall be released from the Lien of

this Indenture and delivered to or upon the order of the Company upon payment by the Company to the Trustee of an amount in cash equal to the aggregate principal amount of such obligations less the aggregate amount theretofore paid to the Trustee (by the Company, the obligor or otherwise) in respect of the principal of such obligations.

The principal of and interest on any such obligations secured by Purchase Money Lien held by the Trustee shall be held by the Trustee as and when the same are received by the Trustee. The interest received by the Trustee on any such obligations shall be deemed not to constitute Funded Cash and shall be remitted to the Company; provided, however, that if an Event of Default shall have occurred and be continuing, such proceeds shall be held as part of the Mortgaged Property until such Event of Default shall have been cured or waived.

The Trustee shall have and may exercise all the rights and powers of any owner of such obligations and of all substitutions therefor and, without limiting the generality of the foregoing, may collect and receive all insurance moneys payable to it under any of the provisions thereof and apply the same in accordance with the provisions thereof, may consent to extensions thereof at a higher or lower rate of interest, may join in any plan or plans of voluntary or involuntary reorganization or readjustment or rearrangement and may accept and hold hereunder new obligations, stocks or other securities issued in exchange therefor under any such plan. Any discretionary action which the Trustee may be entitled to take in connection with any such obligations or substitutions therefor shall be taken, so long as no Event of Default shall have occurred and be continuing, in accordance with a Company Order, and, during the continuance of an Event of Default, in its own discretion.

Anything herein to the contrary notwithstanding, the Company may irrevocably waive all right to the withdrawal pursuant to this Section of, and any other rights with respect to, any obligations secured by Purchase Money Lien held by the Trustee, and the proceeds of any such obligations, by delivery to the Trustee of a Company Order:

(1) specifying such obligations and stating that the Company thereby waives all rights to the withdrawal thereof and of the proceeds thereof pursuant to this Section, and any other rights with respect thereto; and

(2) directing that the principal of such obligations be applied as provided in clause (4) in the first paragraph of this Section, specifying the Securities to be paid or redeemed or for the payment or redemption of which payment is to be made.

Following any such waiver, the interest on any such obligations shall be applied to the payment of interest, if any, on the Securities to be paid or redeemed or for the payment or redemption of which provision is to be made, as specified in the aforesaid Company Order, as and when such interest shall become due from time to time, and any excess funds remaining from time to time after such application shall be applied to the payment of interest on any other Securities as and when the same shall become due. Pending any such application, the interest on such obligations shall be invested in Investment Securities. The principal of any such obligations shall be applied solely to the payment of principal of the Securities to be paid or redeemed or for the payment or redemption of which provision is to be made, as specified in the aforesaid Company Order. Pending such application, the principal of such obligations shall be invested in

Eligible Obligations. The obligation of the Company to pay the principal of such Securities when the same shall become due at Maturity, shall be offset and reduced by the amount of the proceeds of such obligations then held, and to be applied, by the Trustee in accordance with this paragraph.

SECTION 707. Release of Property Taken by Eminent Domain, etc.

Should any of the Mortgaged Property, or any interest therein, be taken by exercise of the power of eminent domain or be sold to an entity possessing the power of eminent domain under a threat to exercise the same, and should the Company elect not to obtain the release of such property pursuant to other provisions of this Article, the Trustee shall, upon request of the Company evidenced by a Company Order transmitting therewith a form of instrument to effect such release, release from the Lien hereof all its right, title and interest in and to the property so taken or sold (or with respect to an interest in property, subordinate the Lien hereof to such interest), upon receiving (a) an Opinion of Counsel to the effect that such property has been taken by exercise of the power of eminent domain or has been sold to an entity possessing the power of eminent domain under threat of an exercise of such power, (b) an Officer's Certificate stating the amount of net proceeds received or to be received for such property so taken or sold, and the amount so stated shall be deemed to be the Fair Value of such property for the purpose of any notice to the Holders, (c) if any portion of such property constitutes Funded Property, an Expert's Certificate stating the Cost thereof (or, if the Fair Value to the Company of such portion of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost) and (d) if any portion of such property constitutes Funded Property, a deposit by the Company of an amount in cash equal to seventy percentum (70%) of the Cost or Fair Value stated in the Expert's Certificate delivered pursuant to clause (c) above; provided, however, that the amount required to be so deposited shall not exceed the portion of the net proceeds received or to be received for such property so taken or sold which is allocable on a pro-rata or other reasonable basis to the portion of such property constituting Funded Property; and provided, further, that no such deposit shall be required to be made hereunder if the proceeds of such taking or sale shall, as indicated in an Officer's Certificate delivered to the Trustee, have been deposited with the trustee or other holder of any other Lien prior to the Lien of this Indenture. Any cash deposited with the Trustee under this Section may thereafter be withdrawn, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 706.

SECTION 708. Disclaimer or Quitclaim.

In case the Company has sold, exchanged, dedicated or otherwise disposed of, or has agreed or intends to sell, exchange, dedicate or otherwise dispose of, or a Governmental Authority has ordered the Company to divest itself of, any Excepted Property or any other property not subject to the Lien hereof, or the Company desires to disclaim or quitclaim title to property to which the Company does not purport to have title, the Trustee shall, from time to time, disclaim or quitclaim such property upon receipt by the Trustee of the following:

(1) a Company Order requesting such disclaimer or quitclaim and transmitting therewith a form of instrument to effect such disclaimer or quitclaim;



(2) an Officer's Certificate describing the property to be disclaimed or quitclaimed; and

(3) an Opinion of Counsel stating the signer's opinion that such property is not subject to the Lien hereof or required to be subject thereto by any of the provisions hereof.

#### SECTION 709. Miscellaneous.

(1) No Expert's Certificate as to the Fair Value of property to be released from the Lien of this Indenture in accordance with any provision of this Article, and as to the nonimpairment, by reason of such release, of the security under this Indenture in contravention of the provisions hereof, shall be required to be made, if the Fair Value of such property and of all other property released since the commencement of the then current calendar year, is such that the disposition of such property would not contravene Section 9.02 of the Credit Agreement dated December 23, 2003 by and among the Company, the General Partner, Texas Genco LP, LLC, Texas Genco Holdings, Inc., Texas Genco Services, LP, the lenders from time party thereto, Deutsche Bank AG New York Branch, as administrative agent and collateral agent, and Compass Bank, as documentation agent.

(2) No release of property from the Lien of this Indenture effected in accordance with the provisions, and in compliance with the conditions, set forth in this Article and in Sections 105 and 106 shall be deemed to impair the security of this Indenture in contravention of any provision hereof.

(3) If the Mortgaged Property shall be in the possession of a receiver or trustee, lawfully appointed, the powers herein before conferred upon the Company with respect to the release of any part of the Mortgaged Property or any interest therein or the withdrawal of cash may be exercised, with the approval of the Trustee, by such receiver or trustee, notwithstanding that an Event of Default may have occurred and be continuing, and any request, certificate, appointment or approval made or signed by such receiver or trustee for such purposes shall be as effective as if made by the Company or any of its officers or appointees in the manner herein provided; and if the Trustee shall be in possession of the Mortgaged Property under any provision of this Indenture, then such powers may be exercised by the Trustee in its discretion notwithstanding that an Event of Default may have occurred and be continuing.

(4) If the Company shall retain any interest in any property released from the Lien of this Indenture as provided in Section 703, 704 or 705, this Indenture shall not become or be, or be required to become or be, a Lien upon such property or such interest therein or any improvements, accessions, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof or the proceeds thereof unless the Company shall execute and deliver to the Trustee an indenture supplemental hereto, in recordable form, containing a grant, conveyance, transfer and mortgage thereof.

(5) Notwithstanding the occurrence and continuance of an Event of Default, the Trustee, in its discretion, may release from the Lien hereof any part of the Mortgaged Property or permit the withdrawal of cash, upon compliance with the other conditions specified in this Article in respect thereof.

(6) No purchaser or grantee of property purporting to have been released hereunder shall be bound to ascertain the authority of the Trustee to execute the release, or to inquire as to any facts required by the provisions hereof for the exercise of such authority; nor shall any purchaser or grantee of any property or rights permitted by this Article to be sold, granted, exchanged, dedicated or otherwise disposed of, be under obligation to ascertain or inquire into the authority of the Company to make any such sale, grant, exchange, dedication or other disposition.

#### ARTICLE EIGHT.

##### SATISFACTION AND DISCHARGE

##### SECTION 801. Satisfaction and Discharge of Securities.

Any Security or Securities, or any portion of the principal amount thereof, shall be deemed to have been paid for all purposes of this Indenture, and the entire indebtedness of the Company in respect thereof shall be satisfied and discharged, if there shall have been irrevocably deposited with the Trustee or any Paying Agent (other than the Company), in trust:

(1) money (including Funded Cash not otherwise applied pursuant to Section 706) in an amount which shall be sufficient; or

(2) in the case of a deposit made prior to the Maturity of such Securities or portions thereof, Eligible Obligations, which shall not contain provisions permitting the redemption or other prepayment thereof at the option of the issuer thereof, the principal of and the interest on which when due, without any regard to reinvestment thereof, will provide moneys which, together with the money, if any, deposited with or held by the Trustee or such Paying Agent, shall be sufficient; or

(3) a combination of (1) or (2) which shall be sufficient, to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Securities or portions thereof; provided, however, that in the case of the provision for payment or redemption of less than all the Securities of any series or Tranche, such Securities or portions thereof shall have been selected by the Security Registrar as provided herein and, in the case of a redemption, the notice requisite to the validity of such redemption shall have been given or irrevocable authority shall have been given by the Company to the Trustee to give such notice, under arrangements satisfactory to the Trustee; and provided, further, that the Company shall have delivered to the Trustee and such Paying Agent:

(A) if such deposit shall have been made prior to the Maturity of such Securities, a Company Order stating that the money and Eligible Obligations deposited in accordance with this Section shall be held in trust, as provided in Section 803;

(B) if Eligible Obligations shall have been deposited, an Opinion of Counsel to the effect that such obligations constitute Eligible Obligations and do not contain provisions permitting the redemption or other prepayment thereof at the option of the issuer thereof, and an opinion of an Independent Accountant of nationally recognized standing, selected

by the Company, to the effect that the other requirements set forth in clause (2) above have been satisfied;

(C) if such deposit shall have been made prior to the Maturity of such Securities, an Officer's Certificate stating the Company's intention that, upon delivery of such Officer's Certificate, its indebtedness in respect of such Securities or portions thereof will have been satisfied and discharged as contemplated in this Section; and

(D) either:

(i) an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that (a) the Company has received from, or there has been published by the Internal Revenue Service a ruling or (b) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case (a) or (b) to the effect that, and based thereon such opinion shall confirm that, the Holders of such Securities shall not recognize income, gain or loss for federal income tax purposes as a result of the deposit, defeasance and discharge to be effected with respect to such Securities and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would be the case if such deposit, defeasance and discharge had not occurred; or

(ii) an instrument wherein the Company, notwithstanding the satisfaction and discharge of its indebtedness in respect of the Securities, shall assume the obligation (which shall be absolute and unconditional) to irrevocably deposit with the Trustee such additional sums of money, if any, or additional Government Obligations, if any, or any combination thereof, at such time or times, as shall be necessary, together with the money and/or Government Obligations theretofore so deposited, to pay when due the principal of and premium, if any, and interest due and to become due on such Securities or portions thereof; provided, however, that such instrument may state that the Company's obligation to make additional deposits as aforesaid shall be subject to the delivery to it by the Trustee of (a) a notice asserting the deficiency accompanied by an opinion of an independent public accountant of nationally recognized standing showing the calculation thereof and (b) an opinion of tax counsel in the United States reasonably acceptable to the Trustee to the effect that the Holders of the Outstanding Securities will not recognize income, gain or loss for federal income tax purposes as a result of such defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such defeasance had not occurred.

Upon the deposit of money or Eligible Obligations, or both, in accordance with this Section, together with the documents required by clauses (A), (B), (C) and (D) above, the Trustee shall, upon Company Request, acknowledge in writing that such Securities or portions thereof are deemed to have been paid for all purposes of this Indenture and that the entire indebtedness of the Company in respect thereof has been satisfied and discharged as contemplated in this Section. In the event that all of the conditions set forth in the preceding paragraph shall have been satisfied in respect of any Securities or portions thereof except that, for any reason, the Officer's Certificate specified in clause (C) (if otherwise required) shall not have been delivered, such Securities or portions thereof shall nevertheless be deemed to have been paid for all purposes of this Indenture, and the Holders of such Securities or portions

thereof shall nevertheless be no longer entitled to the benefit of the Lien of this Indenture or of any of the covenants of the Company under Article Six (except the covenants contained in Sections 602 and 603) or any other covenants made in respect of such Securities or portions thereof as contemplated by Section 301, but the indebtedness of the Company in respect of such Securities or portions thereof shall not be deemed to have been satisfied and discharged prior to Maturity for any other purpose; and, upon Company Request, the Trustee shall acknowledge in writing that such Securities or portions thereof are deemed to have been paid for all purposes of this Indenture.

If payment at Stated Maturity of less than all of the Securities of any series, or any Tranche thereof, is to be provided for in the manner and with the effect provided in this Section, the Security Registrar shall select such Securities, or portions of principal amount thereof, in the manner specified by Section 503 for selection for redemption of less than all the Securities of a series or Tranche.

In the event that Securities which shall be deemed to have been paid for purposes of this Indenture, and, if such is the case, in respect of which the Company's indebtedness shall have been satisfied and discharged, all as provided in this Section, do not mature and are not to be redeemed within the sixty (60) day period commencing with the date of the deposit of moneys or Eligible Obligations, as aforesaid, the Company shall, as promptly as practicable, give a notice, in the same manner as a notice of redemption with respect to such Securities, to the Holders of such Securities to the effect that such deposit has been made and the effect thereof.

Notwithstanding that any Securities shall be deemed to have been paid for purposes of this Indenture, as aforesaid, the obligations of the Company and the Trustee in respect of such Securities under Sections 304, 305, 306, 504, 602, 603, 1007 and 1014 and this Article shall survive.

The Company shall pay, and shall indemnify the Trustee or any Paying Agent with which Eligible Obligations shall have been deposited as provided in this Section against, any tax, fee or other charge imposed on or assessed against such Eligible Obligations or the principal or interest received in respect of such Eligible Obligations, including, but not limited to, any such tax payable by any entity deemed, for tax purposes, to have been created as a result of such deposit.

Anything herein to the contrary notwithstanding, (a) if, at any time after a Security would be deemed to have been paid for purposes of this Indenture, and, if such is the case, the Company's indebtedness in respect thereof would be deemed to have been satisfied and discharged, pursuant to this Section (without regard to the provisions of this paragraph), the Trustee or any Paying Agent, as the case may be, shall be required to return the money or Eligible Obligations, or combination thereof, deposited with it as aforesaid to the Company or its representative under any applicable Federal or State bankruptcy, insolvency or other similar law, such Security shall thereupon be deemed retroactively not to have been paid and any satisfaction and discharge of the Company's indebtedness in respect thereof shall retroactively be deemed not to have been effected, and such Security shall be deemed to remain Outstanding and (b) any satisfaction and discharge of the Company's indebtedness in respect of any Security shall be subject to the provisions of the last paragraph of Section 603.

SECTION 802. Satisfaction and Discharge of Indenture.

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for and as otherwise provided in this Section 802), and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging the satisfaction and discharge of this Indenture, when:

(1) either,

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for the payment of which money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 603) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation:

(i) have become due and payable; or

(ii) will become due and payable at their Stated Maturity within one year of the date of deposit; or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company;

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for such purpose money in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 1007, the obligations of the Trustee to any Authenticating Agent under Section 1015 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section 802, the obligations of the Trustee under Section 803 and the last paragraph of Section 603 shall survive.

Upon satisfaction and discharge of this Indenture as provided in this Section, the Trustee shall release, quit claim and otherwise turn over to the Company the Mortgaged Property (other than money and Eligible Obligations held by the Trustee pursuant to Section 803) and shall execute and deliver to the Company such deeds and other instruments as, in the judgment of the Company, shall be necessary, desirable or appropriate to effect or evidence such release and quitclaim and the satisfaction and discharge of this Indenture.

#### SECTION 803. Application of Trust Money.

Neither the Eligible Obligations nor the money deposited pursuant to Section 801, nor the principal or interest payments on any such Eligible Obligations, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest, if any, on the Securities or portions of principal amount thereof in respect of which such deposit was made, all subject, however, to the provisions of Section 603; provided, however, that any cash received from such principal or interest payments on such Eligible Obligations, if not then needed for such purpose, shall, to the extent practicable and upon Company Request and delivery to the Trustee of the documents referred to in clause (y) in the first paragraph of Section 801, be invested in Eligible Obligations of the type described in clause (2) in the first paragraph of Section 801 maturing at such times and in such amounts as shall be sufficient, together with any other moneys and the proceeds of any other Eligible Obligations then held by the Trustee, to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Securities or portions thereof on and prior to the Maturity thereof, and interest earned from such reinvestment shall be paid over to the Company as received, free and clear of the Lien of this Indenture, except the Lien provided by Section 1007; and provided, further, that any moneys held in accordance with this Section on the Maturity of all such Securities in excess of the amount required to pay the principal of and premium, if any, and interest, if any, then due on such Securities shall be paid over to the Company free and clear of the Lien of this Indenture, except the Lien provided by Section 1007; and provided, further, that if an Event of Default shall have occurred and be continuing, moneys to be paid over to the Company pursuant to this Section shall be held as part of the Mortgaged Property until such Event of Default shall have been waived or cured.

### ARTICLE NINE.

#### EVENTS OF DEFAULT; REMEDIES

#### SECTION 901. Events of Default.

"Event of Default" means any of the following events which shall have occurred and be continuing:

(1) default in the payment of any interest upon any Security when it becomes due and payable, and continuance of such default for a period of thirty (30) days; or

(2) default in the payment of the principal of or any premium on any Security when it becomes due and payable; or

(3) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in the performance of which or the breach of which is elsewhere in this Section 901 specifically dealt with and continuance of such default or breach for a period of ninety (90) days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least thirty-three percentum (33%) in principal amount of the Securities then Outstanding a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" unless the Trustee, or the Trustee and the Holders of a principal amount of Securities not less than the principal amount of Securities the Holders of which gave such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee, or the Trustee and the Holders of such principal amount of Securities, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Company within such period and is being diligently pursued; or

(4) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition by one or more Persons other than the Company seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief or any such other decree or order shall have remained unstayed and in effect for a period of ninety (90) consecutive days; or

(5) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by it of an assignment of a substantial part of its property and assets for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action.

Notwithstanding the foregoing provisions of this Section 901, if the principal or any premium or interest on any Security is payable in a currency other than the currency of the United States and such currency is not available to the Company for making payment thereof due to the imposition of exchange controls or other circumstances beyond the control of the Company, the Company will be entitled to satisfy its obligations to Holders by making such payment in the currency of the United States in an amount equal to the currency of the United States equivalent of the amount payable in such other currency, as determined by the Trustee by

reference to the noon buying rate in The City of New York for cable transfers for such currency ("Exchange Rate"), as such Exchange Rate is reported or otherwise made available by the Federal Reserve Bank of New York on the date of such payment, or, if such rate is not then available, on the basis of the most recently available Exchange Rate. Notwithstanding the foregoing provisions of this Section 901, any payment made under such circumstances in the currency of the United States where the required payment is in a currency other than the currency of the United States will not constitute an Event of Default under this Indenture.

SECTION 902. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default shall have occurred and be continuing, then in every such case the Trustee or the Holders of not less than thirty-three percentum (33%) in principal amount of the Securities then Outstanding may declare the principal amount (or, if any of the Securities are Discount Securities, such portion of the principal amount of such Securities as may be specified in the terms thereof as contemplated by Section 301) of all Securities then Outstanding to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon such declaration such principal amount (or specified amount), together with premium, if any, and accrued interest, if any, thereon, shall become immediately due and payable.

At any time after such a declaration of acceleration of the Maturity of the Securities has been made, but before any sale of any of the Mortgaged Property has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter provided in this Article Nine, the Event of Default giving rise to such declaration of acceleration shall, without further act, be deemed to have been waived, and such declaration and its consequences shall, without further act, be deemed to have been rescinded and annulled, if:

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay:

(A) all overdue installments of interest on all Securities;

(B) the principal of and premium, if any, on any Securities then Outstanding which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities; and

(C) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default with respect to Securities, other than the non-payment of the principal of Securities which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 917.

No such rescission shall affect any subsequent default or impair any right consequent thereon.



SECTION 903. Entry upon Mortgaged Property.

If an Event of Default shall have occurred and be continuing, the Company, upon demand of the Trustee and if and to the extent permitted by law, shall forthwith surrender to the Trustee the actual possession of, and the Trustee, by such officers or agents as it may appoint, may enter upon and take possession of, the Mortgaged Property; and the Trustee may hold, operate and manage the Mortgaged Property and make all needful repairs and such renewals, replacements, betterments and improvements as to the Trustee shall seem prudent; and the Trustee may receive the rents, issues, profits, revenues and other income of the Mortgaged Property, to the extent, if any, that the same shall not then constitute Excepted Property; and, after deducting the costs and expenses of entering, taking possession, holding, operating and managing the Mortgaged Property, as well as payments for insurance and taxes and other proper charges upon the Mortgaged Property prior to the Lien of this Indenture and reasonable compensation to itself, its agents and counsel, the Trustee may apply the same as provided in Section 907. Whenever all that is then due in respect of the principal of and premium, if any, and interest, if any, on the Securities and under any of the terms of this Indenture shall have been paid and all defaults hereunder shall have been cured or shall have been waived as provided in Section 917, the Trustee shall surrender possession of the Mortgaged Property to the Company.

SECTION 904. Power of Sale; Suits for Enforcement.

If an Event of Default shall have occurred and be continuing, the Trustee, by such officers or agents as it shall appoint, with or without entry, in its discretion may, subject to the provisions of Section 916 and if and to the extent permitted by law:

(1) Foreclosure. Sell, subject to applicable law, the Mortgaged Property.

(A) Foreclosure of Real Property. Mortgaged Property constituting real property shall be sold in accordance with this Section 904(1)(A). The sale shall be a public sale at auction held between 10 A.M. and 4 P.M. on the first Tuesday of a month. The sale shall take place at the county courthouse in the county in which the Mortgaged Property is located, or if it is located in more than one county, the sale will be made at the courthouse in one of those counties. The sale shall occur at the area at that courthouse which the commissioners' court of that county has designated as the place where such sales are to take place by designation recorded in the real property records of that county, or if no area is so designated, then the notice of sale shall designate the area at the courthouse where the sale covered by that notice is to take place, and the sale shall occur in that area. Notice of the sale shall include a statement of the earliest time at which the sale will occur and shall be given at least twenty-one (21) days before the date of the sale; (i) by posting at the courthouse door of each county in which the Mortgaged Property is located a written notice designating the county in which the Mortgaged Property will be sold; (ii) by filing in the Office of the County Clerk of each county in which the Mortgaged Property is located a copy of the notice posted under subsection (1) above; and (iii) by the holders of the indebtedness to which this power of sale is related serving written notice of the sale by certified mail on each debtor who, according to the records of such holders, is obligated to pay such indebtedness. The sale shall begin at the time stated in the notice of sale or not later than three (3) hours after that time. Service of any notice under this Section 904(1)(A) by certified mail is complete when the notice is deposited in the United States mail, postage prepaid

and addressed to the debtor entitled to it at that debtor's last known address as shown by the records of the Trustee and the Holders. The affidavit of a person knowledgeable of the facts to the effect that service was completed is prima facie evidence of service. After such written notice shall have been posted and filed, as aforesaid, and such notice shall have been served upon such debtor or debtors, as aforesaid, the Trustee (or his successor or substitute then acting) shall perform his duty to enforce this Indenture by selling the Mortgaged Property, either as an entirety or in parcels, by one sale or several sales, as the Trustee acting may elect, all rights to a marshalling of assets or sale in inverse order of alienation being WAIVED, as aforesaid to the highest bidder or bidders for cash, and make due conveyance to the purchaser or purchasers, with general warranty, and the title to such purchaser or purchasers, when so made by the Trustee acting, the Company binds itself, its successors and assigns, to warrant and forever defend against claims and demands of every person whomsoever lawfully claiming or to claim the same or any part thereof (such warranty to supersede any provision contained in this Indenture limiting the liability of the Company), subject to Permitted Liens and Liens and claims permitted in accordance with Section 606. The provisions of this Indenture with respect to posting and giving notices of sale are intended to comply with the provisions of Section 51.002 of the Texas Property Code as in force and effect as of the date hereof, and in the event the requirement for any notice under such Section 51.002 shall be eliminated or the prescribed manner of giving it shall be modified by future amendment to, or adoption of any statute superseding, such Section 51.002, the requirement for such particular notice shall be deemed stricken from or modified in this Indenture in conformity with such amendment or superseding statute, effective as of its effective date. The manner prescribed in this Indenture for serving or giving any notice, other than that to be posted or caused to be posted by the Trustee acting, shall not be deemed exclusive but such notice or notices may be given in any other manner permitted by applicable law. Said sale shall forever be a bar against the Company, its successors and assigns, and all other persons claiming under it. It is expressly agreed that the recitals in each conveyance to the purchaser shall be full evidence of the truth of the matters therein stated, and all lawful prerequisites to said sale shall be conclusively presumed to have been performed. The Trustee may require minimum bids at any foreclosure sale and may cancel and abandon the sale if no bid is received equal to or greater than any such minimum bid. For the avoidance of doubt, references to the term Mortgaged Property in this Section 904(1)(A) are references to all or a portion of the Mortgaged Property to be sold in accordance with this Section 904(1)(A) at any one time and not the Mortgaged Property in its entirety.

(B) Foreclosure of Other Property. Mortgaged Property constituting property other than real property shall be sold in accordance with this Section 904(1)(B). In conducting the sale, the Trustee shall have all of the rights and remedies provided by applicable law or by this Indenture, including but not limited to the right to require the Company to assemble the Mortgaged Property and make it available to the Trustee at a place to be designated by the Trustee which is reasonably convenient to both the Trustee and the Company, the right to take possession of the Mortgaged Property with or without demand and with or without process of law and the right to sell and dispose of the same and distribute the proceeds according to Section 907 of this Indenture. Any requirement of reasonable notice shall be met if the Trustee sends such notice to the Company at least ten (10) days prior to the date of sale, disposition or other event giving rise to the required notice. The parties hereto further agree that any sale of the Mortgaged Property held contemporaneously with and upon the same notice as required in Section 904(1)(A) (for the real property) shall be deemed to be a public sale conducted in a

commercially reasonable manner. With respect to the Mortgaged Property that has become so attached to the real property that an interest therein arises under the real property law of the State of Texas, this Indenture shall also constitute a financing statement and a fixture filing under the Texas Uniform Commercial Code.

(2) Judicial Foreclosure. In addition to the foregoing, proceed to protect and enforce its rights and the rights of the Holders under this Indenture by sale pursuant to judicial proceedings or by a suit, action or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in this Indenture or in aid of the execution of any power granted in this Indenture or for the foreclosure of this Indenture or for the enforcement of any other legal, equitable or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or the Holders.

#### SECTION 905. Incidents of Sale.

Upon any sale of any of the Mortgaged Property, whether made under the power of sale hereby given or pursuant to judicial proceedings, to the extent permitted by law:

(1) the principal amount (or, if any of the Securities are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified in the terms thereof as contemplated by Section 301) of all Outstanding Securities, if not previously due, shall at once become and be immediately due and payable, together with premium, if any, and accrued interest, if any, thereon;

(2) any Holder or Holders or the Trustee may bid for and purchase the property offered for sale, and upon compliance with the terms of sale may hold, retain and possess and dispose of such property, without further accountability, and may, in paying the purchase money therefor, deliver any Outstanding Securities or claims for interest thereon in lieu of cash to the amount which shall, upon distribution of the net proceeds of such sale, be payable thereon, and such Securities, in case the amounts so payable thereon shall be less than the amount due thereon, shall be returned to the Holders thereof after being appropriately stamped to show partial payment;

(3) the Trustee may make and deliver to the purchaser or purchasers a good and sufficient deed, bill of sale and instrument of assignment and transfer of the property sold;

(4) the Trustee is hereby irrevocably appointed the true and lawful attorney of the Company, in its name and stead, to make all necessary deeds, bills of sale and instruments of assignment and transfer of the property so sold; and for that purpose it may execute all necessary deeds, bills of sale and instruments of assignment and transfer, and may substitute one or more persons, firms or corporations with like power, the Company hereby ratifying and confirming all that its said attorney or such substitute or substitutes shall lawfully do by virtue hereof; but, if so requested by the Trustee or by any purchaser, the Company shall ratify and confirm any such sale or transfer by executing and delivering to the Trustee or to such purchaser or purchasers all proper deeds, bills of sale, instruments of assignment and transfer and releases as may be designated in any such request;

(5) all right, title, interest, claim and demand whatsoever, either at law or in equity or otherwise, of the Company of, in and to the property so sold shall be divested and such sale shall be a perpetual bar both at law and in equity against the Company, its successors and assigns, and against any and all persons claiming or who may claim the property sold or any part thereof from, through or under the Company; and

(6) the receipt of the Trustee or of the officer making such sale shall be a sufficient discharge to the purchaser or purchasers at such sale for his or their purchase money and such purchaser or purchasers and his or their assigns or personal representatives shall not, after paying such purchase money and receiving such receipt, be obliged to see to the application of such purchase money, or be in anywise answerable for any loss, misapplication or non-application thereof.

#### SECTION 906. Collection of Indebtedness and Suits for Enforcement by Trustee.

If an Event of Default described in clause (1) or (2) of Section 901 shall have occurred and be continuing, the Company shall, upon demand of the Trustee, pay to it, for the benefit of the Holders of the Securities with respect to which such Event of Default shall have occurred, the whole amount then due and payable on such Securities for principal and premium, if any, and interest, if any, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the Trustee under Section 1007.

If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

The Trustee shall, to the extent permitted by law, be entitled to sue and recover judgment as aforesaid either before, during or after the pendency of any proceedings for the enforcement of the Lien of this Indenture, and in case of a sale of the Mortgaged Property or any part thereof and the application of the proceeds of sale as aforesaid, the Trustee, in its own name and as trustee of an express trust, shall be entitled to enforce payment of, and to receive, all amounts then remaining due and unpaid upon the Securities then Outstanding for principal, premium, if any, and interest, if any, for the benefit of the Holders thereof, and shall be entitled to recover judgment for any portion of the same remaining unpaid, with interest as aforesaid. No recovery of any such judgment by the Trustee and no levy of any execution upon any such judgment upon any of the Mortgaged Property or any other property of the Company shall affect or impair the Lien of this Indenture upon the Mortgaged Property or any part thereof or any rights, powers or remedies of the Trustee hereunder, or any rights, powers or remedies of the Holders.

#### SECTION 907. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article, including any rents, issues, profits, revenues and other income collected pursuant to Section 903 (after the deductions therein provided) and any proceeds of any sale (after deducting the costs and expenses of such sale,

including a reasonable compensation to the Trustee, its agents and counsel, and any taxes, assessments or Liens prior to the Lien of this Indenture, except any thereof subject to which such sale shall have been made), whether made under any power of sale herein granted or pursuant to judicial proceedings, and any money collected by the Trustee under Section 706, together with, in the case of an entry or sale or as otherwise provided herein, any other sums then held by the Trustee as part of the Mortgaged Property, shall be applied in the following order, to the extent permitted by law, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or premium, if any, or interest, if any, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under Section 1007;

Second: To the payment of the whole amount then due and unpaid upon the Outstanding Securities for principal and premium, if any, and interest, if any, in respect of which or for the benefit of which such money has been collected; and in case such proceeds shall be insufficient to pay in full the whole amount so due and unpaid upon such Securities, then to the payment of such principal and interest, if any, thereon without any preference or priority, ratably according to the aggregate amount so due and unpaid, with any balance then remaining to the payment of premium, if any, and, if so specified as contemplated by Section 301 with respect to the Securities of any series, or any Tranche thereof, interest, if any, on overdue premium, if any, and overdue interest, if any, ratably as aforesaid, all to the extent permitted by applicable law; provided, however, that any money collected by the Trustee pursuant to Section 706 in respect of interest or pursuant to Section 903 shall first be applied to the payment of interest accrued on the principal of Outstanding Securities; and

Third: To the payment of the remainder, if any, to the Company or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

#### SECTION 908. Receiver.

If an Event of Default shall have occurred and, during the continuance thereof, the Trustee shall have commenced judicial proceedings to enforce any right under this Indenture, the Trustee shall, to the extent permitted by law, be entitled, as against the Company, without notice or demand and without regard to the adequacy of the security for the Securities or the solvency of the Company, to the appointment of a receiver of the Mortgaged Property.

#### SECTION 909. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective

of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(1) to file and prove a claim for the whole amount of principal, premium, if any, and interest, if any, owing and unpaid in respect of the Securities and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for amounts due to the Trustee under Section 1007) and of the Holders allowed in such judicial proceeding, and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amounts due it under Section 1007.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 910. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee under Section 1007, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 911. Limitation on Suits.

No Holder of any Security shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver, assignee, trustee, liquidator or sequestor (or other similar official), or for any other remedy hereunder, unless:

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(2) the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such sixty (60) day period by the Holders of a majority in principal amount of the Outstanding Securities;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing himself of, any provision of this Indenture to affect, disturb or prejudice the Lien of this Indenture or the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

#### SECTION 912. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 307) interest on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

#### SECTION 913. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and such Holder shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and such Holder shall continue as though no such proceeding had been instituted.

#### SECTION 914. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Anything in this Article to the contrary notwithstanding, the availability of the remedies set forth herein (on an individual or cumulative basis) and the procedures set forth herein relating to the exercise thereof shall be subject to (a) the law (including, for purposes of this paragraph, general principles of equity) of any jurisdiction wherein the Mortgaged Property or any part thereof is located to the extent that such law is mandatorily applicable and (b) the rights of the holder of any Lien prior to the Lien of this Indenture, and, if and to the extent that any provision of this Article conflicts with any provision of such applicable law and/or with the rights of the holder of any such prior Lien, such provision of law and/or the rights of such holder shall control.

SECTION 915. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article Nine or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 916. Control by Holders.

If an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in principal amount of the Securities then Outstanding shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, provided that:

(1) such direction shall not be in conflict with any rule of law or with this Indenture;

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction; and

(3) subject to the provisions of Section 1001, the Trustee shall have the right to decline to follow such direction if a Responsible Officer or Officers of the Trustee shall, in good faith, determine that the proceeding so directed would involve the Trustee in personal liability or would otherwise be contrary to applicable law.

SECTION 917. Waiver of Past Defaults.

Before any sale of any of the Mortgaged Property and before a judgment or decree for payment of the money due shall have been obtained by the Trustee as herein provided, the Holders of not less than a majority in principal amount of the Securities then Outstanding may on behalf of the Holders of all the Outstanding Securities waive any past default hereunder and its consequences, except a default:

(1) in the payment of the principal of or any premium or interest on any Security Outstanding; or



(2) in respect of a covenant or provision hereof which under Article Thirteen cannot be modified or amended without the consent of the Holder of each Outstanding Security of any series or Tranche affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

#### SECTION 918. Undertaking for Costs.

The Company and the Trustee agree, and each Holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and such court may in its discretion assess reasonable costs including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; provided that the provisions of this Section 918 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder or group of Holders holding in the aggregate more than ten percentum (10%) in principal amount of the Securities then Outstanding, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or interest on any Security, on or after the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on or after the Redemption Date). Neither this Section 918 nor the Trust Indenture Act shall be deemed to authorize any court to require such an undertaking or such an assessment in any proceeding instituted by the Company.

#### SECTION 919. Waiver of Appraisalment, Usury, Stay and Other Laws.

To the full extent that it may lawfully so agree, the Company shall not at any time set up, claim or otherwise seek to take the benefit or advantage of any appraisalment, valuation, stay, extension or redemption law, now or hereafter in effect, in order to prevent or hinder the enforcement of this Indenture or the absolute sale of the Mortgaged Property, or any part thereof, or the possession thereof, or any part thereof, by any purchaser at any sale under this Article; and the Company, for itself and all who may claim under it, so far as it or they now or hereafter may lawfully do so, hereby waives the benefit of all such laws. The Company, for itself and all who may claim under it, waives, to the extent that it may lawfully do so, all right to have the Mortgaged Property marshalled upon any foreclosure of the Lien hereof, and agrees that any court having jurisdiction to foreclose the Lien of this Indenture may order the sale of the Mortgaged Property as an entirety.

### ARTICLE TEN.

#### THE TRUSTEE

#### SECTION 1001. Certain Duties and Responsibilities.

(1) Except during the continuance of an Event of Default, (A) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this

Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and (B) in the absence of negligence or bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but in the case of any such certificates or opinions which by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture.

(2) In case an Event of Default shall have occurred and be continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(3) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(A) this subsection shall not be construed to limit the effect of Clause (1) of this Section;

(B) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(C) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders entitled to so direct the Trustee, as provided herein, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

(D) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

#### SECTION 1002. Notice of Defaults.

The Trustee shall give the Holders notice of any default hereunder in the manner and to the extent required to do so by the Trust Indenture Act, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 901(3), no such notice to Holders shall be given until at least seventy-five (75) days after the

occurrence thereof. For the purpose of this Section 1002, the term "default" means any event which is, or after notice or lapse of time, or both, would become, an Event of Default.

SECTION 1003. Certain Rights of Trustee.

Subject to the provisions of Section 1001:

(1) the Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, and any resolution of the General Partner shall be sufficiently evidenced by a General Partner Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate;

(4) the Trustee may consult with counsel, and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(8) the Trustee is not required to give any bond or surety with respect to the performance of its duties or the exercise of its powers under this Indenture;

(9) in the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of Holders, each representing less than a majority in aggregate principal amount of the Securities then Outstanding, the Trustee, in its sole discretion, may determine what action, if any, shall be taken;

(10) the Trustee's immunities and protections from liability and its right to indemnification in connection with the performance of its duties under this Indenture shall extend to the Trustee's officers, directors, agents and employees. Such immunities and protections and right to indemnification, together with the Trustee's right to compensation, shall survive the Trustee's resignation or removal and final payment of the Securities; and

(11) the Trustee is not required to take notice or deemed to have notice of any default or Event of Default hereunder, except Events of Default under Section 901(1) and (2), unless a Responsible Officer of the Trustee has actual knowledge thereof or has received notice in writing of such default or Event of Default from the Company or the holders of at least thirty-three percentum (33%) in aggregate principal amount of the Securities then Outstanding, and in the absence of any such notice, the Trustee may conclusively assume that no such default or Event of Default exists.

#### SECTION 1004. Not Responsible for Recitals or Issuance of Securities or Application of Proceeds.

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the value or condition of the Mortgaged Property or any part thereof, or as to the title of the Company thereto or as to the security afforded thereby or hereby, or as to the validity or genuineness of any securities at any time pledged and deposited with the Trustee hereunder, or as to the validity or sufficiency of this Indenture or of the Securities. The Trustee shall not be accountable for the use or application by the Company of the Securities or the proceeds thereof or of any money paid to the Company or upon Company Order under any provision hereof. The Trustee shall have no responsibility to make or to see to the making of any recording, filing or registration of any instrument or notice (including any financing or continuation statement or any tax or securities form) (or any rerecording, refiling or reregistration of any thereof); at any time in any public office or elsewhere for the purpose of perfecting, maintaining the perfection of or otherwise making effective the Lien of this Indenture or for any other purpose and shall have no responsibility for seeing to the insurance on the Mortgaged Property or for paying any taxes relating to the Mortgaged Property or for otherwise maintaining the Mortgaged Property, including, but not limited to, attending to any environmental matters in respect thereof or disposing of any hazardous or other wastes located thereon.

#### SECTION 1005. May Hold Securities.

Each of the Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its commercial banking or in any other capacity, may become the owner or pledgee of Securities and, subject to Sections 1008 and 1013, may

otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent. Each of said entities, in its commercial banking or in any other capacity, may also engage in or be interested in any financial or other transaction with the Company and, subject to Sections 1008 and 1013, may act as depository, trustee or agent for any committee of Holders of Securities secured hereby or other obligations of the Company as freely as if it were not Trustee, Authenticating Agent, Paying Agent or Security Registrar. The provisions of this Section shall extend to Affiliates of said entities.

SECTION 1006. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed with the Company.

SECTION 1007. Compensation and Reimbursement.

The Company agrees:

(1) to pay to the Trustee from time to time such compensation for all services rendered by it hereunder in such amounts as the Company and the Trustee shall agree in writing from time to time (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence, willful misconduct or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence, willful misconduct or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including: (a) the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder, except those attributable to its negligence, willful misconduct or bad faith, and (b) any such loss, liability or expense relating to a hazardous substance or a violation by the Company of any environmental law.

As security for the performance of the obligations of the Company under this Section 1007, the Trustee shall have a Lien (the "Trustee's Lien") secured by this Indenture prior to the Securities upon the Mortgaged Property and upon all other property and funds held or collected by the Trustee as such, other than property and funds held in trust under Section 803 (except moneys payable to the Company as provided in Section 803). "Trustee" for purposes of this Section 1007 shall include any predecessor Trustee; provided, however, that the negligence, willful misconduct or bad faith of any Trustee hereunder shall not affect the rights of any other Trustee hereunder.

The Trustee shall notify the Company promptly of any claim for which it may seek indemnity under this Section 1007. The Company shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and, in the event the subject matter of the claim involves a conflict of interest between the Company and the Trustee, the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent.

In the event the Trustee incurs expenses or renders services in any proceedings which result from an Event of Default under Section 901(4) or (5), or from any default which, with the passage of time, would become such Event of Default, the expenses so incurred and compensation for services so rendered are intended to constitute expenses of administration under the United States Bankruptcy Code or equivalent law.

#### SECTION 1008. Conflicting Interests.

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture. To the extent permitted by such Act, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under this Indenture with respect to Securities of more than one series.

#### SECTION 1009. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least Fifty Million Dollars (\$50,000,000). If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section 1009 and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee with respect to the Securities of any series shall cease to be eligible in accordance with the provisions of this Section 1009, it shall resign immediately in the manner and with the effect hereinafter specified in this Article Ten.

#### SECTION 1010. Resignation and Removal; Appointment of Successor.

(1) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article Ten shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 1011.

(2) The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 1011 shall not have been delivered to the Trustee within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(3) The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

(4) If at any time:

(A) the Trustee shall fail to comply with Section 1008 after written request therefor by the Company or by any Holder who has been a bona fide Holder for at least six months; or

(B) the Trustee shall cease to be eligible under Section 1009 and shall fail to resign after written request therefor by the Company or by any such Holder; or

(C) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, (a) the Company, acting pursuant to the authority of a General Partner Resolution, may remove the Trustee with respect to all Securities, or (b) subject to Section 918, any Holder who has been a bona fide Holder for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(5) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause (other than as contemplated in subclause (B) in clause (4) of this Section), with respect to the Securities of one or more series, the Company, by a General Partner Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series) and shall comply with the applicable requirements of Section 1011. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of such series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 1011, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of such series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 1011, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

(6) So long as no event which is, or after notice or lapse of time, or both, would become, an Event of Default shall have occurred and be continuing, if the Company shall have delivered to the Trustee (i) a General Partner Resolution appointing a successor Trustee, effective as of a date specified therein, and (ii) an instrument of acceptance of such appointment,

effective as of such date, by such successor Trustee in accordance with Section 1011, the Trustee shall be deemed to have resigned as contemplated in clause (2) of this Section, the successor Trustee shall be deemed to have been appointed pursuant to clause (5) of this Section and such appointment shall be deemed to have been accepted as contemplated in Section 1011, all as of such date, and all other provisions of this Section and Section 1011 shall be applicable to such resignation, appointment and acceptance except to the extent inconsistent with this clause (6).

(7) The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 109. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

#### SECTION 1011. Acceptance of Appointment by Successor.

(1) In case of the appointment hereunder of a successor Trustee with respect to any series of Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

(2) Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in clause (1) of this Section.

(3) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article Ten.

#### SECTION 1012. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article Ten, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

#### SECTION 1013. Preferential Collection of Claims Against Company.



If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities (other than by reason of a relationship described in Section 311(b) of the Trust Indenture Act)), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor). For purposes of Section 311(b)(4) and (6) of the Trust Indenture Act:

(1) "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks and payable upon demand; and

(2) "self-liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company (or any such obligor) for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a Lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security; provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company (or any such obligor) arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

#### SECTION 1014. Co-trustees and Separate Trustees.

(1) At any time or times, for the purpose of meeting the legal requirements of any jurisdiction in which any of the Mortgaged Property may at the time be located, the Company and the Trustee shall have power to appoint, and, upon the written request of the Trustee or of the Holders of at least thirty-three percentum (33%) in principal amount of the Securities then Outstanding, the Company shall for such purpose join with the Trustee in the execution and delivery of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Trustee and, if no Event of Default shall have occurred and be continuing, by the Company either to act as co-trustee, jointly with the Trustee, of all or any part of the Mortgaged Property, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons, in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section. If the Company does not join in such appointment within fifteen (15) days after the receipt by it of a request so to do, or if an Event of Default shall have occurred and be continuing, the Trustee alone shall have power to make such appointment.

(2) Should any written instrument or instruments from the Company be required by any co-trustee or separate trustee so appointed to more fully confirm to such co-trustee or separate trustee such property, title, right or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Company.

(3) Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following conditions:

(A) the Securities shall be authenticated and delivered, and all rights, powers, duties and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with the Trustee hereunder shall be exercised solely by the Trustee;

(B) the rights, powers, duties and obligations hereby conferred or imposed upon the Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed either by the Trustee or by the Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed the Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee or separate trustee;

(C) the Trustee at any time, by an instrument in writing executed by it, with the concurrence of the Company, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section, and, if an Event of Default shall have occurred and be continuing, the Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Company. Upon the written request of the Trustee, the Company shall join with the Trustee in the execution and delivery of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section;

(D) neither the Trustee nor any co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(E) any Act of Holders delivered to the Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

#### SECTION 1015. Appointment of Authenticating Agent.

The Trustee may appoint an Authenticating Agent or Agents with respect to the Securities of one or more series, or any Tranche thereof which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series or Tranche issued upon original issuance, exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States, any State or Territory thereof or the District of Columbia or the Commonwealth of Puerto Rico, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than Fifty Million Dollars (\$50,000,000) and subject to supervision or examination by Federal or State authority. If

such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section 1015, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section 1015, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section 1015.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to all or substantially all of the corporate agency or corporate trust business of an Authenticating Agent shall be the successor Authenticating Agent hereunder, provided such corporation shall be otherwise eligible under this Section 1015, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section 1015, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall give notice of such appointment in the manner provided in Section 109 to all Holders of Securities of the series or Tranche with respect to which such Authenticating Agent will serve. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section 1015.

The Trustee agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section 1015, and the Trustee shall be entitled to be reimbursed for such payments, subject to the provisions of Section 1007.

If an appointment with respect to the Securities of one or more series, or any Tranche thereof, shall be made pursuant to this Section 1015, the Securities of such series or Tranche may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Date of Authentication: \_\_\_\_\_

\_\_\_\_\_,  
as Trustee

By: \_\_\_\_\_,  
as Authenticating Agent

By: \_\_\_\_\_  
Authorized Officer

If all of the Securities of a series may not be originally issued at one time, and if the Trustee does not have an office capable of authenticating Securities upon original issuance located in a Place of Payment where the Company wishes to have Securities of such series authenticated upon original issuance, the Trustee, if so requested by the Company in writing (which writing need not comply with Section 105 and need not be accompanied by an Opinion of Counsel), shall appoint, in accordance with this Section and in accordance with such procedures as shall be acceptable to the Trustee, an Authenticating Agent having an office in a Place of Payment designated by the Company with respect to such series of Securities.

SECTION 1016. Environmental Matters.

Notwithstanding any other provision of this Indenture, the Trustee shall have the power and the right, but not the duty, to:

(1) refuse to accept property as Mortgaged Property if the Trustee determines, based upon a report of an environmental science engineering firm acceptable to it, that such property either is contaminated by any hazardous substance or is being used or has been used for any activity directly or indirectly involving a hazardous substance which would result in liability to the Mortgaged Property or the Trustee or otherwise impair the value of the Mortgaged Property; and

(2) disclaim any power (including, without limitation, the power to sell any Mortgaged Property) granted by the Indenture or any statute or rule of law, the exercise of which power may, in the sole discretion of the Trustee, as advised by counsel, cause the Trustee to incur corporate or personal liability under any environmental law.

For purposes of this Section and Section 1007(3), the term "environmental law" means any federal, state or local law, rule, regulation or ordinance relating to the protection of the environment or human health. For purposes of this Section, the term "hazardous substance" means any substance defined as hazardous or toxic or otherwise regulated by any environmental law. The Trustee shall not be liable or responsible to the Company or any other party for any decrease in value of the Mortgaged Property by reason of availing itself of the rights granted by this Section or by reason of the Trustee's compliance with any environmental law, specifically including any reporting requirement under any such law. Neither the acceptance by the Trustee of property or a failure by the Trustee to inspect property shall be deemed to create any inference that there is or may be liability under any environmental law with respect to such property.

ARTICLE ELEVEN.

LISTS OF HOLDERS; REPORTS BY TRUSTEE AND COMPANY

SECTION 1101. Company to Furnish Trustee Names and Addresses of Holders.

The Company will furnish or cause to be furnished to the Trustee:

(1) semi-annually, not later than January 15 and July 15 in each year, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Securities of each series as of the preceding January 1 or July 1 as the case may be; and

(2) at such other times as the Trustee may request in writing, within thirty (30) days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than fifteen (15) days prior to the time such list is furnished;

provided, however, that if and so long as the Trustee shall be Security Registrar for Securities of a series, no such list need be furnished with respect to such series of Securities.

SECTION 1102. Preservation of Information; Communications to Holders.

The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 1101 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 1101 upon receipt of a new list so furnished.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided in the Trust Indenture Act.

Every Holder, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

SECTION 1103. Reports by Trustee.

The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto.

Reports so required to be transmitted at stated intervals of not more than twelve (12) months shall be transmitted no later than January 31 in each calendar year, commencing with the first January 31 after the first issuance of Securities under this Indenture.

A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company.

SECTION 1104. Reports by Company.

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided in the Trust Indenture Act. The Company will notify the Trustee when any Securities are listed on any stock exchange.

ARTICLE TWELVE.

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 1201. Company May Consolidate, Etc., Only on Certain Terms.

The Company shall not consolidate with or merge into any other Person or convey, transfer or lease, subject to the Lien of this Indenture, all of the Mortgaged Property as or substantially as an entirety to any Person, unless:

(1) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease all of the Mortgaged Property as or substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the Mortgaged Property as or substantially as an entirety shall be a Person organized and validly existing under the laws of the United States, any State or Territory thereof or the District of Columbia (such Person being hereinafter sometimes called the "Successor Corporation") and shall execute and deliver to the Trustee an indenture supplemental hereto, in form satisfactory to the Trustee, which:

(A) in the case of a consolidation, merger, conveyance or other transfer, or in the case of a lease if the term thereof extends beyond the last Stated Maturity of the Securities then Outstanding, contains an express assumption by the Successor Corporation of the due and punctual payment of the principal of and premium, if any, and interest, if any, on all the Securities then Outstanding and the performance and observance of every covenant and condition of this Indenture to be performed or observed by the Company; and

(B) in the case of a consolidation, merger, conveyance or other transfer, contains a grant, conveyance, transfer and mortgage by the Successor Corporation, of the same tenor of the Granting Clauses herein:

(i) confirming the Lien of this Indenture on the Mortgaged Property (as constituted immediately prior to the time such transaction became effective) and subjecting to the Lien of this Indenture all property, real, personal and mixed, thereafter acquired by the Successor Corporation which shall constitute an improvement, extension or addition to the Mortgaged Property (as so constituted) or a renewal, replacement or substitution of or for any part thereof; and

(ii) at the election of the Successor Corporation subjecting to the Lien of this Indenture such property, real, personal or mixed, in addition to the property described in clause (i) of this Section, then owned or thereafter acquired by the Successor Corporation as the Successor Corporation shall, in its sole discretion, specify or describe therein, and the Lien confirmed or created by such grant, conveyance, transfer and mortgage shall have force, effect and standing similar to those which the Lien of this Indenture would have had if the Company had not been a party to such consolidation, merger, conveyance or other transfer and had itself, after the time such transaction became effective, purchased, constructed or otherwise acquired the property subject to such grant, conveyance, transfer and mortgage;

(2) in the case of a lease, such lease shall be made expressly subject to termination by the Company or by the Trustee at any time during the continuance of an Event of Default, and also by the purchaser of the property so leased at any sale thereof hereunder, whether such sale be made under the power of sale hereby conferred or pursuant to judicial proceedings;

(3) immediately after giving effect to such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing; and

(4) the Company has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel stating that such consolidation, merger, conveyance, transfer or lease and such supplemental indenture, comply with this Article Twelve and that all conditions precedent herein provided for relating to such transaction have been complied with.

#### SECTION 1202. Successor Corporation Substituted.

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease, subject to the Lien of this Indenture, of the Mortgaged Property as or substantially as an entirety in accordance with Section 1201, the Successor Corporation formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such Successor Corporation had been named as the Company herein. Without limiting the generality of the foregoing:

(1) all property of the Successor Corporation then subject to the Lien of this Indenture, of the character described in Section 103, shall constitute Property Additions;

(2) the Successor Corporation may execute and deliver to the Trustee, and thereupon the Trustee shall, subject to the provisions of Article Four, authenticate and deliver, Securities upon any basis provided in Article Four; and

(3) the Successor Corporation may, subject to the applicable provisions of this Indenture, cause Property Additions to be applied to any other Authorized Purpose.

All Securities so executed by the Successor Corporation, and authenticated and delivered by the Trustee, shall in all respects be entitled to the benefit of the Lien of this Indenture equally

and ratably with all Securities executed, authenticated and delivered prior to the time such consolidation, merger, conveyance or other transfer became effective.

SECTION 1203. Extent of Lien Hereof on Property of Successor Corporation.

Unless, in the case of a consolidation, merger, conveyance or other transfer contemplated by Section 1201, the indenture supplemental hereto contemplated in clause (1)(B) in Section 1201, or any other indenture, contains a grant, conveyance, transfer and mortgage by the Successor Corporation as described in subclause (ii) thereof, neither this Indenture nor such supplemental indenture shall become or be, or be required to become or be, a Lien upon any of the properties:

(1) owned by the Successor Corporation or any other party to such transaction (other than the Company) immediately prior to the time of effectiveness of such transaction; or

(2) acquired by the Successor Corporation at or after the time of effectiveness of such transaction, except, in either case, properties acquired from the Company in or as a result of such transaction and improvements, extensions and additions to such properties and renewals, replacements and substitutions of or for any part or parts thereof.

SECTION 1204. Release of Company upon Conveyance or Other Transfer.

In the case of a conveyance or other transfer to any Person or Persons as contemplated in Section 1201, upon the satisfaction of all the conditions specified in Section 1201, the Company (such term being used in this Section without giving effect to such transaction) shall be released and discharged from all obligations and covenants under this Indenture and on and under all Securities then Outstanding (unless the Company shall have delivered to the Trustee an instrument in which it shall waive such release and discharge) and the Trustee shall acknowledge in writing that the Company has been so released and discharged.

SECTION 1205. Merger into Company; Extent of Lien Hereof.

(1) Nothing in this Indenture shall be deemed to prevent or restrict any consolidation or merger after the consummation of which the Company would be the surviving or resulting corporation or any conveyance or other transfer, or lease, subject to the Lien of this Indenture, of any part of the Mortgaged Property which does not constitute the entirety, or substantially the entirety, thereof.

(2) Unless, in the case of a consolidation or merger described in clause (1) of this Section, an indenture supplemental hereto shall otherwise provide, this Indenture shall not become or be, or be required to become or be, a Lien upon any of the properties acquired by the Company in or as a result of such transaction or any improvements, extensions or additions to such properties or any renewals, replacements or substitutions of or for any part or parts thereof.



ARTICLE THIRTEEN.

SUPPLEMENTAL INDENTURES

SECTION 1301. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Company, when authorized by a General Partner Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form reasonably satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company, or successive successions, and the assumption by any such successor of the covenants, agreements and obligations of the Company herein and in the Securities, all as provided in Article Twelve; or

(2) to add one or more covenants of the Company or other provisions for the benefit of the Holders of, or to remain in effect only so long as there shall be Outstanding, all or any series of Securities, or any Tranches thereof (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series), or to surrender any right or power herein conferred upon the Company; or

(3) to correct or amplify the description of any property at any time subject to the Lien of this Indenture; or better to assure, convey and confirm unto the Trustee any property subject or required to be subjected to the Lien of this Indenture; or to subject to the Lien of this Indenture additional property (including property of Persons other than the Company), to specify any additional Permitted Liens with respect to such additional property and to modify Section 702 in order to specify therein any additional items with respect to such additional property; or

(4) to establish the form or terms of Securities of any series or Tranche as permitted by Sections 201 and 301; or

(5) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 1011; or

(6) to provide for the procedures required to permit the Company to utilize, at its option, a non-certificated system of registration for all, or any series or Tranche of, the Securities; or

(7) to change any place or places where (A) the principal of and premium, if any, and interest, if any, on all or any series of Securities, or any Tranche thereof, shall be payable, (B) all or any series of Securities, or any Tranche thereof, may be surrendered for registration of transfer, (C) all or any series of Securities, or any Tranche thereof, may be

surrendered for exchange and (D) notices and demands to or upon the Company in respect of all or any series of Securities, or any Tranche thereof, and this Indenture may be served; or

(8) to cure any ambiguity, to correct or supplement any provision in this Indenture which may be defective or inconsistent with any other provision herein, or to make any other additions to, deletions from or other changes to the provisions under this Indenture, provided that such additions, deletions and/or other changes shall not adversely affect the interests of the Holders of Securities of any series or Tranche in any material respect; or

(9) to provide for the authentication and delivery of bearer bonds and coupons appertaining thereto representing interest, if any, thereon and for the procedures for the registration, exchange and replacement thereof and for the giving of notice to, and the solicitation of the vote or consent of, the Holders thereof, and for any and all other matters incidental thereto; or

(10) to comply with the rules or regulations of any securities exchange or automated quotation system on which any of the Securities may be listed or traded; or

(11) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualification of this Indenture under the Trust Indenture Act, or under any similar federal statute hereafter enacted, and to add to this Indenture such other provisions as may be expressly permitted by the Trust Indenture Act, excluding, however the provisions referred to in Section 316(a)(2) of the Trust Indenture Act as in effect at the date as of which this instrument was executed or any corresponding provision in any similar federal statute hereafter enacted.

Without limiting the generality of the foregoing, if the Trust Indenture Act as in effect at the date of the execution and delivery of this Indenture, as originally executed and delivered, or at any time thereafter shall be amended and if any such amendment shall require one or more changes to any provisions hereof or the inclusion herein of any additional provisions, or shall by operation of law be deemed to effect such changes or incorporate such provisions by reference or otherwise, this Indenture shall be deemed to have been amended so as to conform to such amendment to the Trust Indenture Act, and the Company and the Trustee may, without the consent of any Holders, enter into an indenture supplemental hereto to evidence such amendment hereof.

#### SECTION 1302. Supplemental Indentures With Consent of Holders.

Subject to the provisions of Section 1301, with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under this Indenture, considered as one class, by Act of said Holders delivered to the Company and the Trustee, the Company and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture; provided, however, that if there shall be Securities of more than one series Outstanding hereunder and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding

Securities of all series so directly affected, considered as one class, shall be required; and provided, further, that if the Securities of any series shall have been issued in more than one Tranche and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and provided, further, that no such supplemental indenture shall:

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or the amount of any installment of interest thereon or change the method of calculating such rate or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security or any other Security which would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 902, or change the coin or currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date) without the consent of the Holder of such Security; or

(2) permit the creation of any Lien (not otherwise permitted hereby) ranking prior to the Lien of this Indenture with respect to all or substantially all of the Mortgaged Property, or (except by virtue of a supplemental indenture described in clause (9) in Section 1301) terminate the Lien of this Indenture on all or substantially all of the Mortgaged Property or deprive the Holders of the benefit of the Lien of this Indenture, without, in any such case, the consent of the Holders of all Securities then Outstanding; or

(3) reduce the percentage in principal amount of the Outstanding Securities of any series, or any Tranche thereof, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver (of compliance with any provision of this Indenture or any default hereunder and its consequence), or reduce the requirements for quorum or voting provided for in this Indenture without the consent of the Holder of each Outstanding Security of such series; or

(4) modify any of the provisions of this Section 1302, Section 917 or Section 609, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived, without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section 1302 and Section 609, or the deletion of this proviso, in accordance with the requirements of Sections 1011 and 1301(5).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of, or that is to remain in effect only so long as there shall be Outstanding, one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series or Tranche.

It shall not be necessary for any Act of Holders under this Section 1302 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 1303. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article Thirteen or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 1001) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 1304. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article Thirteen, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 1305. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article Thirteen shall conform to the requirements of the Trust Indenture Act.

SECTION 1306. Reference in Securities to Supplemental Indentures.

Securities of any series, or any Tranche thereof, authenticated and delivered after the execution of any supplemental indenture pursuant to this Article Thirteen may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series, or any Tranche thereof, so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series or Tranche.

SECTION 1307. Modification Without Supplemental Indenture.

To the extent, if any, that the terms of any particular series of Securities shall have been established in or pursuant to a General Partner Resolution or an Officer's Certificate pursuant to a supplemental indenture or a General Partner Resolution as contemplated by Section 301, and not in a supplemental indenture, additions to, changes in or the elimination of any of such terms may be effected by means of a supplemental General Partner Resolution or a supplemental Officer's Certificate, as the case may be, delivered to, and accepted by, the Trustee, provided, however, that such supplemental General Partner Resolution or supplemental Officer's Certificate shall not be accepted by the Trustee or otherwise be effective unless all conditions set forth in this Indenture which would be required to be satisfied if such additions, changes or

elimination were contained in a supplemental indenture shall have been appropriately satisfied. Upon the acceptance thereof by the Trustee, any such supplemental General Partner Resolution or supplemental Officer's Certificate shall be deemed to be a "supplemental indenture" for purposes of Section 1304 and 1306 and a "supplemental indenture", "indenture supplemental" to this Indenture or "instrument" supplemental to this Indenture for purposes of Section 608.

ARTICLE FOURTEEN.

MEETINGS OF HOLDERS; ACTION WITHOUT MEETING

SECTION 1401. Purposes for Which Meetings May Be Called.

A meeting of Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series or Tranches.

SECTION 1402. Call, Notice and Place of Meetings.

(1) The Trustee may at any time call a meeting of Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, for any purpose specified in Section 1401, to be held at such time and (except as provided in clause (2) of this Section 1402) at such place in the Borough of Manhattan, the City of New York, as the Trustee shall determine, or, with the approval of the Company, at any other place. Notice of every such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 109, not less than twenty-one (21) nor more than one hundred eighty (180) days prior to the date fixed for the meeting.

(2) The Trustee may be asked to call a meeting of the Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, by the Company or by the Holders of thirty-three percentum (33%) in aggregate principal amount of all of such series and Tranches, considered as one class, for any purpose specified in Section 1401, by written request setting forth in reasonable detail the action proposed to be taken at the meeting. If the Trustee shall have been asked by the Company to call such a meeting, the Company shall determine the time and place for such meeting and may call such meeting by giving notice thereof in the manner provided in clause (1) of this Section, or shall direct the Trustee, in the name and at the expense of the Company, to give such notice. If the Trustee shall have been asked to call such a meeting by Holders in accordance with this clause (2), and the Trustee shall not have given the notice of such meeting within twenty-one (21) days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Holders of Securities of such series and Tranches, in the principal amount above specified, may determine the time and the place in the Borough of Manhattan, The City of New York, or in such other place as shall be determined or approved by the Company, for such meeting and may call such meeting for such purposes by giving notice thereof as provided in clause (1) of this Section.

(3) Any meeting of Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, shall be valid without notice if the Holders of all Outstanding Securities of such series or Tranches are present in person or by proxy and if representatives of the Company and the Trustee are present, or if notice is waived in writing before or after the meeting by the Holders of all Outstanding Securities of such series, or any Tranche or Tranches thereof, or by such of them as are not present at the meeting in person or by proxy, and by the Company and the Trustee.

SECTION 1403. Persons Entitled to Vote at Meetings.

To be entitled to vote at any meeting of Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, a Person shall be (a) a Holder of one or more Outstanding Securities of such series or Tranches or (b) a Person appointed by an instrument in writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series or Tranches by such Holder or Holders. The only Persons who shall be entitled to attend any meeting of Holders of Securities of any series or Tranche shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 1404. Quorum; Action.

The Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of the series and Tranches with respect to which a meeting shall have been called as herein before provided, considered as one class, shall constitute a quorum for a meeting of Holders of Securities of such series and Tranches; provided, however, that if any action is to be taken at such meeting which this Indenture expressly provides may be taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of such series and Tranches, considered as one class, the Persons entitled to vote such specified percentage in principal amount of the Outstanding Securities of such series and Tranches, considered as one class, shall constitute a quorum. In the absence of a quorum within one hour of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series and Tranches, be dissolved. In any other case the meeting may be adjourned for such period as may be determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for such period as may be determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Except as provided by Section 1405, notice of the reconvening of any meeting adjourned for more than thirty (30) days shall be given as provided in Section 109 not less than ten (10) days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Securities of such series and Tranches which shall constitute a quorum.

Except as limited by Section 1302, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted only by the affirmative vote of the Holders of a majority in aggregate principal amount of the Outstanding Securities of the series and Tranches with respect to which such meeting shall have been called,

considered as one class; provided, however, that, except as so limited, any resolution with respect to any action which this Indenture expressly provides may be taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of such series and Tranches, considered as one class, may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Securities of such series and Tranches, considered as one class.

Any resolution passed or decision taken at any meeting of Holders of Securities duly held in accordance with this Section shall be binding on all the Holders of Securities of the series and Tranches with respect to which such meeting shall have been held, whether or not present or represented at the meeting.

SECTION 1405. Attendance at Meetings; Determination of Voting Rights; Conduct and Adjournment of Meetings.

(1) Attendance at meetings of Holders may be in person or by proxy; and, to the extent permitted by law, any such proxy shall remain in effect and be binding upon any future Holder of the Securities with respect to which it was given unless and until specifically revoked by the Holder or future Holder (except as provided in Section 107) of such Securities before being voted.

(2) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders in regard to proof of the holding of such Securities and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations and approved by the Company, the holding of Securities shall be proved in the manner specified in Section 107 and the appointment of any proxy shall be proved in the manner specified in Section 107. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 107 or other proof.

(3) The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 1402(2), in which case the Company or the Holders of Securities of the series and Tranches calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of all series and Tranches represented at the meeting, considered as one class.

(4) At any meeting each Holder or proxy shall be entitled to one vote for each One Thousand Dollars (\$1,000) principal amount of Outstanding Securities held or represented by such Holder; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting

to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security or proxy.

(5) Any meeting duly called pursuant to Section 1402 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of all series and Tranches represented at the meeting, considered as one class; and the meeting may be held as so adjourned without further notice.

#### SECTION 1406. Counting Votes and Recording Action of Meetings.

The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities, of the series and Tranches with respect to which the meeting shall have been called, held or represented by them. The permanent chairman of the meeting shall appoint two (2) inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to such record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that such notice was given as provided in Section 1402 and, if applicable, Section 1404. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company, and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

#### SECTION 1407. Action Without Meeting.

In lieu of a vote of Holders at a meeting as herein before contemplated in this Article, any request, demand, authorization, direction, notice, consent, waiver or other action may be made, given or taken by Holders by one or more written instruments as provided in Section 106.

### ARTICLE FIFTEEN.

#### IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS, DIRECTORS AND EMPLOYEES

#### SECTION 1501. Exemption from Individual Liability.

No recourse under or upon any obligation, covenant or agreement of this Indenture, or of any Security, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, member, manager, stockholder, officer, director or employee, as such, past, present or future, of the Company or any predecessor or successor corporation or company, either directly or through the Company or any predecessor or successor corporation or company or any Successor Corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that



this Indenture and the obligations issued hereunder are solely corporate obligations of the Company, and that no such personal liability whatsoever shall attach to, or is or shall be incurred by, the incorporators, members, managers, stockholders, officers, directors, or employees, as such, of the Company or any predecessor or successor corporation or company, or any of them, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom; and that any and all such personal liability, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, member, manager, stockholder, officer, director or employee, as such, because of the creation of the indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or implied therefrom, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of such Securities.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

TEXAS GENCO, LP

By: TEXAS GENCO GP, LLC

By: /s/ Marc Kilbride

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Name: Marc Kilbride  
Title: Vice President and Treasurer

JPMORGAN CHASE BANK, as Trustee

By: /s/ Carol Logan

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Name: Carol Logan  
Title: Vice President and Trust Officer

## REAL PROPERTY

- A. S. R. BERTRON ELECTRIC GENERATING STATION (2012 Miller Cut-Off Road, Deer Park, Harris County, Texas)
1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the S. R. Bertron Electric Generating Station filed for record under Clerk's File No. W048257 and Film Code No. ###-##-#### in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
  2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the S. R. Bertron Electric Generating Station filed for record under Clerk's File No. W048258 and Film Code No. 555-89-2094 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
  3. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to Barnes Island at S. R. Bertron Electric Generating Station filed for record under Clerk's File No. W048259 and Film Code No. 555-89-2199 in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
  4. The easements and appurtenant rights conveyed by the Company pursuant to that certain Assignment and Conveyance of Easements related to S. R. Bertron Electric Generating Station filed for record under Clerk's File No. W048260 and Film Code No. 555-89-2219 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
- B. CEDAR BAYOU ELECTRIC GENERATING STATION (7705 Old West Bay Boulevard, Eldon, Chambers County, Texas)
1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Cedar Bayou Electric Generating Station filed for record under Clerk's File No. 6952B and Volume 575, Page 835 in the Real Property Records of

CHAMBERS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the Cedar Bayou Electric Generating Station filed for record under Clerk's File No. 6953B and Volume 576, Page 1 in the Real Property Records of CHAMBERS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
3. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Fisher tracts and Intake Canal at Cedar Bayou Electric Generating Station filed for record under Clerk's File No. W048261 and Film Code No. 555-89-2222 in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
4. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Special Warranty Deed related to the Conference Center at Cedar Bayou Electric Generating Station filed for record under Clerk's File No. 6955B and Volume 576, Page 100 in the Real Property Records of CHAMBERS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
5. The easements and appurtenant rights conveyed by the Company pursuant to that certain Assignment Agreement related to five easements comprising part of the Cooling Pond at the Cedar Bayou Electric Generating Station filed for record under Clerk's File No. 6954B and Volume 576, Page 88 in the Real Property Records of CHAMBERS COUNTY, TEXAS.
6. Interests conveyed by the Company pursuant to that certain Assignment of Fencing License related to the Fisher Tracts at the Cedar Bayou Electric Generating Station filed for record under Clerk's File No. W048264 and Film Code No. 555-89-2245 in the Real Property Records of HARRIS COUNTY, TEXAS.
7. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement Agreement relating to the Cooling Pond Fishing License at the Cedar Bayou Electric Generating Station filed for record under Clerk's File No. 6956B and Volume 576, Page 111 in the Real Property Records of CHAMBERS COUNTY, TEXAS.

- C. H.O. CLARKE ELECTRIC GENERATING STATION (12100 Hiram Clark Road, Houston, Harris County, Texas)
1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the H.O. Clark Electric Generating Station filed for record under Clerk's File No. W048265 and Film Code No. ###-##-#### in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
  2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the H.O. Clark Electric Generating Station filed for record under Clerk's File No. W048266 and Film Code No. 555-89-2302 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
- D. DEEPWATER ELECTRIC GENERATING STATION (901 Light Company Road, Pasadena, Harris County, Texas)
1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Deepwater Electric Generating Station filed for record under Clerk's File No. W048267 and Film Code No. ###-##-#### in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
  2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the Deepwater Electric Generating Station filed for record under Clerk's File No. W048268 and Film Code No. 555-89-2426 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
- E. GREENS BAYOU ELECTRIC GENERATING STATION (12070 Beaumont Highway, Houston, Harris County, Texas)
1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Greens Bayou Electric Generating Station filed for record under Clerk's File No. W048269 and Film Code No. ###-##-#### in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible

or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the Greens Bayou Electric Generating Station filed for record under Clerk's File No. W048270 and Film Code No. 555-89-2569 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
3. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the offsite Fore-Bay Cooling Pond at Greens Bayou Electric Generating Station filed for record under Clerk's File No. W048271 and Film Code No. 555-89-2659 in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
4. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Easement and Conveyance related to the offsite Fore-Bay Water Line, Supervisory Cable and Metering Station at Greens Bayou Electric Generating Station filed for record under Clerk's File No. W048272 and Film Code No. 555-89-2670 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
5. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Partial Assignment and Conveyance related to the offsite Fore-Bay Water Line and Supervisory Cable at Greens Bayou Electric Generating Station filed for record under Clerk's File No. W048273 and Film Code No. 555-89-2708 in the Real Property Records of HARRIS COUNTY, TEXAS.

F. LIMESTONE ELECTRIC GENERATING STATION (Route 1, Box 85, Jewett, Limestone County, Texas, Limestone, Leon and Freestone Counties, Texas)

1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Limestone Electric Generating Station filed for record under Clerk's File No. 024120 and Volume 1092, Page 397 in the Real Property Records of LIMESTONE COUNTY, TEXAS, under Clerk's File No. 00302738 and Volume 1120, Page 395 in the Real Property Records of LEON COUNTY, TEXAS and under Clerk's File No. 2006184 and Volume 1210, Page 1 in the Real Property Records of FREESTONE COUNTY, TEXAS, together with all equipment, supplies, and other

tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the Limestone Electric Generating Station filed for record under Clerk's File No. 024121 and Volume 1092, Page 458 in the Real Property Records of LIMESTONE COUNTY, TEXAS, under Clerk's File No. 00302729 and Volume 1120, Page 456 in the Real Property Records of LEON COUNTY, TEXAS and under Clerk's File No. 2006185 and Volume 1210, Page 62 in the Real Property Records of FREESTONE COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
3. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Conference Center at Limestone Electric Generating Station filed for record under Clerk's File No. 024122 and Volume 1092, Page 554 in the Real Property Records of LIMESTONE COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
4. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the offsite Limestone Water Line(s) at Limestone Electric Generating Station filed for record under Clerk's File No. 00302730 and Volume 1120, Page 552 in the Real Property Records of LEON COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
5. The easements, facilities and appurtenant rights conveyed by the Company pursuant to that certain Easement and Conveyance related to the offsite Limestone Water Line(s) at Limestone Electric Generating Station filed for record under Clerk's File No. 00302731 and Volume 1120, Page 563 in the Real Property Records of LEON COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
6. The easements, facilities and appurtenant rights conveyed by the Company pursuant to that certain Easement and Conveyance related to the offsite Limestone Water Line(s) at Limestone Electric Generating Station filed for record under Clerk's File No. 024123 and Volume 1092, Page 568 in the Real Property Records of LIMESTONE COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).

7. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Conveyance related to the offsite Limestone Water Line(s) at Limestone Electric Generating Station filed for record under Clerk's File No. 00302732 and Volume 1120, Page 598 in the Real Property Records of LEON COUNTY, TEXAS.
  8. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Partial Assignment and Conveyance related to the offsite Limestone Water Line(s) at Limestone Electric Generating Station filed for record under Clerk's File No. 00302733 and Volume 1120, Page 613 in the Real Property Records of LEON COUNTY, TEXAS.
- G. W.A. PARISH ELECTRIC GENERATING STATION (2500 Y.U. Jones Road, Thompson, Fort Bend County, Texas)
1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the W.A. Parish Electric Generating Station filed for record under Clerk's File No. 2002094433 in the Real Property Records of FORT BEND COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
  2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the W.A. Parish Electric Generating Station filed for record under Clerk's File No. 2002094434 in the Real Property Records of FORT BEND COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
  3. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the offsite Rail Line Fee Tracts at W.A. Parish Electric Generating Station filed for record under Clerk's File No. 2002094435 in the Real Property Records of FORT BEND COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
  4. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the offsite Richmond Rice Canal at W.A. Parish Electric Generating Station filed for record under Clerk's File No. 2002094439 in the Real Property Records of FORT BEND COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).



5. The facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Conveyance related to the offsite Rail Spur Easement and offsite Smithers Lake Road easement at W.A. Parish Electric Generating Station filed for record under Clerk's File No. 2002094436 in the Real Property Records of FORT BEND COUNTY, TEXAS.
  6. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Conveyance related to the offsite Richmond Rice Canal at W.A. Parish Electric Generating Station filed for record under Clerk's File No. 2002094438 in the Real Property Records of FORT BEND COUNTY, TEXAS.
- H. P.H. ROBINSON ELECTRIC GENERATING STATION (5501 State Highway 146, Bacliff, Galveston County, Texas)
1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the P.H. Robinson Electric Generating Station filed for record under Clerk's File No. 2002050899 and Film Code No. ###-##-#### in the Real Property Records of GALVESTON COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
  2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the P.H. Robinson Electric Generating Station filed for record under Clerk's File No. 2002050900 and Film Code No. 017-36-0282 in the Real Property Records of GALVESTON COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
  3. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to four Spoils Tracts at P.H. Robinson Electric Generating Station filed for record under Clerk's File No. 2002050901 and Film Code No. 017-36-0403 in the Real Property Records of GALVESTON COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
- I. SAN JACINTO STEAM ELECTRIC GENERATING STATION (845 Sens Road, LaPorte, Harris County, Texas)
1. The interest in that certain tract of land more particularly described on Exhibit A-1 attached hereto and improvements thereon and appurtenances thereto related to the San Jacinto Steam Electric Generating Station which is covered by the Mortgage.

2. That certain Easement and Covenant Agreement related to the San Jacinto Steam Electric Station filed for record under Clerk's File No. W048250 and Film Code No. 555-89-1794 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee or leasehold title to the land covered by such easements).

J. SOUTH TEXAS POWER PLANT (P.O. Box 289, Wadsworth, Matagorda County, Texas)

1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the South Texas Power Plant filed for record under Clerk's File No. 025924 in the Real Property Records of MATAGORDA COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

K. WEBSTER ELECTRIC GENERATING STATION (19801 Old Galveston Road, Webster, Harris County, Texas)

1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Webster Electric Generating Station filed for record under Clerk's File No. W048251 and Film Code No. ###-##-#### in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein) (save and except the portion thereof described in Schedules 2A and 2B of the Deed described in this paragraph).
2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the Webster Electric Generating Station filed for record under Clerk's File No. W048252 and Film Code No. 555-89-1877 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
3. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the offsite Webster Discharge Canals at Webster Electric Generating Station filed for record under Clerk's File No. W048253 and Film Code No. 555-89-1969 in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

4. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the offsite Webster Discharge Canals at Webster Electric Generating Station filed for record under Clerk's File No. 2002050903 and Film Code No. 017-36-0433 in the Real Property Records of GALVESTON COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
5. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Easement and Conveyance related to the offsite Webster Discharge Canals at Webster Electric Generating Station filed for record under Clerk's File No. W048254 and Film Code No. ###-##-#### in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
6. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Easement and Conveyance related to the offsite Webster Discharge Canals at Webster Electric Generating Station filed for record under Clerk's File No. 2002050904 and Film Code No. ###-##-#### in the Real Property Records of GALVESTON COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
7. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Conveyance related to the offsite Webster Discharge Canals at Webster Electric Generating Station filed for record under Clerk's File No. W048255 and Film Code No. 555-89-2017 in the Real Property Records of HARRIS COUNTY, TEXAS.
8. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Conveyance related to the offsite Webster Discharge Canals at Webster Electric Generating Station filed for record under Clerk's File No. 2002050905 and Film Code No. 017-36-0483 in the Real Property Records of GALVESTON COUNTY, TEXAS.
9. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Submerged Tract at Webster Electric Generating Station filed for record under Clerk's File No. W048256 and Film Code No. 555-89-2030 in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

L. T.H. WHARTON ELECTRIC GENERATING STATION (16301 Tomball Parkway (SH 249), Harris County, Texas)

1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the T.H. Wharton Electric Generating Station filed for record under Clerk's File No. W048282 and Film Code No. ###-##-#### in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
2. The easements and appurtenant rights conveyed by the Company pursuant to that certain Easement and Covenant Agreement related to the T.H. Wharton Electric Generating Station filed for record under Clerk's File No. W048283 and Film Code No. 555-89-2793 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).

M. FUEL OIL PIPELINE (Harris County, Texas)

1. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Easement and Conveyance related to the Fuel Oil Pipeline filed for record under Clerk's File No. W048284 and Film Code No. 555-89-2878 in the Real Property Records of HARRIS COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
2. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Conveyance related to the Fuel Oil Pipeline filed for record under Clerk's File No. W048285 and Film Code No. 555-89-3244 in the Real Property Records of HARRIS COUNTY, TEXAS.
3. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Partial Assignment and Conveyance related to the Fuel Oil Pipeline filed for record under Clerk's File No. W048286 and Film Code No. 555-89-3270 in the Real Property Records of HARRIS COUNTY, TEXAS.
4. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Gas Injection Facility adjacent to the Fuel Oil Pipeline filed for record under Clerk's File No. W048287 and Film Code No. 555-89-3303 in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

- N. FUEL OIL PIPELINE (Galveston County, Texas)
1. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Easement and Conveyance related to the Fuel Oil Pipeline filed for record under Clerk's File No. 2002050907 and Film Code No. 017-36-0503 in the Real Property Records of GALVESTON COUNTY, TEXAS (it being understood that the property being released from the lien of the Mortgage consists only of the easements granted by the Company and not fee title to the land covered by such easements).
  2. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Conveyance related to the Fuel Oil Pipeline filed for record under Clerk's File No. 2002050908 and Film Code No. 017-36-0561 in the Real Property Records of GALVESTON COUNTY, TEXAS.
  3. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Partial Assignment and Conveyance related to the Fuel Oil Pipeline filed for record under Clerk's File No. 2002050909 and Film Code No. 017-36-0576 in the Real Property Records of GALVESTON COUNTY, TEXAS.
- O. FUEL OIL PIPELINE (Chambers County, Texas)
1. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Conveyance related to the Fuel Oil Pipeline filed for record under Clerk's File No. 6957B and Volume 576, Page 120 in the Real Property Records of CHAMBERS COUNTY, TEXAS.
  2. The easements, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment related to the North Dayton Corridor of the Fuel Oil Pipeline filed for record under Clerk's File No. 6958B and Volume 576, Page 133 in the Real Property Records of CHAMBERS COUNTY, TEXAS.
  3. The easements conveyed by the Company pursuant to that certain Partial Assignment related to the North Dayton Corridor of the Fuel Oil Pipeline filed for record under Clerk's File No. 6959B and Volume 576, Page 152 in the Real Property Records of CHAMBERS COUNTY, TEXAS.
- P. NORTH DAYTON SALT DOME / HUFFMAN ELECTRICAL SUBSTATION AND PIPELINE / GAS STORAGE FACILITY (Liberty County, Texas)
1. The easements, facilities, and appurtenant rights conveyed by the Company pursuant to that certain Assignment and Conveyance related to the Huffman Electrical Substation and Pipeline filed for record under Clerk's File No. 12605 and Volume 1993, Page 761 in the Real Property Records of LIBERTY COUNTY, TEXAS.
  2. The services, agreements and appurtenant rights conveyed by the Company pursuant to that certain Assignment related to the Gas Storage Service Contract in

connection with the Gas Storage Facility filed for record under Clerk's File No. 12606 and Volume 1993, Page 774 in the Real Property Records of LIBERTY COUNTY, TEXAS.

Texas)  
Q. ENERGY DEVELOPMENT CENTER AND CONKLIN TRACT (Harris County,

1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Energy Development Center filed for record under Clerk's File No. W048288 and Film Code No. 555-89-3315 in the Real Property Records of HARRIS COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
2. The leases, facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment and Assumption of Tenant Lease related to the Energy Development Center filed for record under Clerk's File No. W0484289 and Film Code No. 555-89-3330 in the Real Property Records of HARRIS COUNTY, TEXAS.

R. JEWETT MINE (Limestone, Leon and Freestone Counties, Texas)

1. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Jewett Mine filed for record under Clerk's File No. 024124 and Volume 1092, Page 603 in the Real Property Records of LIMESTONE COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
2. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Jewett Mine filed for record under Clerk's File No. 00302734 and Volume 1120, Page 650 in the Real Property Records of LEON COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).
3. The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Jewett Mine filed for record under Clerk's File No. 2006186 and Volume 1210, Page 158 in the Real Property Records of FREESTONE COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

4. The facilities and appurtenances thereto conveyed by the Company pursuant to that certain Assignment of Option Agreement related to the Jewett Mine filed for record under Clerk's File No. 2006190 and Volume 1210, Page 209 in the Real Property Records of FREESTONE COUNTY, TEXAS, under Clerk's File No. 00302737 and Volume 1120, Page 688 in the Real Property Records of LEON COUNTY, TEXAS and under Clerk's File No. 024125 and Volume 1092, Page 625 in the Real Property Records of LIMESTONE COUNTY, TEXAS.

San Jacinto Electric Station  
Job No. 13015020P  
Ref. Map 14-H-5E  
Tract 3

Description of 7.306 acres of land in the Enoch Brinson League, Abstract 5, Harris County, Texas, being partly out of the residue of an 822.154-acre tract recorded in Volume 1318, Page 364 of the Deed Records of Harris County, Texas, and partly out of the residue of a 97.477-acre tract recorded in Volume 7034, Page 10 of said Deed Records and out of a 9.991-acre tract recorded in Clerk's File No. N 530947 and Film Code No. 014-59-1718 of the Official Public Records of Real Property of Harris County, Texas:

All coordinates and bearings herein refer to the Texas Coordinate System of 1983, South Central Zone as defined in the Texas Natural Resources Code, and based on the position of H.G.C.S.D. 42 (1986), having published coordinates of N (Y) = 13,823,622.030 and E (X) = 3,216,990.899 U.S. Survey Foot with an applied scale factor of 0.9998839. Said 7.306-acre tract is described by metes and bounds as follows:

COMMENCING at a 3/4 inch iron pipe found at the southwest corner of said 97.477-acre tract, having coordinates of N (Y)= 13,820,895.82 and E (X)= 3,223,298.68 same being the southwest corner of a 250-foot wide easement described as Way No. 2 recorded in File D332601 and Film Code 129-23-2583 of the Official Public Records of Real Property of Harris County, Texas and also on the east line of Sens Road (60 feet wide), from which a found 3/4 inch iron pipe bears North 58 degrees 48 minutes 36 seconds West, a distance of 0.82 feet and from which a found 3/4 inch iron rod bears North 72 degrees 01 minutes 34 seconds West, a distance of 1.17 feet;

THENCE, North 86 degrees 55 minutes 32 seconds East, a distance of 2482.03 feet along the south line of said 97.477-acre tract, same being the south line of said 250-foot wide easement, to a point;

THENCE, North 03 degrees 04 minutes 28 seconds West, a distance of 301.31 feet to a chain link fence post found for the southeast corner of Tract 1 and said 9.991- acre tract;

THENCE, South 86 degrees 53 minutes 39 seconds West, with the south line of Tract 1 and said 9.991- acre tract, a distance of 265.00 feet to a found iron rod with aluminum cap stamped HL&P;



THENCE, North 86 degrees 15 minutes 30 seconds West, continuing with said south line, a distance of 60.40 feet to a R.R. spike set for a common corner of Tract 1, and a 7.306-acre tract referred to as Tract 3, and the POINT OF BEGINNING having coordinates of N (Y)= 13,821,319.34 and E (X)= 3,225,435.84;

THENCE, North 86 degrees 15 minutes 30 seconds West, with the south line of said Tract 3 and said 9.991- acre tract, a distance of 100.72 feet to a point for corner;

THENCE, South 86 degrees 53 minutes 39 seconds West, a distance of 540.00 feet to a found iron rod with aluminum cap stamped HL&P for the southwest corner of the herein described tract and said 9.991- acre tract;

THENCE, North 51 degrees 40 minutes 56 seconds West, at 463.30 feet passing the common line of said 94.477-acre tract with said 822.154 -acre tract, for a total distance of 566.79 feet to a found iron rod with aluminum cap stamped HL&P for the northwest corner of the herein described tract and said 9.991- acre tract;

THENCE, North 86 degrees 53 minutes 39 seconds East, with the north line of Tract 3 and said 9.991- acre tract, a distance of 1,059.63 feet to a 3/4 inch iron rod with plastic cap stamped "Reliant Energy HL&P" set for the common corner of Tract 1, 3, and 4;

THENCE, South 03 degrees 02 minutes 05 seconds East, at 75.00 feet passing the southwest corner of said tract 4, at 119.08 feet passing the northeast corner of a 0.155-acre tract referred to as Tract 2, at 276.83 feet passing the southeast corner of said Tract 2, for a total distance of 364.33 feet to a 3/4 inch iron rod with plastic cap stamped "Reliant Energy HL&P" set for corner;

THENCE, South 90 degrees 00 minutes 00 seconds East, a distance of 7.05 feet to a 3/4 inch iron rod with plastic cap stamped "Reliant Energy HL&P" set for corner;

THENCE, South 00 degrees 00 minutes 00 seconds West, a distance of 22.33 feet to the POINT OF BEGINNING and containing 7.306 acres of land.

A survey drawing with Map Number 14-H-5E was prepared by Carter & Burgess, Inc. in conjunction with this metes and bounds description.

## PREVIOUSLY CONVEYED PROPERTY

## A. ALLEN'S CREEK TRACT (Austin County, Texas)

The land, improvements, fixtures and other property thereon and easements and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Allen's Creek Tract filed for record under Clerk's File No. 025196 in the Real Property Records of AUSTIN COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

## B. MILL'S CREEK TRACTS (Austin County, Texas)

The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Mill's Creek Tracts filed for record under Clerk's File No. 025200 in the Real Property Records of AUSTIN COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

## C. CEDAR BAYOU TRACTS (Chambers County, Texas)

Those certain tracts of land comprising approximately 12.085 acres and 5.05 acres in the Benjamin Winfree League, Abstract 28 in CHAMBERS COUNTY, TEXAS as recorded in Volume 340, page 320 and Volume 340 page 650 respectively in the deed records of Chambers County; such tracts were subsequently conveyed to Texas Genco, LP by that certain deed recorded in the Deed Records of Chambers County, Texas under County Clerk's File No. 6952B, Volume 575, Page 835.

## D. P.H. ROBINSON MINERALS (Galveston County, Texas)

Certain lands located in GALVESTON COUNTY, TEXAS which lands are more particularly described on EXHIBIT A to that certain Oil, Gas and Mineral Lease dated December 12, 1980 and recorded in the office of the County Clerk of Galveston County, Texas under County Clerk's file No. 8101167 and bearing said Clerk's film code No. ###-##-#####, between Houston Lighting & Power Company, a Texas corporation and predecessor in interest to Grantor, as lessor, and Lofco, a Texas general partnership, as lessee (the "Lease"), together with all rights and interests appurtenant thereto, including without limitation Grantor's right, title and interest in and to the Lease.

## E. MALAKOFF TRACTS - TRINITY MINE (Anderson County, Texas and Henderson County, Texas)

The land, improvements, fixtures and other property thereon and appurtenances thereto conveyed by the Company pursuant to that certain Deed related to the Malakoff Tracts and Trinity Mine filed for record under Clerk's File No. 0017482 and Volume 1740, Page 558 in the Real Property Records of ANDERSON COUNTY, TEXAS and under Clerk's File No. 0015448 and Volume 2221, Page 372 in the Real Property Records of HENDERSON COUNTY, TEXAS, together with all equipment, supplies, and other tangible or intangible personal property located thereon or used or enjoyed in connection therewith which are owned by the Grantee (as defined therein).

## F. PARTITION TRACTS MINERALS (Leon County, Texas and Freestone County, Texas)

## TRACT I

669.75 Acres, more or less, out of the W. R. Nichols Survey, A-1159, T. J. McCallom Survey, A-564 & A-576, J. H. Thomas Survey, A-891 and the J. L. Green Survey, A-318, being more fully described in Pooling Designation dated January 11, 1982, recorded in Volume 519, Page 287, Deed Records of LEON COUNTY, TEXAS and correction to Amendment of Pooling Designation dated October 8, 1982, recorded in Volume 530, Page 122, Deed Records of Leon County, Texas.

## TRACTS II

Tract 1: 84.485 acres situated in the Samuel M. Phariss Survey, A-516, Freestone County, Texas, being the same land described as the "First Tract" in that certain deed dated April 30, 1963, from Clifton Harper, et ux, to the Veterans Land Board Of The State of Texas, recorded in Volume 330, Page 64, Deed Records, FREESTONE COUNTY, TEXAS.

Tract 2: 55.00 acres situated in the I. M. Childre Survey, A-883, Freestone County, Texas, and A-1284, LEON COUNTY, TEXAS, and being described in two (2) tracts, as follows:

Tract 2A: 53.823 acres situated in the I. M. Childre Survey, A-883, Freestone County, Texas, and A-1284, LEON COUNTY, TEXAS, being the same land described in that certain deed dated April 16, 1965, from Hayse E. Willingham, et ux, to Calvin Pate, recorded in Volume 351, Page 270, Deed Records, Freestone County, Texas and Volume 326, Page 76, Deed Records, Leon County, Texas, SAVE AND EXCEPT: 1.177 acres, being Tract 2B described below.

EXHIBIT B

Tract 2B: 1.177 acres situated in the I. M. Childre Survey, A-1284, LEON COUNTY, TEXAS, being the same land described in that certain deed dated August 27, 1970 from Calvin Pate, et ux, to Betsy L. Thompson, recorded in Volume 364, Page 11, Deed Records, Leon County, Texas.

Tract 3: 11.332 acres out of a 95.11 acre tract situated in the Samuel M. Phariss Survey, A-516, FREESTONE COUNTY, TEXAS, such 95.11 acre tract being in that certain deed dated December 20, 1968, from Exla Brown, et al, to Ben F. Brown, et ux, recorded in Volume 385, Page 681, Deed Records, Freestone County, Texas.

Tract 4: 28.095 acres situated in the I. M. Childre Survey, A-883, FREESTONE COUNTY, TEXAS, and A-1284, Leon County, Texas and being described in two (2) tracts, as follows:

Tract 4A: 20.975 acres situated in the I. M. Childre Survey, A-883, FREESTONE COUNTY, TEXAS, and A-1284, Leon County, Texas, being the same land described as the "Second Tract" in that certain deed dated April 30, 1963, from Clifton Harper, et ux, to the Veterans Land Board of The State of Texas, recorded in Volume 330, Page 64, Deed Records, Freestone County, Texas, SAVE AND EXCEPT: 7.12 acres, being 4B described below.

Tract 4B: 7.12 acres situated in the I. M. Childre Survey, A-1284, LEON COUNTY, TEXAS, being the same land described in that certain deed dated September 3, 1971 from Marvin M. Risner, et ux, to Jodie Vann, recorded in Volume 372, Page 160, Deed Records, Leon County, Texas.

Tract 5: 30.003 acres out of a 60.006 acre tract situated in the Samuel M. Phariss Survey, A-516, FREESTONE COUNTY, TEXAS, such 60.006 acre tract being described in two (2) tracts, as follows:

Tract 5A: 30.70 acres situated in the Samuel M. Phariss Survey, A-516, FREESTONE COUNTY, TEXAS, and being described in that certain deed dated June 4, 1965 from Fred D. Scott to Glen White, recorded in Volume 351, Page 576, Deed Records, Freestone County, Texas.

Tract 5B: 37.5 acres situated in the Samuel M. Phariss Survey, A-516, FREESTONE COUNTY, TEXAS, and being described in that certain deed dated August 31, 1963 from Dorris Stone, et ux, to Glen White, recorded in Volume 335, Page 375, Deed Records, Freestone County, Texas.

TRACT III

310.949 acres of land, more or less, out of the Gertrudis Diaz Survey, A-178, FREESTONE COUNTY, TEXAS, as further described in that certain Declaration of Pooled Unit dated September 27, 2000, effective September 1, 2000, recorded in Volume 1133 at Page 295 of the Official Records of Freestone County, Texas.

TRACT IV

320.0 acres of land, more or less out of the Gertrudis Diaz Survey, A-178, FREESTONE COUNTY, TEXAS as further described in the Declaration of Pooled Unit for the Kelly "A" Unit dated June 21, 2000, effective May 1, 2000, recorded at Volume 1121, Page 172 et seq. of the Official Records of Freestone County, Texas.

TRACT V

653.055 acres in the M. C. Rejon Eleven League Grant, A-19, LEON COUNTY, TEXAS and including all of Grantor's right title and interest in and to the oil and/or gas royalty provided under two (2) Oil and Gas Leases, each dated October 11, 2002, recorded in Volume 1130, Pages 206 and 210, respectively, Official Records of Leon County, Texas, and as such leases have been pooled into that certain pooled unit called the "Reliant Energy Unit," as described in a Pooling Declaration dated August 4, 2003, recorded in Volume 1152, Page 38, Official Records of Leon County, Texas.

Texas Genco, LP  
1111 Louisiana  
Houston, TX 77002

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TEXAS GENCO, LP

TO

JPMORGAN CHASE BANK  
Trustee

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FIRST SUPPLEMENTAL INDENTURE

Dated as of December 23, 2003

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Supplementing the First Mortgage Indenture  
Dated as of December 23, 2003

THIS INSTRUMENT GRANTS A SECURITY INTEREST BY A UTILITY

THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY PROVISIONS

This instrument is being filed pursuant to Chapter 35 of the Texas Business and  
Commerce Code

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FIRST SUPPLEMENTAL INDENTURE, dated as of December 23, 2003, between TEXAS GENCO, LP, a limited partnership organized and existing under the laws of the State of Texas (herein called the "Company"), having its principal office at 1111 Louisiana, Houston, Texas 77002, and JPMORGAN CHASE BANK, a banking corporation duly organized and existing under the laws of the State of New York, as Trustee (herein called the "Trustee"), the office of the Trustee at which on the date hereof its corporate trust business is administered being 600 Travis Street, Suite 1150, Houston, Texas 77002.

RECITALS OF THE COMPANY

WHEREAS, the Company has heretofore executed and delivered to the Trustee a First Mortgage Indenture dated as of December 23, 2003 (the "Indenture") providing for the issuance by the Company from time to time of its bonds, notes or other evidence of indebtedness to be issued in one or more series (in the Indenture and herein called the "Securities") and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Securities, and the performance of the covenants contained in the Indenture and the Securities; and

WHEREAS, the Company, in the exercise of the power and authority conferred upon and reserved to it under the provisions of the Indenture and pursuant to appropriate resolutions of the General Partner, has duly determined to make, execute and deliver to the Trustee this First Supplemental Indenture to the Indenture as permitted by Sections 201, 301 and 1301 of the Indenture in order to establish the form or terms of, and to provide for the creation and issuance of, the Securities specified in clause (1) of the definition of the "Initial Series" under the Indenture in an initial aggregate principal amount of \$75,000,000 (such series being hereinafter and in the Indenture referred to as the "Initial Series (1)"); and

WHEREAS, all things necessary to make the Securities of the Initial Series (1), when executed by the Company and authenticated and delivered by the Trustee or any Authenticating Agent and issued upon the terms and subject to the conditions hereinafter and in the Indenture set forth against payment therefor the valid, binding and legal obligations of the Company and to make this First Supplemental Indenture a valid, binding and legal agreement of the Company, have been done;

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH that, in order to establish the terms of a series of Securities, and for and in consideration of the premises and of the covenants contained in the Indenture and in this First Supplemental Indenture and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, it is mutually covenanted and agreed as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS  
OF GENERAL APPLICATION

Section 101. Definitions. Each capitalized term that is used herein and is defined in the Indenture shall have the meaning specified in the Indenture unless such term is otherwise defined herein.

ARTICLE TWO

TITLE, FORM AND TERMS OF THE BONDS

Section 201. Title of the Bonds. This First Supplemental Indenture hereby creates a series of Securities designated as the "First Mortgage Bonds, Series A, due December 21, 2004" of the Company (collectively referred to herein as the "Bonds"). For purposes of the Indenture, the Bonds shall constitute a single series of Securities and may be issued in an unlimited principal aggregate amount, although the initial issuance of the Bonds shall be in the principal amount of \$75,000,000.

Section 202. Form and Terms of the Bonds. The form and terms of the Bonds will be set forth in an Officer's Certificate delivered by the Company to the Trustee pursuant to the authority granted by this First Supplemental Indenture in accordance with Sections 201 and 301 of the Indenture.

ARTICLE THREE

MISCELLANEOUS PROVISIONS

The Trustee makes no undertaking or representations in respect of, and shall not be responsible in any manner whatsoever for and in respect of, the validity or sufficiency of this First Supplemental Indenture or the proper authorization or the due execution hereof by the Company or for or in respect of the recitals and statements contained herein, all of which recitals and statements are made solely by the Company.

Except as expressly amended and supplemented hereby, the Indenture shall continue in full force and effect in accordance with the provisions thereof and the Indenture is in all respects hereby ratified and confirmed. This First Supplemental Indenture and all of its provisions shall be deemed a part of the Indenture in the manner and to the extent herein and therein provided.

This First Supplemental Indenture shall be governed by, and construed in accordance with, the law of the State of New York.

This First Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.



IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed as of the day and year first above written.

TEXAS GENCO, LP

By: TEXAS GENCO GP, LLC

By: /s/ Marc Kilbride

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Name: Marc Kilbride  
Title: Vice President and Treasurer

JPMORGAN CHASE BANK, as Trustee

By: /s/ Carol Logan

-----  
Name: Carol Logan  
Title: Vice President and Trust Officer

ACKNOWLEDGMENT

STATE OF TEXAS     )  
                          )     ss  
COUNTY OF HARRIS )

On the 22nd day of December, 2003, before me personally came Marc Kilbride, to me known, who, being by me duly sworn, did depose and say that he resides in Houston, Texas; that he is the Vice President and Treasurer of Texas Genco GP, LLC, a Texas limited liability company, the general partner of the limited partnership described in and which executed the foregoing instrument; and that he signed his name thereto by authority of the Sole Manager of said limited liability company.

/s/ Christie J. Newsome  
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Notary Public

ACKNOWLEDGMENT

STATE OF TEXAS     )  
                          )     ss  
COUNTY OF HARRIS )

On the 22nd day of December, 2003, before me personally came Carol Logan, to me known, who, being by me duly sworn, did depose and say that she resides in Houston, Texas; that she is Vice President and Trust Officer of JPMorgan Chase Bank, a banking corporation organized under the State of New York, the Trustee described in and which executed the foregoing instrument; and that she signed her name thereto by authority of the board of directors of said corporation.

/s/ Christie J. Newsome  
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Notary Public

## CENTERPOINT ENERGY, INCORPORATED AND SUBSIDIARIES

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES  
(THOUSANDS OF DOLLARS)

	YEAR ENDED DECEMBER 31,				
	1999	2000	2001	2002	2003
Income from continuing operations .....	\$ 1,631,697	\$ 245,516	\$ 499,378	\$ 368,827	\$ 419,711
Income taxes for continuing operations .....	885,528	236,084	257,378	198,540	216,301
Minority interest expense (income) .....	--	(37)	(36)	11	28,753
Capitalized interest .....	(14,675)	(10,803)	(9,125)	(11,620)	(13,184)
Preference security dividend requirements of subsidiary .....	(599)	(762)	(1,304)	--	--
	2,501,951	469,998	746,291	555,758	651,581
Fixed charges, as defined:					
Interest .....	488,868	509,773	551,298	708,711	906,023
Capitalized interest .....	14,675	10,803	9,125	11,620	13,184
Distribution on trust preferred securities ....	51,219	54,358	55,598	55,545	27,797
Preference security dividend requirements of subsidiary .....	599	762	1,304	--	--
Interest component of rentals charged to operating expense .....	15,680	15,243	15,114	15,822	15,231
Total fixed charges .....	571,041	590,939	632,439	791,698	962,235
Earnings, as defined .....	\$ 3,072,992	\$ 1,060,937	\$ 1,378,730	\$ 1,347,456	\$ 1,613,816
Ratio of earnings to fixed charges .....	5.38	1.80	2.18	1.70	1.68

## SIGNIFICANT SUBSIDIARIES OF CENTERPOINT ENERGY, INC.

The following subsidiaries are deemed "significant subsidiaries" pursuant to Item 601(b) (21) of Regulation S-K:

Utility Holdings, LLC, a Texas corporation and a direct wholly owned subsidiary of CenterPoint Energy, Inc.

CNP Investment Management, Inc., a Texas corporation and a direct wholly owned subsidiary of CenterPoint Energy, Inc.

CenterPoint Energy Resources Corp., a Delaware corporation and an indirect wholly owned subsidiary of CenterPoint Energy, Inc.

CenterPoint Energy Houston Electric, LLC, a Texas corporation and an indirect wholly owned subsidiary of CenterPoint Energy, Inc.

Texas Genco Holdings, Inc., a Texas corporation and an indirect wholly owned subsidiary of CenterPoint Energy, Inc.

(1) Pursuant to Item 601(b) (21) of Regulation S-K, registrant has omitted the names of subsidiaries, which considered in the aggregate as a single subsidiary, would not constitute a "significant subsidiary" (as defined under Rule 1-02(w) of Regulation S-X) as of December 31, 2003.

(2) CenterPoint Energy Resources Corp. also conducts business under the names of its three unincorporated divisions: CenterPoint Energy Arkla, CenterPoint Energy Entex and CenterPoint Energy Minnegasco.

## INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in CenterPoint Energy, Inc.'s (i) Registration Statement No. 333-110348 on Form S-3; (ii) Registration Statement No. 333-105733 on Form S-8; (iii) Post-Effective-Amendment No. 1 to Registration Statement Nos. 333-33301, 333-33303, 333-58433, 333-81119 and 333-68290 on Form S-3; (iv) Post-Effective Amendment No. 1 to Registration Statement Nos. 333-32413, 333-49333, 333-38188, 333-60260, 333-98271 and 333-101202 on Form S-8; and (v) Post-Effective Amendment No. 5 to Registration Statement No. 333-11329 on Form S-8 of our report dated March 12, 2004 (which report expresses an unqualified opinion and includes explanatory paragraphs relating to the distribution of Reliant Resources, Inc., the change in method of accounting for goodwill and certain intangible assets and the recording of asset retirement obligations) appearing in this Annual Report on Form 10-K of CenterPoint Energy, Inc. for the year ended December 31, 2003.

DELOITTE & TOUCHE LLP

Houston, Texas  
March 12, 2004

## CERTIFICATION

I, David M. McClanahan, certify that:

1. I have reviewed this annual report on Form 10-K of CenterPoint Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

By: /s/ David M. McClanahan

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David M. McClanahan  
President and Chief Executive Officer

CERTIFICATION

I, Gary L. Whitlock, certify that:

- 1. I have reviewed this annual report on Form 10-K of CenterPoint Energy, Inc.;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

By: /s/ Gary L. Whitlock  
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 Gary L. Whitlock  
 Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CenterPoint Energy, Inc. (the "Company") on Form 10-K for the period ending December 31, 2003 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, David M. McClanahan, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David M. McClanahan

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David M. McClanahan  
President and Chief Executive Officer  
March 12, 2004



CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of CenterPoint Energy, Inc. (the "Company") on Form 10-K for the period ending December 31, 2003 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Gary L. Whitlock, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Gary L. Whitlock

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Gary L. Whitlock  
Executive Vice President and Chief Financial Officer  
March 12, 2004